OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: August 18, 2005

TO: Chairman

FROM: Inspector General

SUBJECT: Report on Audit of the E-rate Program at St. Mary's Catholic 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. Mary's Catholic 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. Mary's Catholic 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 four (4) findings and $120,051 in potential fund recoveries. We recommend that the Wireline Competition Bureau direct the Universal Service Administrative Company (USAC) to recover the amount of $120,051 disbursed on behalf of St. Mary's Catholic School in funding year 2000.

DOI OIG held an exit conference with the School's Assistant 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's Assistant 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:

Elizabeth Hering, Administrator, St. Mary's Catholic 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

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 Andrew Fedak
Director of External Audits

Subject: Final Report on Audit of the E-rate Program at St. Mary's Catholic School, St. Croix, U.S. Virgin Islands

This report presents the results of our audit of the E-rate Program benefits received by St. Mary's Catholic 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 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 Assistant Principal to discuss a preliminary draft of this report, which was provided to the School on January 8, 2004. The School's February 4, 2004, response (see Appendix) from its Administrator expressed agreement with the report's findings.

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

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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. Mary's Catholic School is a church-based parishioner-supported school that has been providing an academic program to its community for over a century. The School is located in Christiansted, St. Croix, U.S. Virgin Islands. The School offers academic programs for approximately 200 students in pre-kindergarten through 8th grade. 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	$4,869	$0	Telecommunications
2000	2,700	2,400	Internet Access
2000	144,144	117,651	Internal Connections
2001	$2,160	$0	Telecommunications
TOTALS	$153,873	$120,051	

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. The officials also told us that the consultant was no longer working or living in the area and that the School did not have many of 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.

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 $137,884.
- 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 technology plans must address five criteria that are core elements[2] 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)
- 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

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

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 three 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, which would signify that the Plan was a policy and planning document of the School.
- Three sections of the Plan were the same as sections in the plans for a high school and an elementary school 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 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.

School Funding Not Budgeted or Approved

The School had not budgeted and approved funding to pay the non-discounted portion of the contracted services and 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[3] 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 there was no budget and that the School relied on private donations and the U.S. Department of Education Title VI monies for its technology needs. Therefore, 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 paid the non-discounted portion of contracts. 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 local area network (LAN). Dell claimed a total undiscounted amount of $41,606.56 for services rendered on its 'Service Provider Invoice,' FCC Form 474. School personnel told us that the consultant and his wife, a parishioner, and Lindsey Electronics paid the $3,745 non-discounted portion of the Dell contract. The School did not have any records of the payment.
- The School contracted with Lindsey Electronics, Inc. for the construction and installation of the LAN backbone cabling and the wiring of the routers/hubs and drops to connect the School's rooms to the MDF. Lindsey claimed a total undiscounted

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

amount of $93,277.80 for services rendered on its 'Service Provider Invoice,' FCC Form 474. School personnel told us that Lindsey did not bill the School for the $9,328 non-discounted portion of the contract because the owner considered it a donation to the School. We were not able to confirm the School's assertion with Lindsey Electronics because the company was no longer in business.

- The School contracted with Wireless World, L.L.C., for Internet access. Wireless World claimed a total undiscounted amount of $2,999.52 for services rendered on its 'Service Provider Invoice,' FCC Form 474. School personnel told us that Wireless World billed USAC directly for the Internet services provided to the School and did not bill the School for the $300 non-discounted portion of the contract.

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[4]. 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 FCC Form 470 was posted to the USAC website and that the School waited the requisite 28 days before awarding 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, receipts of goods or services, invoices, and payment approvals. However, the School did not have any records of its E-rate procurement selection and award process. According to School personnel, their consultant negotiated with the service providers and recommended the firm the School should select.

[4] 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."

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.

Consultant's Records Not Available

The School agreed to pay a consultant $900 to manage its E-rate Program - $500 was to be paid initially, and $400 was to be paid when the School received the Funding Commitment Decision Letter. On December 7, 1999, the School paid the consultant the initial $500; however, School personnel told us that the consultant never invoiced for the remaining $400.

According to the agreement, the consultant would perform the following services:

- File the FCC Form 470.
- Work with the School to develop the "USAC required three (3) year Technology Plan" for the School.
- Obtain approval for the Technology Plan "from our designated VI agency".
- Develop a comprehensive "Request for Proposal" as required by USAC.
- File the FCC Form 471.
- Upon receiving the Funding Commitment Decision Letter from USAC, file the FCC Form 486.

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 many of the consultant's records.

We could not review the consultant's records or talk with him because according to a School official he had moved to South America.

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 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.
- The School was not able to respond fully to our requests for information or supporting documentation.

APPENDIX

St. Mary's Catholic School

A Ministry of Holy Cross Catholic Church
P.O. Box 224620
Christiansted, St. Croix
U.S. Virgin Islands 00822

Telephone: (340) 773-0117
Fax: (340) 773-1168

February 4, 2004

Dear Mr. Duff:

We have reviewed the E-Rate packet of 1/08/04 and the school agrees.

Sincerely,

Elizabeth Hering

Elizabeth Hering
Administrator

Accredited by Middle States Association