OFFICE OF INSPECTOR GENERAL

M E M O R A N D U M

DATE: August 18, 2005

TO: Chairman

FROM: Inspector General

SUBJECT: Report on Audit of the E-rate Program at St. Joseph High School, St. Croix, U.S. Virgin Islands

The Office of Inspector General (OIG) has completed an audit of the E-rate Program benefits received by St. Joseph High School (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 St. Joseph High School, St. Croix, U.S. Virgin Islands" 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.

In January 2003, the OIG and the Universal Service Administrative Company (USAC) entered into a Memorandum of Understanding (MOU) with the Department of the 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, we have concluded that the School did not comply with key requirements of the E-rate program for funding year 2000. The audit resulted in five (5) findings and $136,849 in potential fund recoveries. We recommend that the Wireline Competition Bureau direct the Universal Service Administrative Company (USAC) to recover the amount of $136,849 disbursed on behalf of St. Joseph High School in funding year 2000.

DOI OIG held an exit conference with the School's Principal on January 14, 2004 to discuss a preliminary draft of this report, which was provided to the School on January 8, 2004. The School Principal expressed agreement with the report's findings.

On September 1, 2004, we provided a copy of our draft audit report to the Chief of the Wireline Competition Bureau (WCB). We requested that WCB provide comments on the draft report and that their comments indicate concurrence or non-concurrence with the audit results and recommendations. On October 14, 2004, WCB provided a response to the draft report. However, the comments provided by WCB were not endorsed by the Commission's Audit Follow-up Official in accordance with the Commission's Audit Follow-up Directive. Despite repeated requests for properly endorsed comments to this report in the eleven (11) months since the report was issued in draft, no endorsed comments have been provided. As a result, we have decided to issue this report in final. If WCB provides comments to this report, we will decide if it is necessary to issue a supplemental final report incorporating those comments.

If you have any questions, please contact me or Thomas Cline, Assistant Inspector General for Policy and Planning, at (202) 418-7890.

H Walker Feaster III

H. Walker Feaster III

Attachments

Copy furnished:

Susan Diverio, Ed.D., Principal, St. Joseph High School
Chief, Wireline Competition Bureau
Mel Blackwell, Acting Vice President, Schools and Libraries Division, USAC
Performance Evaluation and Records Management, FCC Office of Managing Director

R-GR-FCC-0008-2003

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
External Audits Division
12030 Sunrise Valley Drive, Suite 230
Reston VA 20191

August 15, 2005

AUDIT REPORT

Memorandum

To: Inspector General
Federal Communications Commission

From: Andrew Fedak
Director of External Audits

Andrew Fedak

Subject: Final Report on Audit of the E-rate Program at St. Joseph High School, St. Croix, U.S. Virgin Islands

This report presents the results of our audit of the E-rate Program benefits received by St. Joseph High School (School) from the Universal Service Fund. 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 objectives of this audit were to determine whether the School complied with the E-rate Program rules and regulations and to identify Program areas that may need improvement. We conducted this review in accordance with the Memorandum of Understanding between the Department of the Interior Office of Inspector General, the Universal Service Administrative Company, the Federal Communications Commission (FCC) Office of Managing Director, and the FCC Office of Inspector General.

We concluded that the School did not comply with key Program requirements of the E-rate Program for Funding Year 2000. However, we were not able to determine whether the School complied with all E-Rate Program requirements because of a lack of records. We recommend that the FCC Office of Inspector General take the actions necessary to resolve the report findings.

We held an exit conference January 14, 2004, with the School’s Principal to discuss a preliminary draft of this report, which was provided to the School on January 8, 2004. The School’s January 28, 2004, response (Appendix 2) from the Principal expressed agreement with the report’s findings.

If you have any questions regarding this report, please contact me at (703) 487-5345.

Table of Contents

ACRONYMS

DOI ....Department of the Interior
FCC ....Federal Communications Commission
LAN ....Local Area Network
MDF...............Main Distribution Frame
MOU ....Memorandum of Understanding
OIG ....Office of Inspector General
SLD ....Schools and Library Division of USAC
USAC.............Universal Service Administrative Company
USF ....Universal Service Fund

INTRODUCTION

Background

The Universal Service Fund (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 Federal Communications Commission (FCC) adopted a Universal Service Order (FCC Order 97-157) implementing the Telecommunications Act of 1996, including the E-rate Program of the USF.

