



Internal Audit

E-Rate Program Compliance Audit for Fiscal Year 2021-2022

E-Rate Program Compliance Audit for FY 2021-2022

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Date: September 26, 2022

To: Board of Trustees
Stephanie S. Elizalde, