OFFICE OF INSPECTOR GENERAL

M E M O R A N D U M

DATE: August 12, 2004

TO: Chairman

FROM: Inspector General

SUBJECT: Report on Audit of the E-rate Program at Annunciation Elementary School

The Office of Inspector General (OIG) has completed an audit at Annunciation Elementary School (AES), a beneficiary of the Universal Service Fund (USF). A copy of our audit report no. 02-AUD-02-021, entitled "Report on Audit of the E-rate Program at Annunciation Elementary School" 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 program areas which may need improvement.

We concluded that AES was not compliant with the requirements of the program for funding years 1998 through 2001. The audit resulted in six (6) specific findings and $129,003 identified as potential fund recoveries. We recommend that the Wireline Competition Bureau direct the Universal Service Administrative Company (USAC) to recover the amount of $129,003 disbursed on behalf of AES for funding years 1998 through 2001. In addition, we recommend that the Wireline Competition Bureau take steps to ensure that funding requests are adequately reviewed in accordance with existing program rules and implementing procedures to make certain that funding requests associated with these areas of noncompliance with program rules and regulations are not approved. Further, we recommend that the Wireline Competition Bureau review those program rules and implementing procedures governing the areas of noncompliance cited in this report to ensure that those program rules and implementing procedures are adequate to protect the interests of the fund.

An exit conference with the beneficiary's representative was held on July 21, 2004. The representative (the school principal) stated he was unable to comment on the findings. He stated that none of the school management or the E-rate consultant that was present during the period under audit is still associated with the school and no files regarding the E-rate applications are available for reference. As a result, the school representative did not state whether he concurred or did not concur with the audit findings.

We provided management with a copy of our draft report on July 29, 2004 and requested they provide comments on their concurrence with the findings of the audit. In a response dated August 11, 2004, the Wireline Competition Bureau (WCB) indicated that they concurred with two of our three audit recommendations and did not concur with the third recommendation, based on a duplication in our calculation of recommended funding recoveries. We agree with their recommendation and have revised our audit report accordingly. WCB's response is included in its entirety in the Appendix to this report.

If you have any questions, please contact Thomas Cline, Assistant Inspector General for Audits, at (202) 418-7890.

H. Walker Feaster III

Attachment

Copy furnished:

Mr. D. Smithers, Principal, Annunciation Elementary School
Vice President, Schools and Libraries Division, USAC
Chief, Wireline Competition Bureau
Performance Evaluation and Records Management, Office of Managing Director

FEDERAL COMMUNICATIONS COMMISSION

OFFICE OF INSPECTOR GENERAL

Report on Audit of the E-rate Program at Annunciation Elementary School

Report No. 02-AUD-02-04-21
August 12, 2004

H. Walker Feaster III
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Thomas D. Bennett
Assistant Inspector General for USF Oversight

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EXECUTIVE SUMMARY

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 Support 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 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.

The OIG has completed an audit of Annunciation Elementary School (AES). 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. (AES) is a Catholic school located at 461 West 131 Street, New York City. AES offers classes for pre-kindergarten to 8th grade. Based on its applications filed with the Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC), AES reported that it had 386 students in Funding Years (FY) 1998-1999 and 365 students in FYs 2000-2001, and was approved and received funding at an urban discount rate of 90% for those years. The period of our audit was for FYs 1998 through 2001, covering January 1, 1998 to June 30, 2002.

For the period under audit, AES had approved funding commitments $449,880 for internal connections, Internet access and telecommunications services, of which $353,506, or about 78%, was committed for internal connections. For the period under audit, SLD disbursed $401,939 of which $353,507, or about 87%, was for internal connections.

The audit of the use of E-rate program funds at AES disclosed that the beneficiary was not compliant with the requirements of the program for FY 1998 through 2001. The audit resulted in six (6) findings and in $129,003 identified as potential fund recoveries.

An exit conference with the beneficiary's representative was held on July 21, 2004. The representative (the school principal) stated he was unable to comment on the findings. He stated that none of the school management or the E-rate consultant that was present during the period under audit is still associated with the school and no files regarding the E-rate applications are available for reference. As a result, the school representative did not state whether he concurred or did not concur with the audit findings.

