

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of)
)
Appeal)
Appeal of)
Improperly Disbursed Funds Recovery Letter)
Checkpoint Communications, Inc.)
Form 471 Application No. 536567)
Funding Request Number: 1484692)

CC Docket No. 02-6

Appeal of Decision

November 10, 2011

Appellant:
Checkpoint Communications Inc. SPIN 143006793

Filed By:
Gary Kendrick, Managing Partner

The Kendrick Group, LLC.
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Checkpoint Communications Inc., SPIN 143006793 (“Checkpoint”), respectfully petitions the Federal Communications Commission (“FCC”) to review the demand issued¹ by the Universal Service Administration Company (“USAC”) against Checkpoint for the repayment of \$380,046.80 from FRN 1484692. Checkpoint hereby submits to the FCC, in a timely manner, this de novo appeal.

USAC states: “After a thorough investigation, it has been determined that funds were improperly disbursed on this funding request. During the course of an audit it was determined that the funds were disbursed in excess of products and/or services actually delivered to the applicant. Specifically, the service provider invoiced USAC in excess of the amount billed and services provided to the applicant.”

This allegation was based from Audit Report No. 09-AUD-07-11², dated September 30, 2010. Checkpoint was not contacted during this audit nor asked to respond to the auditor’s allegations. Checkpoint was denied due process to defend itself against these allegations prior to the demand for the funds to be returned. In fact we had to file a Freedom of Information Act request in order to obtain a copy of said audit report to learn the stipulated allegations and the perceived basis.

Checkpoint denies any allegations of overbilling and maintains that, as stipulated in the RFP and Contract, it invoiced within the terms of RFP 32-05³ and Contract 32-05⁴. RFP 32-05, filed under Form 470 594690000549376⁵, is priced by a total cost schedule of values. This was followed by a matching schedule of values based contract 32-05, Form 471 536567⁶ and supporting Item 21 materials⁷. In fact, we have a total cost schedule of values e-rate application filed by SBCUSD that was bid on and contract awarded to Checkpoint, reviewed, approved and funded by USAC.

A Schedule of Values breaks the price down and allocates it among various components of the following work: excavation, foundation, superstructure steel, curtain wall, electrical, plumbing, HVAC, vertical transportation, drywall, paint, general conditions costs, and etcetera. Note it is not broken down by quantity of parts, time, or unit price.

Under the terms and conditions of RFP 32-05 and contract 32-05, both based on a total cost schedule of values, Checkpoint was to be compensated based on the contracted cost per sample site as agreed to by San Bernardino City School Unified District (SBCUSD) and approved by USAC during PIA. The schedule of values contract 32-05 and supporting Item 21 sets the amounts of compensation at \$213,183.01 for each middle school and \$308,655.28 for each high school on this application. It does not set the price based on actual cost, better known as time and materials.

Checkpoint states that application 536567 does not support the findings of the audit.

In a schedule of values, the service provider is not compensated by actual cost but by the accepted bid cost. The First Bid Table shows the total cost, schedule of values as contracted under RFP 32-05, contract 32-05 and Form 471 536567’s Item 21.

First Bid Table

Type	Cost
Elementary School	\$155,758.28
Middle School	\$213,183.01
High School	\$308,655.28
Non-Instructional	\$183,842.48

In June of 2007, SBCUSD required that Checkpoint submit new proposals⁸ for all 14 sites listed in the Block 4 of Form 471 536567. Checkpoint came up with a modified schedule of values cost to conform the new proposals to the terms of contract 32-05. A change to an “actual cost” would have violated the contract’s terms and would have been a fatal cardinal change in violation of the Commission’s Fourth Order. This would have nullified the entire application to change from a total cost schedule of values to actual cost.

The new proposals and their schedule of values dated June 15, 2007 included all 14 sites and abandoned the 4 sample sites. The new costs are reflected in the Second Bid Table.

Second Bid Table

School	Original Bid Amount	6/15/07 Bid Amount	Cost Difference
Arrowview Middle	\$213,183.01	\$109,130.23	(\$104,052.78)
Arroyo Valley High	\$308,655.28	\$91,748.86	(\$216,906.42)
Cesar E. Chavez Middle	\$213,183.01	\$63,090.73	(\$150,092.28)
Curtis Middle	\$213,183.01	\$178,740.71	(\$34,442.30)
Del Vallejo Middle	\$213,183.01	\$92,526.42	(\$120,656.59)
Golden Valley Middle	\$213,183.01	\$70,461.57	(\$142,721.44)
Martin Luther King Jr. Middle	\$213,183.01	\$81,899.88	(\$131,283.13)
Pacific High	\$308,655.28	\$120,382.72	(\$188,272.56)
Richardson Prep Hi	\$308,655.28	\$146,065.92	(\$162,589.36)
San Andreas High	\$308,655.28	\$182,313.41	(\$126,341.87)
San Bernardino High	\$308,655.28	\$128,525.63	(\$180,129.65)
Serrano Middle	\$213,183.01	\$134,505.10	(\$78,677.91)
Shandin Hills Middle	\$213,183.01	\$222,764.31	\$9,581.30
Sierra High	\$308,655.28	\$122,353.97	(\$186,301.31)
Totals	\$3,557,395.76	\$1,744,509.46	(\$1,812,886.30)

It is clear that SBCUSD did not have a true and honest scope of work when it filed the original application and that the RFP 32-05’s sample sites did not work well. In the end SBCUSD abandoned the RFP 32-05 but the contract 32-05 with Checkpoint could not be changed and Checkpoint was still entitled to the original prices set in the bid response and ensuing contract.

As you can see, the scope of work was changed by SBCUSD and should have raised a red flag immediately. Clearly the auditors did not compare this change to the original “as filed” application or contract. If the auditors would have caught this change then they would not have mistaken the June 15, 2007 proposals for actual cost. Both bids were clearly a total cost schedule of values as required by contract 32-05.

SBCUSD made a comment in an email about a previous audit and that SBCUSD now knows “what they (auditors) want.”⁹ This could be the reason SBCUSD attempted to convert a schedule of values contract into an actual cost contract. Such a change cannot be done since the RFP 32-05 is clearly a schedule of values RFP and SBCUSD had already been funded.

SBCUSD made significant and unanticipated changes to the scope of work months after application 536567 had been funded. Cardinal changes endangering the validity of the contract and application.

In March of 2007, SBCUSD added to the scope of work the additional work^{9a} of extending the T-1 data circuits at various school sites. This was work that was not listed in the RFP 32-05 or detailed sufficiently to allow an accurate bid.

During this same time period SBCUSD added the trenching and conduit work to be performed under the supervision and specifications¹⁰ of Verizon for Verizon's TLS data lines. This work was to provide a pathway for the Verizon fiber from the property line over to the MDF. Again, work not listed in the RFP 32-05. Remember that the Ysleta Decision defines the amount of detail required so bidders can submit bids. Simply stating trenching 2500 feet cannot be bid since the bidders would need to know if they are to trench across grass, asphalt or concrete. SBCUSD added two additional work projects that were not listed on the original scope of work or in the RFP.

What we have are major cardinal changes with the bulleted items that are in clear violation of the cardinal change doctrine adopted by the Commission in the Fourth Order. These changes were made after the FCDL.

- Dropped the original bids on 4 sample sites
- Required all new bids on 14 sites
- Added T-1 extensions
- Added trenching for TLS data lines

Of the 15 bidders at the bidding conference only 2 submitted bids. The other 13 disappointed bidders could not have known or perceived of these cardinal changes. We will never know if they would have submitted lower bids under these cardinal changes because SBCUSD denied them the opportunity to do so.

The disappointed bidders could not have anticipated that SBCUSD would drop the original bids, rebid all 14 sites, or add two new projects not listed in the original RFP 32-05.

Clearly what the auditors audited was not the original bid, application and more importantly the terms of the contract 32-05. They audited quantities and price for what they assumed to be an actual cost contract. Again the auditors failed to match the invoices to the contracted prices. Even if they wanted to match the invoices against the June 15, 2007 proposals they failed to measure them as total cost or schedule of values. This was not an actual cost contract. It was a fixed price per type of site and there are no other documents that can be brought forward to show there was a legal modification to the contract from a schedule of values contract to an actual cost contract.

Checkpoint states that an attempt to circumvent the contract 32-05 with actual cost pricing would be a cardinal change sufficient enough to invalidate application 536567.

In the findings the auditors state that Checkpoint invoiced for more feet of Cat5e cable than was installed and more drops than were installed. What the auditors failed to understand is that the original 4 sample sites and the June 15, 2007 proposals were not based on invoicing Cat5e cable by the foot or drops by the count. They were schedule of values bids and a set price for the job not the parts that go into the job.

The original bid submitted had an "Attachment A1 Bid-Form"¹¹ that was an encyclopedic pricing sheet listing every conceivable part that could be used over the life of the 5 year contract. More importantly is that on the RFP 32-05 "Attachment A"¹², where the single price per sample site is listed, it states:

"In addition to the four referenced sample sites, please include any additional cost that may be anticipated during the term of this bid/agreement for all sites included in this bid. Please label as Attachment A1-Bid Form and submit with your bid. Please place Attachment A1 to page 167.

****Please Note: The cost on Attachment A1 will not be used to determine the lowest bidder."

The last line in this note, "The cost on Attachment A1 will not be used to determine the lowest bidder" clearly prevents the use of the pricing on this encyclopedic catalog. It was not competitively bid since SBCUSD barred it from the determining the lowest bidder. The RFP 32-05 "Attachment A1 Bid-Form" cannot be used for E-rate work under these circumstances. This was a mixed work bid and contract containing eligible and ineligible work.

With a bid for 4 sample sites and a directory listing of all the schools that might have "possible work" done, a 5 year contract was awarded. Such a vague contract with prices per sample site can only be a schedule of values construction contract. After all, there is no site specific list of parts or quantities in contract 32-05, only schedule of values task list.

RFP 32-05 "Attachment A" is the document that the lowest bidder was chosen from and lists the single price per site. Nowhere does the RFP 32-05 mention time and material except under the Change Order section. We see no change orders and we see no daily tickets as required for time and materials under General Terms and Conditions Sections 9 Changes and 10 Time and Material Practices.

