

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

REPORT

ON

NEXT LEVEL CONNECTIONS BROADBAND PROJECT

July 1, 2020 to June 30, 2021



FILED

10/04/2022



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AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE MEMBERS OF THE INTERIM STUDY COMMITTEE ON
ENERGY, UTILITIES, AND TELECOMMUNICATIONS

This report provides the results of our analysis of the Next Level Connections Broadband Program (NLC) for the year ending June 30, 2021, as required by Indiana Code 4-4-38.5-13(c).

The scope of our engagement was limited to three primary objectives. First, the report submitted to the Interim Study Committee on Energy, Utilities, and Telecommunications (Committee) by the Office of Community and Rural Affairs (OCRA) on August 1, 2021, was tested to determine if its contents were accurate and reliable and agreed with agency records provided for review. Next, the grant awarding process conducted by the OCRA was reviewed to determine if it followed the requirements set forth in Indiana Code 4-4-38.5. Finally, monitoring performed by the OCRA of program grantees was reviewed to determine if proper oversight and communications were in place to ensure the grantees were performing the projects within the technical parameters, timelines, and budgets as established in the grant agreements between the State of Indiana and the grantees.

Our procedures were performed through a combination of physical inspection of grant agreements, project reports, and other documents provided by the OCRA and inquiry with current OCRA staff. We haphazardly selected items to test when practical, and, therefore, did not test all award materials. Our procedures were designed solely to satisfy the audit requirements of Indiana Code 4-4-38.5-13(c). Because our procedures were not designed to opine on financial statements, we did not follow auditing standards generally accepted in the United States of America.

The findings of our report were presented to management of the OCRA for its review.

The Indiana State Board of Accounts is committed to providing the Committee with accurate and reliable information. We hope the information provided in this report will be useful for your needs.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

August 23, 2022

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BACKGROUND

NLC Broadband Program

The Next Level Connections (NLC) Broadband program is a component of Governor Holcomb's Next Level Connections initiative announced in 2019 to provide broadband service to rural and unserved areas in the State of Indiana (State). The Office of Community and Rural Affairs (OCRA) began administering Round 1 of the NLC in fiscal year 2020 and awarded 14 projects totaling \$28 million. In fiscal year 2021, the OCRA awarded 49 projects in Round 2 for an additional \$51 million.

Annual Report

On August 1, 2021, the OCRA presented its annual report to the Committee in accordance with Indiana Code 4-4-38.5-13. The report contained data for the period of July 1, 2020 through June 30, 2021, which included the awarding of the 49 Round 2 projects as well as status updates for the 14 Round 1 projects awarded prior to the period of the report. In addition to general updates on the program, the report was structured to follow statute and was comprised of seven sections named after the seven report requirements in Indiana Code 4-4-38.5-13(a)(1-7).

Grant Awarding

During the review period, the OCRA reviewed 72 applications for Round 2 funding. Of these 72 applicants, 49 were granted funding ranging from \$10 thousand to \$5 million for a total awarding of \$51 million. The multi-step awarding process began with the submission of an extensive application for each broadband provider. In addition to a narrative outlining the proposed project, applicants were required to provide technical specifications of the project certified by a professional engineer, letters of support from citizens and public officials, company financial statements indicating an ability to meet the local matching requirements, and census block data among other items.

The OCRA designed a scoring process for applicant submissions which focused on five key criteria. Each applicant was graded on their (1) project description and readiness, (2) project impact to the community, (3) community support and engagement, (4) technical qualifications and resources, and (5) local match and number of passings. A grading scale was developed in which each of these criteria were addressed for each applicant. Additionally, each application was inspected by the OCRA staff to ensure all components of the application were provided and completed per the program instructions.

A team of OCRA staff collaborated to score applicants and determine the strengths and weaknesses of the application for each of the five criteria. Based on the initial scoring and further collaboration amongst staff, applicants were selected for funding. Grantees were announced on the OCRA website shortly thereafter.

Upon selection for program funds, applicants entered into grant agreements with the OCRA which outlined the scope of each project, including the number of households, businesses, and anchor institutions that would be served by the installed infrastructure, the period of performance which was 24 months after signature date, and requirements for status updates to the OCRA throughout the project.

