



**Universal Service Administrative Company  
Schools & Libraries Division**

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**Notification of Commitment Adjustment Letter**

**Funding Year 2000: 7/01/2000 - 6/30/2001**

January 19, 2005

**JAMES DANIELS  
EAST ST LOUIS SCHOOL DIST 189  
1005 STATE ST.  
EAST ST. LOUIS, IL 62201 1907**

**Re: Form 471 Application Number: 200698  
Funding Year: 2000  
Applicant's Form Identifier: ESTL-F471-YR3  
Billed Entity Number: 136412  
FCC Registration Number:  
SPIN Name: Ameritech Advanced Data Services, Inc.  
Service Provider Contact Person: Raelanda Gunn**

Our routine review of Schools and Libraries Program funding commitments has revealed certain applications where funds were committed in violation of program rules.

In order to be sure that no funds are used in violation of program rules, the Schools Libraries Division (SLD) of the Universal Service Administrative Company (USAC) must now adjust your overall funding commitment. The purpose of this letter is to make the adjustments to your funding commitment required by program rules, and to give you an opportunity to appeal this decision. USAC has determined the applicant is responsible for all or some of the program rule violations. Therefore, the applicant is responsible to repay all or some of the funds disbursed in error (if any).

This is NOT a bill. If recovery of disbursed funds is required, the next step in the recovery process is for SLD to issue you a Demand Payment Letter. The balance of the debt will be due within 30 days of the Demand Payment Letter. Failure to pay the debt within 30 days from the date of the Demand Payment Letter could result in interest, late payment fees, administrative charges and implementation of the "Red Light Rule." Please see the "Informational Notice to All Universal Service Fund Contributors, Beneficiaries, and Service Providers" at [www.universalservice.org/new/2004.asp#083104](http://www.universalservice.org/new/2004.asp#083104) for more information regarding the consequences of not paying the debt in a timely manner.

## TO APPEAL THIS DECISION:

*If you wish to appeal the Commitment Adjustment Decision indicated in this letter, your appeal must be received or postmarked within 60 days of the date of this letter. Failure to meet this requirement will result in automatic dismissal of your appeal. In your letter of appeal:*

1. Include the name, address, telephone number, fax number, and e-mail address (if available) for the person who can most readily discuss this appeal with us.
2. State outright that your letter is an appeal. Identify the date of the Notification of Commitment Adjustment Letter and the Funding Request Numbers you are appealing. Your letter of appeal must include the Billed Entity Name, the Form 471 Application Number, Billed Entity Number, and FCC Registration Number (FCC RN) from the top of your letter.
3. When explaining your appeal, copy the language or text from the Notification of Commitment Adjustment Letter that is the subject of your appeal to allow the SLD to more readily understand your appeal and respond appropriately. Please keep your letter specific and brief, and provide documentation to support your appeal. Be sure to keep copies of your correspondence and documentation.
4. Provide an authorized signature on your letter of appeal.

If you are submitting your appeal electronically, please send your appeal to [appeals@sl.universalservice.org](mailto:appeals@sl.universalservice.org) using your organization's e-mail. If you are submitting your appeal on paper, please send your appeal to: Letter of Appeal, Schools and Libraries Division, Box 125 - Correspondence Unit, 80 South Jefferson Road, Whippany, NJ 07981. Additional options for filing an appeal can be found in the "Appeals Procedure" posted in the Appeals Area of the SLD section of the USAC web site or by contacting the Client Service Bureau at 1-888-203-8100. We strongly recommend that you use the electronic appeals options.

While we encourage you to resolve your appeal with the SLD first, you have the option of filing an appeal directly with the Federal Communications Commission (FCC). You should refer to CC Docket No. 02-6 on the first page of your appeal to the FCC. Your appeal must be received or postmarked within 60 days of the date of this letter. Failure to meet this requirement will result in automatic dismissal of your appeal. If you are submitting your appeal via United States Postal Service, send to: FCC, Office of the Secretary, 445 12th Street SW, Washington, DC 20554. Further information and options for filing an appeal directly with the FCC can be found in the "Appeals Procedure" posted in the Reference Area of the SLD section of the USAC web site, or by contacting the Client Service Bureau. We strongly recommend that you use the electronic filing options.

## FUNDING COMMITMENT ADJUSTMENT REPORT

On the pages following this letter, we have provided a Funding Commitment Adjustment Report (Report) for the Form 471 application cited above. The enclosed Report includes the Funding Request Number(s) from your application for which adjustments are necessary. Immediately preceding the Report, you will find a guide that defines each line of the Report.

The SLD is also sending this information to your service provider(s) for informational purposes. If USAC has determined the service provider is also responsible for any rule violation on these Funding Request Numbers, a separate letter will be sent to the service provider detailing the necessary service provider action.

Please note that if the Funds Disbursed to Date amount is less than the Adjusted Funding Commitment amount, USAC will continue to process properly filed invoices up to the Adjusted Funding Commitment amount. Please note the Funding Commitment Adjustment Explanation in the attached Report. It explains why the funding commitment is being reduced. Please ensure that any invoices that you or your service provider submit to USAC are consistent with program rules as indicated in the Funding Commitment Adjustment Explanation. If the Funds Disbursed to Date amount exceeds your Adjusted Funding Commitment amount, USAC will have to recover some or all of the disbursed funds. The Report explains the exact amount (if any) the applicant is responsible for repaying.

Schools and Libraries Division  
Universal Services Administrative Company

cc: Raelanda Gunn  
Ameritech Advanced Data Services, Inc.

## A GUIDE TO THE FUNDING COMMITMENT REPORT

A report for each E-rate funding request from your application for which a commitment adjustment is required is attached to this letter. We are providing the following definitions for the items in that report.

**FUNDING REQUEST NUMBER (FRN):** A Funding Request Number is assigned by the SLD to each individual request in your Form 471 once an application has been processed. This number is used to report to applicants and service providers the status of individual discount funding requests submitted on a Form 471.