We provided management with a copy of our draft report on July 29, 2004 and requested they provide comments on their concurrence with the findings of the audit. In a response dated August 11, 2004, the Wireline Competition Bureau (WCB) indicated that they concurred with two of our three audit recommendations and did not concur with the third recommendation, based on a duplication in our calculation of recommended funding recoveries. We agree with their recommendation and have revised our audit report accordingly. WCB's response is included in its entirety in the Appendix to this report.

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.

AES is a Catholic school located at 461 West 131 Street, New York City. AES offers classes for pre-kindergarten to 8th grade. Based on its applications filed with the Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC), AES reported that it had 386 students in Funding Years (FY) 1998-1999 and 365 students in FYs 2000-2001, and was approved and received funding at an urban discount rate of 90% for those years. The period of our audit was for FYs 1998 through 2001, covering January 1, 1998 to June 30, 2002.

For the period under audit, AES had approved funding commitments $449,880 for internal connections, Internet access and telecommunications services, of which $353,506, or about 78%, was committed for internal connections. For the period under audit, SLD disbursed $401,939 of which $353,507, or about 87%, was for internal connections.

AUDIT OBJECTIVES 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. 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.

The scope of this audit was designed to test beneficiary 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:

- The beneficiary determines its discount percentage by the percentage of their student enrollment that is eligible for free or reduced price lunch under the national school lunch program or a federally approved alternative mechanism.
- 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 program 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 period of our audit was from January 1, 1998 to June 30, 2002, which comprises Funding Years 1998 through 2001 of the E-rate program. We performed our audit at the AES facility located at 461 West 131 Street, New York City.

This audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States. As part of the scope of our audit, 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 audit would not necessarily disclose all material weaknesses in the control structure. However, we identified significant management weaknesses as discussed in the Audit Results section of this report and in finding numbers 1, 3, 5 and 6.

AUDIT FINDINGS AND RECOMMENDATIONS

Our audit of the use of E-rate program funds at AES disclosed that the beneficiary was not compliant with the requirements of the program for funding years 1998 through 2001. The following findings resulted in noncompliant and/or inappropriate funding disbursements:

1. AES signed contracts for internal connections and Internet access prior to the 28 days waiting period, resulting in a potential funding recovery of $109,175, or 100% of funds disbursed for FY 1999.
2. The service provider billed and received payment for Internet access costs that were not provided, resulting in overpayment of $19,704 (note that $8,316 of the overpayment in this finding is duplicated in finding no. 1).

3. Internal connections equipment units purchased were not provided and unauthorized substitutions of less functional equipment were made, resulting in overpayments of $4,498.
4. The service provider billed and received payment for ineligible internal connections equipment, resulting in overpayments of $3,942.
5. There was no documentation to support a competitive bidding process.
6. AES was unable to provide support for the calculation of the E-rate program discount.

In addition, we note the following concerns that are included as Other Matters in this report:

The system we observed at AES appeared to be ineffectively utilized.

The technology plan for AES was approved on April 22, 1998. This technology plan was used as the basis for all funding years under audit, through the period ended June 30, 2002. USAC implementing procedures stipulate that technology plans should not cover a period of more than three years.

AUDIT FINDINGS

Finding 1 of 6 - AES signed contracts for internal connections and Internet access prior to the 28 days waiting period.

For FY 1999, AES posted their Form 470 (Description of Services Requested and Certification Form) on the SLD website on March 5, 1999. Therefore, the allowable contract date would not be earlier than April 2, 1999 based on the mandatory 28-day waiting period. Although the FCC Form 471 (Services Ordered and Certification Form) was signed by AES on April 2, 1999, the two contracts for internal connections and Internet access attached to Item 17 of the Form 471 were signed by both the principal of AES and Connect 2, the service provider, on March 25, 1999 (for internal connections and Internet access) and April 1, 1999 (for a Private Exchange Branch system). These dates are before the contract allowable date and are not compliant with the mandatory 28-day waiting period pursuant to Section 54.504(b) (4). Based on guidance we have received from the Wireline Competition Bureau (WCB), this noncompliance supports full recovery of funds disbursed for the funding year in question or $109,175 in this case.

Finding 2 of 6 - The service provider billed and received payment for Internet access costs that were not provided.

