

Performance Audit Conducted on Behalf of the

Federal Communications Commission

Office of the Inspector General



PERFORMANCE AUDIT FOR THE UNIVERSAL SERVICE E-RATE
SCHOOLS AND LIBRARIES PROGRAM DISBURSEMENTS RELATED
TO FUNDING YEAR 2020

Orange County Public Libraries

Billed Entity Number: 143779

Prepared for: **Federal Communications Commission**
Office of the Inspector General
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As of Date: August 25, 2023



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TABLE OF CONTENTS

EXECUTIVE SUMMARY	3
BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES.....	5
Background	5
<i>Program Overview.....</i>	<i>5</i>
<i>Beneficiary Overview.....</i>	<i>5</i>
Objectives	6
Scope & Methodology.....	6
Procedures	7
RESULTS	9
Findings	9
Conclusion	9
APPENDICES.....	10
Appendix A: Glossary of Terms	10



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EXECUTIVE SUMMARY

August 25, 2023

Sharon Diskin
Acting Inspector General
Federal Communications Commission
Office of Inspector General
45 L Street NE
Washington, DC 20554

Dear Ms. Diskin:

This report presents the results of our work conducted to address the performance audit objectives relative to Orange County Public Libraries, Billed Entity Number (“BEN”) 143779, (“OCPL” or “Beneficiary”) for disbursements of \$921,293.09, made from the Universal Service Fund on behalf of the E-Rate program related to the twelve-month period ended June 30, 2021, (hereinafter “Funding Year 2020”). Our work was performed during the period from December 8, 2022 to August 25, 2023 and our results are as of August 25, 2023.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (“GAGAS”). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants (“AICPA”). This performance audit did not constitute an audit of financial statements or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

The objectives of the audit were to (1) determine if the E-Rate beneficiary complied with 47 C.F.R. Sections 54.500 to 54.523 for schools and libraries and all applicable orders¹ issued under Section 254 of the Communications Act of 1934, as amended; and (2) determine and report on potential instances of fraud, waste and/or abuse. We evaluated the Beneficiary’s compliance with the

¹ The applicable orders include: First Report and Order (FCC 97-157), Second Report and Order (FCC 03-101), Third Report and order (FCC 03-323), Fifth Report and Order (FCC 04-190), Sixth Report and Order (FCC 10-175), Children’s Internet Protection Act Report and Order (FCC 11-125), Queen of Peace Order (DA 11-1991), Modernization Order (FCC 14-99) and Second Modernization Order (FCC 14-189).



applicable FCC Rules² that resulted in disbursements of \$921,293.09 from the E-Rate program related to Funding Year 2020. Compliance with the Rules is the responsibility of the Beneficiary's management. Our responsibility is to evaluate the Beneficiary's compliance with the Rules based on our audit.

As a result of the procedures performed, KPMG did not identify any findings.

KPMG cautions that projecting the results of our evaluation to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

This report is intended solely for the use of the FCC, the Beneficiary, and the Universal Service Administrative Company, and is not intended to be and should not be relied upon by anyone other than these specified parties.

Sincerely,

KPMG LLP

² The requirements, regulations and orders governing the federal Universal Service Schools and Libraries program ("E-Rate" program) are set forth in 47 C.F.R. Part 54 of the Federal Communications Commission's ("FCC") Rules as well as other program requirements (collectively, the "Rules").

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

Background

The FCC was established by the Communications Act of 1934 as an independent U.S. government agency and is directly responsible to Congress. The FCC regulates interstate (between states) and international communications by radio, television, wire, satellite and cable in all 50 states, the District of Columbia and U.S. territories.

The Communications Act of 1934 mandated that all people in the United States shall have access to universal service, defined as rapid, efficient, nationwide communications with adequate facilities at reasonable charges. Subsequently, the Telecommunications Act of 1996 expanded the traditional definition of universal service for affordable, nationwide telephone service to include rural health care providers and eligible schools and libraries. Today, the FCC provides universal service support, at a cost of almost \$10 billion annually, through four programs – Schools and Libraries, High Cost, Lifeline, and Rural Health Care.