**SERVICES ORDERED:** The type of service ordered from the service provider, as shown on Form 471.

**SPIN (Service Provider Identification Number):** A unique number assigned by the Universal Service Administrative Company to service providers seeking payment from the Universal Service Fund for participating in the universal service support mechanisms. A SPIN is also used to verify delivery of services and to arrange for payment.

**SERVICE PROVIDER NAME:** The legal name of the service provider.

**CONTRACT NUMBER:** The number of the contract between the applicant and the service provider. This will be present only if a contract number was provided on your Form 471.

**BILLING ACCOUNT NUMBER:** The account number that your service provider has established with you for billing purposes. This will be present only if a Billing Account Number was provided on your Form 471.

**SITE IDENTIFIER:** The Entity Number listed in Form 471, Block 5, Item 22a. This number will only be present for "site specific" FRNs.

**ORIGINAL FUNDING COMMITMENT:** This represents the original amount of funding that SLD had reserved to reimburse you for the approved discounts for this service for this funding year.

**COMMITMENT ADJUSTMENT AMOUNT:** This represents the amount of funding that SLD has rescinded because of program rule violations.

**ADJUSTED FUNDING COMMITMENT:** This represents the adjusted total amount of funding that SLD has reserved to reimburse for the approved discounts for this service for this funding year. If this amount exceeds the Funds Disbursed to Date, the SLD will continue to process properly filed invoices up to the new commitment amount.

**FUNDS DISBURSED TO DATE:** This represents the total funds that have been paid to the identified service provider for this FRN as of the date of this letter.

**FUNDS TO BE RECOVERED FROM APPLICANT:** This represents the amount of improperly disbursed funds to date as a result of rule violation(s) for which the applicant has been determined to be responsible. These improperly disbursed funds will have to be recovered from the applicant.

**FUNDING COMMITMENT ADJUSTMENT EXPLANATION:** This entry provides an explanation of the reason the adjustment was made.

**Funding Commitment Report for  
Form 471 Application Number: 200698**

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Funding Request Number: 440968  
Services Ordered: INTERNAL CONNECTIONS  
SPIN: 143005375  
Service Provider Name: Ameritech Advanced Data Services, Inc.  
Contract Number: ESTL-ERATE-AADS-1  
Billing Account Number: 618/583-8200  
Site Identifier: 136412  
Original Funding Commitment: \$4,329,838.41  
Commitment Adjustment Amount: \$4,329,838.41  
Adjusted Funding Commitment: \$0.00  
Funds Disbursed to Date: \$4,315,258.08  
Funds to be Recovered from Applicant: \$4,315,258.08

**Funding Commitment Adjustment Explanation:**

After a thorough investigation, it has been determined that this funding commitment must be rescinded in full. During the course of an audit it was determined that the applicant did not have a contract or legally binding agreement in place at the time of submission of the Form 471. The documentation provided by the applicant failed to demonstrate that a legally binding agreement was in place at the time of submission of the Form 471. FCC rules require applicants to have signed a contract at the time they submit the Form 471. Prior to Funding Year 2004, the Commission interpreted this rule to require a legally binding agreement at the time the Form 471 was submitted, but not necessarily a signed contract. Since the applicant was unable to demonstrate that they had a legally binding agreement or contract in place at the time of submission of the Form 471, the commitment has been rescinded in full and the SLD will seek recovery of any disbursed funds

# BECKER, PAULSON, HOERNER & THOMPSON, P.C.

ATTORNEYS AT LAW

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SENT VIA: Fax Transmission to (973) 599-6542 (w/o enclosures)  
Certified U.S. Mail # \_\_\_\_\_ (w/ enclosures)

March 10, 2005

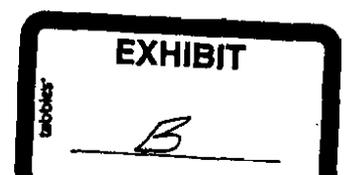
Letter of Appeal  
Schools and Libraries Division  
Box 125 – Correspondence Unit  
80 South Jefferson Road  
Whippany, NJ 07981

**Re: Appeal of January 19, 2005 Notification of Commitment Adjustment Letter**  
**Funding Request Number: 440968**  
**Billed Entity Name: East St. Louis School District No. 189**  
**Billed Entity Number: 136412**  
**Applicant's Form Identifier: ESTL-F471-YR3**  
**FCC Registration Number: 0012736567**  
**Form 471 Application Number: 200698**  
**Funding Year: 2000 (7/1/2000 – 6/30/2001)**  
**Service Provider Name: Ameritech Advanced Data Services, Inc.**  
**Service Provider Identification Number (SPIN): 143005375**  
**Services Ordered: Internal Connections**  
**Contract Number: ESTL-ERATE-AADS-1**  
**Site Identifier: 136412**  
**Original Funding Commitment: \$4,329,838.41**  
**Adjusted Funding Commitment Claimed: \$4,329,838.41**  
**Funds Disbursed to Date: \$4,315,258.08**  
**Funds Sought to be Recovered from Applicant: \$4,315,258.08**

To Whom It May Concern:

Our law firm represents East St. Louis School District No. 189 (District). I write at the direction of the District Board of Education pursuant to its Resolution No. 031005C authorizing and instructing me to seek appeal in the above-referenced matter. (See Exhibit A attached). Accordingly, the District hereby appeals the January 19, 2005 Notification of Commitment Adjustment Letter from Universal Service Administrative Company Schools & Library Division (SLD) for Funding Request Number 440968 (as more fully described above).

Specifically, through the Funding Commitment Adjustment Report attached to the January 19, 2005 Notification of Commitment Adjustment, the SLD concluded that "[s]ince the applicant was unable to demonstrate that they had a legally binding agreement or contract in



place at the time of submission of the Form 471, the commitment has been rescinded in full and the SLD will seek recovery of any disbursed funds." (See Exhibit A attached). However, that conclusion is erroneous and/or based upon an incorrect legal assumption by the SLD Internal Audit Division in that it belies the documentation produced by the District as well as applicable law.

