



**E-Rate Funding—Guaranteed**

On-Tech Consulting, Inc.  
53 Elm Place  
Red Bank, NJ 07701  
Voice: (732) 530-5435  
Fax: (732) 530-0606  
www.on-tech.com  
info@on-tech.com

# **Avoid E-Rate Problems and Prepare for an E-Rate Audit**

**Dan Riordan**

**President**

**On-Tech Consulting, Inc.**

**dan@on-tech.com**

Introduction .....	3
Avoiding Problems .....	3
New Gotchas.....	3
Federal Rules on Gifts Now Apply .....	3
More Difficult to Change Service Providers .....	3
New CIPA Regulations.....	3
Unbundled Warranties No Longer Eligible .....	4
Know your Deadlines.....	4
Keep all the Documents .....	4
Documenting Competitive Bidding.....	4
Track Your E-Rate Equipment .....	4
Moving Equipment.....	4
There's No Such Thing as a Free Lunch.....	4
Service Providers Should Not Be Involved in the Bidding Process .....	5
Know Your Consultant .....	5

Types of Audit / Review .....5

    Selective Review.....5

        What is it?.....5

        Who does it?.....6

        When might it come?.....6

        How likely is it? .....6

    Cost-Effectiveness Review.....6

        What is it? .....6

        Who does it?.....6

        When might it come?.....6

        How likely is it? .....6

    486 Compliance Review.....6

        What is it? .....6

        Who does it?.....7

        When might it come?.....7

        How likely is it? .....7

    Payment Quality Assessment (PQA) .....7

        What is it? .....7

        Who does it?.....7

        When might it come?.....7

        How likely is it? .....7

    Beneficiary and Contributor Audit Program (BCAP).....7

        What is it? .....7

        Who does it?.....7

        When might it come?.....7

        How likely is it? .....7

    HATS Visit .....8

        What is it? .....8

        Who does it?.....8

        When might it come?.....8

        How likely is it? .....8

Required Documentation.....8

    Pre-bidding Process .....8

    Bidding Process.....8

    Contracts .....8

    Application Process .....9

    CIPA Compliance.....9

    Purchase and Delivery of Services.....9

    Invoicing .....9

    Inventory .....9

    Proof of resources.....9

    Forms and Rule Compliance.....10

More Resources .....11

    On-Tech .....11

    Schools & Libraries Division (SLD).....11

## Introduction

On-Tech is a technology consulting firm focused on managing the E-Rate process for schools and libraries. We provide a full range of E-Rate services for applicants, including: handling the entire application process to ensure maximum E-Rate funding; and reviewing proposals to ensure E-Rate compliance.

On-Tech is not associated with any service provider.

Dan Riordan has been involved with the E-Rate since 1997, when he was trained by the New Jersey Department of Education to offer assistance to districts in completing the application. Since then, he has worked on the E-Rate as a trainer, a district technology coordinator, and now a consultant.

---

## Avoiding Problems

Below are the most common problems which lead to funding denial or recovery, and how to avoid the loss of funding.

### ***New Gotchas***

In recent years, the E-Rate program has actually gotten more applicant-friendly. However, the FCC has recently made several changes that will cause school districts to lose funding. Here are the biggest pitfalls created by the new rules.

### **Federal Rules on Gifts Now Apply**

The FCC has added a new competitive bidding requirement: district personnel, including board members, must comply with Federal regulations concerning gifts from vendors. Federal rules allow employees to receive single items worth \$20 or less (meals, pencils, pens, hats, t-shirts, etc.) as long as those items do not exceed \$50 per year per employee from any one vendor.

### **More Difficult to Change Service Providers**

Until this year, it was a simple matter to change service providers in mid-year. Now the FCC is looking to tighten up the process in two ways.

1. Applicants must now have a “legitimate reason to change providers.” The only legitimate reasons given so far are bankruptcy and failure to deliver service.
2. When an applicant wants to change providers, they must select the provider that came in second in the original bid evaluation.

Districts which find a better deal on, for example, cell phone service will not be able to change providers until they have gone through a bid process and waited until the following school year. Districts should make sure the personnel responsible for completing E-Rate paperwork are consulted before switching service providers, in order to avoid losing E-Rate.