Program Overview

The Schools and Libraries universal service support program, commonly known as the “E-Rate” program, provides funding for schools and libraries to obtain affordable telecommunications equipment and/or services and internet access/broadband. Annual funding for the E-Rate program is based on demand. Applicants can request funding under two categories of eligible services, category one services (telecommunications, telecommunications services and Internet access), and category two services (internal connections, basic maintenance of internal connections, and managed internal broadband services). The amount of E-Rate funding a school or library receives is based on poverty program eligibility criteria. The amount is calculated based on the percentage of students within the school district eligible for the National School Lunch Program and whether the school or library is located in an urban or rural area. The school or library’s E-Rate discount ranges from 20 to 90 percent of the cost of eligible services.

The E-Rate program is administered by the Universal Service Administrative Company (“USAC”) under the direction of the FCC. Specifically, USAC is responsible for ensuring applicant compliance with program rules, processing program applications, confirming program eligibility and providing reimbursements to program participants. The FCC OIG contracted with KPMG to conduct a performance audit of the Orange County Public Libraries’ E-Rate program compliance with applicable requirements of 47 C.F.R. Part 54 of the FCC’s Rules, as well as FCC Orders governing the E-Rate program during Funding Year 2020.

Beneficiary Overview

Orange County Public Libraries (143779) is a system of 33 libraries serving patrons in Orange County, California.

The following table illustrates the amount committed³ and disbursed by USAC to the E-Rate program Beneficiary for Funding Year 2020 by service type:

Source: USAC as of 10/22/22

Service Type	Amount Committed	Amount Disbursed
Internal Connections (Category Two Services)	\$896,087.02	\$723,076.78
Data Transmission and/or Internet Access (Category One Services)	\$216,334.48	\$198,216.31
Total	\$1,112,421.50	\$921,293.09

Note: The amounts committed reflect the maximum amounts to be funded, as determined by USAC, by FRN and service type, for Funding Year 2020.

The committed total represents two FCC Form 471⁴ applications with 37 Funding Request Numbers (“FRN”)⁵. We selected a sample of 16 FRNs representing commitments of \$1,022,416.78 (92% of total commitments) and disbursements of \$921,293.09 (100% of total disbursements). Three of the 16 sampled FRNs were Category One services and the remaining 13 FRNs were Category Two services.

Objectives

The objectives of this audit were to (1) determine if the E-Rate beneficiary complied with 47 C.F.R. Sections 54.500 to 54.523 for schools and libraries and all applicable orders issued under Section 254 of the Communications Act of 1934, as amended (related orders can be found on the USAC website at <http://www.usac.org/about/tools/fcc>); and (2) determine and report on potential instances of fraud, waste and/or abuse. We audited disbursements of \$921,293.09 made to the Beneficiary from the Universal Service Fund (“USF”) for Funding Year 2020.

See the Scope section below for a discussion of the applicable requirements of 47 C.F.R. Part 54 of the FCC’s Rules that are covered by this performance audit.

Scope & Methodology

The scope of this performance audit includes the Beneficiary’s compliance with applicable requirements for the committed and disbursed amounts related to Funding Year 2020. Our performance audit procedures include, but are not limited to, the following focus areas:

1. Application Process;
2. Competitive Bidding;
3. Discount Calculation;
4. Effective Use of Services and Equipment;

³ Amount committed represents USAC’s funding decision on an applicant’s E-Rate funding request.

⁴ FCC Form 471: The *Services Ordered and Certification Form* is an FCC form used to report services ordered and discounts requested for those services.

⁵ Funding Request Number: A unique number that USAC assigns to each funding request in an FCC Form 471.

5. Invoicing and Reimbursement;
6. Eligible Services; and
7. Record Keeping

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Procedures

This performance audit includes procedures related to the E-Rate program for which funds were committed and disbursed to the Beneficiary for Funding Year 2020. We completed the procedures for a sample of 16 FRNs as described in the Beneficiary Overview section above. Procedures for Effective Use of Services and Equipment apply to 13 of the sampled FRNs that received category two services.

1. Application Process:

For the 16 sampled FRNs, we reviewed each applicable FCC Form 470⁶ and FCC Form 471 to evaluate compliance with the submission requirements. We inquired to determine if any individual libraries related to the Beneficiary were receiving USAC funded services through separate FCC Forms 471 and FRNs. We also searched USAC disbursement data by entity name to further confirm that no OCPL participating libraries received separate funding for duplicate services.

