



Dave Yost • Auditor of State

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	3
Supplement to the Special Audit Report	
Background	7
Objective No. 1 - Policy, Procedure, and Contract Compliance	8
Objective No. 2 - Contract Fulfillment	11
Objective No. 3 - Federal E-rate Program	13

THIS PAGE INTENTIONALLY LEFT BLANK



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Cleveland Municipal School District
Cuyahoga County
1111 Superior Avenue E, Suite 1800
Cleveland, Ohio 44114

To the Board of Education:

We conducted a special audit of the Cleveland Municipal School District (the District). A background section is contained at page 7 of this report which fully describes the events leading up to this special audit, but the fundamental question we attempted to answer was why the District only received reimbursement for \$3.71 million out of an eligible \$12.28 million under the federal E-Rate program. In order to answer this question we defined the following objectives and performed the procedures enumerated in the attached Supplement to the Special Audit Report for the period July 1, 2005 through March 21, 2015 (the Period) solely to:

- Identify and evaluate the District's policies, procedures, and key controls over the competitive bidding process for school building construction contracts during the Period (including, contractors, consultants, architects, engineers, technology service providers) to determine whether the bidding process was in accordance with significant and relevant Ohio Revised Code (ORC), Ohio School Facilities Commission (OSFC)¹, Federal Communications Commission (FCC), and Universal Service Administrative Company (USAC)² Schools and Libraries Division E-rate program provisions.
- Determine whether the District received the quantity and quality of materials specified in the contracts entered into for school building construction segments 3 and 4. Voters had approved Issue 14 which authorized bond issuances to pay for new school construction and renovations to existing schools. In order to complete the project, the District divided schools into segments; segments 3 and 4 were constructed during the Period.
- Determine why the District failed to seek reimbursement for allowable E-rate expenses and quantify the amounts and frequency of such failures.

This engagement was conducted in accordance with the Quality Standards for Inspection and Evaluation established by the Council of the Inspectors General on Integrity and Efficiency (January 2012). The procedures and associated findings are detailed in the attached Supplement to the Special Audit Report. A summary of our procedures and significant results is as follows:

1. We obtained an understanding of the District's policies, procedures, and processes by which the District completed competitive bidding and contracting for the new school building construction segments 3 and 4. We examined the new school building construction segments 3 and 4 technology contracts for compliance with ORC, OSFC, and federal E-rate program requirements.

¹ On September 10, 2012, the Ohio School Facilities Commission and State Architect's Office merged operations to become the Ohio Facilities Construction Commission (OFCC). The Ohio School Facilities Commission continues to exist within the consolidated agency with a focus on programmatic and planning issues related to K-12 construction.

² The Universal Service Administrative Company (USAC) is an independent, non-profit corporation designated by the FCC to administer the universal service federal program.

Significant Results – The District E-rate Policy did not include detailed procedures. The policy also did not include procedures related to Category 2 Internal Connections E-rate applications which included the segments 3 and 4 school construction. Additionally, the policy was not revised when the District hired an E-rate consultant in 2011 to reflect revisions to existing procedures as well as identify District and consultant responsibilities. We issued a recommendation for lack of detailed formally written E-rate policies as well as failure to comply with existing District E-rate Policies and Procedures.

2. We contracted with Heapy Engineering LLC and conducted site visits of the 18 schools built in construction segments 3 and 4. We examined each school and documentation supporting whether the District received the quantity and quality of materials specified in the school building construction technology contracts.

Significant Results – For each school, we utilized Heapy Engineering, LLC to examine whether the technology project drawings and specifications were in accordance with the requirements of the OSFC's Ohio School Design Manual (OSDM).

The materials installed by the technology contractors for each school building examined were of good quality, industry-standard workmanship and in accordance with the project drawings and specifications.

3. We examined documentation maintained by the District, the contracted vendors, and USAC to determine why the District failed to obtain E-rate reimbursement.

Significant Results – The overlap of the E-rate funding requests for the segments in addition to the change in E-rate administration from the District to E-Rate Central appeared to have contributed to a miscommunication of which party was responsible to complete the segment E-rate funding requests.

Although the District was the responsible party, the District did not file the FCC Form 472³ with USAC to request E-rate reimbursement for segments 3A and 3B/4A.

Additionally, the District did not maintain sufficient documentation to include segment 4B expenditures on the filed FCC Form 472.

The failure of the District to complete the E-rate reimbursement process and maintain sufficient documentation to comply with USAC E-rate program requirements resulted in the following loss of revenue for the District:

Segment	USAC Committed Amount	District Amount Not Requested
3A	\$3,180,206	\$2,340,672
3B/4A	5,832,436	5,832,436
4B	644,245	212,362
Total	\$9,656,887	\$8,385,470

We issued a noncompliance citation regarding lack of compliance with the E-rate program requirements.

³ The Form 472 Billed Entity Applicant Reimbursement (BEAR) form is a FCC form that schools and libraries are required to submit to USAC after paying for services in full, to request reimbursement for the discount on those services.

4. On August 9, 2016, we held an exit conference with the following individuals representing the District:

Eric Gordon, Superintendent/CEO
Curtis Timmons, Deputy CIO
Gary Sautter, Deputy Chief Capital Programs
Larry Johnston, Executive Director Internal Audit

John Scanlan, CFO
James Mix, Paralegal
Kevin Burtzloff, Board Attorney
Denise Link, Board Chair

The attendees were informed that they had five business days to respond to this special audit report. A response was received on August 12, 2016. The response was evaluated and changes were made to this report as we deemed necessary.



Dave Yost
Auditor of State

August 9, 2016

THIS PAGE INTENTIONALLY LEFT BLANK.

Supplement to the Special Audit Report

Background

In 2001 voters of the Cleveland Municipal School District approved Issue 14. Issue 14 authorized the issuance of \$335 million in bonds for the construction and renovation of school buildings. Additionally, Issue 14 established the Bond Accountability Commission 2, Inc. (BAC). The BAC is an independent, non-profit, all-volunteer organization appointed by the chair of the District Board of Education in consultation with the Cleveland Mayor. Commission responsibilities include monitoring implementation of and revisions to the Facilities Master Plan; working to review the design, engineering, contract bidding and awards, procurement, and construction of projects funded by the voter-approved Issue 14 and Issue 4 (passed in 2014); communicating its findings to the community; regularly reporting to the Board; holding public meetings; and issuing an annual report.

As part of its reporting responsibilities, the BAC has issued numerous reports documenting how the District is spending bond proceeds. On March 21, 2015, the BAC released a report analyzing the District's success rate at receiving reimbursement under the federal E-Rate program. This program was authorized in the federal Telecommunications Act of 1996 (the Act). Section 254 of the Act required telecommunications service providers to fund the Universal Service Fund which would be used to provide discounts to schools and libraries for telecommunications costs. The FCC oversees the Universal Service Fund and created the Universal Service Administrative Company (USAC) to administer it.

In its report, the BAC noted the District had been eligible to receive up to \$12.28 million in E-Rate reimbursements since 2008 for new school building construction segments 2 through 4, but had only received \$3.71 million (approximately 30% of the total available). The BAC report questioned the District's ability to receive the remaining \$8.57 million. The District was not able to provide the BAC with a definitive explanation as to why the District failed to collect the millions in federal reimbursement for technology equipment installed. The report questioned whether the technology vendor for most of the relevant schools, Doan Pyramid, had substituted nonconforming goods for which USAC would not approve reimbursement. It was noteworthy that Doan Pyramid's owner was convicted of corruption-related charges during the Period.

On April 16, 2015, the District hired the law firm Squire Patton Boggs (SPB) to investigate the circumstances and reasons underlying why the District was unable to obtain full reimbursement of certain program support and assess the District's ability to obtain the remaining reimbursement.

On April 20, 2015, the BAC's report was considered by the Auditor of State (AOS) Special Audit Task Force and the Auditor of State initiated a special audit of the District.

Supplement to the Special Audit Report

Objective No. 1 - Policy, Procedure, and Contract Compliance: Identify and evaluate the District's policies, procedures, and key controls over the competitive bidding process for school building construction contracts during the Period (including, contractors, consultants, architects, engineers, technology service providers) to determine whether the bidding process was in accordance with significant relevant ORC, OSFC, FCC, and USAC Schools and Libraries Division E-rate program provisions.

PROCEDURES

We examined the District's policies and procedures over the competitive bidding, purchasing, and E-rate processes in effect for the period of review.

We also examined the District's construction contracts for school building construction segments 3 and 4 to assess compliance with significant relevant District adopted policies and procedures and other relevant Ohio Rev. Code (ORC), Ohio School Facilities Commission (OSFC), and federal E-rate program provisions.

RESULTS

Although the District maintained an E-rate Policy, which included a brief overview of the Separation of Eligible and Ineligible Services and Products as well as the Billing Process, it did not include detailed procedures. The policy also did not include procedures related to Category 2 Internal Connections E-rate applications which included the segments 3 and 4 school construction. Additionally, the policy was not revised when the District hired an E-rate consultant in 2011 to reflect revisions to existing procedures as well as identify District and consultant responsibilities. As a result, a recommendation will be issued regarding District E-rate Policies and Procedures.