In its April 30, 2004 *Executive Summary – Schools and Libraries Beneficiary Audit Report – East St. Louis School District (Audit No. SL2003BE098)* directed to SLD Vice-President George McDonald, the SLD Internal Audit Division contends that "[t]he results of the audit disclosed apparent non-compliance with Schools and Libraries Support Mechanism regulations and/or procedures in" that "[t]he applicant did not have a signed contract in place prior to the submission of the FCC Form 471" for Funding Year 2000. (See Exhibit B attached). However, as noted in the Funding Commitment Adjustment Report attached to the January 19, 2005 Notification of Commitment Adjustment, "[p]rior to Funding Year 2004, the Commission interpreted this rule to require a legally binding agreement at the time the Form 471 was submitted, but not necessarily a signed contract." (See Exhibit A attached). In this instance, the District had such a legally binding agreement or contract prior to the January 19, 2000 filing of the Form 471 for Funding Year 2000.<sup>1</sup> Indeed, in response to the District's Convergence Network Request for Proposal (see Exhibit D attached), the aforementioned service provider submitted a fully executed bid to the District on or about December 27, 1999 (see Exhibit E attached), which was approved by the District Board of Education Finance Committee on January 13, 2000 (see Exhibit F attached), pre-approved by the District Financial Oversight Panel contingent on District Board of Education approval on January 14, 2000 (see Exhibit G attached), and approved by the full District Board of Education on January 18, 2000 (see Exhibit H attached). Under Illinois law, such acceptance by public authorities of a bid submitted pursuant to a proposal or advertisement for bids for a contract for public work created a legally binding and enforceable contract or agreement, specifically a legally binding agreement or contract between the District and the above-referenced service provider effective January 18, 2000. *Universal Printing Company v. State of Illinois*, 43 Ill.Ct.Cl. 165 (1990), citing *Harvey v. United States*, 105 U.S. 671 (1882); see also *Joseph J. Duffy Co. v. State of Illinois*, 34 Ill.Ct.Cl. 69 (1981), *People ex rel. Department of Public Works and Buildings v. South East National Bank of Chicago*, 131 Ill. App. 2d, 278, 266 N.E.2d 778 (1<sup>st</sup> Dist. 1971), *Mandel Brothers, Inc. v. State of Illinois*, 10 Ill.Ct.Cl. 448 (1939), *West Chicago Park Commissioners v. Carmody*, 139 Ill. App. 635 (1908). Because the January 18, 2000 acceptance of that bid preceded the January 19, 2000 filing of Form 471 for Funding Year 2000, the District clearly had a legally binding agreement or contract in place at the time of submission of the Form 471. Accordingly, the SLD should not rescind the commitment and should not seek recovery of any disbursed funds.

Alternatively, even if such a violation of program rules was committed for argument's sake, the Notification of Commitment Adjustment Letter erroneously seeks recovery of funds disbursed from the District rather than the aforementioned service provider. Indeed, SLD Commitment Adjustment rules provide that "if funds need to be recovered, the SLD will seek recovery from the service provider." The fact remains that the District's Form 471 filed on

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<sup>1</sup> The District notes that SLD records incorrectly indicate a certified postmark date for its Form 471 as January 17, 2000, an impossibility in that that day was Martin Luther King, Jr. Day, a national holiday during which the District administrative offices were closed. Actually, District Director of Technology James Daniels sent the Form 471 to SLD via Federal Express on January 18, 2000 (after all necessary approvals) for delivery to and filing with SLD on the January 19, 2000 deadline. (See Exhibit C attached).

January 19, 2000 identifies the aforementioned service provider and its properly-filed invoices were paid directly to the aforementioned service provider by SLD. (See Exhibit H). Accordingly, SLD should seek recovery of any disbursed funds from the aforementioned service provider, not the District.

Further alternatively, even if such a violation of program rules was committed for argument's sake, the SLD should waive the applicable rule<sup>2</sup> because there is no allegation of misappropriation of funds/equipment. Indeed, all of the funds expended and equipment purchased are accounted for by the District.

For one or more of the foregoing reasons, East St. Louis School District No. 189 respectfully requests that the SLD grant its appeal, reconsider and reverse its position in its January 19, 2005 Notification of Commitment Adjustment Letter, not seek recovery of any disbursed funds from the District and honor Funding Request Number 440968 (as more fully described above).

If you have any questions or comments, please contact me at your convenience at the contact information below.

**BECKER, PAULSON, HOERNER & THOMPSON, P.C.**

By:

Garrett P. Hoerner

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enclosures

cc: Dr. Stan L. Mims (w/o enclosures via U.S. Mail only)  
Mr. Lee Triefenbach (w/ enclosures via U.S. Mail only)  
Mr. Lonzo Greenwood (w/o enclosures via U.S. Mail only)  
Mr. Pearson C.J. Bush (w/o enclosures via U.S. Mail only)

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<sup>2</sup>The District raises this argument to the extend permissible before the SLD and necessary to preserve the issue for FCC review, if necessary.

**EXHIBIT B**



## Universal Service Administrative Company

**To:** Mr. George McDonald, VP – Schools and Libraries Division  
**From:** Internal Audit Division  
**Date:** April 30, 2004  
**Re:** Executive Summary - Schools and Libraries Beneficiary Audit Report – East St. Louis School District (Audit No. SL2003BE098)

The Internal Audit Division of the Universal Service Administrative Company and KPMG LLP performed an audit of the Schools and Libraries Support Mechanism application of the East St. Louis School District located in St. Louis, MO, Billed Entity Number 136412 for Funding Year 2000. KPMG was engaged on December 19, 2002, to perform agreed upon procedures audits based on a sample of beneficiaries and audit procedures developed by the Federal Communications Commission (FCC) Office of Inspector General (OIG).

The procedures in the attached report were performed for the purpose of assisting USAC in determining whether the East St. Louis School District, as a recipient of support from the Schools and Libraries Support Mechanism of the Universal Service Fund, is complying with certain support mechanism rules and regulations established by the FCC. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards* (GAS) issued by the Comptroller General (GAS 1994 revision, as amended).

For the audit period, East St. Louis School District received the following commitments and the following disbursements were made on its behalf:

	<u>Amount Committed</u>	<u>Amount Disbursed</u>	<u>Service Type</u>
	\$6,502,069.41	\$6,451,802.46	Internal Connections
	0.00	0.00	Internet Access
	<u>324,643.46</u>	<u>247,455.33</u>	Telecommunications
<b>TOTALS:</b>	<b>\$6,826,712.87</b>	<b>\$6,699,257.79</b>	

Based on the results of the review and test work, the Internal Audit Division has concluded that the East St. Louis School District is not compliant with the Schools and Libraries Support Mechanism program requirements for the funding year reviewed. The results of the audit disclosed apparent non-compliance with Schools and Libraries Support Mechanism regulations and/or procedures in the following area:

- The applicant did not have a signed contract in place prior to the submission of the FCC Form 471.

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Detailed audit findings and responses are discussed in the attached report.

The Schools and Libraries Division will be seeking a recovery in the amount of \$6,451,802 for the audit finding noted above.

This report is intended solely for the use of USAC and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.



2300 Old Dominion Drive  
Suite 400  
McLean, VA 22102

**Independent Accountants' Report  
on Applying Axiom-Alpha Procedures  
USAC Report Number SI2003B15098**

Ms. Lisa Zilka  
Chief Executive Officer  
Universal Service Administrative Company  
2000 L Street NW, Suite 200  
Washington, DC 20036

We have performed the procedures enumerated in Attachment A, which were agreed to by the management of Universal Service Administrative Company (USAC), with respect to the 2000 Funding Year Applications submitted by the East St. Louis School District under Beneficiary No. 136412. These procedures were performed solely for the purpose of assisting you in determining whether the East St. Louis School District, as a recipient of support from the Schools and Library Support Mechanism (the "S&L Support Mechanism" or the "Support Mechanism") of the Universal Service Fund, as administered by the Schools and Libraries Division ("SLD") of USAC pursuant to the Federal Communications Commission ("FCC") regulations, is complying with certain Support Mechanism rules and regulations, in accordance with the FCC regulations. This agreed-upon procedure engagement was conducted in accordance with *attestation standards* established by the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller General (1994 revision, as amended). The sufficiency of these procedures is solely the responsibility of USAC. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment A either for the purpose for which this report has been requested or for any other purpose.

Specific procedures and related results have been enumerated in Attachment A to this report.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the East St. Louis School District's compliance with S&L Support Mechanism rules and regulations. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management of USAC and is not intended to be and should not be used by any parties other than the management of USAC.

KPMG LLP

September 8, 2003



KPMG LLP, a U.S. limited liability partnership  
1700 L Street, N.W., Washington, D.C. 20036

7/27/03

Universal Service Administrative Company (USAC)  
East St. Louis School District

Agreed-Upon Procedures Report - Attachment A  
Beneficiary No. 136412

Attachment A outlines the agreed-upon procedures for the East St. Louis School District ("Beneficiary" or "ESLSD"), the associated results, and any related management response obtained in relation to exceptions.

**APPLICATION PROCESS**

The following procedures are associated with the USAC E-Rate application process for the Beneficiary associated with its Funding Year ("FY") 2000 Application. The procedures, the associated results, and any management responses obtained in relation to exceptions are documented in the following tables.

Procedure	Results
Conduct Beneficiary Entrance Conference	<p>On July 22, 2003, KPMG conducted an entrance conference with East St. Louis School District E-Rate personnel. In attendance from the East St. Louis School District were:</p> <ul style="list-style-type: none"> <li>• The Senior Accountant</li> <li>• Project Manager</li> <li>• Computer Technician</li> <li>• Assistant Superintendent</li> <li>• Technology Consultant</li> <li>• Director of Media</li> <li>• Director of Materials Management</li> </ul> <p>In general, KPMG provided an overview of the process, introduced the team members that will be conducting the agreed-upon procedures and discussed how results would be communicated with the East St. Louis School District. A general timeline for the site review was also discussed and agreement was reached that the closing meeting would be held on or before July 25, 2003.</p>

USAC  
/USAC

Universal Service Administrative Company (USAC)  
East St. Louis School District

Agreed-Upon Procedures Report - Attachment A  
Beneficiary No. 136412

Procedure 2

Beneficiary

Obtain the following documentation from the Beneficiary related to its FY 2000 Application for the purposes of completing the procedures enumerated throughout this document:

- a. Technology Plan and related approval letter (note: request related Technology Plan(s) for individual schools within the school district and the capital budgets supporting the Technology Plans, if applicable).
- b. Fiscal year 2000 and 2001 technology budgets and/or school appropriations related to the E-Rate program for FY 2000.
- c. Copies of U.S. Office of Management and Budget (OMB) Circular A-133 reports for fiscal years 2000 and 2001, if Beneficiary is required to have a Single Audit.
- d. Copies of fiscal year 2000 and 2001 financial statements.
- e. Basis for discount calculation on FCC Form 471 (i.e., rural vs. urban classification, number of students eligible for the National School Lunch Program, or other eligibility method).
- f. Overview of Beneficiary's Service Provider selection process.
- g. List of all contracts with Service Providers (including all related subcontractor agreements) covering FY 2000 E-Rate program services.
- h. General description of the Beneficiary's information technology ("IT") environment and a high-level IT network diagram.
- i. General description of how E-Rate program funding for internal connections is being used in the Beneficiary's IT environment.
- j. General description of the process in place (if any) to ensure removal of ineligible services and/or products prior to billing.
- k. General description of the billing process for the E-Rate program in FY 2000.
- l. General description of Beneficiary's E-Rate program inventory, change/field orders process and how the Beneficiary's total E-Rate program

KPMG obtained the listed documentation made available by USAC and the Beneficiary.



