

# School Business Affairs

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## TRENDS IN TECHNOLOGY

Using Technology to Improve School Procurement  
Preparing School Administrators to be Technology Leaders  
Be Ready for an E-Rate Audit

ALSO:

A Preview of the 92nd Annual  
ASBO International Meeting & Exhibits

# Be Ready for an E-Rate Audit

**M**ost school officials have noticed the increased scrutiny of the E-Rate program. This valuable funding source, which provides \$2.25 billion to schools and libraries each year, has recently been the subject of newspaper exposés and congressional investigations.

As a result of this unwelcome attention, the Federal Communications Commission (FCC), which oversees the E-Rate program, and Universal Service Administrative Company (USAC), which administers the program, have increased their scrutiny of the program. Once very small, the likelihood of being audited has increased dramatically. This article will explain the three types of audits and how to prepare for them.

## Three Levels of Audit

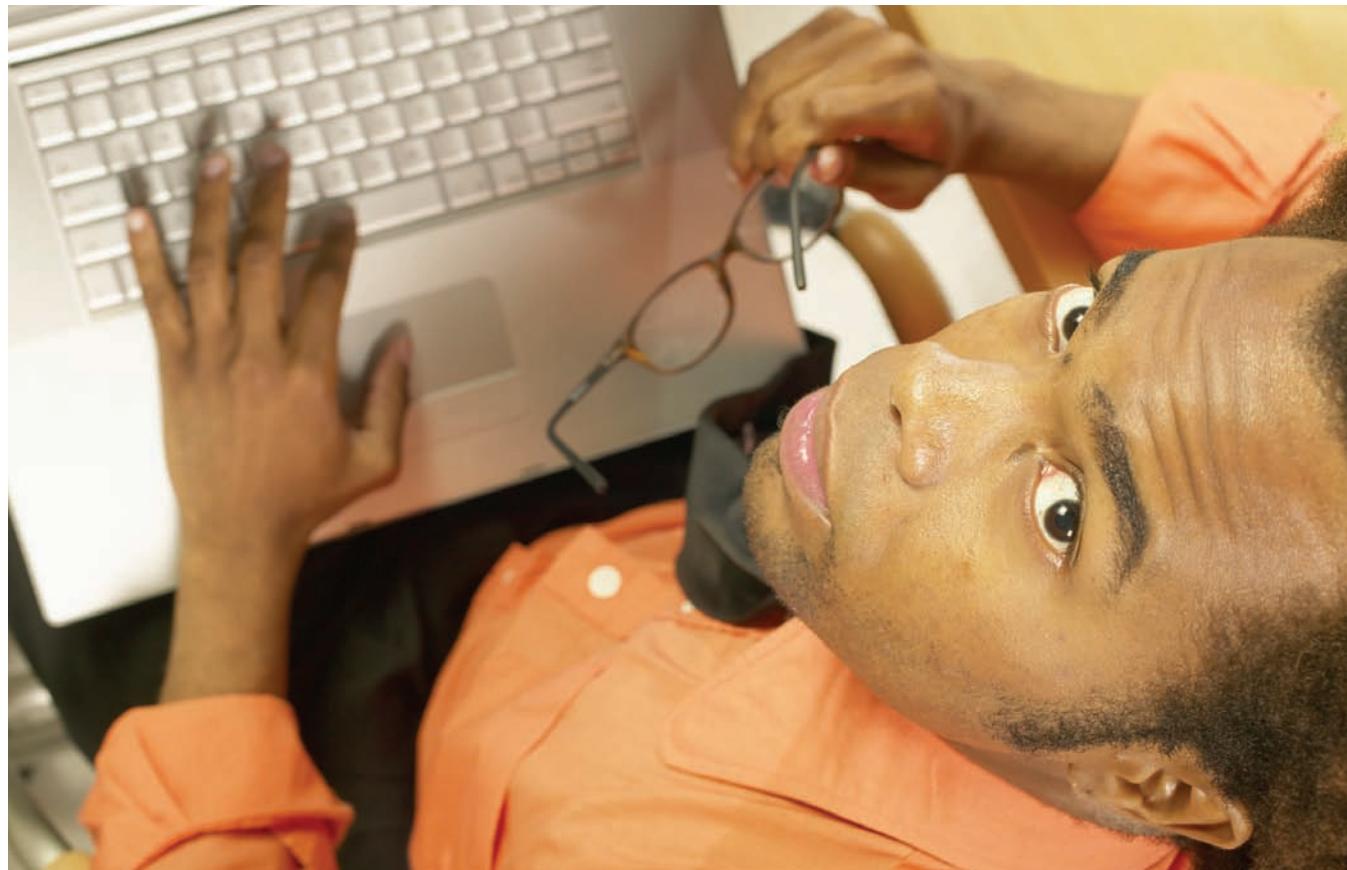
E-Rate applicants face three levels of scrutiny beyond the typical application and invoice review. In order of severity, they are selective review, expanded outreach site visit, and full audit.