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Grantee Monitoring

For the 49 projects awarded during the review period and the 14 grants awarded earlier in Round 1, the OCRA designed a regular monitoring schedule to track the progress of each project. All projects were awarded with an initial 24-month period of performance. Grantees were required to submit quarterly reports throughout the 24-month period to the OCRA to provide updates on the construction projects. In addition to general updates on the status of the project, grantees were asked to provide information concerning any issues causing setbacks or delays and whether said issues would result in the project extending beyond the 24-month period. Budgetary information and statuses for each address being served through grant funds were also requested each quarter. Each quarterly report was due 30 days following the end of the quarter until the completion of the project.

After project completion, grantees were required to submit a final report which documented the accomplishments of the project including the adoption rates for new service created by grant funds. In addition to a detailed project narrative, grantees were also required to provide verification of the metrics used to determine the speeds of broadband service constructed with the grant, community engagement obtained throughout the construction, and media coverage of the project. A signed professional engineering report which asserted the project had been completed, conformed to all federal, state, and local requirements, and followed the instructions in the application and grant agreement was also required. As of June 30, 2021, the date of the OCRA report to the Committee, only two grantees had completed their projects, and, therefore, were required to submit a final report.

In addition to the regularly scheduled quarterly reports and the final report, the OCRA was also able to monitor progress of the projects by approving reimbursement claims from the grantees. Each grant was awarded with budgets comprised of categories including labor, materials, equipment, permits, and professional services. Claim forms and quarterly reports were designed using these same budget categories to allow the OCRA to track expenses not only each quarter, but as reimbursement claims were submitted. This allowed the OCRA to monitor how the grantees were staying within the budgetary considerations of the grant agreements.

PROCEDURES PERFORMED

Verification of Annual Report

The NLC report presented to the Committee was comprised of seven sections mirroring the reporting requirements stated in Indiana Code 4-4-38.5-13(a)(1-7). For each section, procedures were developed to verify the accuracy of the reported data. Program materials, including grant agreements, quarterly progress reports, and final project reports, were inspected to ensure data related to census blocks, grant and cost sharing amounts, and project statuses were reported completely and accurately. In addition, financial reports were generated in the State's accounting system to verify administrative costs related to the program were accurately reported for the fiscal year under review and since the inception of the program. Finally, completion reports and related data showing the new broadband service created by the grant funding were inspected to verify the accuracy of adoption rates reported to the Committee.

To provide additional context for the scope of our procedures for each of the reported areas, please see each section's procedures described below. For the purposes of organizing the procedures performed and the related results, the various parts of the report are identified by the applicable Indiana Code. It is important to note some of the Indiana Codes outlined below were updated by Public Law 89-2021 and now differ from what the OCRA reported in its report dated August 1, 2021.

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Indiana Code 4-4-38.5-13(a)(1) - The number, amounts, and recipients of grants awarded under the program, along with the state agency awarding each grant

We selected 10 of the 49 (20%) grants awarded during the reporting period. For the grants tested, we compared reported data against the grant agreements as well as project narrative and census block portions of the applications which elaborated on additional details of the project. For the grants tested, it was determined the OCRA accurately reported the applicants awarded during the review period as well as the related grant award amount, cost share, passings, and additional information documented for each grant.

Indiana Code 4-4-38.5-13(a)(2) - The status of any funded eligible broadband projects

To verify the status of funded projects, we tested 13 of the 63 (20%) Round 1 and Round 2 projects and examined the grantee quarterly report submitted just prior to the OCRA submitting its annual report. For the grants tested, it was determined the OCRA had accurately reported the current status of the project as of the date ending the reporting period, June 30, 2021. The quarterly reports examined supported that the grantees were on track to finish the projects within the 24-month period of performance. Only two projects were reported as completed as of June 30, 2021, which was verified by inspecting the grantee final reports for each of these two projects.

Indiana Code 4-4-38.5-13(a)(3) - Expenses incurred and funds spent by the office in administering the program

Using data queried from the State's accounting system, administrative expenses charged to the Rural Broadband fund were accumulated. It was determined the OCRA correctly reported \$180,452.74 in administrative expenses for the reporting period. These costs related to salaries, fringe benefits, and software expenses.

Indiana Code 4-4-38.5-13(a)(4) - A list of entities that the office collaborated with in administering the program

Through inquiry of the OCRA staff and general observation of grant documents, we determined the entities which assisted the OCRA in administration of the fund. It was determined the other agencies and entities named did provide assistance to the OCRA in some capacity throughout the reporting period. No additional entities providing assistance were identified during our work.