The finding on the audit report against Checkpoint claims alleged overbilling. The invoices used do not show overbilling since Checkpoint invoiced the "single price" for each site. Not an actual cost based on items installed or labor used, it was not an actual cost contract; it was a single price per sample site contract as the bid states on Page 8 under Information for Bidders. "13 Pricing. Bidder is to submit one single price. Do not insert multiple or identical prices for E-rate and Non-E-rate work and material; separate prices are not acceptable."

SBCUSD having the ability and fiduciary duty as a public agency to recover public funds from Checkpoint's alleged overbilling chose not to bring this matter before the court. It was left up to Checkpoint to file a breach of contract lawsuit, Case CIVDS1005400¹³, against SBCUSD in February 2010. SBCUSD was provided the opportunity to bring this overbilling matter before the court, instead they declined.

The case mentioned above was settled in July 2011. SBCUSD chose to settle the lawsuit rather than having the matter heard at trial; SBCUSD eventually paid Checkpoint to dismiss its breach of contract cause of action against SBCUSD. Do any of us really think that having one year to investigate the allegations of overbilling and build the case against Checkpoint that SBCUSD would settle and pay Checkpoint a settlement if the facts against Checkpoint were there? Filing an allegation of wrong doing with the FCC is one thing. Taking the allegations into court in front of a judge is another.

The Commission should require SBCUSD to explain its failure to pursue these allegations in court. With a confidentiality clause in place at SBCUSD's request, we are not privileged as to why SBCUSD failed to enforce the recovery of the public funds and only chose to use the FCC's administrative process.

Checkpoint finds that the terms and conditions of RFP 32-05, contract 32-05 and application 536567 are in fact a total cost schedule of values. Checkpoint finds that these documents lack sufficient detail to be considered actual cost. SBCUSD requested, contracted, and filed this application. USAC approved and funded the total cost schedule of values based on the 4 sample sites in the Item 21. USAC committed \$3,557,395.76 to Checkpoint in application 536567.

Checkpoint already gave up \$1.8 million when it submitted the June 15, 2007 proposals after SBCUSD dropped the original bids. Now SBCUSD has misled USAC in trying to change how the application was bid, contracted for, approved as, and funded. If in fact the application does not conform to the USF program rules as a schedule of values then SBCUSD is at fault as it wrote the RFP 32-05 and contract 32-05 as well as submitted application 536567.

We respectfully request the Commission to rule that Checkpoint invoiced within the terms and prices of the schedule of values contract 32-05 and schedule of values application 536567. That this was a schedule of values contract that was based on a total cost per site and not actual cost per site.

We respectfully request the Commission to rescind the June 6, 2011, "Notification of Improperly Disbursed Funds Recovery Letter" and remove the findings of overbilling from the Audit Report No. 09-AUD-07-11, dated September 30, 2010.

The audit report finding was based on documents that were provided by SBCUSD and Checkpoint was excluded from due process. Checkpoint was never provided the opportunity to refute the allegations of the finding as the auditors and USAC never contacted Checkpoint. Hearing from both sides would have clarified the entire matter and allowed for a true and accurate audit.

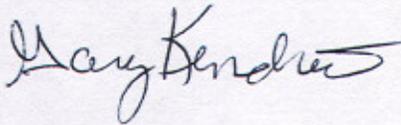
Checkpoint finds that the audit failed to compare the original "as filed" application 536567 to the documents presented. A comparison reveals cardinal changes that are in clear violation of the cardinal change doctrine adopted by the Commission in the Fourth Order¹⁴. An applicant is not allowed to file an application, receive funding, and then drop the original competitive bids for 4 sample sites and replace them with new bids for all 14 sites. Nor is an applicant allowed to add previously unspecified work projects to the application.

Most of all SBCUSD is not allowed to violate contract 32-05 in an attempt to change application 536567 from a schedule of values to actual cost.

We respectfully request that if the Commission declines to rule in Checkpoint's favor, that the cardinal changes to application 536567 be recognized and that the application 536567 be declared null and void. Furthermore, the applicant should be declared at fault and any improperly disbursed funds must be recovered solely from SBCUSD.

Respectfully,

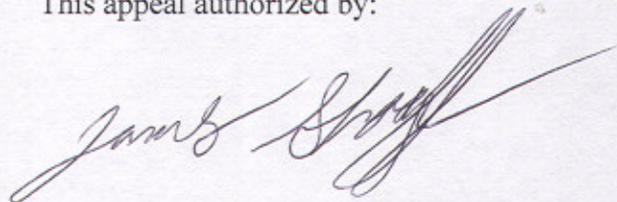
This appeal prepared and filed by:



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Pelham, AL 35124-6218

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This appeal authorized by:



James Shoaff
Checkpoint Communications Inc.
130 McCormick Ave Suite 105
Costa Mesa, CA 92626

¹ USAC "Notification of Improperly Disbursed Funds Recovery Letter"

² FCC OIG "Audit Report No. 09-AUD-07-11"

³ San Bernardino City Unified School District's "Technology Infrastructure Bid Number 32-05"

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- ⁴ General Contract, Agreement Bid No, 32-05
 - ⁵ USAC Form 470 594690000549376
 - ⁶ USAC Form 471 536567
 - ⁷ Item 21 support documents obtained from USAC Ombudsman's Office
 - ⁸ June 15, 2007 Proposals
 - ⁹ March 10, 2007 email from Dilip Patel of SBCUSD
 - ^{9a} March 11, 2007 email
 - ¹⁰ Verizon documents regarding TLS and T-1 specifications
 - ¹¹ SBCUSD provided Attachment A1 Bid-Form and Checkpoint's submitted Attachment A1 Bid-Form
 - ¹² Checkpoint's Attachment A as submitted and accepted
 - ¹³ San Bernardino County Superior Court Case CIVDS1005400 summary
 - ¹⁴ FCC Fourth Order and Report

1

USAC “Notification of Improperly Disbursed Funds Recovery Letter”

James Shoaff
Checkpoint Communications Inc.
130 McCormick Ave. Ste 105
Costa Mesa, CA 92626 3017

ATTENTION!

When sending payments by U. S. Postal Service or major courier service (e.g. Airborne, Federal Express, and UPS) please send check payment payable to:

Universal Service Administrative Company (105056)

1075 Loop Road

Atlanta, GA 30337

Phone 404-209-6377



Notification of Improperly Disbursed Funds Recovery Letter
Funding Year 2006: July 1, 2006 - June 30, 2007

June 6, 2011

James Shoaff
Checkpoint Communications Inc.
130 McCormick Ave. Ste 105
Costa Mesa, CA 92626

Re: SPIN: 143006793
Form 471 Application Number: 536567
Funding Year: 2006
FCC Registration Number:
Applicant Name: SAN BERNARDINO CITY UNIF S D
Billed Entity Number: 143740
Applicant Contact Person: TJ McCauley

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

In order to be sure that no funds are used in violation of Program rules, the Universal Service Administrative Company (USAC) must now recover these improper disbursements. The purpose of this letter is to inform you of the recoveries as required by Program rules, and to give you an opportunity to appeal this decision. USAC has determined the service provider is responsible for all or some of the Program rule violations. Therefore, the service provider is responsible to repay all or some of the funds disbursed in error.

This is NOT a bill. The next step in the recovery of improperly disbursed funds process is for USAC to issue you a Demand Payment Letter. The balance of the debt will be due within 30 days of that 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." The FCC's Red Light Rule requires USAC to dismiss pending FCC Form 471 applications if the entity responsible for paying the outstanding debt has not paid the debt, or otherwise made satisfactory arrangements to pay the debt within 30 days of the notice provided by USAC. For more information on the Red Light Rule, please see "Red Light Frequently Asked Questions (FAQs)" posted on the FCC website at http://www.fcc.gov/debt_collection/faq.html.

Schools and Libraries Division - Correspondence Unit
100 South Jefferson Road, P.O. Box 902, Whippany, NJ 07981
Visit us online at: www.usac.org/sl

TO APPEAL THIS DECISION:

You have the option of filing an appeal with USAC or directly with the Federal Communications Commission (FCC).

If you wish to appeal the Notification of Improperly Disbursed Funds decision indicated in this letter to USAC 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 email 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 Improperly Disbursed Funds Recovery Letter and the Funding Request Number(s) (FRN) you are appealing. Your letter of appeal must include the
 - Billed Entity Name,
 - 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 Funding Disbursement Recovery Report included with this letter that is the subject of your appeal to allow USAC to more readily understand your appeal and respond appropriately. Please keep your letter to the point, and provide documentation to support your appeal. Be sure to keep a copy of your entire appeal including any correspondence and documentation.
4. If you are an applicant, please provide a copy of your appeal to the service provider(s) affected by USAC's decision. If you are a service provider, please provide a copy of your appeal to the applicant(s) affected by USAC's decision.
5. Provide an authorized signature on your letter of appeal. To submit your appeal to USAC by email, email your appeal to appeals@sl.universalservice.org. USAC will automatically reply to incoming emails to confirm receipt.

To submit your appeal to us by fax, fax your appeal to (973) 599-6542.

To submit your appeal to us on paper, send your appeal to:

Letter of Appeal
Schools and Libraries Division - Correspondence Unit
100 S. Jefferson Rd.
P. O. Box 902
Whippany, NJ 07981

For more information on submitting an appeal to USAC, please see the "Appeals Procedure" posted on our website.

If you wish to appeal a decision in this letter to the 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 by the FCC or postmarked within 60 days of the date of this letter. Failure to meet this requirement will result in automatic dismissal of your appeal. We strongly recommend that you use the electronic filing options described in the "Appeals Procedure" posted on our website. 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.

FUNDING DISBURSEMENT RECOVERY REPORT

On the pages following this letter, we have provided a Funding Disbursement Recovery Report (Report) for the Form 471 application cited above. The enclosed Report includes the Funding Request Number(s) from the application for which recovery is necessary. See the "Guide to USAC Letter Reports" posted at <http://usac.org/sl/tools/reference/guide-usac-letter-reports.aspx> for more information on each of the fields in the Report. USAC is also sending this information to the applicant for informational purposes. If USAC has determined the applicant is also responsible for any rule violation on these FRN(s), a separate letter will be sent to the applicant detailing the necessary applicant action. The Report explains the exact amount the service provider is responsible for repaying.