We evaluated the Category Two Budget, by obtaining OCPL library square footage documentation and utilizing USAC's Category Two Budget tool to recalculate the budget by library. We also obtained and examined documentation to determine if the Beneficiary complied with the CIPA requirements. Specifically, we obtained and evaluated the Beneficiary's Internet Safety Policy, and obtained an understanding of the process by which the Beneficiary communicated and administered the policy.

2. Competitive Bidding:

For the 16 sampled FRNs, we obtained and examined documentation to determine if all bids received were properly evaluated and that the price of eligible services was the primary factor considered. We obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before signing contracts with the selected service providers. We also obtained and reviewed any correspondence with the service providers to determine if there was any evidence that the competitive bidding process was not fair and open.

⁶ FCC Form 470: *The Description of Services Requested and Certification Form* is an FCC form that schools and libraries complete to request services and establish eligibility.

3. Discount Calculation:

For the 16 sampled FRNs, we obtained and examined documentation to understand the methodology used by the Beneficiary to determine the discount percentage. We verified the Beneficiary selected the appropriate school district for the discount calculation based on the location of the library headquarters.

4. Effective Use of Services and Equipment:

For the 13 sampled FRNs that received category two services we identified a population of 33 library locations as some of the FRNs related to services provided across all the OCPL library locations. We selected a sample of 12 out of 33 library locations for testing the effective use of services and equipment. We considered the disbursement amount and type of services received along with the library square footage size, which impacts the category two budget. We selected a total of 12 libraries from the population of 33 libraries that received category two equipment and services for Funding Year 2020.

For the sample of library locations, we performed a physical inventory to evaluate the location and use of equipment and services to determine if items were delivered and installed, located in eligible facilities. We also observed and determined if the E-Rate funded equipment and services were operational and being effectively used for their intended purposes.

5. Invoicing and Reimbursement:

For the 16 sampled FRNs, we obtained and examined invoices submitted to USAC for reimbursement to verify the equipment and services claimed on the FCC Form 474 SPI forms and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements. We verified the accuracy and eligibility of the amounts submitted. Specifically, we reviewed the FCC Form 474 SPI forms and underlying bills for eligible services and equipment provided to the Beneficiary during Funding Year 2020. We obtained and examined payment documentation to verify the Beneficiary paid its complete non-discounted share in a timely manner. We also reviewed the format and level of detail provided in the service provider billing and identified a process improvement opportunity noted in the Results section under Other Matter.

6. Eligible Services:

For the 16 sampled FRNs, we verified the services and equipment claimed on the FCC Form 474 SPI forms and corresponding service provider bills were eligible in accordance with the E-Rate program Eligible Services List.

7. Record Keeping:

We determined if the Beneficiary's record retention policies and procedures were consistent with the E-Rate program rules. Specifically, we determined if the Beneficiary was able to provide the documentation requested in the audit notification, for the FRNs audited, as well as retained and provided the documentation requested for other audit procedures.

RESULTS

KPMG's performance audit results include findings and recommendations, if applicable, with respect to the Beneficiary's compliance with FCC requirements for Funding Year 2020.

Findings and Recommendations

KPMG's performance audit procedures, as described in the Procedures section above, identified no findings.

Conclusion

Based on the performance audit objectives to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 and to determine and report on potential instances of fraud, waste and/or abuse; KPMG's performance audit procedures identified no instances of non-compliance and no potential instances of fraud, waste, and/or abuse.

Other Matter

Process Improvement Opportunity:

While conducting our invoicing and reimbursement testing, we reviewed the service provider bill format and level of detail. We observed a process improvement opportunity for OCPL to request bills that include E-Rate services only and that are separated by FRN with sufficient detail to facilitate reconciliation to the FCC Form 474 SPI forms submitted to USAC.

