On-Tech

E-Rate Funding—Guaranteed

Preparing for an E-Rate Audit

Dan Riordan

President

On-Tech Consulting, Inc.

dan@on-tech.com

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; consulting on construction projects to ensure maximum E-Rate funding; and reviewing proposals to ensure E-Rate compliance. In addition, On-Tech obtains E-Rate funding for school construction projects.

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.

The 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, Extended Outreach Site Visit, and a full audit.

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 three areas: technology planning, competitive bidding, and sufficient resources. There is no on-site component, only a request for documents.

The reviewer will check to see that your technology plan supports the requested services. You will be required to provide documentation that you conducted a fair and open competitive bidding process. You will 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 will 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.

Common Pitfalls
For the 2004-2005 application cycle, over 1500 applications were denied because the applicant could not prove sufficient resources. That is, the applicant could not demonstrate that it had secured access to sufficient funds to cover the undiscounted costs as well as the costs of end user equipment, training, retrofitting, maintenance, etc. Insufficient resources is generally discovered during Selective Review, so this must be a very common problem.

In addition, over 600 applications were denied due to competitive bidding violations, 300 for service provider involvement, 300 for not selecting a vendor with price as the primary factor. Most of these denials were the result of Selective Reviews.

Extended Outreach Site Visit

What is it?
Ask anyone at the SLD, and they will tell you that these site visits are not audits. They are under the Client Outreach division, and are billed as opportunities for communication from applicants. Indeed, these visits are an excellent opportunity to share success stories as well as bring

problems with the program to the attention of the SLD. (The most interesting finding in the first report from the site visits: fear. Applicants are unusually fearful about breaking program rules.) However, the site visit also examines compliance with program rules, so it is an audit.

A site visit focuses on one invoice. The visitor will want information only related to that invoice and the FRN for that invoice. If it is a Telecommunications or Internet Access service, the reviewer will not need to see any equipment, but 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.

If any problems are found, BearingPoint refers them to USAC for follow-up.

Who does it?

USAC has contracted with the firm BearingPoint to conduct these audits. The bad news is, the auditors have no prior experience with the 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 might it come?

At any time. You will be given notice of the site visit a couple of weeks.

How likely is it?

Each year, 1,000 invoices will be selected at random.

Common Pitfalls

Through July 2005, the most common problems found were: 1) equipment/service not delivered, 2) location closed, 3) no approved tech plan, and 4) applicant sold equipment.

Full Audit

What is it?

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. These audits are very comprehensive and involve on-site visits. Be prepared to show all the required documentation and have all the equipment examined.

Who does it?

Audits have been done in the past by the USAC IG (Inspector General), FCC IG, USDOE IG and through a contract with KPMG.

When might it come?

At any time.

How likely is it?

Audits are usually in response to suspicions of violations. Keep your applications clean and requests reasonable, and you should be able to avoid an audit

Common Pitfalls

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
- technology plan approval letter
- Signed copies of written agreements with E-rate consultants.

Bidding Process

- Request(s) for Proposal (RFP(s)) including evidence of the publication date
- all bids submitted, winning and losing
  - o   if no bids were submitted, make a memo to the file stating that
- 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, signed and dated by both parties.
  - o   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.

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.

Purchase and Delivery of Services

- purchase requisitions
- purchase orders
- packing slips
- 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 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 or other requests.
- all official notification letters from USAC, as applicable
- Documents to provide compliance with other program rules, such as records relevant to show compliance with CIPA. (para. 48)

More Resources

On-Tech

www.on-tech.com/docs/On-TechE-RateDocumentRetentionRequirements.pdf
We have compiled the most complete list of require documentation we could from FCC Orders, SLD advice, and requests from Selective Reviews and Extended Outreach Site Visits.

www.on-tech.com/docs/SelectiveReviewChecklist.pdf
We have collected the requirements from the Selective Review Information Request into a simple checklist.

www.on-tech.com/docs/SiteVisitFirstLetter.pdf
This is a sample of the letter sent out announcing an Extended Outreach Site Visit. Note that in our experience, the first contact is by phone, followed up with this letter.

e-rate.blogspot.com
For a more informal discussion of the E-Rate, visit our blog. We have posted our experience with a Selective Review (posts from July 20 to July 31, 2005) and an Extended Outreach Site Visit (several posts from July 14 to August 8, 2005).

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
    Phone: 732-530-5435

Schools & Libraries Division (SLD)

www.sl.universalservice.org/data/pdf/Selective%20Review%20Information%20Request%20-%20FY2005.pdf
A sample of the Selective Review request.

www.sl.universalservice.org/sitevisits/
A nice set of pages describing the Extended Outreach Site Visits.

http://www.sl.universalservice.org/reference/auditfactsheet.asp
Information on full audits