### SELECTIVE REVIEW

A selective review is a special review process for some applications before a funding commitment is made, a sort of "preaudit." A selective review requests proof that the certifications made on the Forms 470 and 471 are true. Selective reviews focus on three areas: technology planning, competitive bidding, and sufficient resources. (For more information, visit <http://www.universalservice.org/sl/applicants/step08/undergo-selective-review>.)

**How is it done?** A selective review has no on-site component; it is only a request for documents. You will have 14 days to respond to the request, although extensions are routinely granted. The reviewer will check to see that your technology plan supports the requested services.

- You must provide documentation of your having conducted a fair and open competitive-bidding process.
- You must submit your budget, with annotations, clarifying which line items (on both the revenue and expenditure sides) cover the undiscounted portion of requested services, as well as the cost of required items, like teacher



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training, end-user equipment, retrofitting, and maintenance.

- You must also show 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 USAC conducts the review. PIA is the group that normally reviews applications; a special branch handles selective reviews.

**When?** The selective review occurs after submission of Form 471 and before funding approval. The selective review usually occurs before PIA review of the application, although they can overlap.

**How likely is it?** No statistics are available on the prevalence of selective reviews. Some applications are selected randomly; but in our experience, very few applications undergo selective review unless they show one of the following risk factors:

- Funding denial in the previous year due to issues with technology planning, competitive bidding, or sufficient resources;
- Priority Two projects involving a large funding request relative to the size of the district;
- Previous involvement with any service provider found to have participated in competitive-bidding or other program violations; or
- Similarities in the Forms 470 and 471 among several applicants.

There is probably a “normal” range for the budget amounts in Item 25 of the new Form 471. Applicants whose amounts are above or below the normal range will likely face selective review.

**Common pitfalls.** For the 2004–2005 application cycle, more than 1,500 funding requests were denied because the applicants could not prove sufficient resources. That is, the applicants could not demonstrate that they had secured access to sufficient funds to cover the undiscounted costs, as well as the costs of end-user equipment, training, retrofitting, maintenance, and so forth. Insufficient resources are generally discovered during selective review, so that must be a common problem. To avoid such denials, be prepared to provide a budget showing the source of E-Rate-related funds.

Another 600 funding requests were denied due to competitive-bidding violations: 300 for service provider involvement and 300 for not using price as the primary factor in vendor selection. Most of those denials resulted from selective reviews. To avoid competitive-bidding violations, retain all bids, as well as documentation of the vendor selection method. If no bids were received in response to the Form 470, place a memorandum to that effect in the file.

### EXPANDED OUTREACH SITE VISIT

Anyone at USAC will tell you that expanded outreach site visits are not audits. They are performed under the Client

Outreach Division and are touted as opportunities to communicate with applicants. Indeed, these visits are excellent opportunities to share success stories and to alert USAC of any problems with the program.

However, the site visit also examines compliance with program rules, so it *is* an audit. (Visit <http://www.universalservice.org/sl/about/site-visits> for more information.)

**How is it done?** A site visit focuses on one invoice. The visitor will want only information related to that invoice and the funding request number (FRN) for that invoice. If it is a telecommunications or Internet access service, the reviewer will not need to see any equipment. However, if the FRN is for internal connections or basic maintenance, the reviewer will want to see the equipment. You will need to describe everything about the FRN: from the competitive-bidding process through how the service improves education to proof of payment of the applicant share. Any problems found are referred to USAC for follow-up.

**Who does it?** USAC has contracted with the firm BearingPoint to conduct these audits. The bad news is that the auditors have no prior experience with E-Rate. The good news is that the auditors do only these site visits, so by now most are pretty good at it and have learned enough about the program to understand what you’re talking about.

**When?** At any time. You will receive notice of the time and place of the site visit a few weeks beforehand.

**How likely is it?** Each year, 1,000 invoices will be selected at random.

**Common pitfalls.** Through July 2005, the four most common problems were (1) equipment or service not delivered, (2) location closed, (3) no approved technology plan, and (4) applicant sold equipment. To avoid these pitfalls, ensure that equipment can be located quickly and that it remains in the same location for three years. In addition, keep a copy of the district’s technology plan approval letter in the E-Rate file.

### FULL AUDIT

A full audit can cover any or all funding requests across all the years. In general, audits seem to focus on one program year, but if violations are found, the audit can be expanded to other program years. (For more information, go to <http://www.universalservice.org/sl/about/audits/default.aspx>.)