We examined all 18 technology bid packages of which 4 of the bid packages were awarded contracts by the District covering all 19 schools included in construction segments 3 and 4. We examined the 4 contracts for various compliance requirements as well as compared the contracted amounts to the District contract payments.

For 1 out of 4 contracts tested, the District did not meet the requirements for the following Ohio Revised Code provisions governing competitive bidding for school districts: Ohio Rev. Code §3313.46(A)(2)(b), 3313.46(A)(2)(c), or 3313.46(A)(2)(d) .

The District Purchasing Manual Section IV Resolution Process required a Board Approved Resolution for expenditures greater than \$50,000. The District was unable to provide the Board Resolution to authorize the technology contracts for G.W. Carver or Nathan Hale schools, both of which were greater than \$50,000.

NONCOMPLIANCE CITATION

Ohio Rev. Code §3313.46 – Contract Bidding Process

Ohio Rev. Code §3313.46(A)(2) states, "The board shall advertise for bids once each week for a period of not less than two consecutive weeks, or as provided in section 7.16 of the Revised Code, in a newspaper of general circulation in the district before the date specified by the board for receiving bids. The board may also cause notice to be inserted in trade papers or other publications designated by it or to be distributed by electronic means, including posting the notice on the board's internet web site. If the board posts the notice on its web site, it may eliminate the second notice otherwise required to be published in a newspaper of general circulation within the school district, provided that the first notice published in such newspaper meets all of the following requirements:

- (a) It is published at least two weeks before the opening of bids.
- (b) It includes a statement that the notice is posted on the board of education's internet web site.
- (c) It includes the internet address of the board's internet web site.
- (d) It includes instructions describing how the notice may be accessed on the board's internet web site."

Supplement to the Special Audit Report

NONCOMPLIANCE CITATION (Continued)

The District published one advertisement for the technology bid package for segment 4B schools. However, the published advertisement did not include 1) a statement that the notice was posted to the board of education's internet web site, 2) the internet address of the board's internet web site, or 3) include instructions describing how the notice could be accessed on the board's internet web site as prescribed above.

Failure to include this information in the District's published advertisement resulted in noncompliance with respect to the Ohio Rev. Code contract bidding process.

We recommend the District revise policies and procedures to reflect Ohio Rev. Code contract bidding process requirements regarding advertisement in order to mitigate noncompliance.

MANAGEMENT RECOMMENDATION

Purchasing Manual Section IV Resolution Process

The District Purchasing Manual Section IV Resolution Process states, "Any intended purchase of goods or services greater than or equal to \$15,000 requires the submission of a resolution." Additionally, Section IV states, "A Board Approved Resolution is the term used to identify an intended purchase in excess of \$50,000."

The District was unable to locate and provide the Board Resolution for the bid package 20841-178 technology contract awarded to Zenith Systems LLC in 2010 for G.W. Carver and Nathan Hale schools. As a result, the District failed to comply with the District Purchasing Manual policy.

Failure to comply with the District's policies and procedures regarding purchasing could lead to decreased oversight resulting in increased risk of issuing noncompliant or inaccurate expenditures.

We recommend the District adhere to District policies and procedures in order to maintain oversight of District expenditures and mitigate risk.

RECOMMENDATION

District E-rate Policies and Procedures

The District Process for E-rate Program Policy Part 4 states in part, "The eRate Division will serve as the primary monitoring organ for eligibility, and the review of invoices submitted by service providers."

Additionally the E-rate Program Policy Part 5 states in part, "...all vendors should provide detailed supporting documentation for the costs incurred on the invoice. These can be in the form of project plans, spread sheets, lists, and narrative descriptions that specify for what the District and the SLD [USAC's Schools and Libraries Division] are being billed. The E-rate Division will track expenditures by FRN [Funding Request Number] for all SLD-approved and District-committed projects."

The District was unable to provide documentation to support that the District E-rate Division completed the Segment 3A and Segment 3B/4A E-rate applications.

Failure to adhere to District policies resulted in the District's inability to obtain E-rate reimbursement.

We recommend the District adhere to District policies and procedures as well as expand the current policies and procedures to include more detailed instructions in order to maintain oversight and increase control and accountability over the District E-rate program. The detailed instructions should include:

1. Identification of District and Consultant responsibilities,
2. Procedures to track and monitor completion of program deadlines,
3. Oversight procedures to verify that the service provider invoices include all E-rate program requirement information such as 1) Make and Model, 2) Serial No, 3) Date of Delivery, 4) Installation Date, 5) Location, and 6) Itemized Cost.