### **New CIPA Regulations**

The most important new requirement for school boards to be aware of is the requirement that Internet Safety Policies be amended. The FCC has now implemented the changes to the Children’s Internet Protection Act, the biggest of which is that by July 2012, all schools need to update Internet safety policies to “provide for the education of minors about appropriate online behavior, including interacting with other individuals on social networking websites and in chat

rooms and cyberbullying awareness and response." By July, all boards should be sure to update the district's Internet safety policy, which may mean an update to the district Technology Plan and the Acceptable Use Policy.

### **Unbundled Warranties No Longer Eligible**

"Unbundled warranties," such as Cisco SmartNet and phone system service agreements, are no longer eligible for E-Rate funding, because applicants pay for the warranties, whether any service is actually required or not. Maintenance agreements which include a pool of hours (to be used as needed) are still eligible for those applicants which can receive Priority Two funding. Some annual support agreements (for example CiscoBase) are still eligible.

### ***Know your Deadlines***

By far the biggest cause of lost funding is missed deadlines. The application process requires at least 4 forms, each with its own deadline. The good news is that in some cases, USAC will alert you when you have missed a deadline, and the FCC has been lenient in granting waivers to applicants who miss deadlines. The bad news is that USAC will not alert you in all cases, and waiting for the FCC to grant a waiver will delay the application process.

### ***Keep all the Documents***

Lack of documentation continues to be the leading cause of funding lost during audits and other reviews. A list of documents you should retain is listed on page 8. Be sure to keep all documents for at least 5 years after the end of the funding year. For some records, the retention period will be longer. For example, you will need to keep forever the minutes of the public meeting at which the district Internet Safety Policy was approved.

### **Documenting Competitive Bidding**

The first part of the E-Rate application process is competitive bidding. The Form 470 acts as an RFP. Applicants must keep copies of all bids, winning and losing. In addition, applicants should document the selection process, even in cases where no bids were received.

### ***Track Your E-Rate Equipment***

If you receive E-Rate funding to purchase equipment, make sure that you can provide an inventory showing the location of each piece of equipment. The inventory should also enable auditors to track a serial number from vendor invoices and packing slips to installed location. If possible, include the Funding Request Number (FRN) and vendor invoice number for each piece of equipment in the inventory.

### **Moving Equipment**

Equipment which is purchased through the E-Rate cannot be moved to another location for 3 years after installation, unless a school closes. Districts should be careful not to swap equipment between locations.

### ***There's No Such Thing as a Free Lunch***

The first individuals convicted for fraud in connection with the E-Rate created a scheme in which their company gave districts free equipment, and charged the E-Rate the full cost of the

equipment. The rules are clear: the E-Rate program covers only a percentage of the cost of any purchase, and districts must pay their share of any costs under the E-Rate program.

Similarly, the district cannot accept any free equipment in connection with an E-Rate purchase, or pay their share of the cost over several years, or accept a grant from the service provider to cover the applicant share. Service providers can make donations to districts, but the donations should not be associated with any procurement.

### ***Service Providers Should Not Be Involved in the Bidding Process***

The first part of the E-Rate application process, the Form 470, should be treated like an RFP. Just as a potential vendor cannot be allowed to write an RFP, service providers should not be involved in the E-Rate process until after the competitive bidding process is complete and a contract has been signed. Many districts have lost funding because they accepted help from a service provider in preparing or submitting the Form 470. Until a contract is signed, limit contact with all service providers. Once a contract is signed, districts can work together with their service providers to complete the rest of the application process.

### **Know Your Consultant**

Among the competitive bidding debarments are schemes involving an “E-Rate consultant” who is actually an agent of a service provider. If you hire an E-Rate consultant, make sure the consultant is truly independent of all service providers, especially if the consultant is assisting you with competitive bidding.

---

## **Types of Audit / Review**

E-Rate applicants face three levels of scrutiny beyond the typical application and invoice review. Technically, they're not all audits, but they sure feel like it.

### ***Selective Review***

#### **What is it?**

A Selective Review is a special application review process for some applications. In short, a Selective Review requests proof that all the certifications you made at the bottom of the Form 470 and Form 471 were true. Selective Reviews focus on any of three areas: technology planning, competitive bidding, and sufficient resources. There is no on-site component, only a request for documents.

The reviewer may check to see that your technology plan supports the requested services. You may be required to provide documentation that you conducted a fair and open competitive bidding process. You may have to submit your budget, with annotations making clear which line items (on both the revenue and expenditure side) cover the undiscounted portion of requested services as well as the cost of required items like teacher training, end user equipment, retrofitting and maintenance. You may also be asked to estimate the cost of each, as well as give some information on teacher training hours and levels of proficiency.

