*OFFICE OF INSPECTOR GENERAL*

**MEMORANDUM**

**DATE:** November 6, 2003

**TO:** Chief, Wireline Competition Bureau

**FROM:** Inspector General

**SUBJECT:** Report on Audit of the E-rate Program at Sante Fe Indian School, Inc.

The Office of Inspector General (OIG) has completed an audit at Sante Fe Indian School, Inc. (the School), a beneficiary of the Universal Service Fund (USF). A copy of the Audit Report, entitled "Final Report on Audit of the E-rate Program at Sante Fe Indian School, Inc." is attached. The objective of this audit was to assess the beneficiary's compliance with the rules and regulations of the USF program and to identify areas in which to improve the program.

OIG and the Universal Service Administrative Company (USAC) have entered into a Memorandum of Understanding (MOU) with the Department of Interior (DOI) OIG to conduct audits of E-rate beneficiaries. This audit was conducted by DOI OIG under the terms of this MOU.

Based on the results of the audit, the auditors have concluded that the School complied with the requirements of the E-rate program for the funding years audited. We held an exit conference on September 10, 2003 with the beneficiary's representatives, and requested their comments on the results of the audit. They agreed with the results of the audit.

In addition to the report, we have attached a copy of the OIG Customer Survey on Audit Products/Services. Please complete and return the questionnaire. If you have any questions, please contact Thomas Cline, Assistant Inspector General for Audits, at (202) 418-7890.

Walker

H. Walker Feaster III

Attachment

cc: George McDonald, Vice President, Schools and Libraries Division, USAC
Hal Schultz, Assistant Superintendent, Sante Fe Indian School
Managing Director
Performance Evaluation and Records Management, Office of Managing Director

# United States Department of the Interior

**OFFICE OF INSPECTOR GENERAL**
Washington, D.C. 20240

November 3, 2003

Memorandum

To: Inspector General
Federal Communications Commission

From: Joseph Ansnick
Director of External Audits

Subject: Final Report on Audit of the E-rate Program at Santa Fe Indian School, Inc., Santa Fe, New Mexico (Report No. R-GR-FCC-0006-2003)

This report presents the results of our audit of the E-rate Program benefits received by Santa Fe Indian School, Inc (the School), from the Universal Service Fund (USF). The E-rate Program provides discounts on the cost of obtaining communication services, such as basic phone service; internet access; and internal connections (wiring and network equipment), to eligible schools and libraries. The objective of this audit was to determine whether the School complied with the rules and regulations of the E-rate Program and to identify Program areas, which may need improvement. We conducted this review in accordance with the Memorandum of Understanding (MOU) between the Department of the Interior Office of Inspector General (DOI-OIG); the Universal Service Administrative Company (USAC); the Federal Communications Commission Office of Managing Director (FCC-OMD); and the Federal Communications Commission Office of Inspector General (FCC-OIG).

We concluded that the School complied with the program rules and requirements of the E-rate Program for the funding years 1998 through 2001. We held an exit conference on September 10, 2003, with the School representative, who agreed with the results of the review.

If you have any questions regarding this report, please contact me at (703) 487-5353 or Mr. James Duff, FCC Audit Coordinator, at (703) 487-5350.

# Introduction

## Background

The USF provides affordable access to eligible communications services for schools, libraries, rural health care providers, low-income consumers, and companies serving high-cost areas. On May 7, 1997, the FCC adopted a Universal Service Order implementing the Telecommunications Act of 1996, including the E-rate Program of the USF. USAC is responsible for administering the USF under the direction of the FCC's Wireline Competition Bureau. The Schools and Library Division (SLD) of USAC administers the E-rate Program. Under the E-rate Program, eligible schools and libraries may receive discounts from 20 to 90 percent of the cost of eligible communication services, depending on economic need and location of the beneficiary.

Discounts may be applied to three kinds of eligible communication services:

- Telecommunication services, including basic phone service.
- Internet access.
- Internal connections, including wiring and network equipment needed to bring information directly to classrooms or library patrons.

In accordance with the Inspector General Act of 1978, as amended, the FCC-OIG has oversight responsibilities for the USF as a federal Program of the FCC. The FCC OIG has designed a plan of audit oversight to provide FCC management with a reasonable level of assurance that E-rate beneficiaries are complying with Program rules and regulations and that Program controls are adequate to prevent fraud, waste, and abuse.

We conducted this review in accordance with a MOU between the DOI-OIG, USAC, FCC-OMD, and the FCC-OIG. Under the MOU, DOI-OIG will apply specific procedures for the audit of beneficiaries of E-rate Program funds.

The School, located in Santa Fe, New Mexico, was founded as an off-reservation boarding school in 1890. In December 2000, ownership of the 104-acre campus was transferred from the Bureau of Indian Affairs (BIA) to the 19 Pueblo tribes of New Mexico. Santa Fe Indian School, Inc. is a non-profit Indian organization under Section 501(c)(3) of the IRS Code. The School operates under a grant awarded by the BIA under the auspices of Public Law 100-297, Tribally Controlled Schools Act of 1988, and is administered by a school board whose members are appointed by the Governors of the 19 Pueblos. The School operates an academic program for grades 7 through 12 with a population of over 600 students, of which approximately two-thirds reside in the School's dormitories. Students come mainly from the 19 Pueblos. The North Central Association, Commission on Schools, and the New Mexico State Department of Education accredit the School.

## Objective and Scope

Our objective was to determine whether the School complied with the rules and regulations of the E-rate Program and to identify Program areas which may need improvement.

