



OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: December 22, 2003

TO: Chairman

FROM: Inspector General

SUBJECT: Report on Audit of the E-rate Program at the Prince William County Schools

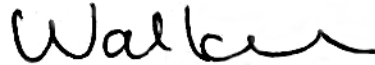
The Office of Inspector General (OIG) has completed an audit at Prince William County Schools, a beneficiary of the Universal Service Fund (USF). A copy of our audit report no. 02-AUD-02-04-11, entitled "Report on Audit of the E-rate Program at the Prince William County Schools" is attached. The objective 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.

We have concluded that Prince William County Schools is compliant in most respects with the requirements of the program for funding year 1999. However, the audit resulted in one finding and \$5,452 identified as a potential fund recovery. We recommend that the Wireline Competition Bureau direct the Universal Service Administrative Company (USAC) to recover \$5,452. 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 ensure that funding requests associated with this area 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 area of noncompliance cited in this report to ensure that those program rules and implementing procedures are adequate to protect the interests of the fund.

We held an exit conference on October 24, 2003 with the beneficiary's representatives, and requested their comments on the results of the audit. They asked to be able to provide comments at a later date. They have not provided any comments to this date, but they have indicated they are prepared to write a check to reimburse the Fund.

We provided management with a copy of our draft audit report, dated November 25, 2003, and requested they provide comments on their concurrence with the findings of the audit. In a response dated December 10, 2003, the Wireline Competition Bureau (WCB) indicated that they concurred fully or in part with our three audit recommendations. WCB's response is included in its entirety in the Appendix to the report.

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

A handwritten signature in black ink, appearing to read "Walker".

H. Walker Feaster III

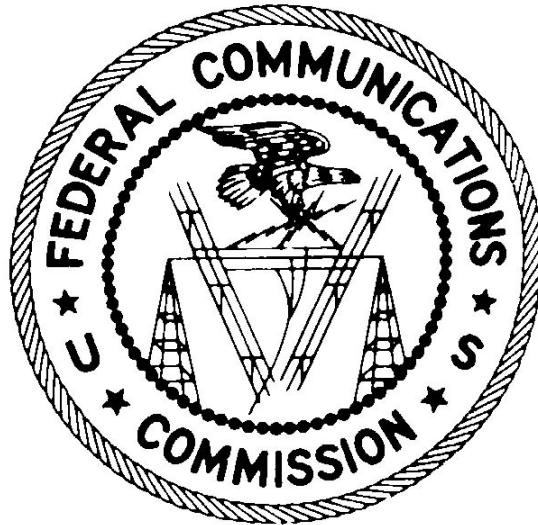
Attachment

Copy furnished:

John Wallingford, Supervisor of Finance, Prince William County Schools
George, McDonald, 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 the Prince William County Schools

Report No. 02-AUD-02-04-11
December 22, 2003

Handwritten signature of H. Walker Feaster III in black ink.

H. Walker Feaster III
Inspector General

Handwritten signature of Thomas D. Renner in black ink.

Thomas D. Renner
Assistant Inspector General for USF
Oversight

Handwritten signature of Mark Gerner in black ink.

Mark Gerner
Senior Auditor

Handwritten signature of Thomas C. Cline in black ink.

Thomas C. Cline
Assistant Inspector General for Audit

Report on Audit of the E-rate Program at the Prince William County Schools

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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.

Prince William County Schools is a public school system in Prince William County, Virginia. The district offices are located in Manassas, Virginia. The period of our review was from June 30, 1999 to July 1, 2000, which comprises Funding Year (FY) 1999 of the E-rate program. We performed our audit at Prince William County Schools in Manassas, Virginia and visited two schools in addition to touring the district office facilities.

Prince William's FY 1999 commitments amounted to \$1,324,675 and \$1,126,449 in funding was disbursed, of which 46% was spent on internal connections, 52% on telecommunications and 2% on internal connections.