The Universal Service Administrative Company (USAC) is responsible for administering the USF under the direction of the FCCs Wireline Competition Bureau. The Schools and Library Division of USAC (SLD) 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 Office of Inspector General (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 E-rate Program rules and regulations and that E-rate Program controls are adequate to prevent fraud, waste, and abuse.

We conducted this review in accordance with a Memorandum of Understanding (MOU) between the Department of the Interior (DOI) OIG, USAC, FCC Office of Managing Director, and the FCC OIG. Under the MOU, DOI OIG will apply specific procedures for the audit of beneficiaries of E-rate Program funds.

St. Joseph High School (School) was founded in 1964. The School is a church-based parishioner-supported school located in Frederiksted, St. Croix, U.S. Virgin Islands. The School offers academic programs for approximately 96 students in grades 9 through 12. The School is accredited by the Middle States Association of Colleges and Schools.

Objectives, Scope and Methodology

Our objectives were to determine whether the School complied with the rules and regulations of the E-rate Program and to identify Program areas that may need improvement.

The scope of the review was designed to test school compliance with the following 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):

- The school certifies it has an approved technology plan.
- The school determines its discount percentage based on 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[1].
- Services rendered comply with the school's application for E-rate funds and are installed or provided before the installation deadline.
- The school uses a competitive process to select the most cost effective service provider.
- The school purchases 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 program rules.

[1] Because the U.S. Virgin Islands provide free meals or milk to all children in schools under their jurisdiction they are not required to make individual eligibility determinations (7 CFR § 245.4). According to USAC, the U.S. Department of Agriculture verified that all schools in the Virgin Islands are eligible for the free lunch program. The U.S. Virgin Islands Department of Education substantiated that all students are eligible for the Child Nutrition Lunch Program. As a result, USAC determined that all schools in the Virgin Islands were eligible for a 90 percent discount rate for the funding years audited.

Funds USAC committed and disbursed for Funding Years 2000 and 2001 by service type follow:

Funding Year	Amount Committed	Amount Disbursed*	Service Type
2000	$4,599	$0	Telecommunications
2000	14,375	12,938	Internet Access
2000	123,913	123,911	Internal Connections
2001	$4,860	$0	Telecommunications
TOTALS	$147,747	$136,849	

* The School did not file a FCC Form 486, Receipt of Services Confirmation and USAC did not disburse any funds for Funding Year 2001.

We performed our review of the School during the period March through December 2003. We visited the School in March and May 2003 to conduct an entrance conference with the School administration, perform site inspections, conduct an inventory verification of the equipment installed by the service providers, and obtain documentation needed for our review.

We conducted our review in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. As part of our review, we obtained an understanding of the School's 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.

Scope Limitation

Our audit was limited in that the School did not have complete records to substantiate whether it complied with all rules and regulations of the E-rate Program. School officials advised us that they hired a consultant to manage the School's Funding Year 2000 E-rate Program. Officials at two other schools[2] told us that the consultant was no longer working or living in the area. In addition, officials told us that the School did not have the consultant's records of the work performed on behalf of the School. As a result, we were not able to determine whether the School complied with all E-rate Program requirements.

[2] We were conducting E-rate Program Audits at St. Mary's Catholic School and St. Patrick's Catholic School, located respectively in Christiansted and Frederiksted, St. Croix, U.S. Virgin Islands. The consultant was working for all three schools.

RESULTS OF REVIEW

Summary

We found that the School did not meet two of the key requirements for E-rate Program assistance. Specifically, the School:

- Did not have an adequately prepared technology plan.
- Did not budget or approve funding to pay the non-discounted portion of contracted services and for other technology related expenditures.

In addition, we found that the School:

- Did not maintain records for the competitive award of three contracts totaling $152,056.
- Did not ensure that all contracted services were properly completed and that the planned local area network (LAN) was operational.
- Did not maintain adequate records of its E-rate program activities or those performed by the School's consultant.

These matters are discussed in more detail in the paragraphs that follow.

Technology Plan Not Adequately Prepared

The School's technology plan (Plan) was deficient because it did not adequately address the five technology plan elements that USAC guidance required for technology plan approval.