Using the local exchange telephone company's billing information we found that the service provider, Connect 2, began to provide T-1 Internet service to AES on January 5, 2000. However, Connect 2 billed and was reimbursed for T-1 service in FYs 1998, 1999 and 2000. SLD reimbursed Connect 2 a total of $28,020 for FY 1998 and 1999.

We have determined that the service provider, Connect 2, was over paid $19,704 for monthly recurring charges for Internet service not provided during FYs 1998 and 1999. The

recommended recovery is broken down into $11,388 in FY 1998 and $8,316 in FY 1999. The calculation of this amount is too voluminous for inclusion in this report, but can be made available upon request.

On the FCC Form 473 (Service Provider Certification Form), the service provider certifies that charges reflected on the FCC Form 474 (Service Provider Invoice Form) will be based on bills or invoices billed to the beneficiary. Moreover, instructions to Form 474 require that the service provider to provide the products and services and to bill the school or library prior to submitting a FCC Form 474 to USAC/SLD. In addition, the FCC Rules in Sec. 54.507 (b) states that a funding year for purposes of the schools and libraries cap shall be the period July 1 through June 30; and Section 54.507(e) states that if schools and libraries enter into long term contracts for eligible services, the Administrator (USAC/SLD) shall only commit funds to cover the pro rata portion of such a long term contract scheduled to be delivered during the funding year for which universal service support is sought. Connect 2 over-billed SLD for Internet access not provided in FY 1998 and the first half of FY 1999 and was not in compliance with FCC E-rate program rules.

Finding 3 of 6 - Internal connections equipment units purchased were not provided and unauthorized substitutions of less functional equipment were made.

Our physical inspection and inventory of the internal connections equipment and the review of supporting documentation revealed some differences between the actual inventory and the contracted items. In FY 1998, 21 hubs were listed on the attachment to Item 17 of the approved FCC Form 471(Services Ordered and Certification Form). We were able to locate only 19 of these hubs (18 of these hubs were retired from use and inventoried as spares/obsolete) resulting in two missing units. Of these, 17 units were 8 port hubs instead of the more robust 12 port hubs that were on the approved FCC Form 471. The pre-discount cost of the 2 missing hubs is $1,598 ($799 x 2). In addition, we estimate that the price difference for the 8 port hubs instead of 12 port hubs is about $200 less for each hub (based on information obtained from the service provider), therefore, the price difference for the 17 units is $3,400 ($200 x 17 units). The pre-discount price for these two items (the missing hubs and the price difference for the 17 hubs amount) is $4,998; by applying the 90% discount factor we calculate that SLD paid $4,498 for items not provided and less functional substituted items.

On the FCC Form 473 (Service Provider Certification Form), the service provider certifies that charges reflected on the FCC Form 474 (Service Provider Invoice Form) will be based on bills or invoices billed to the beneficiary. Moreover, instructions to Form 474 require that the service provider has to provide the products and services and to bill the school or library for the non-discounted portion prior to submitting a FCC Form 474 to USAC/SLD.

For FYs 1998 through 2000, AES lacked the appropriate controls to monitor and ensure that E-rate program products and services were requested and purchased in accordance with E-rate program requirements. Because the amounts invoiced by Connect 2 on the

FCC Form 474 were submitted as line items in the aggregate by funding request numbers (FRNs) without any breakdowns by unit/price, SLD had no knowledge of any product substitutions and relied on the original service/equipment list attached to Item 17 of the FCC Form 471. Consequently, SLD approved the disbursement to the extent the E-rate program funds requested did not exceed the approved committed FRN amounts. Based on documentation and inquiries made, SLD has no record of these substitutions, therefore, we conclude that no letters authorizing these substitutions were issued by SLD to AES and/or Connect 2.

We conclude that in FY 1998 the service provider was paid $4,498 for equipment that was not provided to the beneficiary and unauthorized equipment substitutions.

Finding 4 of 6 - The service provider billed and received payment for ineligible internal connections equipment.