Our audit of the use of E-rate funds at Prince William County Schools disclosed that the beneficiary is compliant in most respects with the requirements of the program for funding year 1999. However, the audit identified one area of noncompliance. Eighty-five (85) cellular phones associated with a cellular service contract were identified as paid for by SLD but not compliant with the educational purpose requirements of e-rate funding. The funding disbursed for the ineligible cellular phones was \$5,452 which is a potential fund recovery. We recommend that the Wireline Competition Bureau direct the Universal Service Administrative Company (USAC) to recover \$5,452. 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 ensure that funding requests associated with this area 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 area of noncompliance cited in this report to ensure that those program rules and implementing procedures are adequate to protect the interests of the fund.

We held an exit conference on October 24, 2003 with the beneficiary's representatives, and requested their comments on the results of the audit. They asked to be able to provide comments at a later date. They have not provided any comments to this date.

We provided management with a copy of our draft audit report, dated November 25, 2003, and requested they provide comments on their concurrence with the findings of the

audit. In a response dated December 10, 2003, the Wireline Competition Bureau (WCB) indicated that they concurred fully or in part with our three audit recommendations. WCB's response is included in its entirety in the Appendix to the report.

BACKGROUND INFORMATION

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General at the Federal Communications Commission has oversight responsibilities for the Universal Service Fund (USF) as a program of the Federal Communications Commission (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. 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.

Prince William County Schools is a public school system in Prince William County, Virginia. The district offices are located in Manassas, Virginia. FY 1999 commitments amounted to \$1,324,675 and \$1,126,449 in funding was disbursed, of which 46% was spent on internal connections, 52% on telecommunications and 2% on internal connections.

AUDIT OBJECTIVE AND SCOPE

The OIG has designed a program of audit oversight to provide FCC management with insight into the compliance with program rules and regulations by beneficiaries of the E-rate program. This audit was conducted as part of that oversight program. 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 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:

- The beneficiary determines its discount percentage by the percentage of their student enrollment that is eligible for a free or reduced price lunch under the national school lunch program or a federally-approved alternative mechanism.
- 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 period of our review was from June 30, 1999 to July 1, 2000, which comprises Funding Year 2 of the E-rate program. We performed our audit at Prince William County Schools in Manassas, Virginia and visited two schools in addition to touring the district office facilities.

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 a significant management weakness as discussed in the Audit Results section of this report and in Finding 1.

AUDIT FINDING AND RECOMMENDATIONS

Our audit of the use of E-rate funds at Prince William County Schools disclosed that the beneficiary is compliant in most respects with the requirements of the program. However, the audit identified one area of noncompliance. Eighty-five (85) cellular phones associated with a cellular service contract paid for by SLD were not compliant with the educational purpose requirements of e-rate funding. The funding disbursed for the ineligible cellular phones was \$5,452 which is a potential fund recovery.

AUDIT FINDING

Eighty-five (85) cellular phones associated with a cellular service contract were identified as paid for by SLD but were not compliant with the educational purpose requirements of e-rate funding.

Title 47 CFR 254(h)(1)(B) requires that E-rate services provided to eligible schools and libraries be used educational purposes. Compliance with this requirement is certified to by the beneficiary on FCC Form 471. Cellular service is eligible for discount when provided for use at a place of instruction and for educational purposes. The use of the phone must support instruction or support curriculum or instruction management. Cellular service for teachers, teacher aides, principals, curriculum coordinators, superintendents, and librarians, for example, would be eligible. Generally, cellular service for school or library personnel not involved with instruction, such as cafeteria directors, maintenance personnel, and facility directors, would not be eligible unless those individuals also provided instruction. The service is not eligible when provided for only security purposes, including security purposes on school buses.

Based on our review, we found that the cellular phones in question were held by 46 maintenance personnel, 24 security personnel, 13 plant operations personnel, and 2 ineligible administrative personnel (85 in total). We conclude that these services are ineligible for e-rate funding.

The total cost of the cellular service contracts for year 2 was \$45,120, of which \$17,766 was paid for by SLD. The total number of cellular phones serviced under this contract was 277. The phones in question represent 30.69% of the total phones under the contract. Therefore, we estimate the potential funding recovery for ineligible cellular phones to be \$5,452.

