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Federal Communications Commission

**Performance Audit of  
East Central Independent School  
District**

**Project Number**

**18-AUD-08-06**

**March 19, 2019**





# OIG HIGHLIGHTS

## **What We Audited:**

The Office of Inspector General (OIG) conducted a performance audit of East Central Independent School District (the District), a Universal Service Fund Schools and Libraries (also known as “E-rate”) program beneficiary. Our objective was to determine whether the beneficiary complied with the FCC rules and orders for the E-rate program, as stated in Title 47 of the Code of Federal Regulations (47 C.F.R.), for the period July 1, 2015 through June 30, 2016.

We tested the District’s internal controls applicable to our audit procedures to determine if those controls were effective for safeguarding Universal Service Funds. Our audit procedures included a review of the District’s application and contracting process, discount calculations, competitive bidding procedures, inventory tracking, invoicing process and compliance with the Children's Internet Protection Act (CIPA).

## **What We Found:**

Generally, our audit procedures did not identify noncompliance with the applicable E-rate program laws, rules and regulations. However, the District could not locate one access point that was purchased with E-rate funds. The missing access point cost \$658, which represented less than one percent of the total E-rate funds received by the District for the funding year. The cost of the equipment was immaterial, and actions were taken to replace the equipment during our site visit. We did not identify any other discrepancies.

Our test procedures did not identify any significant findings or deficiencies in the District’s controls for safeguarding Universal Service Funds for the period reviewed.

## **What We Recommended:**

The audit did not identify any significant findings or internal control weaknesses. Therefore, we did not make any recommendations for corrective action.

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## BACKGROUND

The Federal Communications Commission (FCC) was established by the Communications Act of 1934 (the Act) as an independent U.S. government agency and is directly responsible to Congress. The Act mandated that all people in the United States shall have access to universal service, defined as rapid, efficient, nationwide communications with adequate facilities at reasonable charges. Subsequently, the Telecommunications Act of 1996 expanded the traditional definition of universal service for affordable, nationwide telephone service, to include rural health care providers and eligible schools and libraries.

The Schools and Libraries universal service support program, commonly known as the “E-rate” program, provides funding for schools and libraries to obtain affordable broadband. Annual funding for the E-rate program is based on demand, up to the FCC established annual cap of \$3.9 billion. Funding for a school or library may be requested under two categories of eligible services - category one services (telecommunications, telecommunications services and Internet access), and category two services (internal connections, basic maintenance of internal connections, and managed internal broadband services). The E-rate program is administered by the Universal Service Administrative Company (USAC) under the direction of the FCC.

The East Central Independent School District (the District), located in San Antonio, Texas is comprised of 12 schools. In funding year 2015, the District received E-rate support totaling \$853,244. The aforementioned amount includes \$247,528, allocated to 11 schools, for category one services and \$605,716, allocated to 10 schools, for category two services. Additional details regarding the District’s funding and schools are provided in Appendix B of this report.

## OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this performance audit was to determine if the District was in compliance with the applicable FCC rules and orders, codified in Title 47 of the United States Code of Federal Regulations (47 C.F.R.) and under Section 254 of the Communications Act of 1934, as amended.

The scope of our audit included Universal Service Funds (USF) received by the District in funding year 2015 (July 1, 2015 through June 30, 2016).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Additional details on the audit objectives, scope and methodology are provided in Appendix A of this report.

## AUDIT RESULTS

Our audit found that the District was generally in compliance with the applicable E-rate program laws, rules and regulations. We performed testing on the District’s application and contracting process, discount calculations, competitive bidding process, inventory tracking, invoicing, and compliance with the Children’s Internet Protection Act (CIPA). We also tested the District’s internal controls, as they related to our audit procedures. Our audit found that the District could not locate an internal connection access point<sup>1</sup> that was purchased with USF funds. The cost of the equipment was immaterial, and actions were taken to replace the equipment using non-USF funds during our site visit.

The District received \$853,244 in USF funds for funding year 2015. Table 1 displays the service and product types and the amount of USF funds the District received for each category of service.

**Table 1 – Description of Services Received with E-rate Funds**

<b>Services</b>	<b>Service Type</b>	<b>Product Type</b>	<b>Support Received</b>
Category One	Internet Access, Telecommunication Services, and Voice Services	Lit Fiber Service, Local Phone Service Only, Long Distance Phone Service Only, and Primary Rate Interface (PRI) Integrated Services Digital Network (ISDN)	\$247,528
Category Two	Internal Connections	Access Points, Installation, Activation and Initial Configuration, Operating System Software of Eligible Equipment, and Switches	\$605,716
<b>Total</b>			<b>\$853,244</b>

### *Missing Access Point*

While conducting a physical inventory, we were unable to locate one access point at Harmony Elementary School. The school was under construction and District officials stated that the item was misplaced by a contractor. As a result, the District was not compliant with 47 C.F.R § 54.516(a) (1), which states, “Schools, libraries, and any consortium...shall maintain asset and inventory records of equipment purchased as components of supported category two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase.”