In FY 1998, the service provider billed and was paid for ineligible memory upgrades for 30 personal computers (PCs) used as end user workstations, having a pre-discount price of $4,380, or $3, 942 after the 90% discount. Although, this product was denied as a result of the Program Integrity Assurance (PIA) review, it was inadvertently approved in error by SLD in the total commitment amount. Connect 2 filed Form 474 (Service Provider Invoice Form), for the entire committed amount of $53,649 for FRN (Funding Request Number) 106514 and was reimbursed by SLD on October 28, 1999. Because the amounts invoiced on the FCC Form 474 were submitted as line items in the aggregate by funding request numbers (FRNs) without any breakdowns by item and unit/price, SLD had no knowledge that charges for ineligible items were included in the billing and approved the disbursement to the extent the E-rate program funds requested did not exceed the approved committed FRN amounts. Further, AES representatives informed us that, to the best of their knowledge, Connect 2 did not provide any memory upgrades to their PCs. The error of funding and paying for these ineligible items was confirmed by USAC staff.

The FCC in CC Docket 96-45 provides that eligibility of a product/service is not solely dependent on the item itself, but also on the use for which is intended. Accordingly an improvement to an eligible service or system is eligible and an improvement to an ineligible service or system is ineligible. The Schools and Libraries Eligible Services List effective for FY 1998 (dated March 27, 1998) allowed under CC Docket 96-45 states that memory upgrades to computers that act as servers, routers and hubs are eligible but not eligible in end user workstations (PCs) for discount under the E-rate program. We recommend that $3, 942 which was paid for ineligible products be recovered.

Finding 5 of 6 - No documentation to support a competitive bidding process.

For FY 1998 through 2001, AES contracted with Connect 2 for internal connections and Internet access. Based on interviews of personnel at AES and review of contract proposals on file, we conclude that AES had not participated in any competitive bidding process as required under Section 54.504(a) and Section 54.511, (a) of Commission

Rules. AES' selection process did not include any competitive bidding techniques or cost/benefit analysis with cost being the major selection factor. In response to SLD's inquiry during a selective review for FY 2001, AES indicated Connect 2 was selected because their pricing was competitive with "all the research" AES had done and "after much legwork." For FY 1998, the AES' representative claimed that several vendors telephoned the school. However, no substantive documentation was provided other than a blank form from another service provider.

Title 47 CFR 54.504, Requests for Service (a) competitive bidding requirement, provides that all eligible schools, libraries and consortia including those entities shall participate in a competitive bidding process, pursuant to the requirement established in this subpart, but this requirement will not preempt state or local competitive bidding requirements. Section 54.511, Ordering Service, (a) Selecting a provider of eligible services, provides that in selecting a provider of eligible services, schools, libraries and consortia including any of those entities shall carefully consider all bids submitted and may consider relevant factors other than the pre-discounted prices submitted by providers. AES has not able to provide documents that would support the soundness of their management of the E-rate contracting process or compliance with Title 47 CFR 54.504 and 511.

Finding 6 of 6 - AES was unable to provide support for the calculation of the E-rate program discount.

AES was unable to provide documentation required under the National School Lunch Program (NSLP) that was used to support the 90% E-rate program discount percentage reflected on Bock 3 or 4 (depending on the funding year) of the FCC Form 471 (Services Ordered and Certification Form) approved for FY 1998 through FY 2001. AES participates in the NSLP as a "Provision 2 school" under the oversight of the New York State Education Department Child Nutrition Program Administrator (NYS-ED-CNPA). This department administers reimbursements of funds under the USDA (the Agriculture Department) NSLP. Under Provision 2, schools that can support sustained financial hardship on the part of its students are allowed obtain NSLP reimbursement with reduced recordkeeping requirements. Documentation to support a school's participation level is gathered in applicable "base years", and for subsequent periods (three years and two additional years if certain criteria are met) the participation level for the base year is used to determine NSLP reimbursement. The school is required to maintain all supporting documentation for the base years and records on free or reduced school lunch participation for the years covered by the base year.

AES' base years applicable to the E-rate program for FY1998 through 2001 (1/198 to 6/30/02) were the 1994/1995 base year and the 1999/2000 base year. AES provided information to support the free/reduced school lunches during the funding years under audit, but the school was unable to provide any support for either of the applicable base years. The NYS-ED-CNPA provided us with representations that they reviewed AES' Provision 2 status in base year 1999/2000 and found the status to be adequately supported, but they had no record of a review for the base year 1994/1995.