Universal Service Administrative Company (USAC)  
East St. Louis School District

Agreed-Upon Procedures Report - Attachment A  
Beneficiary No. 136412

<p>funding is affected, and how excess E-Rate program inventory is accounted for.</p> <p>m. Copies of local and/or state procurement regulations applicable to the Beneficiary as they relate to contracting for the purchases of internal connections, telephone service, and internet access.</p> <p>n. General description of the organization of the Beneficiary's E-Rate program team, including roles and responsibilities of all personnel involved in the administration of the E-Rate program.</p> <p>o. Correspondence with USAC related to extensions or appeals granted for FY 2000.</p>	
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Procedure 3	Result(s)
<p>If the Beneficiary is a private school, determine by reference to the Beneficiary's financial statements if it had endowments exceeding \$50 million during FY 2000.</p>	<p>The East St. Louis School District is not a private school; therefore, this procedure is not applicable.</p>

Universal Service Administrative Company (USAC)  
East St. Louis School District

Agreed-Upon Procedures Report - Attachment A  
Beneficiary No. 136412

Procedure 4	Findings
<p>If the Beneficiary is required to file an OMB Circular A-133 report, read the report(s) which included FY 2000 and note if any material deficiencies were reported. If a material deficiency was reported, identify and list those deficiencies that may impact the Schools and Libraries Universal Services Program funds in FY 2000.</p>	<p>KPMG obtained and read the OMB Circular A-133 report for FY 2000 for East St. Louis School District to determine if any material deficiencies were reported.</p> <p>In the June 30 2001 OMB A-133 Report, a finding was reported stating, "The District has failed to maintain detailed records to account for some fixed asset additions subsequent to the physical inventory." During performance of the agreed-upon procedures, KPMG noted that the fixed asset listing reflecting E-Rate equipment was not in sufficient detail to perform site visits.</p> <p><b>Management Response</b></p> <ul style="list-style-type: none"> <li>The Financial Management Officer for the East Saint Louis School District informed KPMG that while the OMB Circular A-133 report for the year ended June 30, 2002 indicated that the issue was re-identified, it was corrected for year ended June 30, 2003 and was not identified in that year's report.</li> </ul>

Procedure 5	Findings
<p>Read the information regarding the Beneficiary's Technology Plan approval in Block 4, Line 8 on FCC Form 486 for FY 2000. Determine that the approver listed on this Form is included on the SLD certified "Technology Plan Approvers" list for FY 2000, that the Technology Plan includes a signature documenting the approval, and that the Technology Plan was consistent with USAC requirements.</p>	<p>KPMG read the information in Block 4, Line 8 on FCC Form 486 for FY 2000, which indicated that the Technology Plan was approved by Goals 2000 and Title One which are not included on the SLD certified Technology Plan Approvers list for FY 2000. KPMG considers this an exception.</p> <p>KPMG obtained a copy of the Beneficiary's Technology Plan and noted that it was approved by the Illinois State Area 5 Regional Office of Education, which is included on the SLD certified Technology Plan Approvers list for FY 2000.</p> <p>KPMG also noted that the Technology Plan was not consistent with USAC requirements in the following respect:</p> <ul style="list-style-type: none"> <li>The Technology Plan (the Plan) does not provide for a significant review of the Plan during the third year.</li> <li>The Technology Plan does not include discussion of the use of E-Rate funding. At the time the Plan was approved, the East St. Louis School District had not yet secured E-Rate funds. The Plan was not revised to address the use of funds once E-Rate funding was secured.</li> </ul> <p><b>Management Response</b></p> <p>These exceptions will be addressed going forward with E-Rate.</p>

**7/2/04**

Universal Service Administrative Company (USAC)  
East St. Louis School District

Agreed-Upon Procedures Report - Attachment A  
Beneficiary No. 136413

Procedure 6	Result(s)
Identify the basis used to calculate the Beneficiary's discount percentage on FCC Form 471. Compare this basis to the E-Rate approved basis for FY 2000. Recalculate the discount percentage calculation for all 26 schools within the school district.	KPMG compared the basis used to perform the claimed discount calculation on FCC Form 471 to the students eligible for participation in the National Student Lunch Program. In addition, KPMG recalculated the discount rate and agreed the rate to USAC documents for all 26 schools within the East St. Louis School District.  <i>No exceptions were noted.</i>

**Application Process Summary** Two (2) exceptions were noted.

**SERVICE PROVIDER SELECTION AND ELIGIBILITY**

The following procedures are associated with the USAC E-Rate program process that the Beneficiary utilized related to its FY 2000 to select and determine the eligibility of potential and contracted Service Providers. The procedures and associated results are documented in the following tables.

Procedure 7	Result(s)
Gain an understanding of the Beneficiary's Service Provider selection process by reviewing documents provided by the Beneficiary and through inquiry. Determine whether the Beneficiary's Service Provider selection process included competitive bidding and cost/benefit analysis in FY 2000 as recommended by USAC.	KPMG gained an understanding of the East St. Louis School District's Service Provider selection process by reviewing documents provided by the East St. Louis School District and through inquiry. KPMG determined that such process included competitive bidding and cost/benefit analysis in FY 2000 as recommended by USAC.