Supplement to the Special Audit Report

RECOMMENDATION (Continued)

4. District E-rate Division approval of service provider invoices prior to District payment.

In February 2016, the District made significant revisions to their policies and administrative guidelines related to the E-rate Process Manual. We recommend the District continue to pursue improvements to their policies and periodically evaluate the effectiveness of all changes to their process.

Supplement to the Special Audit Report

Objective No. 2 - Contract Fulfillment: Determine whether the District received the quantity and quality of materials specified in the contracts entered into for school building construction segments 3 and 4.

PROCEDURES

As noted in the Background section (page.7), the technology provider for most of the schools we audited, Doan Pyramid, was owned by an individual who was convicted of corruption-related charges during the audit period. This raised the question whether USAC failed to reimburse the District because Doan Pyramid substituted nonconforming goods which were ineligible for reimbursement. In order to answer this question, we obtained and reviewed the segment 3 and 4 contracts and change orders issued for the awarded bids as well as the District contract payments and compared the contracted amounts to the District payments. We also obtained external inspection records from the District, including a Certification of Contract Completion form that was completed for each school included in the segments 3 and 4 technology contracts which certified that the work performed by the contractor was completed in accordance with the contract specifications and inspected by the appropriate OSFC project representatives with the recommendation that the work performed be accepted. We examined the Certification of Contract Completion for all 19 construction segments 3 and 4 schools which included the Contractor, Architect, Construction Manager, District Board Representative, and Ohio School Facilities Commission (OSFC) signatures of acceptance.

We also contracted with a consultant, Heapy Engineering LLC, to assist in determining whether the materials paid for by the District were actually received and of the quantity and quality as prescribed in the contracts. We required Heapy Engineering LLC to review relevant documents and perform visual inspections of segments 3 and 4 schools. We began by providing Heapy Engineering LLC with bid packages for segments 3 and 4 provided by the District, including but not limited to the following:

- i. The Conformed Documents, which consists of documentation denoting the Drawings and Specifications for the contract.
- ii. Contract Change Orders, which consisted of documentation denoting requests for changes to the original contract specifications.
- iii. Contract Request for Information (RFI) which consisted of documentation denoting Contractor questions and Construction Manager responses.
- iv. Shop/Submittal Drawings which consisted of documentation provided by the Contractor to support contract installation and completion.
- v. Operations and Maintenance Manuals which consisted of documentation provided by the Contractor to the District upon completion of the contract documenting operational and warranty information.

We also assisted Heapy Engineering LLC in conducting site visits of the 18 construction segments 3 and 4 schools⁴ in order to identify all technology items as originally engineered and prescribed in the contracts. As part of the site visits conducted we distributed a questionnaire to be completed by a building representative. We asked that representatives be familiar with technology as it existed when the schools opened. Heapy Engineering LLC designed the questionnaire to determine whether equipment was present when the school opened. In order to avoid confusion regarding admittedly technical matters, Heapy Engineering LLC included questions and pictures of the principal equipment systems prescribed in the contracts.

Where we observed equipment present in the schools that did not agree to the project drawings, we examined documentation obtained from the District to support that the equipment was removed by the District subsequent to the installation.

⁴ Charles Lake school was removed from the Segment 4A schools to be built after the contract was awarded. A Certification of Contract Completion was completed to document the material and labor performed for the school prior to the cancellation of the school's construction.

Supplement to the Special Audit Report

RESULTS

Heapy Engineering LLC, with the assistance of our office, performed site visits to examine the 18 schools included in the construction segments 3 and 4 schools and concluded the project drawings and specifications for all of the technology contracts complied with the Ohio School Design Manual (OSDM) as required by the Ohio School Facilities Commission. Furthermore, the materials installed by the technology contractors for the construction segments 3 and 4 technology contracts were of good quality industry standard workmanship and in accordance with the project drawings and specifications, including the following:

- A. Technology Cabling Systems
- B. Network Electronics
- C. Phone System
- D. Audio Systems
- E. Video Distribution System
- F. Video Display Mounts
- G. Paging System
- H. Clock System
- I. Access Control System
- J. Closed Circuit Television System

Supplement to the Special Audit Report

Objective No. 3 - Federal E-rate Program: Determine why the District failed to seek reimbursement for allowable E-rate expenses and quantify the amounts and frequency of such failures.

PROCEDURES

In order to determine whether the District received all allowable E-rate reimbursement during the Period, we obtained and examined the documentation received from the Universal Service Administrative Company (USAC) including the Form 471⁵ Item 21 Attachment⁶ documentation which denoted the services and equipment for which the District was requesting E-rate funding approval as well as the Form 472 Billing Entity Applicant Reimbursement (BEAR)⁷ forms for which the District requested reimbursement for those services and equipment reported by the District on the Form 471.