Schools and Libraries Division
Universal Services Administrative Company

cc: *TJ McCauley*
SAN BERNARDINO CITY UNIF S D

Funding Disbursement Recovery Report
for Form 471 Application Number: 536567

Funding Request Number:	1484692
Contract Number:	32-05
Services Ordered:	INTERNAL CONNECTIONS
Billing Account Number:	
Funding Commitment:	\$3,048,619.34
Funds Disbursed to Date:	\$2,008,854.49
Funds to be Recovered from Service Provider:	\$380,046.80

Disbursed Funds Recovery Explanation:

After a thorough investigation, it has been determined that funds were improperly disbursed on this funding request. During the course of an audit it was determined that the funds were disbursed in excess of products and/or services actually delivered to the applicant. Specifically, the service provider invoiced USAC in excess of the amount billed and services provided to the applicant. FCC rules authorize USAC to disburse funds to service providers for providing supported services to eligible entities. These rules are violated if the service provider invoices USAC and receives payment for services and/or products in excess of what it delivered to the eligible entity. Since the services were invoiced via a SPI, this violation was caused by an act or omission of the service provider because the service provider is responsible for ensuring that it only receives support for services and/or products that it actually provides to its customers. Accordingly, USAC will seek recovery of the \$378,794.00 of improperly disbursed funds from the service provider.

Additionally, after a thorough review, it was determined that the funding commitment for this request must be reduced by \$1,252.80. During the course of an audit it was determined that funding was provided for the following ineligible items: Vertical Power Strips. The pre-discount cost associated with these items is \$1,407.65. At the applicant's 89 percent discount rate this resulted in an improper commitment of \$1,252.80. FCC rules provide that funding may be approved only for eligible products and/or services. The USAC web site contains a list of eligible products and/or services. See the web site, www.universalservice.org/sl/about/eligible-services-list.aspx for the Eligible Services List. On the SPAC Form, the authorized person certifies at Item 10 that the service provider has billed its customer for services deemed eligible for support. Therefore, USAC has determined that the service provider is responsible for this rule violation. Accordingly, the commitment has been reduced by \$1,252.80 and if the recovery of improperly disbursed funds is required, USAC will seek recovery from the service provider.

2

FCC OIG “Audit Report No. 09-AUD-07-11”



OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20554

September 30, 2010

San Bernardino City Unified School District
Dr. Arturo Delgado
Mr. Mohammad Islam
777 North F Street
San Bernardino, CA 92410

Dear Dr. Delgado and Mr. Islam:

The Federal Communications Commission ("FCC") Office of Inspector General ("OIG") performed an Attestation Examination of San Bernardino City Unified School District's compliance with the applicable requirements of the FCC's rules and orders governing Universal Service support for the Schools and Libraries Support Mechanism relative to disbursements of \$ 7,780,214.59 made from the Universal Service Fund during the fiscal year ended June 30, 2008 ("Fiscal Year 2008").

This examination is 1 of the 346 statistically selected schools and libraries program beneficiary examinations conducted pursuant to the Improper Payments Information Act of 2002 ("IPIA") for Fiscal Year 2008. Attached is the final report of the examination conducted by our office. It incorporates your written response to the draft report and the response received from the Universal Service Administrative Company.

The OIG performed this examination consistent with its authority under the Inspector General Act of 1978, as amended, including, but not limited to sections 2(1) and 4(a)(1). It is not intended as a substitute for any agency regulatory compliance review or regulatory compliance audit.

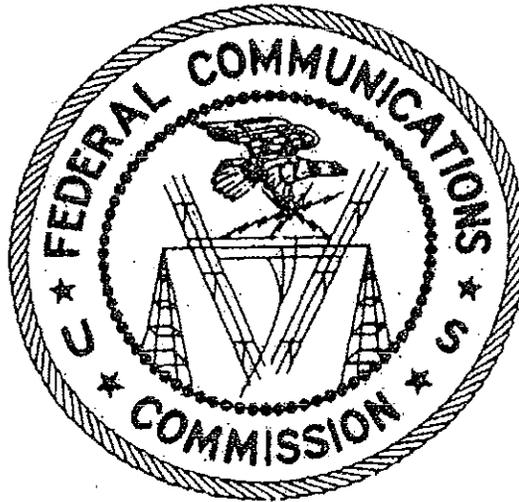
If you have questions, or need additional information, please contact Beth Engelmann, Director, USF Program Audits at 202-418-1448 or me at 202-418-0474, or Gerald.grahe@fcc.gov.

Sincerely,

Gerald T. Grahe
Assistant Inspector General
for USF Oversight

Attachment – Final Attestation Examination Report
OIG No. 09-AUD-07-11
IPIA No. SL-2008-238

FEDERAL COMMUNICATIONS COMMISSION



OFFICE OF INSPECTOR GENERAL

Final Report
Attestation Examination of
San Bernardino City Unified School District
Beneficiary Number 143740

Report No. 09-AUD-07-11
IPIA Report No. SL-2008-238
September 30, 2010

This document may contain confidential and proprietary information of the auditee protected from disclosure under the Trade Secrets Act and other laws and regulations. This document must be returned to the FCC's Office of Inspector General for review and removal of protected information before disclosure of any portion of it by any unit, representative, employee, or agent of the United States Government.

Attestation Examination Report

We have examined management's assertions that San Bernardino City Unified School District's ("SBCUSD"), Beneficiary Number 143740, complied with applicable requirements of 47 C.F.R Section 54 of the Federal Communications Commission's ("FCC") rules and related orders as provided in Attachment I, relative to disbursements of \$7,780,214.59 made from the Universal Service Fund ("USF") during the fiscal year ended June 30, 2008 ("Fiscal Year 2008") and relative to its Funding Year ("FY") 2006 and 2007 applications. Management is responsible for SBCUSD's compliance with those requirements. Our responsibility is to express an opinion on SBCUSD's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence about SBCUSD's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on SBCUSD's compliance with specified rules.

Our examination disclosed material noncompliance with 47 C.F.R. Section 54 and related orders regarding (i) discounts for ineligible products and services, and (ii) receipt of services by SBCUSD and reimbursement matters attributable to service provider overcharges relating to disbursements and corresponding Funding Request Numbers ("FRNs") made from the USF during Fiscal Year 2008. Detailed information relative to the material noncompliance is described in Findings 1, 2 and 3 in Attachment II.

In our opinion, except for the material noncompliance described in the third paragraph, SBCUSD complied, in all material respects, with the aforementioned requirements relative to disbursements of \$7,780,214.59 made from the USF during Fiscal Year 2008 and relative to its FY 2006 and 2007 applications for funding and service provider selections related to the FRN for which such disbursements were made.

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies and material weaknesses that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether SBCUSD complied with the aforementioned requirements and not for the purpose of expressing an opinion on the internal control over compliance; accordingly, we express no such opinion. Our examination disclosed certain findings, as discussed below that are required to be reported under *Government Auditing Standards*.

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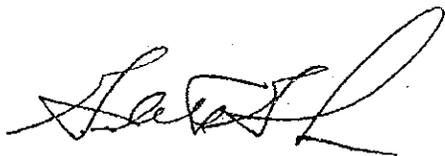
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing its assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with federal program requirements, such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in findings 1, 2 and 3 in Attachment II to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the significant deficiencies described in Attachment II to be material weaknesses.

Responses to the findings identified in our examination are attached as Appendix A, "SBCUSD's Response" and Appendix B, "Universal Service Administrative Company Management's (USAC) Response." We have also summarized SBCUSD's responses in Attachment II, "Schedule of Findings." We considered SBCUSD's and USAC Management's responses but did not perform an examination of them, and accordingly, we express no opinion on them.

In addition, and in accordance with *Government Auditing Standards*, we also noted other matters that we reported to the management of SBCUSD in a separate letter dated September 30, 2010.

This report is intended solely for the information and use of SBCUSD, USAC and the FCC, and it is not intended to be and should not be used by anyone other than these specified parties.



Gerald T. Grahe
Assistant Inspector General
for USF Oversight

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Attachment I
Federal Communications Commission's 47 C.F.R. Part 54 Rules and Related
Orders with which Compliance was Examined

Document Retention Matters:

Section 54.504 (c) (1) (x), which was effective as of October 13, 2004

Section 54.516 (a), which was effective from July 17, 1997 through October 12, 2004

Section 54.516 (a), which was effective from March 11, 2004 through October 12, 2004

Section 54.516 (a) (1), which was effective as of October 13, 2004

Application Matters:

Section 54.501 (b), as revised, which was originally effective as of July 17, 1997

Section 54.504 (b) (1), as revised, which was originally effective as of July 17, 1997

Section 54.504 (b) (2), as revised, which was originally effective as of July 17, 1997

Section 54.504 (b) (2) (i), as revised, which was originally effective as of February 12, 1998

Section 54.504 (b) (2) (iii), which was effective as of October 13, 2004

Section 54.504 (b) (2) (iv), which was effective as of October 13, 2004

Section 54.504 (b) (2) (v), which was effective from July 17, 1997 to October 12, 2004

Section 54.504 (b) (2) (vi), which was effective as of October 13, 2004

Section 54.504 (b) (2) (vii), which was effective from July 17, 1997 to October 12, 2004

Section 54.504 (c), which was effective as of February 12, 1998

Section 54.505 (b), which was effective as of July 17, 1997

Section 54.505 (c), as revised, which was originally effective as of July 17, 1997

Section 54.508 (a), which was effective as of October 13, 2004

Section 54.508 (c), which was effective as of October 13, 2004

Section 54.520 (c), which was effective as of April 20, 2001

Section 54.520 (c) (1) (i), which was effective as of April 20, 2001

Section 54.520 (c) (1) (ii), which was effective as of April 20, 2001

Service Provider Selection Matters:

Section 54.504 (a), which was effective as of February 12, 1998

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Section 54.504 (b) (4), which was effective as of January 1, 1999
Section 54.511 (a), as revised, which was originally effective as of July 17, 1997
FCC Order 03-313, paragraphs 39 and 56, which was issued on December 8, 2003
FCC Order 00-167, paragraph 10, which was issued on May 23, 2000