Procedure 8	Result(s)
Select a sample of one (1) Service Provider for FY2000 E-Rate services and/or products. For the Service Provider selected, obtain the applicable FCC Form 498 (Service Provider Registration Form) and FCC Form 473 (Service Provider Annual Certification Form) and determine if those forms were completed in accordance with USAC requirements.	KPMG selected a sample of one (1) Service Provider for FY 2000 E-Rate services and/or products. For the selected Service Provider, Ameritech Advanced Data Services, Inc., KPMG obtained the applicable FCC Form 498 (Service Provider Registration Form) and Form 473 (Service Provider Annual Certification Form) and determined that those forms were completed in accordance with USAC guidelines.  <i>No exceptions were noted.</i>

Procedure 9	Result(s)
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**72178**

Universal Service Administrative Company (USAC)  
East St. Louis School District

Agreed-Upon Procedures Report - Attachment A  
Beneficiary No. 136412

Procedure	Details
Based on a USAC provided summary of FY 2000 committed/dispensed E-Rate program funds for the Beneficiary, select and obtain two contracts for which the Beneficiary sought reimbursement and perform the following:	Based on a USAC provided summary of FY 2000 committed/dispensed E-Rate program funds for the East St. Louis School District, KPMG selected the following two (2) FRNs and obtained the contracts for which the East St. Louis School District sought reimbursement.  - Ameritech - FRN: 440968 - Sonacom - FRN: 440978
a. Compare the selected contracts' services and/or products to the FY 2000 E-Rate program "Eligible Services List" dated December 29, 2000 ("ESL"). Identify any services and/or products for which reimbursement was sought by the Beneficiary that were identified as ineligible in the ESL.	KPMG compared the services and/or products for the selected contracts to the FY 2000 E-Rate program ESL.  <i>No services and/or products included in the selected contracts were identified as ineligible in the ESL.</i>
b. Compare the information in Block 2, Summary Description of Needs or Services Requested, of FCC Form 470 to the description of services and/or products in the selected contracts.	KPMG compared the information in Block 2, Summary Description of Needs or Services Requested, of FCC Form 470 to the description of services and/or products in the selected contracts.  <i>No exceptions were noted.</i>
c. Compare the information in Block 3, Discount Funding Request(s), of the FCC Form 471 to the selected contract.	KPMG compared the information in Block 3, Discount Funding Request, of the FCC Form 471 to the selected contracts.  <i>No exceptions were noted.</i>
d. For any selected contracts, which were awarded on or before July 10, 1997, determine whether the contract was voluntarily extended beyond the original contract termination date. If so, determine whether the contract extension was subject to a competitive bidding process and was initiated by posting an FCC Form 470, in accordance with SLD program guidelines.	None of the selected contracts were awarded on or before July 10, 1997; therefore, this procedure is not applicable.

**Service Provider Selection Process Summary** No exceptions were noted.

**Universal Service Administrative Company (USAC)  
East St. Louis School District**

**Agreed-Upon Procedures Report - Attachment A  
Beneficiary No. 136412**

**REIMBURSEMENT PROCESS**

The following procedures are associated with the USAC E-Rate program process that the Beneficiary utilized related to its FY 2000 Application to ensure the eligibility of Telecommunications, Internet Access, and Internal Connections. The procedures, the associated results and any management responses obtained in relation to exceptions are documented in the following tables.

Procedure (0)	Result(s)
Gain an understanding of the Beneficiary's reimbursement process by reviewing documents provided by the Beneficiary and through inquiry. Determine whether the Beneficiary's reimbursement process included tracking of E-Rate related expenditures and status of work performed in FY 2000.	KPMG gained an understanding of the East St. Louis School District's reimbursement process by reviewing documents provided by the East St. Louis School District and through inquiry. KPMG determined that the Beneficiary's reimbursement process included tracking of E-Rate related expenditures and status of work in FY 2000.
If the East St. Louis School District filed any FCC Billed Entry Applicant Reimbursement (BEAR) forms (Form 472) for FY 2000, select one (1) completed BEAR form and verify that it was signed by the Service Provider.	The Beneficiary informed KPMG that the East St. Louis School District did not file any BEAR forms for FY 2000. Therefore, this procedure is not applicable.
Obtain information about the Beneficiary's reimbursement process to determine that eligible and ineligible items are properly segregated prior to submitting invoices to USAC for reimbursement.	<p>KPMG obtained information about the East St. Louis School District's reimbursement process.</p> <p><i>KPMG could not determine that the eligible and ineligible items were properly segregated prior to submitting invoices to USAC for reimbursement because the East St. Louis School District subcontracted that responsibility to Ernst &amp; Young LLP and was unable to provide KPMG with details (specific criteria, steps taken, etc.) of Ernst &amp; Young's process for segregating ineligible items.</i></p> <p><b>Management Response</b></p> <p>The Beneficiary's former business manager signature was required on all invoices in order to approve a request for payment. However, Mr. Wells did not possess the technical expertise required to screen vendor invoices for potential ineligibles.</p> <p>Since he did not possess the technical expertise required to screen vendor invoices for potential ineligibles, he would redirect the invoices to Ernst &amp; Young for examination. After Ernst &amp; Young completed the ineligible screening, he would sign the invoices and prepare a Request for Payment.</p>