**Who does it?**

The Program Integrity Assurance (PIA) department of the Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC). PIA is the group that normally reviews applications, and there is a special branch that handles Selective Reviews.

**When might it come?**

Selective Review takes place after submission of the Form 471 and before funding approval. Usually, the Selective Review takes place before Program Integrity Assurance review of the application, though they can overlap.

**How likely is it?**

There are no statistics available on the prevalence of Selective Reviews. In our experience, very few applications undergo Selective Review unless they show one of the following risk factors:

1. Funding denial in the previous year due to issues with technology planning, competitive bidding, or sufficient resources.
2. Large Priority Two projects relative to the size of the district.
3. Involvement with any service provider subsequently found to have been involved in competitive bidding or other program violations.
4. It is also likely that there is a “normal” range for the budget amounts in Item 25 of the Form 471, and that applicants who give amounts above or below the normal range are likely to face Selective Review.
5. Similarities in the Forms 470 and 471 among several applicants.

**Cost-Effectiveness Review****What is it?**

This review is a request for documents to show that the services or equipment requested are a cost-effective solution for an applicant’s needs. Reviewers may request information on number of devices connected to the network, or unit prices. There is no on-site visit.

**Who does it?**

The Program Integrity Assurance (PIA) department of the Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC). PIA is the group that normally reviews applications, and there is a special branch that handles Selective Reviews.

**When might it come?**

This review is part of application review, taking place after the Form 471 is submitted, but before funding approval.

**How likely is it?**

While some Cost-Effectiveness Reviews may be random, almost all are triggered by a funding request (FRN) that seems to have an unusually high cost given the size of an applicant.

**486 Compliance Review****What is it?**

This review is a request for documents to support the certifications on the Form 486 concerning the technology plan and CIPA (Children’s Internet Protection Act).

**Who does it?**

The Program Integrity Assurance (PIA) department of the Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC). PIA is the group that normally reviews applications, and there is a special branch that handles Selective Reviews.

**When might it come?**

This review comes after a Form 486 is filed, but before it is approved.

**How likely is it?**

These reviews have been rare, but they may increase to confirm that applicants are complying with the new CIPA regulations that took effect in July 2012.

**Payment Quality Assessment (PQA)****What is it?**

This “mini-audit” is a request for documentation surrounding a single funding request (FRN). There is no on-site component. The purpose of this examination is to comply with the requirements of the Improper Payments Elimination and Recovery Act (IPERA).

**Who does it?**

PQA information is collected and reviewed by USAC.

**When might it come?**

This examination will come in the same calendar year as a disbursement was made from the FRN being examined.

**How likely is it?**

The FRN to be examined is selected at random from the stream of invoices flowing through USAC. No exact figures are available, but for most applicants, the chance of being selected is probably well below 10%.

**Beneficiary and Contributor Audit Program (BCAP)****What is it?**

A full audit can cover any or all funding requests from a selected 471. These audits are very comprehensive and involve on-site visits, typically lasting 3 to 5 days. Be prepared to show all the required documentation and have all the equipment examined.

**Who does it?**

BCAP audits are performed by USAC’s Internal Audit staff.

**When might it come?**

At any time. These audits cover funding that has already been disbursed.

**How likely is it?**

Applicants are selected randomly. The chances of being selected are very small; larger and more complex applications are more likely to be audited.

## **HATS Visit**

### **What is it?**

The SLD would argue vigorously that HATS visits are not audits. Indeed, the purpose of these visits is exactly the opposite of an audit; they are not done to find problems, but to assist applicants in overcoming problems that are obvious. HATS visits are an excellent opportunity for applicants who have been having trouble getting funding to get help. HATS visits do not try to uncover any errors, but if they come upon errors, those errors will be reported back to USAC.

### **Who does it?**

USAC staff handles HATS visits.

### **When might it come?**

At any time. HATS requests are only done at the request of the applicant, so you can work out a time with USAC.

### **How likely is it?**

HATS visits take place only upon applicant request.

---

## **Required Documentation**

This list is compiled from requests for documentation that we have received from: PIA (Program Integrity Assurance), Selective Review, and an Extended Outreach Initiative site visit, along with information in the FCC's Fifth Report & Order.