The scope of the review was designed to test school compliance with the E-rate Program requirements contained in Title 47, Part 54 of the Code of Federal Regulations (47 CFR § 54.500 through 47 CFR § 54.520) which provide that:

- The school certifies it has an approved technology plan.
- The school determines its discount percentage by the percentage of their student enrollment that is eligible for a free or reduced price lunch under the national school lunch program or a federally-approved alternative mechanism.
- Services rendered comply with the school application for E-rate funds and are installed or provided before the installation deadline.
- Schools use a competitive process to select the most cost effective service provider.
- Schools purchase equipment and services in accordance with applicable procurement rules and regulations.
- The applicant pays its portion of the pre-discounted costs.
- The school certifies it has adequate resources to use the discounted services for which funding has been provided.
- The school certifies that it has complied with all of the E-rate Program rules.

The School received the following commitments for the 4-year audit period as follows:

| Funding Year | Amount Committed | Amount Disbursed | Service Type |
|---|---|---|---|
| 1998 | $458,961.30 | $458,961.30 | Internal Connections |
| 1998 | $40,032.00 | $36,654.42 | Telecommunications |
| 1999 | $29,095.20 | $29,095.20 | Telecommunications |
| 2000 | $305,402.50 | $281,767.55 | Internal Connections |
| 2000 | $6,075.00 | $0 | Internet Access |
| 2000 | $38,520.93 | $0 | Telecommunications |
| 2001 | $223,547.31 | $80,564.39 | Internal Connections |
| 2001 | $2,250.00 | $1,800.00 | Internet Access |
| 2001 | $18,302.82 | $16,515.27 | Telecommunications |
| **TOTALS** | $1,122,187.06 | $905,358.13 | |

We performed our review of the School during the period June through September 2003. We visited the school located in Santa Fe, New Mexico, in June and July 2003, to conduct an entrance conference with the school administration, to perform site inspections and inventory verifications of the equipment installed by the service provider, and to obtain documentation in support of services obtained under the E-rate Program.

This review was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. As part of the scope of our review, we obtained an understanding of the specific management controls relevant to the E-rate Program. Because of inherent limitations, a study and evaluation made for the limited purposes of our review would not necessarily disclose all material weaknesses in the control structure.

# RESULTS OF REVIEW

We found that the School complied with the program rules and requirements of the E-rate Program for funding years 1998 through 2001. Specifically, we found that the School:

- Had a technology plan that was properly prepared and approved.
- Had support for the basis for the discount rate claimed.
- Awarded competitively its contracts for internal connections and purchased equipment and services in accordance with applicable procurement rules and regulations.
- Documented that the equipment installed and services rendered complied with its applications for E-rate funds and were installed or provided before established deadlines.
- Installed internal connections in buildings that were eligible for E-rate program assistance at the time of its applications and installations.
- Demonstrated that it had the necessary financial and staff resources to provide the equipment, software, and staff training needed to use the internal connections effectively.
- Documented that it paid its matching share requirement for the non-discounted portion of all of the E-rate Program assistance provided for the audit period.
- Complied with the E-rate Program rules for audits and record keeping.

In addition, we did not identify any material weaknesses in the Schools internal controls relevant to the E-rate program. However, we did identify a reportable condition that is discussed in the following paragraphs.

USAC's funding approval was based on contracted services that showed specific hardware (manufacturer, model, configuration, and quantity of each) that would be installed under internal connections. Our inventory of the contractor's as-built system showed that three instances of minor product substitutions had occurred without obtaining USAC approval of the changes. This occurred in part because of the length of time USAC took to issue funding commitment decision letters and/or the rapidly changing availability of specific products due to technological advances and manufacturers entering and leaving the market place. The three instances of substitutions at the School are as follows:

- In the first instance, USAC took 9 months to issue its funding commitment decision letter to the School for internal connections for Funding Year 1998. USAC's funding approval included contracted services with Gateway, Inc. that was based on specific server hardware (manufacturer, model, configuration, and quantity of each) that would be installed under internal connections. However, by the time USAC approved the funding commitment and the School issued its purchase order, Gateway's server product line had advanced technologically. Gateway offered the School its then state of the art server at the same price it had earlier quoted for what was now out-dated equipment. The School believed that this was a minor contract modification since the service provider remained the same, the functionality of the substituted equipment remained the same, and the cost of the substituted items did not exceed the cost of the original items. The School, therefore, did not notify USAC of the modification.

- In the second instance, USAC took 4 months to issue its funding commitment decision letter to the School for internal connections for Funding Year 2000. USAC's funding approval was based on contracted services that showed specific hardware (manufacturer, model, configuration, and quantity of each) that would be installed under internal connections. However, at about the time of USAC's approval, the manufacturer (Intel) of the switch equipment to be installed notified the service provider that it had stopped production of the desired equipment. Intel recommended suitable switch equipment substitutes that it was still producing. The School agreed with Intel's recommendation and the service provider installed the equipment substitutes at no additional cost. The School was under the impression again that this was a minor contract modification since the service provider remained the same, the functionality of the substituted equipment remained the same, and the cost of the substituted items did not exceed the cost of the original items. The School, therefore, did not notify USAC of the modification.

- In the third instance, USAC took 13 months to issue its funding commitment decision letter to the School for internal connections for Funding Year 2001. USAC's funding approval was based on contracted services that showed specific hardware (manufacturer, model, configuration, and quantity of each) that would be installed under internal connections. However, at about the time of USAC's approval, the manufacturer (Intel) of the switch equipment to be installed stopped production of the desired equipment. Since the School's switch capacity design for Funding Years 2001 and 2002 were based on using Intel switches, it was necessary for the School to revise its strategy. The School selected the CISCO product line and was under the impression again that this was a minor contract modification since the service provider remained the same, the functionality of the substituted equipment remained the same, and the cost of the substituted items did not exceed the cost of the original items. The School, therefore, did not notify USAC of the modification.