APPENDICES

Appendix A: Glossary of Terms

Term	Definition
APPLICANT	The entity applying for universal service support. In the Schools and Libraries program the entity is a school, library, consortium, or other eligible entity that files program forms.
BENEFICIARY	The entity receiving universal service support. In the Schools and Libraries Program the entity is a school, library, consortium, or other eligible entity that files program forms.
BILLED ENTITY NUMBER (BEN)	A unique number assigned by USAC to each billed entity (school, library, or consortium) that pays for services.
CATEGORY ONE SERVICES	Services used to connect broadband or internet to eligible locations, or services that provide the basic conduit access to the internet. Data transmission services and Internet access, and voice services are category one services. Category one services includes broadband connectivity and basic conduit access to the internet. This does not include charges for content, equipment purchases, or other services beyond basic conduit access to the internet. This service type also covers lit or dark fiber and, in special circumstances, self-provisioning of dark fiber.
CATEGORY TWO BUDGET	The Category Two Budget is the full-price cost of products/services that can receive E-rate discounts during a defined five-year budget period. Note, the 2015-2019 period was extended to include an additional year: Funding Year 2020.
CATEGORY TWO SERVICES	Internal connections services needed to enable high-speed broadband connectivity and broadband internal connections components. Category two includes local area networks/wireless local area networks (LAN/ WLAN), internal connections components, basic maintenance of internal connections components, and managed internal broadband services.
CHILDREN’S INTERNET PROTECTION ACT (CIPA)	A law that mandates certain internet safety policy and filtering requirements for recipients of E-Rate program discounts for services other than telecommunications services.
DISCOUNT PERCENTAGE	The discounts available to eligible schools and libraries shall range from 20 percent to 90 percent of the pre-discount price for all eligible services provided by eligible providers. The discounts available to a particular school, library, or consortium of only such entities shall be determined by indicators of poverty and high cost.
ELIGIBLE ENTITY	An entity that meets the requirements for eligibility to participate in the program.
ELIGIBLE SERVICES	Products and services that are eligible for universal service support.
ELIGIBLE SERVICES LIST	Annual list provided by FCC that contains a description of the products and services that will be eligible for discounts, along with additional information such as eligibility conditions for each category of service for each specified funding year.
E-RATE PROGRAM	The common term used in place of the Schools and Libraries program. With E-Rate standing for Educational Rate, the program provides discounts to schools and libraries for eligible products and services.
FCC FORM 470	The Description of Services Requested and Certification Form is an FCC form that schools and libraries complete to request services and establish eligibility.
FCC FORM 471	The Services Ordered and Certification Form is an FCC form that schools and libraries use to report services ordered and discounts requested for those services.
FCC FORM 474 (SPI)	The Service Provider Invoice Form is an FCC form that service providers submit to request reimbursement for discounted eligible services already provided the schools or libraries on their customer bills.
FEDERAL COMMUNICATIONS COMMISSION (FCC)	U.S. Federal government agency charged with regulating interstate and international communications by radio, television, wire, satellite, and cable.

Term	Definition
CODE OF FEDERAL REGULATIONS (C.F.R.)	Codification of the general and permanent rules published in the Federal Register by the executive departments and agencies of the Federal Government.
FUNDING COMMITMENT DECISION LETTER (FCDL)	Summarize the E-Rate funds that have been committed and set aside for discounts that had been requested on eligible services.
FUNDING REQUEST NUMBER (FRN)	Number assigned to each request for funding made by applicants.
FUNDING YEAR 2020	The twelve-month period from July 1, 2020 to June 30, 2021 during which E-Rate program support is provided.
FCC OFFICE OF INSPECTOR GENERAL (OIG)	Division of the FCC that investigates complaints or allegations of wrongdoing or misconduct by employees or contractors that involve or give rise to fraud, waste or abuse within the programs or operations of the FCC.
SCHOOLS AND LIBRARIES PROGRAM (E-RATE)	Program that helps ensure that schools and libraries can obtain high-speed Internet access and telecommunications at affordable rates.
SERVICE PROVIDER INVOICE (SPI)	Form used by Service Providers to request reimbursement from USAC for the discount amount for eligible services and equipment provided to the applicant.
UNIVERSAL SERVICE ADMINISTRATIVE COMPANY (USAC)	An independent, not-for-profit corporation designated by the FCC as the administrator of universal service.
UNIVERSAL SERVICE FUND (USF)	System of telecommunications subsidies and fees managed by the FCC intended to promote universal access to telecommunications services in the United States.