### **Pre-bidding Process**

- Technology plan covering the entire funding year
- Technology plan approval letter from state approving agency
- Signed copies of written agreements with E-rate consultants
- Financial statements showing revenue and expenditures
- Documentation showing that all schools meet the state's legal definition of elementary or secondary schools
- Proof of non-profit or government subdivision/unit status
- For consortia, letters of agency from all members authorizing the consortium to apply for E-Rate funding

### **Bidding Process**

- Request(s) for Proposal (RFPs) including evidence of the publication date
- All bids submitted, winning and losing
  - If no bids were submitted, make a memo to the file stating no bids were received
- Documents describing the bid evaluation criteria and weighting, as well as the bid evaluation worksheets
- All written correspondence between the beneficiary and prospective bidders regarding the products and service sought
- Documents related to the selection of service provider(s)

### **Contracts**

- Executed contracts

- All amendments and addendums to the contracts
- Other agreements relating to E-rate between the beneficiary and service provider, such as up-front payment arrangements
- State master contract(s) involved, if any

### **Application Process**

- Documentation supporting the discount percentage sought (National School Lunch Program numbers, survey results, etc.)
- Documents used to prepare the Item 21 description of services attachment
- Documentation of enrollment and number of low-income students (those eligible for free or reduced lunch under the National School Lunch Program)
- Responses to PIA inquiries

### **CIPA Compliance**

- Internet Safety Policy
- Documentation of public meeting where safety policy was discussed
- Proof of filtering (purchase order, filtering logs)
- Documentation of curriculum providing student education in proper online behavior
- For consortia, a Form 479 from each consortium member

### **Purchase and Delivery of Services**

- Purchase requisitions
- Purchase orders
- Packing slips
- Invoices
- Delivery and installation records showing where equipment was delivered and installed or where services were provided.

### **Invoicing**

- All vendor invoices
  - If some ineligible costs are included on the bill, copy of the calculations done to determine eligible amount
- Records proving payment of the invoice, such as accounts payable records, service provider statement, cancelled check, bank statement or ACH transaction record.
- Proof of service provider payment to the beneficiary of the BEAR, if applicable

### **Inventory**

- Asset and inventory records of equipment purchased and components of supported internal connections services sufficient to verify the location of such equipment
- Detailed records documenting any transfer of equipment within three years after purchase and the reasons for such a transfer
- Inventory of equipment necessary to make use of equipment and services funded by E-Rate (end-user equipment, wiring, etc.)

### **Proof of resources**

- Proof of professional development, both costs and hours
- Documents to support the necessary resources certification pursuant to section 54.505 of the Commission's rules, including budgets showing:

- Funding for E-Rate undiscounted portion (both revenue and expense sides)
- Amount budgeted for maintenance of ineligible equipment and salaried maintenance staff
- Amount budgeted for ineligible but necessary software
- Amount budgeted for any retrofitting necessary to use equipment and services funded by E-Rate

### **Forms and Rule Compliance**

- All program forms, attachments and documents submitted to USAC
  - FCC Form 470 certification pages (if not certified electronically)
  - FCC Form 471 and certification pages (if not certified electronically)
  - FCC Form 471 Item 21 attachments
  - FCC Form 479
  - FCC Form 486
  - FCC Form 500
  - FCC Form 472
  - Any documents submitted to USAC during program integrity assurance (PIA) review, Selective Review and Invoicing Review, or for SPIN change, service substitution or other requests
- All official notification letters from USAC, as applicable
  - RNL
  - RAL
  - FCDL
  - Form 486 Notification Letter
  - Form 500 Notification Letter (if applicable)
  - Form 472 or 474 Notification Letter
  - Approval notifications for SPIN changes and service substitutions

---

## More Resources

### On-Tech

[www.on-tech.com/erate](http://www.on-tech.com/erate)

This handout and other E-Rate information and links are available at our Web site.

If you have specific questions, contact us.

Email: [info@on-tech.com](mailto:info@on-tech.com)

Phone: 732-530-5435

### Schools & Libraries Division (SLD)

[www.universalservice.org/sl/](http://www.universalservice.org/sl/)

[www.universalservice.org/\\_res/documents/sl/pdf/info-request/srir-sample.pdf](http://www.universalservice.org/_res/documents/sl/pdf/info-request/srir-sample.pdf)

A sample of the Selective Review request.