We compared the amounts the District requested based on the Form 472 filing documentation to the USAC authorized disbursement amounts.

We obtained and examined all available documentation related to the segments 3 and 4 new school construction contracts from the technology vendor.

We obtained and examined all available documentation related to the segments 3 and 4 E-rate funding request from the USAC.

RESULTS

Analysis of the events that occurred identified the following:

Segment 3A (E-rate Funding Year 2007)

The Segment 3A Form 472 original filing deadline for E-Rate Funding Year 2007 was January 28, 2009. As the Segment 3A contract was not yet completed as of the Form 472 deadline, the District Budget, E-rate and Telecommunications Director, Ilze Lacis filed 3 invoice extension requests, which were approved by USAC, and extended the Form 472 filing deadline to January 31, 2011. A Form 472 was filed by the District on October 14, 2010, and payment was approved by USAC.

Ms. Lacis resigned from District employment effective November 6, 2011 and became employed by E-Rate Central on November 16, 2011. As a result, the District entered into a contract with E-rate Central on November 28, 2011, to provide full service E-rate Support beginning with E-rate Funding Year 2010 District funding requests still in process at the time the contract was implemented as well as subsequent E-rate funding years. Ms. Lacis was the E-rate Central consultant for the District. Based on the District's contract terms with E-Rate Central, completion of the Segment 3A E-rate funding request was the responsibility of the District as Segment 3A was included in the District's E-rate funding requests for E-rate Funding Year 2007. The District received and approved the final contract payment application on April 10, 2012, and issued final payment on April 12, 2012. Our examination of USAC documentation indicated that no additional action was taken by the District after October 14, 2010. The District did not file an additional Form 472 with USAC in order to complete the Segment 3A E-rate request for reimbursement.

⁵ The Form 471 Services Ordered and Certification form is a FCC form that schools and libraries are required to submit to USAC to report services ordered and discounts requested for those services.

⁶ The Item 21 Attachment is a FCC Form 471 filing requirement for schools and libraries to submit to USAC to provide a detailed and complete narrative description of the products and services contained in the funding request and a line-item listing of the products and/or services requested with their associated costs, including make, model number and location of any equipment.

⁷ The Form 472 Billed Entity Applicant Reimbursement (BEAR) form is a FCC form that schools and libraries are required to submit to USAC after paying for services in full, to request reimbursement for the discount on those services.

Supplement to the Special Audit Report

Segment 3B/4A (E-rate Funding Year 2008)

As with Segment 3A, completion of the Segment 3B/4A E-rate funding request for Funding Year 2008 was the responsibility of the District. The Segment 3B/4A Form 472 original filing deadline was January 28, 2011. The District did not file any invoice extension requests. The District received and approved the final contract payment application for the Segment 3B contract on April 10, 2012, and issued final payment on April 12, 2012. The District received and approved the final contract payment application for the Segment 4A contract on September 7, 2012, and issued final payment on September 20, 2012. Our examination of USAC documentation indicated that no additional action was taken by the District after December 9, 2009. The District did not file a Form 472 with USAC to complete the Segment 3B/4A E-rate request for reimbursement.

Segment 4B (E-Rate Funding Year 2010)

The Segment 4B E-rate funding request for Funding Year 2010 was included in the contract entered into by the District with E-rate Central. As such, completion of the E-rate funding request was the responsibility of E-rate Central. The Segment 4B Form 472 original filing deadline was January 30, 2013. As the Segment 4B contract was not yet completed as of the Form 472 deadline, E-rate Central filed 3 invoice extension requests, 2 of which were approved by USAC, and extended the Form 472 filing deadline to April 16, 2016. The District received and approved the final contract payment application on February 19, 2013, and issued final payment on February 21, 2013. The District was initially unable to provide E-rate Central with sufficient documentation as prescribed by the E-rate program requirements to file a Form 472.

A Form 472 was filed by E-rate Central on January 27, 2015; however, USAC requested additional information for the filing on January 29, 2015 to which USAC did not receive a response from E-rate Central. As a result, USAC denied the payment request on February 19, 2015. Zenith Systems LLC "Final Installation Invoices" for Segment 4B were provided to the District on April 27, 2015. Email correspondence on May 27, 2015 from E-rate Central to the District indicated that the documentation provided by the District which included the Zenith Systems final installation invoices was insufficient to file a Form 472.