Receipt of Services and Reimbursement Matters:

Section 54.500 (b), which was effective as of July 21, 2003
Section 54.504, which was effective as of July 17, 1997
Section 54.504 (b) (2) (ii), which was effective from February 12, 1998 through October 12, 2004
Section 54.504 (b) (2) (iii), which was effective from July 17, 1997 through October 12, 2004
Section 54.504 (b) (2) (v), which was effective from July 17, 1997 through March 10, 2004
Section 54.504 (b) (2) (v), which was effective as of October 13, 2004
Section 54.504 (c) (1) (vii), which was effective as of October 13, 2004
Section 54.504 (f), which was effective as of March 11, 2004
Section 54.505 (a), which was effective as of July 17, 1997
Section 54.513 (c), which was effective as of March 11, 2004
Section 54.514 (b), as revised, which was originally effective as of July 21, 2003
Section 54.523, which was effective as of March 11, 2004
FCC Order 03-313, paragraph 60, which was issued on December 8, 2003
FCC Order 04-190, paragraph 24, which was issued on August 13, 2004

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Attachment II
Schedule of Findings

Finding: SL2008BE238_F01 Ineligible Services/Goods

Criteria: Per 47 C.F.R. § 54.504(c), the School/District requested, and funds were disbursed by the Universal Service Fund ("USF") for only eligible goods and services. The Universal Service Administrative Company ("USAC") posts an annual Eligible Service List ("ESL") by funding year ("FY") on the USAC web-site for use by the schools and libraries to determine eligible products and services.

Condition: SBCUSD received and was reimbursed for ineligible items related to internal connections Funding Request Number ("FRN") 1484692. The ineligible equipment and services included pull boxes, junction boxes, vertical power strips, and asbestos removal services. The vertical power strips and asbestos removal services were listed as ineligible items on the ESL SLSM for FY 2007. The pull boxes and junction boxes were not listed as eligible on the ESL for FY 2007. Moreover, pull boxes and junction boxes fall under wiring and components that provide electrical service which were listed as ineligible in the ESL SLSM for FY 2007, page 14, "Ineligible Internal Connection Components."

We reviewed all service provider invoices ("SPI") for FRN 1484692. Our review of SPIs disclosed that some ineligible goods and services were not removed prior to requests for reimbursement which resulted in SBCUSD's service provider receiving reimbursement from USF for ineligible items. Table 1 below details the ineligible goods and services identified during our review:

FRN Number	Service Provider Invoice No.	Amount of Ineligible Equipment and Services	Type of Ineligible Goods/Service
1484692	10164	\$ 2,643.30	Asbestos abatement
1484692	10165	\$ 7,048.80	Asbestos abatement
1484692	10091	\$ 1,400.52	Pull boxes & Junction boxes
1484692	10093	\$ 700.26	Pull boxes & Junction boxes
1484692	10094	\$ 700.26	Pull boxes & Junction boxes
1484692	10095	\$ 700.26	Pull boxes & Junction boxes
1484692	10096	\$ 700.26	Pull boxes & Junction boxes
1484692	10097	\$ 700.26	Pull boxes & Junction boxes
1484692	10098	\$ 700.26	Pull boxes & Junction boxes
1484692	10099	\$ 700.26	Pull boxes & Junction boxes
1484692	10105	\$ 1,176.43	Pull boxes & Junction boxes
1484692	10109	\$ 1,176.43	Pull boxes & Junction boxes
1484692	10189	\$ 281.53	Vertical Power Strip
1484692	10191	\$ 281.53	Vertical Power Strip

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Table 1 Continued			
FRN Number	Service Provider Invoice No.	Amount of Ineligible Equipment and Services	Type of Ineligible Goods/Service
1484692	10209 R	\$ 700.26	Pull boxes & Junction boxes
1484692	10234	\$ 281.53	Vertical Power Strip
1484692	10236	\$ 281.53	Vertical Power Strip
1484692	10237	\$ 281.53	Vertical Power Strip
1484692	10270	\$ 12,783.96	Building prep for Asbestos Abatement
1484692	10299	\$ 1,420.43	Building prep for Asbestos Abatement
1484692	10300	\$ 783.20	Building prep for Asbestos Abatement
1484692	10301	\$ 293.70	Building prep for Asbestos Abatement
TOTAL		\$35,736.50	

In other cases, USAC reviewed and removed ineligible items prior to reimbursement. USAC in accordance with current policy did not expand its review to include all SPIs for the FRN after learning that the service provider did not remove ineligible items. USAC current procedures require a watch (review of all invoices) in an FRN, beneficiary number (BEN) or service provider identification number (SPIN) only when a pattern or intentional behavior is identified.

Cause: SBCUSD did not remove some of the ineligible items from the FCC Form 471. The service provider did not remove ineligible items from SPIs before submitting to USAC. USAC did not remove all of the ineligible items before disbursing funds for FRN 1484692.

Effect: USF were disbursed for ineligible items in the amount of \$31,805.48 (89% discount of \$35,736.50).

Recommendation: SBCUSD needs to review its FCC Form 471 to ensure ineligible items are removed. We recommend USAC seek recovery of \$31,805.48 disbursed from the USF for ineligible equipment and services.

Recommendation: USAC should review its policy to review internal connections invoices in an FRN where invoices contain ineligible goods and services to determine if this would prevent improper payment of USF.

Beneficiary Response¹: SBCUSD agrees that at the time many of the invoices being submitted for payment by the service provider to both the District and USAC were not reviewed in as much detail as perhaps they should have been and subsequently, the District took extreme measures to ensure a thorough review of all line items on the invoices that were submitted by the service provider. The SPI process dictates that the

¹ Beneficiary response is summarized. See Appendix A for the complete SBCUSD response.

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Beneficiary rely on the service provider to remove ineligible items from the SPIs before submitting to USAC as there is no requirement that the invoices be submitted to the applicant prior to submission to USAC. Rarely (if ever) does the Beneficiary have access to the content of the SPIs prior to submittal to USAC for payment. SBCUSD would contend that all invoices submitted for payment to USAC on behalf of a Beneficiary be reviewed and approved by the Beneficiary prior to issuance of any payment.

SBCUSD does concur with the auditors' findings regarding the ineligibility of the power strips and asbestos abatement activities though it questions the determination of ineligibility of the pull boxes and junction boxes on a low voltage cabling project. SBCUSD is very aware of the ineligibility of high voltage/electrical work with regard to receipt of SLSM discounts. SBCUSD requests that the dollars (\$9,355.46 pre-discount - \$8,326.36 at 89% discount) be tabled until it is able to determine in what capacity these items were used. There is every possibility that the terminology is wrong and the items were used in an eligible fashion, and therefore not subject to recovery.

As acknowledged in further discussion within this report, SBCUSD is currently cooperating with USAC concerning erroneous invoicing from this service provider. SBCUSD notified the FCC of the questionable invoices prior to the arrival of the FCC/OIG audit team and discrepancies were discovered as a direct result of the fastidious review of invoices that the District performs. SBCUSD feels that the status of this ongoing review should be considered prior to the issuance of any COMAD and Demand for Payment. Additionally, the District is in litigious proceedings with this particular service provider and any and all payments and/or adjustments must take this into consideration.

Upon receipt of a Commitment Adjustment and Demand for Payment, SBCUSD will act in accordance with SLSM guidelines, USAC investigation guidelines and litigation settlement(s) guidelines for remittance of the funds subject to recovery.

OIG Response: Within the FCC Form 474 or SPI process, there is no requirement that the invoices be submitted to the applicant for review prior to submission to USAC. Prior to the filing of FCC Form 474, however, applicants are required to submit FCC Form 471, which must include a description of the products and services for which discounts are sought. This description is known as an "Item 21 Attachment." Applicants may not seek support for ineligible services and are required to deduct ineligible costs from their total cost of services on the FCC Form 471.

Our review of FCC Form 471 and Item 21 Attachment for SBCUSD disclosed ineligible items for which services had been requested. It is the applicant/beneficiary's responsibility to remove these ineligible items before submitting the FCC Form 471. In this instance, ineligible items were not removed by the applicant/beneficiary, the service provider, and/or USAC.

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SBCUSD concurs with the ineligibility of the power strips and asbestos abatement activities. SBCUSD did question the ineligibility of pull boxes and junction boxes. The 2007 ESL "Internal Connections," states that components are eligible if they are necessary to transport information to classrooms and eligible administrative areas or buildings. Also, the ESL states, "wiring and components providing electrical services" are ineligible. Junction boxes are containers for electrical connection usually intended to conceal wiring and protect wiring interface at junction points. A pull box provides an access point in long runs of cable to make it easier to pull the conductors from one end of the run to the other. Therefore, OIG's recommendations remain the same and we still recommend USAC seek recovery of \$31,805.38.

Finding: SL2008BE238_F02 Free Products or Services

Criteria: Per 47 C.F.R. § 54.523, the School/District deducted from the pre-discount cost of services contained in funding requests the value of all price reductions, promotional offers and "free" products or services.

Condition: SBCUSD received "free goods/services" related to FRN 1484692 from the service provider. We reviewed all of the SPIs for FRN 1484692. Our review determined that SBCUSD has not paid 100% of the cost for ineligible items that were included in SPIs submitted under that FRN. Rather, SBCUSD paid only 10% of the cost as required by the service provider.

In some invoices under FRN 1484692, USAC reviewed, identified and removed ineligible items totaling \$7,019.99 prior to disbursement of support. After USAC removed the ineligible items, however, the service provider did not re-issue invoices to SBCUSD for the remaining 90% or \$6,317.99 associated with the ineligible items that USAC removed.

Cause: Under the SPI process, USAC does not notify the applicant that ineligibles were removed. The service provider did not invoice SBCUSD for the ineligible items identified by USAC, and SBCUSD did not pay for the remaining 90% of the ineligible items.

Effect: SBCUSD received free goods and services in the amount of \$6,317.99

Recommendation: We recommend SBCUSD pay the service provider for 100% (less the 10% already paid to the service provider) of the ineligible goods and services.