Indiana Code 4-4-38.5-13(a)(5) - Accounting of funds including funds awarded as grants

Using data queried from the State's accounting system, all costs charged to the Rural Broadband fund since the inception of the program were accumulated. In fiscal year 2020, the OCRA charged \$677 thousand in grant funding and \$108 thousand in salaries and fringe benefits. These amounts rose to \$13.1 million and \$180 thousand in fiscal year 2021, respectively. Additionally, grant agreements and other agency tracking documents were examined to determine \$78.9 million had been obligated to grantees, leaving \$65.1 million in unspent obligated funds. All the amounts reported in the annual report were supported by agency records.

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Indiana Code 4-4-38.5-13(a)(6) - The number of locations in rural areas to which broadband infrastructure has been deployed with the use of grant funds from the program, including any address-level information for newly connected locations

As mentioned previously, only two programs, both from Round 1, were completed by June 30, 2021. The finished projects served the Sharpsville area in Tipton County and the West Lafayette area in Tippecanoe County. For each of these projects, we examined the final reports submitted by the grantees to the OCRA. The Sharpsville and West Lafayette projects created service availability for 150 customers, with 122 customers adding service for an adoption rate of 81 percent. Both grantees provided information in the final reports which stated the newly connected locations had 1 gigabyte download and upload speeds. A signed professional engineer report was provided in each final report certifying the service levels. All information obtained through our procedures agreed with reported information in this section of the annual report.

Indiana Code 4-4-38.5-13(a)(7) - The overall progress of the deployment of broadband infrastructure for the provision of qualified broadband service in rural area in Indiana

Since the NLC program is only in its second year of operation and most of the projects have yet to be completed, the OCRA was limited in what could be reported in this section. As stated previously, only 2 projects had been completed at the time of reporting, while 61 were still in progress, meaning the full deployment of broadband service from these grants had yet to be recognized. The OCRA provided general information about the grants awarded which our procedures found to be accurate. The report also stated no Round 1 or Round 2 projects had major issues which would result in the grantees not meeting the 24-month period of performance requirements. Our procedures, which included testing grantee progress reports, found as of June 30, 2021, that no grantees' reports indicated issues in meeting the 24-month completion date. Finally, we examined the goals and metrics reported by the OCRA and found them to be consistent with the parameters in statute.

Grant Awarding

The OCRA reviewed 72 applications during the review period and awarded 49 applicants with grant funds totaling \$51 million. The 49 awards for Round 2 were granted in fall 2020; therefore, awarded under Indiana Code 4-4-38.5 prior to Public Law 89-2021 which expanded the eligibility requirements for applicants. Our procedures were designed to determine if the OCRA awarded grants properly under the prior eligibility requirements in place at that time.

To determine the OCRA's compliance with Indiana Code 4-4-38.5, we tested 5 applications that were awarded (or 10% of the 49 awarded) and 3 applications that were not awarded (or 10% of the 23 applications not awarded). For each applicant, the full application, which included a narrative describing the project, technical specifications certified by a professional engineer, letters of support from citizens and public officials from the unserved area, company financial statements, census block data, and other required documents required as part of the application packet, was examined. To understand the reasoning for grantee selections and to establish if selections were made in accordance with applicable statute, we obtained scoring documents used by the selection team and compared their notes to the applications and related documents used for scoring.

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Inspection of scoring documents revealed each application was scored for the five key criteria identified above in the background section, which included (1) project description and readiness, (2) project impact to the community, (3) community support and engagement, (4) technical qualifications and resources, and (5) local match and number of passings. Criteria one through four were subjectively scored while criterion five was objectively scored based on a matrix of the percentage of the local match pledged and proposed broadband speeds achievable with grant funds. Each application was reviewed by five OCRA employees and a total score was assigned to the application. Furthermore, two OCRA employees reviewed the applications to verify each part was present and compliant with the requirements for the program. Finally, each application was assessed strengths and weaknesses based on the reviewers' inspection of the application.

The applications selected for funding in our test scored highly in the subjective and objective criteria and had strengths outweighing the weaknesses. Conversely, the applications denied funding in our test scored lower in the subjective and objective criteria and had more weaknesses in their applications. Generally, the most prevalent reasons for denial of grant funds were the lack of general detail about the project and lack of information on how the project would benefit the area unserved by broadband service.