The missing access point cost \$658, which represents less than one percent of the total \$853,244 of E-rate program support received by the District for the funding year. Before concluding our fieldwork, the District’s contractor agreed to purchase a new access point, at their expense, as a

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<sup>1</sup> An access point is defined as a device that connects a computer to a network (e.g., a wired device that sends out wireless Ethernet signals).

replacement for the lost one. Therefore, we did not report any findings or recommendations for corrective action.

**Conclusion:**

The District generally complied with the applicable E-rate program laws, rules and regulations, as it related to our audit procedures. We did not identify any significant findings or internal control weaknesses and did not make any recommendations for corrective action.

**BENEFICIARY'S RESPONSE:**

East Central Independent School District did not provide a response to the draft report.

**FCC AND USAC MANAGEMENT RESPONSE:**

FCC and USAC management did not provide a response to the draft report.

## APPENDIX A - OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this performance audit was to determine if the E-rate beneficiary was in compliance with the applicable FCC rules and orders for the E-rate program, codified in Title 47 of the United States Code of Federal Regulations (47 C.F.R.).

Specifically, the objective included:

1. Determining if the beneficiary complied with 47 C.F.R. §§ 54.500 through 54.523, and all applicable orders issued under Section 254 of the Communications Act of 1934, as amended; and
2. Reviewing internal controls applicable to the procedures tested and determining the effectiveness of the District's internal control systems for safeguarding the Universal Service Fund (USF).

The scope of our audit included E-rate program support received by the East Central Independent School District (the District) for funding year 2015. We performed our fieldwork at the District's Main Office in San Antonio, Texas, and FCC Headquarters in Washington, DC.

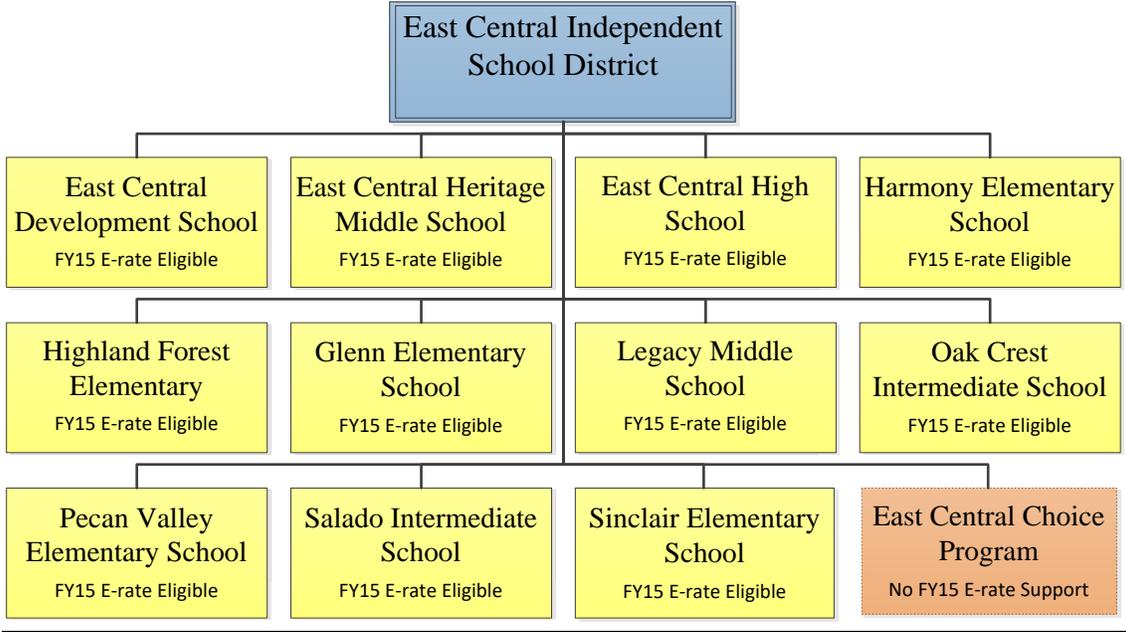
We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To accomplish our audit objectives, we performed audit procedures, as deemed appropriate, including the following:

- Obtained and reviewed the District's E-rate application data, for funding year 2015;
- Confirmed the District's status as an eligible entity based on E-rate regulations;
- Recalculated the District's discount rate based on the District's 12 schools that qualified for the National School Lunch Program (NSLP);
- Evaluated the District's policies and procedures for developing the discount rate, applying for E-rate program discounts, completing the competitive bidding process, inventory management, processing invoices, and ensuring compliance with CIPA;
- Examined E-rate program documentation to determine the reasonableness of the District's expenses, and payments and reimbursements from USAC;
- Assessed the terms of the District's contractual agreements and examined service provider contracts; and
- Conducted a physical inventory of E-rate equipment purchased at the 10 participating schools that received category two services and compared the results of the physical inventory to the District's inventory records.

