



OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: September 11, 2002

TO: Chief, Wireline Competition Bureau

FROM: Inspector General

SUBJECT: Report on Special Review of the E-rate Program at Enoch Pratt Free Library.

The Office of Inspector General (OIG) has completed a Special Review at Enoch Pratt Free Library, a beneficiary of the Universal Service Fund (USF). A copy of our Special Review Report, Report No. 02-AUD-02-04-010 entitled "Report on Special Review of the E-rate Program at Enoch Pratt Free Library" is attached. The objective of this review 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.

Based on the results of the review, the auditors have concluded that the Enoch Pratt Free Library is compliant with the requirements of the program for the funding year reviewed. We held an exit conference on May 16, 2002 with representatives from Enoch Pratt Free Library, and requested their comments on the results of the review. They agreed with the results of the review.

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, Director of Program Audits, at (202) 418-7890.

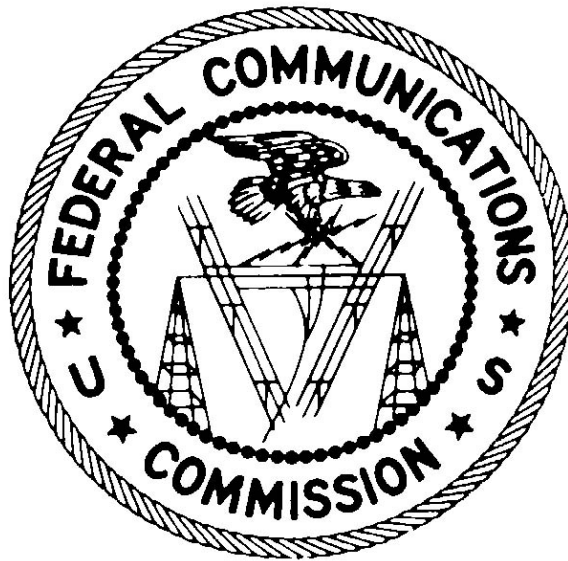
H. Walker Feaster III

Attachments

cc: George McDonald, Vice President, Schools and Libraries Division, USAC
Andrew Fischel, Managing Director
Jerry Cowden, Performance Evaluation and Records Management
Michael Walsh, Manager, Computer Systems, Enoch Pratt Free Library

FEDERAL COMMUNICATIONS COMMISSION

OFFICE OF INSPECTOR GENERAL



Report on Special Review of the E-rate Program at Enoch Pratt Free Library

Report No. 02-AUD-02-04-010
September 11, 2002

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REVIEW OBJECTIVE AND SCOPE

The OIG has designed a program of audit oversight to provide FCC management with a reasonable level of assurance that beneficiaries are complying with program rules and that program controls are adequate to prevent fraud, waste and abuse. This special review was conducted as part of that oversight program. The objective of this review 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. The scope of this special review was designed to test recipient compliance with program requirements contained in Title 47, Part 54 of the Code of Federal Regulations (47 CFR 54.500 through 47 CFR 54.520) that include:

- A process has been established to select the most cost effective service provider
- Equipment and services are purchased in accordance with applicable procurement rules and regulations, and the applicant has paid its portion of the pre-discounted costs.
- Services rendered are consistent with what the beneficiary presented on its application for E-rate funds and were installed or provided before the installation deadline.
- The beneficiary has adequate resources, as certified, to use the discounted services for which funding has been provided.
- The beneficiary has an approved technology plan, as certified.

The Enoch Pratt Free Library is a public library system located in Baltimore, MD. The period of our review was from June 30, 1999 to July 1, 2000, which comprises Funding Year 2 of the E-rate program. SLD Year 2 commitments amount to \$2,678,895, of which 86% was spent on internal connections, 11% on telecommunication services, and 3% on internet access.

This special 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

Our review of the use of E-rate funds at the Enoch Pratt Free Library disclosed that the beneficiary is compliant with the requirements of the program. Our review disclosed no material weaknesses in the controls relevant to the E-rate program. However, we have identified a reportable condition that, while not materially deficient, could adversely impact the program. We found that Billed Entity Applicant Reimbursements (BEARs) are not being processed on a timely basis. See the Background Information section of this report for further details. We held an exit conference on May 16, 2002 with

representatives from Enoch Pratt Free Library, and requested their comments on the results of the review. They agreed with the results of the review.

BACKGROUND INFORMATION

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General (OIG) at the Federal Communications Commission (FCC) has oversight responsibilities for the Universal Service Fund (USF) as a federal program of the FCC. The USF provides affordable access to specified 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. Included in this Order was the Schools and Libraries Funding Mechanism of the USF (hereinafter known as the E-rate program) in which all eligible schools and libraries can receive discounts from the USF on eligible communication services ranging from 20 to 90 percent, depending on economic need and location. The Universal Service Administrative Company (USAC) is responsible for administering the Fund under the direction of the FCC's Wireline Competition Bureau (WCB). The Schools and Libraries Division (SLD) of USAC administers the E-rate program.

USF discounts can be applied to three kinds of services and products:

- 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.

The Enoch Pratt Free Library is a public library system located in Baltimore, Maryland. SLD Year 2 commitments amount to \$2,678,894.80 of which 86% was spent on internal connections, 11% on telecommunications services, and 3% on internet access. \$2,411,773 was disbursed against these commitments.

OTHER OBSERVATIONS:

Billed Entity Applicant Reimbursement (BEAR) reimbursements occurred as much as a year after initial payments to the vendor.

In the process of reviewing costs associated with this project, the auditor reviewed a Nortel Networks contract to purchase, install and maintain DS 3 routing switches. These routers form the backbone of a telephone network for the public libraries.

The Bear form, also known as FCC Form 472, is a tool used by beneficiaries to request E-rate discounts for services for which the beneficiary has already paid the service provider. Under this process, the beneficiary pays the service provider in full for services received. This payment from the beneficiary covers both the universal service fund share (the discounted portion) and the beneficiary's share of the costs. The beneficiary then

invoices USAC for the universal service fund share of the amount it paid for the eligible services it received. The service provider must also sign the BEAR form indicating that it knows it must pass along to the beneficiary the payment it will receive from USAC. After processing the form, USAC send the payment to the service provider, who must then reimburse the beneficiary for the portion of the invoiced costs that was covered by the USF so that in the end the beneficiary has only paid for their portion of the costs. The service provider is required to reimburse the beneficiary no later than ten days following receipt of payment from USAC.

There were a total of four payments to the vendor for a total payment of \$174,478.60. The payments began on August 10, 1999 and ended with the final payment on November 15, 2001. The reimbursement check in the amount of \$156,538.26 was provided to Enoch Pratt on October 22, 2002. This is 14 months and 12 days after the first payment to Nortel.

The BEAR form was not filed by the beneficiary until June 6, 2002. The beneficiary chose to wait until the contract was completed before requesting reimbursement. Therefore, the delay in BEAR reimbursement was the result of decisions made by the beneficiary rather than delay on the part of the service provider. Nonetheless, this lengthy delay in completing the BEAR reimbursement process is technically not in compliance with program requirements and could reduce the funds available at the local level to support the E-rate program or similar technology expenditures.