Universal Service Administrative Company (USAC)  
East St. Louis School District

Agreed-Upon Procedures Report - Attachment A  
Boundary No. 136413

Procedure 12	Discussion
<p>2. Select five (5) invoices from each of the contracts selected in Procedure 9 above and compare invoices to contract terms and billing.</p>	<p>KPMG selected five invoices from two FRN's selected in support of contracts identified in Procedure 9 and attempted to compare the selected invoices to contract terms and billing.</p> <p>KPMG was unable to compare invoices to contract terms and billing on the five invoices:</p> <p><i>Ameritech - In FY 2000, the East St. Louis School District did not have a formally executed contract with Ameritech, rather it maintained a verbal agreement with Ameritech, accepting Purchase Orders as binding agreements. Ameritech policy allows for this arrangement in such situations, as it only provided equipment to customers in FY 2000. While the Beneficiary complied with Ameritech's regulations, it did not adhere to its own procurement policy requiring an executed contract with a vendor. Amounts reimbursed related to the selected Ameritech invoices totaled \$2,216,412.</i></p> <p><i>Sonacom - Sonacom conducted work on 11 of the Beneficiary's schools prior to contract execution. The Beneficiary authorized Sonacom to proceed with work before a formal contract was signed by issuing Notices to Proceed. However, KPMG was only provided Notices to Proceed for 9 of the 11 schools, therefore neither Sonacom nor the East St. Louis School District were able to provide documentation authorizing Sonacom to conduct E-Rate related work on certain of the Beneficiary's schools prior to contract execution.</i></p> <p><i>Furthermore, the Sonacom contract terms and billing did not match the invoices, in that product descriptions in the contracts differed from those in the invoices. Contract billing terms also differed from terms indicated on the invoices. Amounts reimbursed related to the selected Sonacom invoices totaled \$983,933.46.</i></p>
	<p><b>Management Response</b></p> <p>Ameritech's policy is to provide a formal, written contract for agreements where Ameritech is installing and maintaining equipment, not if it is for providing assistance with procuring equipment.</p> <p>The Notices to Proceed were executed by the former Director of Business Operations.</p> <p>Going forward with E-Rate, item descriptions on invoices will match contract terms and billing.</p>

Universal Service Administrative Company (USAC)  
East St. Louis School District

Agreed-Upon Procedures Report - Attachment A  
Beneficiary No. 136412

Procedure	Results
Judgmentally select five (5) completed reimbursement forms (BEARS and/or FCC Form 474, Service Provider Invoice Forms ("SPI")) from the USAC provided file of all FY 2000 Beneficiary requests for payment, and perform the following:	KPMG judgmentally selected five (5) completed SPI Forms related to the following FRNs upon which the agreed-upon procedures were performed: <ul style="list-style-type: none"> <li>- Ameritech Advanced Data Services, Inc. - FRN 400693</li> <li>- Sogacom, Inc. - FRN 400978</li> </ul>
a. Compare the Beneficiary's records to support that the Service Provider's bill to the Beneficiary was processed (reviewed and paid) in accordance with the Beneficiary's standard procedures.	KPMG compared the East St. Louis School District's records, typically the related invoice, to support that the Service Provider's bill to the East St. Louis School District was processed (reviewed and paid) in accordance with the East St. Louis School District's standard procedures.  <i>No exceptions were noted.</i>
b. Verify that supporting documentation exists for the approval of the invoice in accordance with the Beneficiary's standard procedures.	KPMG verified that supporting documentation, typically an invoice bearing an authorizing signature, exists for the approval of the invoices in accordance with the Beneficiary's standard procedures.  <i>No exceptions were noted.</i>
c. Compare the discount percentage as submitted on the reimbursement forms to the discount percentage documented in the related Funding Commitment Decision Letter issued by USAC and verify that it was applied appropriately.	KPMG compared the discount rate as submitted on the reimbursement forms to the Funding Commitment Decision Letter and verified that it was applied appropriately.  <i>No exceptions were noted.</i>
d. Verify that Beneficiary source documents support the services and/or products billed and that the Beneficiary documented review and approval for products and services being billed to determine that the Service Provider only applied discounts to services and/or products included in the ESL.	KPMG compared the services listed on the Service Provider invoices for which discounts were taken to the ESL. KPMG noted the following exception:  <i>Neither the Beneficiary nor the Service Provider were able to provide the dates that certain equipment purchased from Cisco Systems, which was invoiced on September 30, 2001, was installed and made operational in the schools. The packing slips indicated the date that items were received at a centralized warehouse. Accordingly, KPMG was unable to determine if the products purchased met the criteria in the ESL.</i>

Universal Service Administrative Company (USAC)  
East St. Louis School District

Agreed-Upon Procedures Report - Attachment A  
Beneficiary No. 136412

Procedure 1:	Management Response:
	<p>ESLSD maintains records of all capital assets. We provided KPMG with detailed inventory records of all fixed assets purchased under E-Rate. The inventory records contained the serial numbers and locations of the equipment. We also provided them with packing slips that contained the date in which the items were received in our centralized warehouse.</p>
<p>e. Identify any substitute services or products and compare these products or services to the FY 2000 ESL.</p>	<p>KPMG was informed that there were no substitute products or services for the East St. Louis School District.</p>
<p>f. Determine by reference to supporting documentation that non-discounted costs (Beneficiary's share) were paid timely and in accordance with contract and/or invoice terms.</p>	<p>KPMG determined that the non-discounted costs (Beneficiary's share) were paid timely and in accordance with contract and/or invoice terms. <i>No exceptions were noted.</i></p>
<p>g. Compare the SPIs to the Service Provider's bill to the Beneficiary. Verify that the total billed costs (to the Universal Service Fund (USF) program and Beneficiary) do not exceed the total cost of the eligible products and services delivered under the FRN and that the Service Provider is only seeking reimbursement of eligible costs and applied approved the discount rate.</p>	<p>KPMG compared the SPIs to the Service Provider's bill to the East St. Louis School District. KPMG verified that the total billed costs (to the Universal Service Fund program and East St. Louis School District) did not exceed the total cost of the eligible products and services delivered under the FRN and that the Service Provider only sought reimbursement of eligible costs and applied the approved discount rate. <i>No exceptions were noted.</i></p>
<p>h. For BEAR transactions, verify that the Beneficiary paid all amounts to the Service Provider and is only seeking reimbursement of eligible paid costs and applied the approved discount rate.</p>	<p>BEAR Forms were not used by the Beneficiary; therefore, this procedure is not applicable.</p>
<p>i. Compare the Beneficiary's asset/inventory records to selected invoices to verify that the billed equipment is listed on the inventory (including make, model and serial number).</p>	<p>KPMG attempted to compare the Beneficiary's asset/inventory records to selected invoices to verify that the billed equipment is listed on the inventory (including make, model, and serial number).  However, KPMG was unable to perform this procedure because the Beneficiary's asset records do not include documentation which identifies the invoices related to the purchases of such assets or whether such assets were purchased with E-Rate funds.  KPMG consider this to be an exception.</p>