The FCC in the Universal Service Order CC (Common Carrier) Docket 96-45 (FCC 97-157- paragraph. 509) stated that the national school lunch program (NSLP) based on family income is a more accurate measure of a school's level of need than a model that considers general community income. The primary measure for determining E-rate program discounts is the percentage of students eligible for free and reduced lunches under the NSLP, calculated by individual school. Students from family units whose income is at or below 185% of the federal poverty guideline are eligible for the NSLP. As part of the certification on the FCC Form 471 (Services Ordered and Certification Form) and other forms, schools and libraries are put notice that may be audited and commit to retain for five years any and all worksheets and other records used to fill the application for E-rate program funds.

AES did not maintain supporting documentation required by the NSLP and used to support the 90% discount percentage used in the FYs 1998 through 2001 E-rate applications. This is particularly unacceptable given the reduced recordkeeping requirements they were subject to. However, we were able to review other documentation that was satisfactory to support the 90% discount percentage. As a result, we make no recommendations for funding recoveries related to this finding.

RECOMMENDATIONS

Recommendation 1 of 3 - We recommend that the Wireline Competition Bureau direct the Universal Service Administrative Company to recover the amount of $129,003 disbursed on behalf of AES in funding year 1999.

Recommendation 2 of 3 - We recommend that the Wireline Competition Bureau take steps to ensure that funding requests are adequately reviewed in accordance with existing program rules and implementing procedures to ensure that funding requests associated with these areas of noncompliance with program rules and regulations are not approved.

Recommendation 3 of 3 - We recommend that the Wireline Competition Bureau review those program rules and implementing procedures governing the areas of noncompliance cited in this report to ensure that those program rules and implementing procedures are adequate to protect the interests of the fund.

OTHER MATTERS

We note the following concerns that do not meet the level of materiality and/or regulatory noncompliance to be considered audit findings, but are nonetheless issues we believe should be addressed in future applications for this beneficiary and in future programmatic improvements.

1. The system we observed at AES appeared to be ineffectively utilized.

For FYs 1998 through 2000, AES obtained numerous hub and switch equipment and nine servers. Six of the nine servers, ranging in price from $18,000 to $23,000, were high end

in terms of capacity and functionality. It should be noted that the internal connections service provider had provided similar configuration at other non-public schools like AES in a fashion that indicated a "one-size-fits-all" approach, rather than being tailored to the needs and abilities of AES for effective utilization.

We observed little information technology sophistication or computer expertise at AES, and noted a low degree of computer usage capability or technical background in both the teaching and administrative staff. AES was unable to provide any evidence as to the type and hours of training that AES staff received on how to utilize E-rate program services and products to improve education services. Additionally, AES did not provide any monitoring reports for evaluating students and teachers performances as committed in the AES' Technology Plan in connection with E-rate program over the last four years. Since AES was unable to provide any substantive evidence regarding its utilization of E-rate program services and products, we concluded that the internal connections equipment as installed appeared excessive and not commensurate with benefits derived by AES students.

2. AES's technology plan for FY 2001 was out of date and possibly expired.

The technology plan for AES was approved on April 22, 1998. This technology plan was used as the basis for all funding years under audit, through the period ended June 30, 2002. USAC implementing procedures stipulate that technology plans should not cover a period of more than three years. While the word "should" in USAC's procedures implies that a technology plan could conceivably cover a period of longer than three years, we believe the audit findings and the issue of utilization described above would indicate that AES's technology plan was, at best, out of date and possibly expired and inapplicable.

FEDERAL COMMUNICATIONS COMMISSION

OFFICE OF INSPECTOR GENERAL

Report on Audit of the E-rate Program at
Annunciation Elementary School

Report No. 02-AUD-02-04-021

APPENDIX – Management Response

UNITED STATES GOVERNMENT

Memorandum

DATE: August 12, 2004

TO: Inspector General

FROM: Managing Director

SUBJECT: Draft Report on Audit of E-Rate Program at Annunciation Elementary School

Attached is the Wireline Competition Bureau's response to the draft report on the audit of the e-rate program at Annunciation Elementary School. We had asked the Bureau to submit its response to you through the Office of Managing Director. If you have any questions or concerns please contact Jerry Cowden. Thank you.

for Andy Fishel

Attachment

Wireline Competition Bureau

MEMORANDUM

DATE: August 11, 2004

TO: Walker Feaster,
Chief, Office of Inspector General

FROM: Jeffrey J. Carlisle
Acting Chief, Wireline Competition Bureau

SUBJECT: Draft Report on Audit of the E-rate Program at Annunciation Elementary School (AES)

Attached please find WCB's response to the OIG's draft audit report on Annuciation Elementary School (AES).