A Form 472 was filed by E-rate Central on June 10, 2015 using the information provided by Zenith Systems LLC on April 27, 2015; however, USAC requested information for the filing on June 22, 2015 including the bill date/ship date, service provider name, total current charge, bill-to entity name and address, a detailed description of the products and services delivered, and the hours of work performed to deliver the services. Additionally, USAC requested copies of the canceled checks issued by the District including a detailed breakout for the checks if they include other payments. E-rate Central responded to the request on July 8, 2015. USAC requested additional information on August 6, 2015 including the delivery date, installation date, and a detailed breakout of the specific items listed on the Zenith final installation invoices to which the District was requesting payment. E-rate Central responded to the request on August 21, 2015, and indicated to USAC that specific delivery and installation dates for the equipment were not available. As a result, USAC denied the payment request on August 28, 2015 due to insufficient documentation provided. A Form 472 invoice deadline appeal was filed by E-rate Central on October 26, 2015 and approved by USAC on December 18, 2015.

A Form 472 was filed by E-rate Central again on January 13, 2016 that excluded \$212,362.64 in available USAC funding as the District was unable to provide E-rate Central with documentation to support the equipment installation dates. The District terminated its contract with E-rate Central on January 26, 2016, and contracted with Funds for Learning to provide full service E-rate support beginning February 10, 2016. USAC requested information for the filing on January 28, 2016 including the bill date/ship date, service provider name, total current charge, bill-to entity name and address, a detailed description of the products and services delivered, and the hours of work performed to deliver the services. Funds for Learning responded to the request on February 17, 2016. USAC requested additional information on March 24, 2016 regarding itemization of equipment reported on the vendor invoices which were excluded from the Form 472 filing. Funds for Learning responded to the request on April 4, 2016. USAC requested additional information on April 14, 2016 regarding reconciliation of E-rate eligible equipment to the District contract payments. Funds for Learning responded to the request on April 14, 2016. The Form 472 Notification Letter was sent by USAC on April 22, 2016 authorizing approval for payment.

Supplement to the Special Audit Report

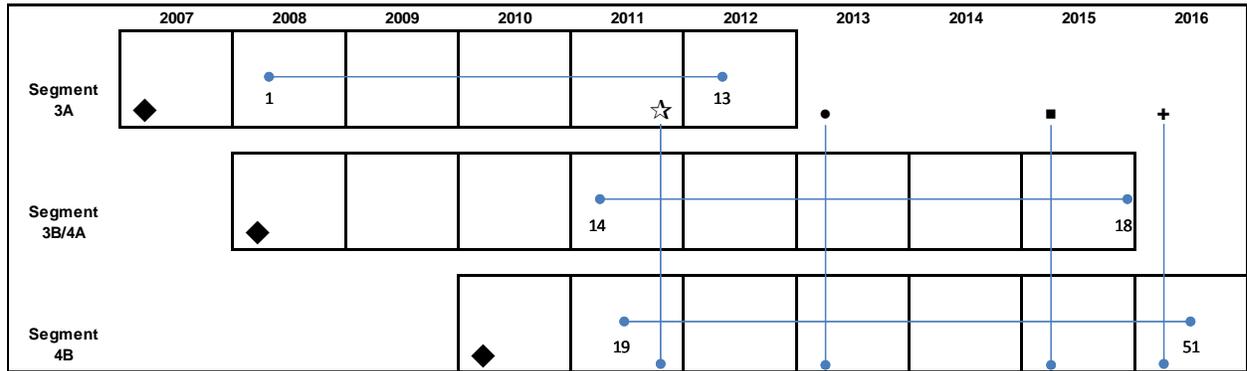
Alternatively, we have presented the above analysis in the following timeline and graph.