Required Plan Elements

USAC guidance states that the technology plans must address five criteria that are core elements[3] of the plan. The approver must determine that the technology plan:

- Establishes clear goals and a realistic strategy for using telecommunications and information technology to improve education; (FCC Order 97-157, paragraph 573)
- Has a professional development strategy to ensure that staff know how to use these new technologies to improve education; (FCC Order 97-157, paragraph 572 (4))
- Includes an assessment of the telecommunication services, hardware, software and other services that will be needed to improve education services; (FCC Order 97-157, paragraph 572)

[3] We determined that four of the five criteria are based on FCC Order 97-157. See reference in each requirement.

- Provides for a sufficient budget to acquire and support the non-discounted elements of the plan: the hardware, software, professional development, and other services that will be needed to implement the strategy; (FCC Order 97-157, paragraph 574) and
- Includes an evaluation process that enables the school to monitor progress toward the specified goals and make mid-course corrections in response to new developments and opportunities as they arise.

Overall Plan Deficiencies

We identified four overall deficiencies in the School's Plan as follows:

- The Plan did not identify the period it covered or the effective date.
- There was no signature of a School official to signify that the Plan was a policy and planning document of the School.
- Except for the cover, the Plan did not indicate that it was for St. Joseph High School.
- Three sections of the School's Plan were the same as sections in the technology plans for two elementary schools where the consultant was also working, and thus may not have reflected the specific needs of the School.

In addition, the Plan did not specifically address the five required core elements as follows:

- Plan goals were general and the Plan lacked a strategy describing how the School would use technology to improve the education of its students.
- The Plan talked in generalities about training the staff and students in basic skills on how to use a computer. The Plan did not discuss how the staff would be trained to integrate technology into the education process or how computer technology will be used to enhance/ improve education in the core curriculum areas.
- The Plan identified some hardware the School anticipated purchasing, but there was no timetable for acquiring the hardware or budget information for financing the purchases. The Plan did not discuss any specific education-related software applications. Overall, the Plan did not specifically identify how addressing the School's technology needs (hardware, software, or training) would improve education services.
- The budget and funding section did not identify financing sources or otherwise substantiate that the School had adequate resources for acquiring any necessary hardware and software, and for training staff on the use of the new services.

- The Plan did not identify specific elements or criteria by which to measure progress. The evaluation section did state that the "Technology Committee" would monitor and evaluate progress and that the "Committee" would report progress to the administration. However, the Plan did not contain any information concerning the organization and staffing of the "Technology Committee" or the "Committee".

School Funding Not Budgeted or Approved

The School had not budgeted or approved funding to pay the non-discounted portion of the contracted services or the cost of any necessary hardware, software, and/or staff training to utilize the acquired E-rate Program services effectively. Title 47 CFR § 54.504(b)(2)(v) requires[4] schools to certify on FCC Form 470 (Description of Services Requested and Certification) that:

> All of the necessary funding in the current funding year has been budgeted and approved to pay for the "non-discount" portion of requested connections and services as well as any necessary hardware or software, and to undertake the necessary staff training required to use the services effectively.

As already noted, the School's Plan did not identify financing to support the new services. When asked about a technology budget, School personnel told us that U.S. Department of Education Title VI monies and donations would be used for its hardware and software purchases. However, the School could not provide an approved budget for technology and did not receive any Title VI monies in FY 2000 or FY 2001. Lacking a budget and approved funding for technology, the School did not meet a key requirement for receiving E-rate Program discounts.

Lack of Support for Payment of Non-Discounted Portion of Contracted Services

The School did not have records to substantiate that it had paid the non-discounted portion of contracted services. The School had two contracts for internal connections and a contract for internet access as follows:

- The School contracted with Dell Marketing, Inc. to provide the network servers, racks, uninterrupted power supplies, installation, and configuration of the main distribution frame (MDF) of the LAN. According to School personnel, the School did not have any records of and they did not know how or if the $4,265 non-discounted portion of the Dell contract was paid.
- The School contracted with Lindsey Electronics, Inc. for the LAN backbone cabling and wiring, from the MDF to the

[4] Requirement contained in FCC Order 97-157, Paragraph 577.

routers/hubs, and drops in the School's nine buildings. According to School personnel, the School did not have any records of and they did not know how or if the $9,503 non-discounted portion of the contract was paid. We were not able to confirm whether the School had paid Lindsey Electronics because the company was no longer in business.