We found an overall lack of documentation explaining how final decisions were made for the grant awarding. Though scoring charts and strength and weakness information were documented, a comprehensive document or set of documents describing comparisons between applications and why certain applications were chosen over others as part of a final review was not available for our review. It is important to note the OCRA staff involved in the awarding process in Round 2 all subsequently left employment with the agency. Current OCRA staff performed deep inspections of the files inherited from its predecessors but failed to locate any comprehensive files showing this type of information.

Indiana Code 4-4-38.5-9 states the eligibility requirements and priorities for grantees. Priorities include awarding grants for extending deployment of broadband services to areas with no internet connection and speeds less than 10 megabits per second downstream prior to areas with speeds between 10 and 25 megabits per second. Additional priorities were to be established for providing broadband service to unincorporated areas in Indiana, for projects where the applicant committed to providing more than 50 percent of the cost to deploy the proposed broadband infrastructure, and for projects which involved an agreement between the applicant and one or more parties to use existing facilities and infrastructure owned or controlled by an unrelated third party. The five criteria used by the OCRA in its grading of applications did not mirror these priorities, but more broadly addressed these requirements. Each applicant had to report current speeds offered in the proposed areas and provide the amount of their pledged local match, both of which factored into the OCRA's scoring chart and strengths and weaknesses document. We found nothing directly noncompliant with Indiana Code 4-4-38.5-9 in the design of the application selection process. However, the lack of a comprehensive document or set of documents explaining comparisons between those chosen for and denied grant funding and why decisions were made precludes us from making a determination of whether the projects chosen followed the priority requirements in Indiana Code 4-4-38.5-9.

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Program Monitoring

To test the adequacy of the OCRA's monitoring of ongoing grant projects, we began by testing from the population of all Round 1 and Round 2 projects and requested quarterly reports submitted by the grantees to the OCRA as this was the main mechanism used by the OCRA to learn the progress of projects. We reviewed the entirety of the reporting packets but placed focus on responses concerning the overall progress of the project and any obstacles being faced by the grantees. This is important because those responses were factored into the OCRA's decision on whether the project was on track or delayed, a status which they reported in the annual report. Though the level of detail provided differed by grantee, the structure of the standardized report prompted all grantees to provide enough information and data for the OCRA to be able to determine the current status of the project and monitor if the projects could be completed on time and on budget.

In addition to our test described above, we also performed procedures on the two projects which had been completed by June 30, 2021. For both projects, we obtained the final reports submitted by the grantees to the OCRA. Each report contained an executive summary of the project, along with a more detailed narrative describing the scope of the project and its impact to the communities where broadband services were deployed. Additional metrics, including adoption rates for new service and speeds available with new service, were provided. A signed certified engineer report was also provided in each report to certify the projects had been completed, conformed to applicable federal, state, and local requirements, and actual speeds met those proposed in the grant application. Like the quarterly status reports, the final report was a standardized report and contained varying amounts of detail from the grantees. Each report did however provide enough information and data for the OCRA to understand the conclusion and impact of the projects.

We found the quarterly and final reports to be adequate measures for the OCRA to assess the performance of the grantees in meeting the technical and operational requirements of the grant agreements. Oversight and communication with the grantees were adequate. Based on the grants tested, the OCRA accurately described the current status of projects as of June 30, 2021.

FINDINGS

Documentation of Grant Awarding Process

Our procedures found the selection process for the NLC grants was not fully documented and maintained in the OCRA's records. Portions of the process, including application scoring, determination of application strengths and weaknesses, and checks for completeness of the application, were documented and provided to us for review. However, documentation of final comparisons, discussions, and other factors determining the final selection for grantees was not documented or maintained for review purposes. Members of the team assembled to make the final selection have subsequently left employment at the OCRA, and, therefore, were not actively involved in our engagement to address how the final decisions were made. The final decisions made should have been documented and maintained in grant files for future internal and external review purposes. Since the final decisions made by the selection team were not documented, we were precluded from being able to ascertain if the decisions made aligned with the priority list for eligible applicants as stated in Indiana Code 4-4-38.5-9.

We recommended that the OCRA design written procedures for the grant awarding process which include documenting each step in the process including final decisions made. All verbal meetings to discuss final selection of grantees should be documented in writing and maintained for future internal and external review.