Year	Date	Segment		Description
2007	02/02/07	3A	◆	District issued segment 3A technology contract.
2008	01/22/08	3B/4A	◆	District issued segments 3B and 4A technology contracts.
	08/13/08	3A	1	District requested Form 472 invoice extension request.
	09/02/08	3A	2	USAC approved District Form 472 extension request.
2009	01/28/09	3A	3	Form 472 Filing Deadline.
	09/30/09	3A	4	Installation date deadline to complete requested services and equipment.
2010	01/29/10	3A	5	District filed Form 472 invoice extension request.
	02/03/10	4B	◆	District issued segment 4B technology contract.
	03/25/10	3A	6	USAC approved District Form 472 extension request.
	08/12/10	3A	7	Final Certification of Contract Completion Form completed for technology contract.
	08/24/10	3A	8	District requested Form 472 invoice extension.
	09/30/10	3B/4A	14	Installation date deadline to complete requested services and equipment.
	10/01/10	3A	9	USAC approved District Form 472 extension request.
	10/14/10	3A	10	District filed Form 472 Invoice #1396436, 1396443, 1396446, 1396459, and 1396464.
	10/29/10	3A	11	USAC sent Form 472 Notification Letters. Invoices approved. Payment issued.
2011	01/28/11	3B/4A	15	Form 472 Filing Deadline.
	01/31/11	3A	12	Form 472 Filing Deadline (After USAC approved extensions).
	09/30/11	4B	19	District requested Form 472 invoice extension.
	11/06/11		☆	District Budget Director, Ilze Lacis, last date of employment with District.
	11/16/11		☆	Ilze Lacis began employment with E-Rate Central.
	11/28/11		☆	District contracted with E-Rate Central to perform E-Rate services for District.
	12/28/11	4B	20	USAC dismissed District Form 472 extension request.
2012	04/12/12	3A	13	District issued final payment for technology contract.
	05/02/12	3B/4A	16	Final Certification of Contract Completion Form completed for technology contract.
	05/02/12	4B	21	Final Certification of Contract Completion Form completed for technology contract.
	08/01/12	4B	22	E-Rate Central requested Form 472 invoice extension.
	09/20/12	3B/4A	17	District issued final payment for technology contract.
	09/20/12	4B	23	District filed Form 486 Filing Deadline appeal.
	09/30/12	4B	24	Installation date deadline to complete requested services and equipment.
10/17/12	4B	25	FCC approved District Form 486 Filing Deadline appeal.	
2013	01/30/13	4B	26	Form 472 Original Filing Deadline.
	02/21/13	4B	27	District issued final payment for technology contract.
	06/xx/13		●	BAC initiated an inquiry into the District E-rate program.
	07/04/13	4B	28	E-Rate Central requested Form 472 invoice extension for Mound school.
	07/05/13	4B	29	E-Rate Central requested Form 472 invoice extension for Nathan Hale school.
	08/21/13	4B	30	USAC approved E-Rate Central Form 472 extension request for Mound school
	09/04/13	4B	31	E-Rate Central requested Form 500 extension to 09/30/14 for G.W. Carver school.
	09/16/13	4B	32	USAC approved E-Rate Central Form 472 extension request for Nathan Hale school.
11/12/13	4B	33	USAC approved E-Rate Central Form 500 extension request for G.W. Carver school.	
2014	12/18/14	4B	34	E-Rate Central requested Form 472 invoice extension.

Supplement to the Special Audit Report

Year	Date	Segment	Description
2015	01/26/15	4B	35 District filed Form 472 Invoice #2139602.
	02/13/15	4B	36 USAC approved District Form 472 invoice extension request.
	02/19/15	4B	37 USAC sent Form 472 Invoice #2139602 Notification Letter. Invoice denied.
	03/21/15		■ BAC released first District E-rate report.
	04/27/15	4B	38 District received "Final Installation Invoices" from Zenith Systems LLC.
	06/10/15	4B	39 E-Rate Central filed Form 472 Invoice #2194803.
	07/07/15	4B	40 E-Rate Central requested Form 472 invoice extension.
	07/08/15	4B	41 USAC approved District Form 472 invoice extension request.
	08/12/15	4B	42 E-Rate Central requested Form 472 invoice extension.
	08/13/15	4B	43 USAC approved E-Rate Central Form 472 invoice extension request.
	08/21/15	4B	44 E-Rate Central requested Form 472 invoice extension.
	08/21/15	4B	45 USAC denied E-Rate Central Form 472 invoice extension request.
	08/28/15	4B	46 USAC sent Form 472 Invoice #2194803 Notification Letter. Invoice denied.
	10/19/15	4B	47 E-Rate Central requested Form 472 invoice filing deadline appeal.
	12/17/15	3B/4A	18 E-Rate Central requested Form 472 invoice extension.
12/18/15	4B	48 USAC approved E-Rate Central Form 472 filing deadline appeal.	
2016	01/13/16	4B	49 District filed Form 472 Invoice #2327698.
	01/26/16		District terminated contract with E-Rate Central. Last date of service was 02/09/16.
	02/10/16		Funds for Learning began performing E-Rate services for District.
	03/12/16		+ BAC released second District E-rate report.
	04/16/16	4B	50 Form 472 Filing Deadline (After USAC approved extensions).
	04/22/16	4B	51 USAC sent Form 472 Invoice #2327698 Notification Letter. Invoice approved. Payment issued.