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Beneficiary Response²: SBCUSD contends that this finding is not in line with the "Criteria" that states that the District deducted from the pre-discount cost of services contained in the funding requests the value of all price reductions, promotional offers and "free products or services. SBCUSD was not offered nor did they apply for discounts on "free services" at any time during the funding and/or disbursement process. SBCUSD contends that this rule is related to an inability of the applicant to demonstrate compliance with their responsibility to pay the non-discounted share. There was never a time at which SBCUSD intended to receive free goods or services and they were unaware that ~~USAC had directed the service provider to submit an invoice for 100% (or remaining 89%) identified as ineligible and not paid by USAC.~~ If there were a notification sent to the Beneficiary, they could be expecting an invoice from the service provider and follow up with the service provider to ensure compliance. Had the Beneficiary been invoiced by the service provider for the remaining portion of the \$7,019.99 (\$6,247.79 at 89%), the invoices would have been paid.

OIG Response: The intent of the criteria is to prevent the Beneficiary from receiving free goods and services from service providers. As a result of the ineligible goods/services, SBCUSD would have to remit payment to the service provider for the remaining amount of the ineligible goods/services, or it is the equivalent of SBCUSD receiving "free products or services," per criteria 47 CFR 54.523. OIG agrees that the E-Rate process in this situation does not notify the Beneficiary, which would give the Beneficiary the opportunity to follow up with the service provider to ensure compliance. Nevertheless, the goods/services received were ineligible and 90%³ of the cost of the ineligible items was not remitted by SBCUSD to the service provider.

We have removed the \$35,736 ineligible items from this finding due to SBCUSD's comment and because the items were disclosed during our audit. USAC has not yet informed the service provider that the items are ineligible. When USAC informs the service provider that the items are ineligible, SBCUSD will then be responsible to pay the service provider or be in violation of 47 CFR 54.523. Our recommendation has been changed to reflect the removal of the \$35,736 and recommend recovery of \$6,317.99.

Finding: SL2008BE238_F03 Service Provider Over-charges

Criteria: Per 47 C.F. R. § 54.505(a), the School/District applied its discount percentage to the appropriate pre-discount price.

Condition: An SBCUSD service provider over-billed USAC for \$432,423 for cabling on SBCUSD invoices related to FRN 1578852. The service provider billed USAC for

² Beneficiary response is summarized. See Appendix A for SBCUSD's complete response.

³ SBCUSD did have an 89% discount rate on eligible items, but in this case, the items are ineligible. SBCUSD is required to pay the service provider 100% of ineligible goods and services and therefore needs to pay 90% (100% less their deposit of 10%) of the cost of the items).

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costs based on estimates that were higher than the actual costs. Before SBCUSD realized the bills were based on estimates, SBCUSD certified some of the invoices and USAC disbursed funds for FRN 1578852. SBCUSD requested additional details regarding the invoices submitted by the service provider due to noted discrepancies in the cabling quantities and number of drops as part of its normal review process. SBCUSD requested accurate invoices for actual equipment, materials or other services provided by the service provider. Subsequently, the service provider provided actual measurements of the cabling and corresponding drops for the questioned invoices which suggested overcharges. We reviewed all the SPIs under FRN 1578852, along with the proposed revised invoices submitted to SBCUSD. The results of our review displays a comparison of invoiced and actual cabling and drops, along with the over-charges, is shown in Table 2 below:

Table 2 - USF Over-payment

1 School /Site	2 Original Invoice Cabling (in feet)	3 Original Invoice No. of Drops	4 Actual Cabling (in feet)	5 Actual Drops	6 Excess Cabling Footage Charged (Column 2-4)	7 Excess Drops Charged (Column 3-5)	8 Amount Over- charged @ \$.85/foot (Column 6 x \$.85)	9 Amount Over/Under Charged @ \$18.74/drop (Column 7 x \$18.74)	10 USF Over- payment (Column 8 + 9 - 11% Discount)
Anton Elementary School	50,150	230	15,837	231	34,313	-1	29,166	-19	25,941
Cole Elementary School	31,450	206	27,228	204	4,222	2	3,589	37	3,227
Inghram Elementary School	32,300	181	24,658	188	7,642	-7	6,496	-131	5,665
Jones Elementary School	32,300	138	7,873	119	24,427	19	20,763	356	18,796
Arrowview Middle School	95,000	385	47,776	269	47,224	116	40,140	2,174	37,659
Arroyo Valley High School	58,000	245	24,398	210	33,602	35	28,562	656	26,004
Curtis Middle School	84,800	338	25,772	260	59,028	78	50,174	1,462	45,956
Cesar Chavez Middle School	35,000	139	19,858	142	15,142	-3	12,871	-56	11,405

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Table 2 Continued

1 School /Site	2 Original Invoice Cabling (in feet)	3 Original Invoice No. of Drops	4 Actual Cabling (in feet)	5 Actual Drops	6 Excess Cabling Footage Charged (Column 2-4)	7 Excess Drops Charged (Column 3-5)	8 Amount Over- charged @ \$.85/foot (Column 6 x \$.85)	9 Amount Over/Under Charged @ \$18.74/drop (Column 7 x \$18.74)	10 USF Over- payment (Column 8 + 9 - 11% Discount)
Del Vallejo Middle School	43,000	245	32,238	178	10,762	67	9,148	1,256	9,260
Golden Valley Middle School	60,000	225	10,553	89	49,447	136	42,030	2,549	39,675
King Middle School	35,000	135	12,540	128	22,460	7	19,091	131	17,108
Richardson Middle School	70,000	303	31,095	303	38,905	0	33,069	0	29,431
Pacific High School	84,000	335	52,334	360	31,666	-25	26,916	-469	23,538
San Andreas High School	62,500	202	21,462	216	41,038	-14	34,882	-262	30,812
San Bernardino High School	57,000	267	22,446	229	34,554	38	29,371	712	26,774
Serrano Middle School	64,000	303	32,669	276	31,331	27	26,631	506	24,152
Shandin Hills Middle School	97,000	427	53,244	438	43,756	-11	37,193	-206	32,918
Sierra High School	56,000	244	24,448	230	31,552	14	26,819	262	24,102
TOTAL	1,047,500	4,548	486,429	4,070	561,071	478	\$476,911	\$8,958	\$432,423

After SBCUSD questioned the accuracy of the invoices that had already been submitted to USAC and reimbursed by USAC, the service provider provided SBCUSD proposed revised invoices with adjusted cable amounts to reflect actual footage. The revised invoices added equipment and services charges without decreasing total amounts billed on initial invoices. SBCUSD questioned the addition of equipment and services in the revised invoices and the service provider responded with a second set of revised bills.

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The second set of revised invoices had the actual cable footage charges without additional equipment and services, but added charges for bonding to arrive at the same total charges as the initial invoices. SBCUSD questioned the additional charges for bonding that were not listed in the contract as a cost of installing cable.

Because of questions regarding the revised bills, SBCUSD stopped verifying invoices for payment. A number of additional invoices have not been certified and the service provider has not submitted them for payment.

Cause: The service provider billed SBCUSD based upon bid estimates, rather than actual amounts.

Effect: USF overpaid the service provider resulting from the service provider overcharging for cable footage and drop amounts. The amount of the overpayment is shown in Table 3 below:

Funding Year	Cabling Excess Charged	Drops Excess Charged	Total Excess Charged	Less Discount Percentage	Total Over-payment by USAC
FY 2006	\$416,897	\$8,714	\$425,611	11%	\$378,794
FY 2007	\$60,013	\$244	\$60,257	11%	\$53,629
Totals	\$476,910	\$8,958	\$485,868		\$432,423

Recommendation: SBCUSD needs to validate the cabling received before submitting certification of equipment received. We recommend that USAC seek recovery of \$432,423 of USF funds resulting from the service provider invoicing for estimates that exceeded the actual cable footage installed.

Beneficiary Response⁴: SBCUSD requested additional details regarding the invoices submitted by the service provider due to the noted discrepancies in the cabling quantities and number of drops as part of its due diligence and normal invoice review process. The request for additional details was not performed in anticipation of, or as a result of the audit as stated.

SBCUSD did not request the service provider revise its invoices. SBCUSD only requested the service provider provide accurate invoices for actual equipment, materials or other services provided by the service provider

Due to the ongoing investigation and potential litigation with the service provider, SBCUSD feels it would be inappropriate to comment further on the issues surrounding

⁴ Beneficiary's response is summarized. See Appendix A for SBCUSD's complete response

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this finding at this time. SBCUSD feels the auditors have presented the facts as best they are able.

Notwithstanding the above, it is SBCUSD's intention to fully cooperate with USAC in its investigation and to comply with its findings and recommendations.

OIG Response: We have revised the final report in response to the Beneficiary's additional information that their review of invoices was due to their regular review process and was not a response to the notification of our audit. We have clarified the language that SBCUSD did not request that the service provider revise the invoices, but that SBCUSD requested the service provider provide accurate invoices. Our recommendations have not changed and we recommend USAC seek recovery of \$432,423.