RECOMMENDATIONS

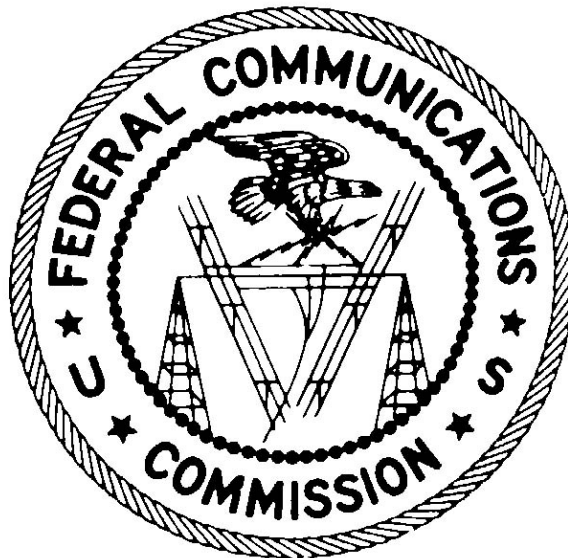
Recommendation 1 of 3 - We recommend that the Wireline Competition Bureau direct the Universal Service Administrative Company (USAC) to recover \$5,452 for ineligible cellular phone service.

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 this area 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 area of noncompliance cited in this report to ensure that those program rules and implementing procedures are adequate to protect the interests of the fund.

FEDERAL COMMUNICATIONS COMMISSION

OFFICE OF INSPECTOR GENERAL



Report on Audit of the E-rate Program at the
Prince William County Schools

Report No. 02-AUD-02-04-11

APPENDIX – Management Response



Wireline Competition Bureau

MEMORANDUM

DATE: December 10, 2003

TO: Inspector General

FROM: William F. Maher *WFM*
Chief, Wireline Competition Bureau

SUBJECT: Draft Report on Audit of the E-rate Program at Prince William County Schools

Attached please find WCB's response to the OIG's draft audit report on Prince Williams County Schools.

Prince William County Schools

Recommendation 1 of 3: recover \$5,452.00 for ineligible cellular phone service.

Wireline Competition Bureau Response: Concur

Explanation:

In the Second Schools Order issued in April 2003, the Commission clarified on a going-forward basis that any request for telecommunications service to be used by school or library staff on the school or library premises is presumed to be integral, immediate and proximate to the education of students or the provision of library services. The Commission also held that the use of telecommunications services off premises also could serve educational purposes in certain limited circumstances. For administrative convenience, the Commission chose to implement the clarification in the next funding cycle, Funding Year 2004. We concur that USAC should seek to recover \$5,452.00 for ineligible services for Funding Year 1999.

Recommendation 2 of 3: WCB should take steps to ensure that funding requests are adequately reviewed in accordance with existing rules and implement procedures to ensure that funding requests associated with this area of noncompliance with program rules are not approved.

Wireline Competition Bureau Response: Concur

Explanation:

We agree with the OIG that we should take steps to ensure that funding requests are adequately reviewed in accordance with existing Commission rules and USAC procedures. The Commission has clarified prospectively, however, that the particular issue identified in this report – cellular phones use by non-instructional staff – is not a rule violation. Pursuant to the Commission's Second Schools Order, use of cellular phones on school or library premises is now presumed to be integral, immediate and proximate to the education of students or the delivery of library services to library patrons. We will direct USAC to implement procedures to ensure that beneficiaries do not utilize cellular phones offsite for non-educational (i.e. personal) purposes.

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: Partially Concur

Explanation:

We agree with the OIG that we should take steps to review program rules and implementing procedures governing the program. However, the Commission recently

did review the rules associated with this area to ensure that the goals of the program, as set forth in the statute, are met. As noted above, the Commission has clarified that using E-rate discounts for cellular phone service for non-instructional personnel on-premises is not a rule violation. We will direct USAC to implement procedures to ensure that beneficiaries do not utilize cellular phones in violation of this rule.