E-RATE TIMELINE OF EVENTS



- Segment 3A**
- ◆ 1-13 District issued Segment 3A technology contract on February 2, 2007.
 - ◆ 1-13 District requested invoice extensions, USAC approved extensions, District submitted invoices, USAC approved invoices and received payment from August 13, 2009 through April 12, 2012.
- Segment 3B/4A**
- ◆ 14-18 District issued Segment 3B/4A technology contract on January 22, 2008.
 - ◆ 14-18 Deadline for filing forms with USAC, District issued final payment for technology contracts from January 28, 2011 through September 20, 2012, and E-rate Central requested for invoice extension on December 17, 2015.
- Segment 4B**
- ◆ 19-51 District issued Segment 4B technology contract on February 3, 2010.
 - ◆ 19-51 District requested invoice extensions, USAC approved extensions, District submitted invoices, USAC approved invoices and received payment from September 30, 2011 through April 22, 2016.
- Other Dates of Importance**
- ☆ Between November 6, 2011 and November 28, 2011, District Budget Director, Ilze Lacis, left the District, was hired by E-rate Central, and the District contracted with E-rate Central to perform E-rate services for the District.
 - BAC initiated inquiry into District E-rate program in June 2013.
 - BAC released first District E-rate report on March 21, 2015.
 - + BAC released second District E-rate report on March 12, 2016.

Supplement to the Special Audit Report

The overlap of the E-rate funding requests for the segments in addition to the change in E-rate administration from the District to E-Rate Central appeared to have contributed to a miscommunication of which party was responsible to complete the segment E-rate funding requests. This miscommunication may have been compounded by the fact that upon Ms. Lacin's employment with E-Rate Central, she continued to work out of the same office space in the District building.

The Federal Communications Commission Fifth Report and Order 04-190(ii)(B)(48) denoted documentation requirements including but not limited to the following:

- Purchase and Delivery of Service documentation including "delivery and installation records showing where the equipment was delivered and installed or where services provided".
- Inventory documentation including "asset and inventory records of equipment purchased and components of supported internal connection services sufficient to verify the location of such equipment".

To meet this criteria USAC recommended that beneficiaries retain a reconciliation worksheet of vendor invoice(s) to USAC Form 472 filing as well as issued an Inventory List template on their website which includes 1) Make and Model, 2) Serial No, 3) Date of Delivery, 4) Installation Date, 5) Location, and 6) Vendor invoice received.

An examination of documentation provided by Zenith Systems LLC (formerly Doan Pyramid LLC) did not include information sufficient to comply with the E-rate program documentation requirements prescribed above. Segment 3A, 3B, and 4A documentation included the location, description, manufacturer, part number, and serial number for installed equipment, but did not include the cost of the equipment. Segment 4B documentation consisted of the final installation invoices which included the description, manufacturer, part number, and cost of the equipment, but did not include the location or serial number for the equipment.

The District did not maintain documentation to comply with USAC E-rate program requirements as prescribed above. As a result, a noncompliance citation will be issued regarding E-rate Program Compliance.

The failure of the District to complete the E-rate applications or maintain sufficient documentation to comply with USAC E-rate program requirements resulted in the following loss of revenue for the District:

Segment	E-rate Funding Year	USAC Committed Amount	District Amount Not Requested
3A	2007	\$3,180,206	\$2,340,672
3B/4A	2008	5,832,436	5,832,436
4B	2010	644,245	212,362
Total		\$9,656,887	\$8,385,470

NONCOMPLIANCE CITATION

47CFR, Chapter I, Subchapter B, Part 54 Universal Service

47CFR, Chapter I, Subchapter B, §54.516(a)(1) states in part: "Schools, libraries, and consortia shall maintain asset and inventory records of equipment purchased as components of supported category two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase"

47CFR, Chapter I, Subchapter B, §54.502(a)(2) defines category two services as: " Internal connections, basic maintenance and managed internal broadband services as defined in §54.500 and described in the Eligible Services List are category two supported services."

Supplement to the Special Audit Report

Additionally, the Federal Communications Commission Fifth Report and Order 04-190(III)(B)(48) states in part: "Beneficiaries and service providers should retain all documents related to the purchase and delivery of E-rate eligible services and equipment. Beneficiaries must retain purchase requisitions, purchase orders, packing slips, delivery and installation records showing where equipment was delivered and installed or where services were provided...Beneficiaries must retain asset and inventory records of equipment purchased and components of supported internal connections services sufficient to verify the location of such equipment."

The District E-rate funding applications associated with the Segments 3 and 4 schools were Category 2 Internal Connections funding requests, and as such were subject to the §54.516(a)(1) requirement.

The District did not maintain sufficient documentation to support the above prescribed E-rate program compliance.

Failure to adhere to federal program documentation requirements resulted in the District's inability to obtain E-rate reimbursement.

We recommend the District revise policies and procedures to reflect the E-rate program requirements regarding documentation requirements in order to mitigate noncompliance.



Dave Yost • Auditor of State

CLEVELAND MUNICIPAL SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 16, 2016**