For future OIG audit reports, WCB believes that additional supporting information would facilitate its review of the recommended recovery amounts and help ensure agreement on the report's recommendations. Additional information could also be helpful in tracking recovery in the audit follow-up phase. WCB is available to work with the OIG to develop a standardized schedule, appendix, or other reporting mechanism that contains all appropriate information needed to facilitate WCB's review.

Annunciation Elementary School

Recommendation 1 of 3: WCB should "direct USAC to recover the amount of $137,319 disbursed on behalf of AES in funding year 1999."

Wireline Competition Bureau Response: Do Not Concur

Explanation: WCB agrees that funds should be recovered for Findings #1 through #4, but believes the recovery amount should be limited to $129,003, *i.e.*, recovery of $19,828 for Funding Year 1998 and recovery of $109,175 for Funding Year 1999. WCB reduced the amount of recovery by $8,316 because that amount was already included in both Findings #1 and #2 and should not be recovered twice. Specifically, the audit record demonstrates that the $8,316 portion of Finding #2 related to Internet access is a subset of the funds for which recovery is recommended as a result of Finding #1.

WCB believes amounts should be recovered for Funding Years 1998 and 1999 instead of Funding Year 1999 alone, as noted in Recommendation #1. In addition, WCB believes the amounts recommended for recovery should be properly segregated among the correct funding years in order to enable USAC to keep track of the monies. Segregating recommended recovery by funding year would require approximately $11,388 for Finding #2 and all recommended recovery amounts for Findings #3 and #4 to be accounted for as recommended recovery amounts for Funding Year 1998; the remainder would be accounted for as recommended recovery amounts for Funding Year 1999.

Recommendation 2 of 3: WCB should "take steps to ensure that funding requests are adequately reviewed in accordance with existing program rules and implementing procedures to ensure that funding requests associated with these areas of noncompliance with program rules and regulations are not approved."

Wireline Competition Bureau Response: Concur

Explanation: WCB agrees that we should take steps to ensure that funding requests are adequately reviewed in accordance with Commission rules and USAC procedures. We will continue to assess the program and work with USAC to determine whether additional procedures are warranted to address the issues identified in the report. In addition, WCB will revise the annual independent audit required by Part 54 of the Commission's rules to ensure greater oversight on USAC's review of funding requests.

Recommendation 3 of 3: WCB should "review those program rules and implementing procedures governing the area of noncompliance cited to in this report to ensure that those program rules and implementing procedures are adequate to protect the interests of the fund."

Wireline Competition Bureau Response: Concur

Explanation: WCB agrees that we should review the existing program rules and implementing procedures governing the areas of noncompliance to ensure that program rules and implementing procedures are adequate to protect the interests of the fund. Based on our assessment, WCB has recommended that the Commission adopt additional measures to safeguard the program against waste, fraud, and abuse, and WCB will continue to develop such recommendations in the future.

In January 2002, based on WCB's recommendation, the Commission initiated a rulemaking to consider, among other things, measures to limit fraud, waste and abuse in the E-rate program. In April 2003, the Commission sought further comment on additional issues relating to E-rate. In December 2003, the Commission adopted an Order that adopted additional measures to limit fraud, waste, and abuse and sought comment on other issues relating to E-rate. Finally, in August 2004, the Commission adopted the *Fifth Report and Order,* which implemented additional measures to limit waste, fraud and abuse (*e.g.*, strengthened technology plan rules, documentation requirements, and certification requirements). WCB expects that the measures adopted in the *Fifth Report and Order* will specifically address certain findings raised in this audit. The text of this order is pending release at this time.

WCB is considering the other aspects of the findings as part of our ongoing efforts to improve the Commission's oversight over the E-rate program and reduce the occurrences of waste, fraud and abuse. WCB is committed to addressing other issues that we previously sought comment on to strengthen the oversight of the E-rate program to combat waste, fraud and abuse.