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Universal Service Administrative Company (USAC)  
East St. Louis School District

Agreed-Upon Procedures Report - Attachment A  
Beneficiary No. 136412

Procedure 13	Result(s)
	<p><b>Management Response</b></p> <p>ESLSD maintains records of all capital assets. We provided KPMG with detailed inventory records of all fixed assets purchased under E-Rate. The inventory records contained the serial numbers and locations of the equipment. We also provided them with packing slips that contained the date in which the items were received in our centralized warehouse.</p> <p>The equipment was purchased using a standard ESLSD Purchase Order Form. The account number located on the purchase order contains the source of funds. The Director of Technology signed off on the receipt of all equipment prior to Accounts Payable issuing payment.</p>
<p>j. Identify eligible equipment or services listed on the asset records that are located in non-classroom buildings or library facilities that do not directly serve patrons by inquiry of the Beneficiary or review of other supporting information. For any such equipment or services, verify that the building(s) are "conditionally eligible" for USF support.</p>	<p>Since the Beneficiary's asset records did not contain information to identify whether assets were purchased with E-Rate funds, as described in the results to Procedure 13i above, KPMG was unable to perform this procedure.</p>
Procedure 14	Result(s)
<p>Perform site visits to the Service Provider(s).</p>	<p>KPMG and USAC agreed not to perform Service Provider site visits at this time.</p>
Procedure 15	Result(s)

Universal Service Administrative Company (USAC)  
East St. Louis School District

Agreed-Upon Procedures Report - Attachment A  
Beneficiary No. 136412

Procedure 15	Observations
<p>Select five (5) individual schools for site visits and perform the following:</p> <ol style="list-style-type: none"> <li>For selected sites, compare equipment approved and listed on FCC Form 471 to the Beneficiary's asset records. Also determine that all equipment for the selected building is installed and operational. (Note: The verification should include comparing the make, model and serial number of the equipment to the asset list.)</li> <li>Obtain a description of the use of the equipment selected in Procedure 15 a. Compare the description of use to the approved Technology Plan.</li> <li>Select at least two (2) systems installed in a classroom or library and test it by accessing the internet, LAN, or intranet.</li> <li>If any of the selected buildings are administrative buildings, compare assets acquired to the ESL. (Note: If services are provided to administrative buildings, ensure they are part of a network of shared learning that connects to classrooms or library facilities available to the public.)</li> </ol>	<p>Since the Beneficiary's asset records did not contain information to identify the invoices associated with the assets or whether such assets were purchased with E-Rate funds, as described in the results to Procedure 131 above, KPMG did not perform site visits to individual schools of the Beneficiary.</p>
<p>Reimbursement Process Summary</p>	<p>None</p>

Overall Total Excesses Summary	Eight (8) exceptions were noted.
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## Management Response Detail

<b>Beneficiary</b>		<b>East St. Louis School District</b>	<b>Not Compliant</b>			
<b>Rpt. Ref.</b>	<b>Step</b>	<b>Issue Type</b>	<b>Issue Amount</b>	<b>Policy Issue</b>	<b>Status</b>	<b>Amount to Recover</b>
12	613	Other - Internal control issue	Not Determined	No Policy Issue	Finding Only	No Recovery Required

**Issue Details as quoted from audit report**

KPMG obtained information about the East St. Louis School District's reimbursement process. KPMG could not determine that the eligible and ineligible items were properly segregated prior to submitting invoices to USAC for reimbursement because the East St. Louis School District subcontracted that responsibility to Ernst & Young LLP and was unable to provide KPMG with details (specific criteria, steps taken, etc.) of Ernst & Young's process for segregating ineligible items. The Beneficiary's former business manager signature was required on all invoices in order to approve a request for payment. However, Mr. Wolfe did not possess the technical expertise required to screen vendor invoices for potential ineligible items. Since he did not possess the technical expertise required to screen vendor invoices for potential ineligible items, he would redirect the invoices to Ernst & Young for examination. After Ernst & Young completed the ineligible screening, he would sign the invoices and prepare a Request for Payment.

**Application Resolution**

This is an internal control issue and not subject to program rules.

12A	717	Bidding - Copies of Contracts	\$8,451,802.48	No Policy Issue	Rule Violation	\$8,451,802.48
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**Issue Details as quoted from audit report**

Ametech - In FY 2000, the East St. Louis School District did not have a formally executed contract with Ametech, rather it maintained a verbal agreement with Ametech, accepting Purchase Orders as binding agreements. Ametech policy allows for this arrangement in such situations, as it only provided equipment to customers in FY 2000. While the Beneficiary complied with Ametech's regulations, it did not adhere to its own procurement policy requiring an executed contract with a vendor. Amounts reimbursed related to the selected Ametech invoices totaled \$2,218,412. Sonacom - Sonacom conducted work on 11 of the Beneficiary's schools prior to contract execution. The Beneficiary authorized Sonacom to proceed with work before a formal contract was signed by issuing Notices to Proceed. However, KPMG was only provided Notices to Proceed for 9 of the 11 schools, therefore neither Sonacom nor the East St. Louis School District were able to provide documentation authorizing Sonacom to conduct E-Rate related work on certain of the Beneficiary's schools prior to contract execution.

**Application Resolution**

The applicant supplied SLD with the minutes from the East St. Louis Board of Education Board Meeting on 12/18/00 when they approved the funds for the E-rate program for Ametech and Sonacom, they also supplied a copy of the Purchase Order to Sonacom dated 7/18/04; however these documents are dated after the submission of FCC Form 471 which is dated 1/17/2000. Therefore, this is a rule violation. SLD will seek recovery of debursed funds.

Friday, June 25, 2004