- The School contracted with Virgin Islands Telephone Corporation, for internet access. According to School personnel, the School did not have any records of and did not know how or if the $1,438 non-discounted portion of the contract was paid.

Competitive Award Process Not Documented

Title 47 CFR § 54.504(a) requires schools to seek competitive bids and § 54.511(a) requires that schools selecting a provider of eligible services shall carefully consider all bids submitted and may consider relevant factors other than the pre-discount prices submitted by providers. Title 47 CFR § 54.516(a) requires schools to maintain for their purchases of telecommunications and other supported services at discounted rates the kind of procurement records that they maintain for other purchases.

The FCC competitive bid system consists of USAC posting the applicant's completed FCC Form 470, which describes the services requested, to an internet website[5]. Prospective service providers may contact the applicant for additional information and/or submit a bid to the school for the requested services. To give prospective service providers time to submit bids, the applicant must wait 28 days after the internet posting before entering into a contract. We determined from USAC documentation that the School's Form 470 was posted to the USAC website and that the School waited the requisite 28 days before signing contracts.

Although the School did not have written procurement requirements, we found that it did follow an established process, based on sound business and accounting practices, to document its purchases. The School maintained files that included purchase requests, vendor quotes or prices, management's approval to purchase, receipt of goods or services, invoices, and payment approvals. However, the School did not have any records of its selection and award process. According to School personnel, the consultant negotiated with the service providers and recommended the firm the School should select.

[5] Title 47 CFR § 54.504(a) states "These competitive bid requirements apply in addition to state and local competitive bid requirements and are not intended to preempt such state or local requirements."

Contracted Services Not Completed

The School did not ensure that the service provider completed the contracted services in accordance with the terms of the contract for installing the School's LAN backbone cabling and wiring. As a result, only part of the planned LAN configuration is operational and cannot be fully utilized for educational purposes as planned.

USAC approved funding for a service provider to connect all nine School buildings to the MDF via the LAN. The contracted services consisted of installing underground cabling/wiring from the MDF located in the School's computer lab to the router/hubs in the other eight buildings and providing wiring to install drops[6] in 15 physical locations within the nine buildings. During our March 2003 site visit, a verification of contracted services was performed (see Appendix 1 for specific details). In summary, we determined that:

- The underground cabling/wiring to connect the nine campus buildings had been installed.
- Eight router/hubs were installed in seven of the nine campus buildings.
- The wiring for drops had been installed in 15 physical locations within the nine buildings.
- The cabling/wiring between the MDF and 4 routers/hubs and nine drop locations in 3 buildings had been completed to connect the servers, router/hubs, and drops as a functioning LAN. (School officials told us the School hired and paid a contractor with non E-rate funds to finish the connections in one of the three buildings.)
- The wiring was not completed in six buildings containing four routers/hubs and six drop locations. Therefore, the six building were not connected to the MDF and could not function as part of the LAN.

School officials did not monitor the progress of the service provider and did not perform oversight of the consultant. A School official stated that the School relied on the consultant to provide oversight of the progress and completion of the service provider's contract. However, the School's consultant did not ensure that the service provider performed all contracted services.

In addition, a former weakness in the USAC procedures permitted the School to complete and file FCC Form 486 (Receipt of Services Confirmation Form) with USAC before the contracted services were completed and accepted. USACs procedures permitted the early filing of the FCC Form 486 because the contracted services were scheduled to be delivered in July 2000.

---

[6] The contract did not specify the total number of drops to be installed in 15 physical locations within the nine School buildings.

On June 5, 2000, the School filed the FCC Form 486. On July 20, 2000, the service provider submitted the FCC Form 474 (Service Provider Invoice Form) and its detailed invoice[7] to USAC for the discounted amount of $85,525.11, indicating that the last day of work was performed on July 19, 2000. The service provider claimed the full discounted portion even though not all of the contracted services had been completed. USAC disbursed the full discounted portion of $85,525.11 to the service provider for incomplete services.

Record Keeping Inadequate

The School did not comply with the requirement for record keeping. Title 47 CFR § 54.516 Auditing, establishes record keeping and production of records requirements for schools as follows:

> (a) Recordkeeping requirements. Schools and libraries shall be required to maintain for their purchases of telecommunications and other supported services at discounted rates the kind of procurement records that they maintain for other purchases.
> (b) Production of records. Schools and libraries shall produce such records at the request of any auditor appointed by a state education department, the Administrator, or any state or federal agency with jurisdiction.