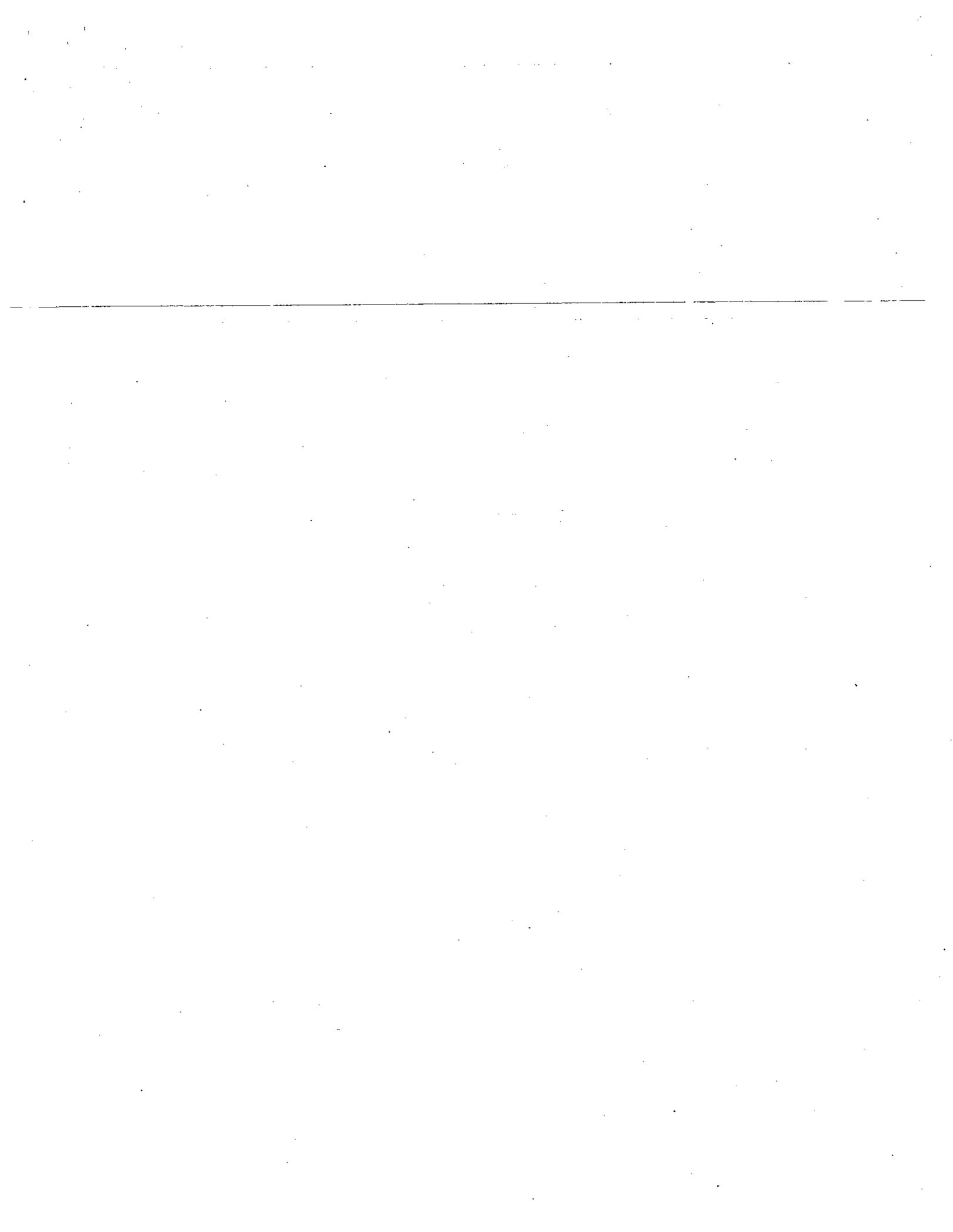
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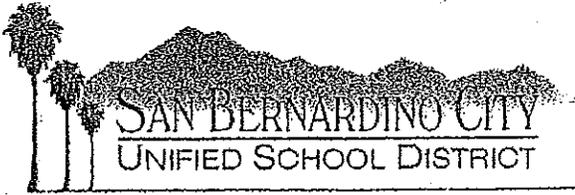
Appendix A

San Bernardino City Unified School District's Responses⁵

⁵ Responses do not include attachments. Attachments were a SBCUSD appeal to FCC (Number SLD 143740) and a SBCUSD letter forwarding responses to FCC OIG management letter.

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Arturo Delgado, Ed.D.
Superintendent

Mohammad Z. Islam, Chief Business and Financial Officer

April 15, 2010

Beth Engelmann, Auditor
Federal Communications Commission / Office of Inspector General
445 12th Street, SW
Washington, DC 20554

Re: District Response To FCC Audit Report - Findings

Dear Ms. Engelmann:

The following information is presented for consideration and in response to the report resulting from the Attestation Examination of San Bernardino City Unified School District's compliance with the applicable requirements of the FCC's rules and orders governing Universal Service support for the Schools and Libraries Support Mechanism ("SLSM" or "E-Rate Program") relative to disbursements of \$7,780,214.59 made from the Universal Service Fund ("USF") during fiscal year ended June 30, 2008.

The following information is submitted in response to the identified issues regarding material noncompliance with 47 C.F.R. Section 54 and related order as described in Findings 1, 2 and 3 in Attachment II of the report dated March 31, 2010.

Finding #1 Ineligible Services/Goods

Beneficiary Response: As stated in the "Condition", the ineligible items were not identified and removed by USAC prior to issuance of the payment to the service provider. SBCUSD agrees that at the time many of the invoices being submitted for payment by the service provider to both the District and USAC were not reviewed in as much detail as perhaps they should have been and subsequently, the District took extreme measures to ensure a thorough review of all line items on the invoices that were submitted by the service provider. SBCUSD takes exception to the statement in the "Cause" section of the finding stating that "SBCUSD relied on the service provider to remove ineligible items from SPIs before submitting to USAC." With all due respect, the SPI process dictates that the Beneficiary rely on the service provider to remove ineligible items from the SPIs before submitting to USAC as there is no requirement that the invoices be submitted to the applicant prior to submission to USAC. Rarely (if ever) does the Beneficiary have access to the content of the SPIs prior to submittal to USAC for payment of the discounted portion and this is a common problem across the entire program. It is stated in the auditors' report that a "Recommendation" to rectify this situation would be for USAC to modify their review of invoices for a particular FRN when ineligible charges are identified even once. SBCUSD would respectfully contend that all invoices submitted for payment to USAC on behalf of a Beneficiary be reviewed and approved by the Beneficiary prior to issuance of any payment. This is precisely what occurs when a Beneficiary utilizes a BEAR process (Form 472) and if there is an issue with discounts provided for ineligible goods or services, it is very clear with whom the responsibility lays. When the invoicing method is Form 474 (SPI), the responsibility for submission of an invoice for only eligible goods

and services must lie with the service provider that is submitting the invoice as the Beneficiary is not responsible for preparing that invoice. This is a core deficiency in the process that has been identified time and time again (throughout most of the Attestation Examinations performed in all rounds) and as always, the beneficiary community at large would welcome clarification and/or codification of the roles and responsibilities regarding the various invoicing processes allowed under the program.

In general, this finding and the "Recommendation" is somewhat disconcerting in narrative form because it seems that the auditors have indicated a measure of responsibility for both the Beneficiary and USAC. The responsibility for the "Cause" seems to be misstated in that it indicates that the Beneficiary should have reviewed the invoices prior to submission to USAC. As stated numerous times throughout the course of the Examination, the Beneficiary of SLSM support has zero visibility into the processes behind a SPI submission and rarely (if ever) does an applicant even see a SPI prior to submission. On occasion, a SPI is reviewed post submission if and/or when the invoice is selected for a subsequent invoice review and Service Certification. Even then, a Service Certification is asking a Beneficiary to certify they have paid the undiscounted portion of the invoice. There is nothing on the Service Certification requiring the applicant to certify that the invoice subject to payment is for only eligible goods and services. Again, there is no opportunity for an applicant to review the invoice for the discounted portion of the goods and/or services delivered.

SBCUSD respectfully requests that the narrative(s) associated with this finding be re-evaluated and addressed accordingly to proportionately state the "Cause" and the "Recommendation" in accordance with Attestation Examination guidelines.

SBCUSD does concur with the auditors' findings regarding the ineligibility of the power strips and asbestos abatement activities though we do question the determination of ineligibility of the pull boxes and junction boxes on a low voltage cabling project. We are very aware of the ineligibility of high voltage/electrical work with regard to receipt of SLSM discounts. We request that the dollars recommended for recovery associated with the pull boxes and junction boxes (\$9,355.46 pre-discount - \$8,326.36 at 89% discount) be tabled until we are able to determine in what capacity these items were used. There is every possibility that the terminology is wrong and that the items were used in an eligible fashion, therefore not subject to recovery.

As acknowledged in further discussion within this report, SBCUSD is currently in an active complaint investigation in conjunction with USAC's task force on Waste, Fraud and Abuse that is the DIRECT result of a Whistleblower call that was made by District staff once erroneous invoicing from this service provider was discovered. This call was made in early calendar year 2009, prior to the arrival of the FCC/OIG audit team and was discovered as a direct result of the fastidious review of invoices that the District performs. SBCUSD feels that the status of this ongoing investigation should be considered prior to the issuance of any COMAD and Demand for Payment. Additionally, the District is in litigious proceedings with this particular service provider and any and all payments and/or adjustments must take this into consideration.

Upon receipt of a Commitment Adjustment and Demand for Payment, San Bernardino City Unified School District will act in accordance with SLSM guidelines, USAC investigation guidelines and litigation settlement(s) guidelines for remittance of the funds subject to recovery.

Finding #2 Free Products or Services

Beneficiary Response: SBCUSD respectfully contends that this finding's "Condition", "Cause" and "Effect" are not in line with the "Criteria" as stated in the report. The "Criteria" clearly states that "Per 47 CFR 54.523, the School/District deducted from the pre-discount cost of services contained in the funding requests the value of all price reductions, promotional offers and 'free' products or services." This statement indicates compliance with the rule and is an accurate statement in that SBCUSD was not offered nor did they apply for discounts on "free services" at any time during the funding and/or disbursement process. SBCUSD contends that this finding be related to an inability of the applicant to demonstrate compliance with their responsibility to pay the non-discounted share per CFR 54.523(a), school districts must pay all "non-discount" portions of requested goods and/or services. There was never a time at which SBCUSD intended to receive free goods or services and frankly, they were unaware that USAC had directed the service provider to submit an invoice for 100% (or remaining 89%) [correction]¹ of the items identified as ineligible and not paid by USAC. Here again is where the 'system' fails the Beneficiary because there is no notification from USAC to the Beneficiary that the items were not paid because they were deemed ineligible. If there were a notification sent to the Beneficiary, they could be expecting an invoice from the service provider. If that invoice is not received in a timely manner, the Beneficiary would be able to follow up with the service provider to ensure compliance. Had the Beneficiary been invoiced by the service provider for the remaining portion of the \$7,019.99 (\$6,247.79 at 89%) [correction]², the invoices would have been paid.