# APPENDIX B – EAST CENTRAL E-RATE ELIGIBLE SCHOOLS

**Table 2 – East Central Independent School District  
Eligible Schools Receiving E-rate Support**



## APPENDIX C - GLOSSARY OF TERMS

**ACCESS POINT** – A device that connects a computer to a network (e.g., a wired device that sends out wireless Ethernet signals).

**APPLICANT** - The entity applying for universal service support. For E-rate, the entity may be a school, library, consortium, or other eligible entity that files program forms.

**BENEFICIARY** - The entity receiving universal service support. For E-rate, the entity may be a school, library, consortium, or other eligible entity that files program forms.

**CATEGORY ONE SERVICES** - Services used to connect broadband or internet to eligible locations, or services that provide the basic conduit access to the internet. Data transmission services and Internet access, and voice services are category one services. Category one services includes broadband connectivity and basic conduit access to the internet.

**CATEGORY TWO SERVICES** - Internal connections services needed to enable high-speed broadband connectivity and broadband internal connections components. Category two includes local area networks/wireless local area networks (LAN/ WLAN), internal connections components, basic maintenance of internal connections components, and managed internal broadband services.

**CHILDREN’S INTERNET PROTECTION ACT (CIPA)** - A law that mandates certain internet safety policy and filtering requirements for recipients of E-rate program discounts for services other than telecommunications services.

**DISCOUNT PERCENTAGE** (also known as discount rate) - The discounts available to eligible schools and libraries shall range from 20 percent to 90 percent of the pre-discount price for all eligible services provided by eligible providers.

**ELIGIBLE ENTITY** - An entity that meets the requirements to participate in the E-rate program.

**ELIGIBLE SERVICES** - Products and services that qualify for universal service support.

**INSTALLATION, ACTIVATION AND INTIAL CONFIGURATION** - A category two product type. These services include basic design and engineering costs and basic project management costs; when services are provided as an integral component of the installation of the relevant services.

**INTERNAL CONNECTIONS** - A category two service type. Internal connections services are eligible products, such as routers, switches, hubs, and wiring. Eligible products are located at the applicant’s site and must be considered a necessity to transport information to classrooms or publicly accessible areas of a library.

**INTERNET ACCESS** – According to 47 C.F.R § 54.5 of the FCC’s rules, Internet access includes: (1) The transmission of information as common carriage; (2) The transmission of

information as part of a gateway to an information service, when that transmission does not involve the generation or alteration of the content of information; and (3) Electronic mail services (e-mail).

**LIT FIBER SERVICE** - A large bandwidth connection providing high-speed Internet or data service delivered over fiber optic lines. Lit Fiber is used by businesses that are engaged in telecommunications, wholesale Internet access, or wholesale ISP services to provide the bandwidth capacity needed for customer applications including email, file sharing, web hosting, data backup, video, VOIP, or VPN access.

**PRIMARY RATE INTERFACE (PRI) INTEGRATED SERVICES DIGITAL NETWORK (ISDN)** – ISDN is a type of Data Transmission Service that uses traditional phone lines to transmit digital voice and data over telephone lines. There are two types of ISDN service. Primary Rate Interface (PRI) provides a total bandwidth of 1.544 megabits per second. Basic Rate Interface (BRI) provides a total bandwidth of 144 kilobits per second.

**SWITCH** - A switch is a mechanical or electronic device that completes or breaks an electrical path or that selects the paths for communication. More specifically, network switches provide capabilities like a network hub but provide a dedicated bandwidth at each network port, rather than shared bandwidth among all ports.

**TELECOMMUNICATION SERVICES** – Any service provided by a telecommunication provider over a distance by telephone, telegraph, or radio. The transmission, reception, and the switching of signals such as electrical or optical, by wire, and/or fiber.

**UNIVERSAL SERVICE FUND (USF)** - Money collected from telecommunications companies and dedicated to fulfilling the goals of universal service. Under the authority of the 1996 Telecom Act, the FCC created the USF as well as the Universal Service Administrative Company (USAC), the organization charged with administering universal service. Telecommunications companies make contributions to the USF based on revenues from providing international and interstate telecommunications services.

**VOICE SERVICES** - A category one service type. Telephone services, such as Centrex, local and long distance, wireless telephone service, VoIP (Voice over Internet Protocol), etc., are voice services.

**WIDE AREA NETWORK (WAN)** - A voice, data, and/or video network that provides connections from within an eligible school or library to other locations beyond the school or library.

References for Glossary of Terms<sup>2</sup>

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<sup>2</sup> USAC's glossary of terms: <http://usac.org/res/documents/sl/pdf/handouts/SL-Glossary-of-Terms.pdf> ; USAC's Eligible Services List Glossary: <https://www.usac.org/res/documents/sl/pdf/ESL-Glossary.pdf> ; and USAC's Eligible Services List (2015): [https://www.usac.org/res/documents/sl/pdf/ESL\\_archive/EligibleServicesList-2015.pdf](https://www.usac.org/res/documents/sl/pdf/ESL_archive/EligibleServicesList-2015.pdf)



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