In addition, FCC Form 471, Block 6, certification No. 32 states, "I (school) recognize that I may be audited pursuant to this application and will retain for five years any and all worksheets and other records I rely upon to fill out this application."

In this particular review, we had to significantly limit the scope of this audit or rely on time-consuming methods because of the lack of records to substantiate the School's compliance with program rules and regulations. For example, as discussed previously we found that the School could not document the competitive award process or the payment of the non-discounted portion of contracted services. In addition, we found that the School could not document the work performed by the consultant, as discussed in the following section.

[7] USAC revised its invoicing procedures for Funding Year 2001 to require schools to certify that the invoiced services were delivered and accepted by the school. A school's signed 'Service Certification' and a copy of a detailed vendor invoice must be submitted with the FCC Form 474 to USAC.

Consultant's Records Not Available

The School agreed to pay a consultant $750 to manage its E-rate Program - $400 was to be paid initially and $350 was to be paid when the work was completed. On December 10, 1999, the School Principal used her own funds to pay the consultant the initial $400. On June 2, 2000, the Principal wrote a check on her own account to pay the remaining $350. The School provided documentation showing that it reimbursed the Principal for these two payments to the consultant.

School personnel told us that:

- The consultant prepared and filed all of the FCC documents and provided the documents to the School for signature when required for filing purposes.
- The consultant negotiated with service providers and recommended whom the School should contract with for requested services.
- The School did not have the consultant's records.

We determined that the consultant was no longer living or working in the area. Consequently, we could not review the consultant's records or talk with him.

Our review disclosed that there were management control deficiencies with respect to the work performed by the consultant. Specifically, we found that:

- The School's technology plan did not meet FCC criteria.
- Information on the FCC Forms 470 and 471 were not supported.
- The School's records supporting the E-rate application process were incomplete; consequently, the School did not meet the requirement to maintain records supporting its E-rate application.
- The School was not able to respond fully to all of our requests for information or supporting documentation.

APPENDIX 1

St. Joseph High School
Frederiksted, St. Croix, U.S. Virgin Islands

Summary of the Site Inspection of the Internal Connections and the Inventory Verification of Installed Equipment

Building No.	Physical Locations*	Hub/ Switch**	Hubs and Drops Connected To the Server	Comments
1	1	1	No	Wiring not completed.
2	1	1	No	Wiring not completed.
3	1	1	No	Wiring not completed.
4	2	1	Yes	School hired a contractor to make connections to LAN.
5	1	None	No	Wiring not completed.
6	1	1	No	Wiring not completed.
7	2	1	Yes	Computer Lab/MDF
8	1	None	No	Wiring not completed.
9	5	2	Yes	Administrative Offices and Library
Totals	15	8	3-Yes 6-No	

*The contract provided for a LAN that connects 15 physical locations within the nine campus buildings to the Main Distribution Frame (MDF). The contract did not identify the placement of the 15 physical locations. During our inspection of the LAN, we found that the 15 physical locations coincided with where the service provider placed the drop boxes. The contract did not specify the total number of drops or the number of drops at each location.

**The contract specified that each room would have a hub/switch. The hub/switch, which functions as the Intermediate Distribution Frame, provides LAN connectivity between the drops and the MDF. Buildings 1 through 8 have one classroom each and building 9 has the administrative offices and the library. We found that two hub/switches were sufficient to connect the five physical locations for drops in building 9 to the LAN.

APPENDIX 2

St. Joseph High School

PLOT #3 MOUNT PLEASANT
ROUTE 2, FREDERIKSTED
ST. CROIX, U.S. VIRGIN ISLANDS 00840

Tel: (340) 692-2455
Fax: (340) 692-2458

Mr. James R. Duff, CPA
FCC Audit Coordinator
US Department of the Interior
Office of Inspector General
12030 Sunrise Valley Dr., Suite 230
Reston, Virginia 20191

January 28, 2004

Dear Jim:

Sorry for the delay. Our technology coordinator reviewed the draft report. His only comment was that the school did not have a technology coordinator who could have overseen the work while it was being done. Other than that, he agreed with the findings of the report.

Sincerely,

Susan Diverio, Ed.D.
Principal

Accredited by Middle States Association