At the outset, SBCUSD contends that the additional discussion in Finding #2 regarding the other goods and services identified as ineligible by the on-site FCC/OIG audit team, (\$35,736.50) should be removed from this finding as they are addressed/discussed in Finding #1 with recommended disposition and since the circumstances are not the same as those of the \$7,019.99, this issue should stand alone under the "Criteria" noted in finding #1. Our reasoning is supported further in that to date, there has been no direction given to SBCUSD as to next steps. Our notification consists of this report, nothing more. The auditors' report clearly states that these items were identified as ineligible *during the on-site examination*, not by USAC during any potential review of the invoices at the time of submission and payment.³ When the service provider DOES invoice SBCUSD for the remaining 89% (\$31,805.49) [correction]⁴; as stated in the Beneficiary response for Finding #1, SBCUSD has every intention of complying with any Demand for Payment that is submitted by USAC with all considerations given to the situation(s) surrounding the service provider.

¹ Page 8, para 1 Auditors' report states "...however, the service provider did not re-issue invoices to SBCUSD for the remaining 90% or \$6,317.99..." SBCUSD was approved for an 89% discount on this FRN.

² Page 8, para 1 Auditors' report states "...however, the service provider did not re-issue invoices to SBCUSD for the remaining 90% or \$6,317.99..." SBCUSD was approved for an 89% discount on this FRN.

³ Page 8, para 2 Auditors' report states "In other invoices under FRN 1484692 that USAC did not review..."

⁴ Page 8, para 2 Auditors' report states "By not paying the remaining 90% or \$32,162.85 of the total cost..." SBCUSD was approved for an 89% discount on this FRN.

Additionally, the discussion in the "Condition" section as to the fact that "SBCUSD paid only 10% of the cost as required...although the non-discount portion for this FRN is 11%"...is misleading. Per California Public Contract Code 9203, the District is required to withhold a minimum of 5% (retention) of any progress payments on projects considered to be Public Works. Notwithstanding the statute, the contract documents with the service provider, and as is customary in the industry, required 10% retention be withheld on all progress payments. Since the project is one in which there is a supplemental funding source (SLSM) that is responsible for a large portion of the payment to the service provider and we have no control over the payment processes from the other funding source, the retention can only be held from the District's portion (11%). 10% of 11% is 1.1% (or 1%) and all payments to the service provider withhold the 1% as required by law. The 1% differential will be paid to the service provider upon the acceptance and filing of the Notice of Completion. Again, there is no intention to receive free goods/services but SBCUSD must comply with local and State procurement guidelines whether the project involves the SLSM or not.

SBCUSD would also request that the language in the report in the "Cause" section of Finding 2 be clarified. We are confused as to who the auditors are referring to on lines 4-5 of the Cause paragraph (page 9 of 18). Who is it that "...again relied on the service provider to reissue invoices to SBCUSD for the ineligible items"? Is it USF or USAC? The acronym used on line 4 of the paragraph is SBCUSF and we are unaware as to who this is. Please clarify. If the clarification states that it was USAC who again relied on the service provider to reissue the invoices (as we suspect), SBCUSD contends that as stated previously, there is zero visibility to these processes between USAC and the service provider as to preparation, submission and payment of the invoices and we are perplexed as to how a Beneficiary can be held responsible when they are essentially kept out of the loop. This is not to imply that SBCUSD is not fully committed to payment of the complete undiscounted share, including identified ineligible goods or services, but the question of responsibility for identification of the deficiency remains unanswered.

Finding #3 Service Provider Over Charges

Beneficiary Response: SBCUSD would like to clarify some of the statements in the "Condition" for Finding #3. Specifically, the statement "When preparing for our examination, SBCUSD questioned the service provider's invoices because the amount of cable installed for the corresponding number of drops and the size of the school appeared unreasonable for particular schools." SBCUSD requested additional details regarding the invoices submitted by the service provider due to the noted discrepancies in the cabling quantities and number of drops as part of its due diligence and normal invoice review process. The request for additional details was not performed in anticipation of, or as a result of the audit as stated.

The other statement SBCUSD would like to clarify in the "Condition" for Finding #3 is, "Upon request from SBCUSD to review the invoices already submitted to USAC and reimbursed, the service provider provided proposed revised invoices to SBCUSD with adjusted cable amounts to reflect actual footage." SBCUSD did not request the service provider revise its invoices. SBCUSD only requested the service provider provide accurate invoices for actual equipment, materials or other services provided by the service provider. The service provider submitted various inconsistent invoices that had different quantities that SBCUSD requested additional information and clarification based on the documents received from the service provider. The service provider kept revising its invoices on its own and not at

the direction or request of SBCUSD. With the clarifications noted above, the following is SBCUSD's additional response to Finding #3:

Due to the ongoing investigation and potential litigation with the service provider, SBCUSD feels it would be inappropriate to comment further on the issues surrounding this finding at this time. SBCUSD feels the auditors have presented the facts as best as they are able under the circumstances and would like to defer further discussion until such time as USAC's Whistleblower complaint department moves forward with their investigation.

Notwithstanding the above, it is SBCUSD's intention to fully cooperate with USAC in its investigation and to comply with its findings and recommendations. SBCUSD is continuing to work with the service provider to obtain more information on the actual quantities and equipment installed, as well as any other costs invoiced by the service provider. SBCUSD will await further direction from USAC.

If you have any questions, please do not hesitate to contact me (909) 381-1164.

Sincerely,



Mohammad Z. Islam

Chief Business and Financial Officer

MZI:ra

Attachments:

1. Letter - Management Comments
2. Request For Waiver

cc: Dr. Arturo Delgado, Superintendent
Dr. Paul Shirr, Assistant Superintendent, Research / Systems Analysis
Mr. Dilip Patel, Director, Information Technology

Appendix B

USAC's Responses

This document may contain confidential and proprietary information of the auditee protected from disclosure under the Trade Secrets Act and other laws and regulations. This document must be returned to the FCC's Office of Inspector General for review and removal of protected information before disclosure of any portion of it by any unit, representative, employee, or agent of the United States Government.



USAC Management Response

Date: September 21, 2010

Re: Federal Communications Commission, Office of Inspector General,
Universal Service Fund (FCC OIG USF) Audit of the Schools & Libraries
Program at San Bernardino City Unified School District

USAC management has reviewed the FCC OIG USF Audit of the San Bernardino City Unified School District. Our response to the audit is as follows:

Finding ID: SL2008BE238_F01

Finding/Comment Narrative:

SBCUSD received and was reimbursed for ineligible items related to internal connections Funding Request Number ("FRN") 1484692. The ineligible equipment and services included pull boxes, junction boxes, vertical power strips, and asbestos removal services. The vertical power strips and asbestos removal services were listed as ineligible items on the ESL for FY 2007. The pull boxes and junction boxes were not listed as eligible on the ESL for FY 2007. Moreover, pull boxes and junction boxes fall under wiring and components that provide electrical service which were listed as ineligible Internal Connection Components (page 14, Schools and Libraries Eligible Services List for FY 07). We reviewed all service provider invoices ("SPI") for FRN 1484692. Our review of SPIs disclosed that some ineligible goods and services were not removed prior to requests for reimbursement which resulted in SBCUSD receiving reimbursement from USF for ineligible items. In other cases, USAC reviewed and removed ineligible items prior to reimbursement. USAC did not expand its review to include all SPIs for the FRN after learning that the service provider did not remove ineligible items.

Management Comment:

USAC will reach out to the service provider, affording it the opportunity to substantiate its Form 474 submission. If the Form 474 submission cannot be substantiated, USAC will seek recovery of \$31,805.48. Going forward, USAC will review invoices if it is deemed appropriate. USAC management concurs with the finding and recommendation.

Finding ID: SL2008BE238_F02

Finding/Comment Narrative:

SBCUSD received "free goods/services" related to FRN 1484692 from the service provider. We reviewed all of the SPIs for FRN 1484692. Our review determined that SBCUSD has not paid 100% of the cost for ineligible items that were included in SPIs submitted under that FRN. Rather, SBCUSD paid only 10% of the cost as required by the

service provider, although the non-discount portion for this FRN is 11%. In some invoices under FRN 1484692, USAC reviewed, identified and removed ineligible items totaling \$7,019.99 prior to disbursement of support. After USAC removed the ineligible items, however, the service provider did not re-issue invoices to SBCUSD for the remaining 90% or \$6,317.99 associated with the ineligible items that USAC removed.

In other invoices under FRN 1484692 that USAC did not review, USAC disbursed support for ineligible items totaling \$35,736.50. By not paying the remaining 90% or \$32,162.85 of the total cost, SBCUSD has, in effect, received free goods and services in that amount. (In addition, as stated in Finding 1, we recommend that USAC recover the 89% discount).

Management Comment:

The Beneficiary should refer to USAC's website for guidance on receiving free services. USAC management concurs with the finding, effect, and recommendation and will seek recovery of the free services valued at \$6,317.99

Finding ID: SL2008BE238_F03

Finding/Comment Narrative:

An SBCUSD service provider over-billed USAC for \$432,423 for cabling on SBCUSD invoices related to FRN 1578852. The service provider billed USAC for costs based on estimates that were higher than the actual costs. Before SBCUSD realized the bills were based on estimates, however, SBCUSD certified some of the invoices and USAC disbursed funds for FRN 1578852. When preparing for our examination, SBCUSD questioned the service provider's invoices because the amount of cable installed for the corresponding number of drops and the size of the school appeared unreasonable for particular schools. Subsequently, the service provider provided actual measurements of the cabling and corresponding drops for the questioned invoices which confirmed the overcharges. After the actual measurements were determined, the service provider proposed revised invoices based on actual measurements. We reviewed all the SPLs under FRN 1578852, along with the proposed revised invoices submitted to SBCUSD.

Upon request from SBCUSD to revise the invoices already submitted to USAC and reimbursed, the service provider provided proposed revised invoices to SBCUSD with adjusted cable amounts to reflect actual footage. The revised invoices added equipment and services charges without decreasing total amounts billed on initial invoices. SBCUSD questioned the addition of equipment and services in the revised invoices and the service provider responded with a second set of revised bills. The second set of revised invoices had the actual cable footage charges without additional equipment and services, but added charges for bonding to ensure the same total charges as the initial invoices. SBCUSD questioned the additional charges for bonding that were not listed in the contract as a cost of installing cable. Because of questions regarding the revised bills, SBCUSD stopped verifying invoices for payment. A number of additional invoices have not been certified and the service provider has not submitted them for payment.