**How is it done?** These audits are comprehensive and involve on-site visits. The audit will initially focus on all funding requests for a particular funding year, but it can be expanded if any indication of violations in other program years is found. Be prepared to show all the required documentation and to have all the equipment examined.

**Who does it?** The majority of full audits are done through a contract with KPMG. Audits have also been conducted by the inspector generals of USAC, the FCC, the U.S. Department of Education, and the Department of the Interior.

**When?** Audits can occur at any time of year and can cover any of the last five funding years. Funding from the

1999–2000 program year or earlier is now safe from audit. On September 30, 2006, funding for services delivered in the 2000–2001 funding year will be safe from audit.

**How likely is it?** Complete information is unavailable for recent years, but fewer than 100 full audits are initiated each year. Audits usually result from suspicions of violations. Keep your applications clean and requests reasonable, and you should be able to avoid an audit.

**Common pitfalls.** Statistics on which violations are most common are unavailable. A rather long list of common findings is available at <http://www.universalservice.org/sl/about/audits/auditors-observations.aspx>.

## Required Documentation

This list is compiled from requests for documentation that we have received from PIA, selective review, and an expanded outreach initiative site visit, along with information in the FCC's Fifth Report and Order.

### PREBIDDING PROCESS

- Technology plan covering the year(s) in question (for more information on requirements for technology plans, visit <http://www.universalservice.org/sl/applicants/step02/technology-planning>);
- Technology plan approval letter for a certified technology plan approver; and
- Signed copies of written agreements with E-Rate consultants.

### BIDDING PROCESS

- Request(s) for proposal, including evidence of the publication date;
- All bids submitted—winning and losing; if no bids were submitted, write a memo to the file stating that fact;
- 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); and
- Copy of notice of award, if any.

### CONTRACTS

- Executed contracts, signed and dated by both parties;
- All amendments and addenda to the contracts; and
- Other agreements relating to E-Rate between the beneficiary and service provider, such as up-front payment arrangements.

### APPLICATION PROCESS

- Documentation supporting the discount percentage sought (e.g., National School Lunch Program numbers, survey results);
- Documents used to prepare the item 21 description of services attachment;

## Additional Resources

### On-Tech

- <http://www.on-tech.com/docs/SelectiveReviewChecklist.pdf>: The requirements from the selective review information request provided in a simple checklist.
- <http://www.on-tech.com/docs/SiteVisitFirstLetter.pdf>: A sample letter sent announcing an expanded outreach site visit. The first contact is by phone, followed up by this letter.
- [e-rate.blogspot.com](http://e-rate.blogspot.com): The On-Tech blog for informal discussions of E-Rate. We have posted our experience with a selective review (posts from July 20 to July 31, 2005) and an expanded outreach site visit (several posts from July 14 to August 8, 2005).
- <http://www.on-tech.com/erate>: This handout and other E-Rate information and links are available at our Web site.

For specific questions, contact us by e-mail ([info@on-tech.com](mailto:info@on-tech.com)) or telephone (732/530-5435).

### Schools and Libraries Division

- [http://www.universalservice.org/\\_res/documents/sl/pdf>Selective%20Review%20Information%20Request%20-%20FY2005.pdf](http://www.universalservice.org/_res/documents/sl/pdf>Selective%20Review%20Information%20Request%20-%20FY2005.pdf): A sample of the selective review request.
- <http://www.universalservice.org/sl/about/site-visits>: A nice set of pages describing the expanded outreach site visits.
- <http://www.universalservice.org/sl/about/audits/default.aspx>: Information about full audits.

- Copies of all correspondence with the SLD or service providers; and
- Documentation of policies and procedures concerning E-Rate funding.

### PURCHASE AND DELIVERY OF SERVICES

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

### INVOICING

- All invoices;
- Records proving payment of the invoice, such as accounts payable records, service provider statement, beneficiary check, bank statement, or electronic transaction record;
- Proof of service provider Form 472 payments, if applicable;
- Copies of all correspondence with service providers concerning reimbursement; and

- In case of partially eligible equipment or services, documentation of cost allocation.

#### 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; and
- Inventory of equipment necessary to use 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 FCC'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, and
  - 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 472,
  - FCC Form 479,
  - FCC Form 486,
  - FCC Form 500, and
  - Any documents submitted to USAC during PIA review, selective review, and invoicing review, or for service provider identification number change or other requests;
- All official notification letters from USAC, as applicable; and
- Documents to provide compliance with other program rules, such as records relevant to show compliance with the Children's Internet Protection Act (para. 48). ■

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