Management Comment:

On FCC Form 473, Service Provider Annual Certification Form, Block 2, Item 10, the service provider certifies that the SPIs they submit, "contain requests for universal service support for services which have been billed to the service provider's customers on behalf of schools, libraries, and consortia of those entities, as deemed eligible for universal service support by the fund administrator." USAC management concurs with the finding and recommendation and will seek recovery of \$432,423.

This concludes the USAC management response to the audit.

Attachment

USAC's Responses

This document may contain confidential and proprietary information of the auditee protected from disclosure under the Trade Secrets Act and other laws and regulations. This document must be returned to the FCC's Office of Inspector General for review and removal of protected information before disclosure of any portion of it by any unit, representative, employee, or agent of the United States Government.



USAC Management Response

Date: September 21, 2010

Re: Federal Communications Commission, Office of Inspector General,
Universal Service Fund (FCC OIG USF) Audit of the Schools & Libraries
Program at San Bernardino City Unified School District

USAC management has reviewed the FCC OIG USF Audit of the San Bernardino City Unified School District. Our response to the audit is as follows:

Finding ID: SL2008BE238_C01
Finding/Comment Narrative:

SBCUSD's E-Rate consultant incorrectly listed all eligible schools rather than the schools planned for upgrades in the FY 2006 FCC Form 471 number 536215 (FRNs 1483605 and 1483539) for internal connections. This error caused SBCUSD to receive a lower discount of 86% instead of 89%. Because the FCC Form 471 listed all the schools, SBCUSD's scheduled funding of school upgrades for internal connections will be delayed in order to meet the "Two-in-Five Rule" required under 47 C.F.R. § 54.506(c). The "Two-in-Five Rule" provides that each eligible school shall be eligible for support for internal connections no more than twice every five years. Per the Bishop Perry Order (FCC 06-54) that allows corrections for ministerial and clerical errors, SBCUSD's E-Rate consultant submitted requests to USAC to remove the incorrect entities from the FCC Form 471. USAC denied the request because funds for these FRNs had been disbursed. SBCUSD could have received an additional \$71,180 if the correct entities were listed in the FCC Form 471 application.

Management Comment:

Going forward, the applicant should reference FCC rule 47 C.F.R. §54.505, which discusses how an applicant must calculate its discount percentage. Further guidance can also be found in the instructions to the FCC Form 471 and on USAC's website. USAC management concurs with the comment and recommendation.

Finding ID: SL2008BE238_C02
Finding/Comment Narrative:

SBCUSD asset and inventory records are not sufficient to locate and identify its SLSM funded equipment. We tested the inventory for compliance with FCC rules. We selected 216 pieces of equipment out of a total 409 pieces of equipment funded by the SLSM under FRNs 1481992 and 1483605 to determine if asset and inventory records were accurate. After our inventory, SBCUSD reviewed its documentation concerning the

missing switch and determined that the switch was removed by the vendor because it was malfunctioning. The maintenance contractor removed the malfunctioning switch from the school and installed an SBCUSD non-SLSM switch. The manufacturer subsequently replaced the switch with a new similar switch, which the maintenance contractor installed in a non-instructional administrative building. The inventory listing was not updated to ensure location of the switch. The non-instructional administrative building is an SLSM eligible entity, but was not listed on the FCC Form 471 under FRN 1481992. The other errors identified, i.e., inaccurate serial numbers and incorrectly labeled switches, were input errors that did not affect locating equipment. The switch that could not be matched from the service provider invoice to the inventory record prevented us from verifying it was the switch purchased but allowed us to locate it.

Management Comment:

Going forward, the applicant should familiarize itself with the FCC's Fifth Report and Order, which clarified the record keeping requirements. For further guidance, the applicant should refer to the USAC website, "Schools and Libraries," "Reference Area," under "Demonstrating Compliance with Program Rules," Item #6. USAC management concurs with the comment, effect and recommendation.

Finding ID: SL2008BE238_C03

Finding/Comment Narrative:

SBCUSD relied on its service provider and its consultant to reconcile service provider invoice ("SPI") costs to USAC reimbursements. Our review of invoices under FRN numbers 1431031 and 1577981 found that SPIs could not be reconciled to Universal Service reimbursements to SBCUSD. Neither SBCUSD nor its consultant could reconcile the total costs of invoiced services charges to SBCUSD as compared to the costs submitted for reimbursement by the service provider in order to verify the accuracy of the pre-discount costs. SBCUSD did not have a consistent and reliable process to reconcile and account for the costs billed by the service provider. We reviewed the service provider's reconciliation of invoiced amounts and billed telephone number (BTN) charges. Although we were able to match the invoiced amounts to the reimbursements received by SBCUSD, we found that the service provider used four different methods to reconcile the invoiced charges. We were not able to determine if SBCUSD applied its discount percentage to the appropriate pre-discount price. Without detailed information from the service provider concerning invoices, SBCUSD would not be able to determine if the correct discount percentage was applied to the invoice amounts.

Management Comment:

USAC will reach out to the service provider, affording it the opportunity to substantiate its Form 474 submission. If the Form 474 cannot be substantiated, USAC will seek recovery pursuant to FCC Rules and Orders. USAC management concurs with the comment and recommendation.

Finding ID: SL2008BE238_C04

Finding/Comment Narrative:

SBCUSD failed to file an FCC Form 500 to reduce the commitment of USF funds in order to have these funds reallocated as deemed necessary by USAC. We reviewed FRNs 1481992, 1484692, 1483605, 1431031, and 1431028 for FY 2006 and FRNs 1578340, 1578201, 1587214, 1577988, 1577981, and 1578852 for FY 2007. Our review found that SBCUSD did not utilize the FCC Form 500 to reduce the commitments by the excess/unused funds.

Management Comment:

There is no Schools and Libraries program rule requiring applicants to complete FCC Form 500 to report unexpended funds. Through outreach and training, USAC will request that the applicant complete and submit FCC Form 500 when committed funds are not needed. USAC management concurs with this matter and recommendation.

This concludes the USAC management response to the audit.

Status of Audit Report Process

Auditee:	San Bernardino City Unified School District		
Assign. No.	09-AUD-07-11		
Location:	San Bernardino CA		
Audit Description:	Attestation Examination of San Bernardino City Unified School District, a USF Schools and Libraries Program beneficiary (1 of 1)		
			Date
Process	Process Description	Person(s) Responsible	completed
1a	Announcement letter sent	Engelmann <i>BE</i>	2/24/2009
1b	Audit program approved by AIG USF	Garay	4/9/2009
1c	Audit field work site visit	Engelmann, Grahe, <i>BE</i> Poteat, Rufai, Chembars	4/13/2009 - 4/24/2009
2a	Draft report prepared	Engelmann <i>BE</i>	8/10/2009
2b	Report and workpapers approved by Audit Director	Engelmann <i>BE</i>	1/22/2010
2c	IPIA estimate submitted to USAC	Engelmann <i>BE</i>	7/31/2009
2d	Independent referencing	Stein <i>RS</i>	3/24/2010
2e	Approved by AIG USF	Grahe <i>AG</i>	1/26 and 3/29/2010
2f	Approved by AIG Investigations	Lee/Feinberg <i>RF</i>	3/29/2010
	Approved by AIG Policy	Cline <i>TCU</i>	3/30/2010
2g	Approved by IG	Carla (Acting <i>AIGI</i>) <i>CC</i>	3/31/2010
2h	Draft audit report distributed	Smith <i>ES</i>	3/31/2010
3a	Response to draft report received from auditee	Engelmann <i>ME</i>	4/15/2010
3b	Response to draft report received from USAC	Engelmann <i>ME</i>	8/30/2010
3c	Final report prepared	Engelmann <i>ME</i>	9/13/2010
3d	Approved by Audit Director	Engelmann <i>ME</i>	9/13/2010
3e	Approved by AIG USF	<i>AG</i>	9/27/10
3f	Approved by AIG Investigations	<i>CC</i>	9/30/10
3g	Approved by IG	<i>PLH/cc</i>	9/30/10
3h	Final IPIA results submitted to USAC		
3i	Final audit report distributed		
3j	Non-proprietary abstract prepared for SAR input		



Memorandum

TO: Sharon Gillett, Chief
Wireline Competition Bureau

Steven VanRoekel
Managing Director

CC: Mark Stephens, Daniel Daly, William Hill (OMD), Irene Flannery,
Carol Matthey, Lisa Gelb (WCB), Paul Laurenzano (PERM)

FROM: David L. Hunt *D. Hunt*
Acting Inspector General

DATE: September 30, 2010

SUBJECT: Referral of OIG Final Audit Report No. 09-AUD-07-11
IPIA Final Audit Report No. SL-2008-238
Attestation Examination of San Bernardino City Unified School District

The Office of Inspector General performed an examination of management's assertions that San Bernardino City Unified School District, Beneficiary No. 143740, complied with applicable requirements of 47 C.F.R. Section 54 of the Federal Communications Commission's ("FCC") rules and related orders relative to Universal Service Fund disbursements of \$7,780,214 during the fiscal year ended June 30, 2008 and relative to its funding years 2006 and 2007 applications. Attached is the final attestation report of the examination conducted by our office. The report incorporates the response received from the School District and our comments to that response. The School District partially agreed with our audit report findings and recommendations. The report also incorporates the response received from the Universal Service Administrative Company which agreed with our findings and recommendations.

The OIG performed this examination consistent with its authority under the Inspector General Act of 1978, as amended, including, but not limited to sections 2(1) and 4(a)(1). The audit is not intended as a substitute for any agency regulatory compliance review or regulatory compliance audit.

If you have any questions or concerns regarding this referral, contact Beth Engelmann, Director, USF Program Audits at 202-418-1448 or beth.engelmann@fcc.gov or Gerald Grahe, Assistant Inspector General for USF Oversight at 202-418-0474 or gerald.grahe@fcc.gov.

Attachment: OIG Final Report No. 09-AUD-07-11
IPIA Final Report No. SL-2008-238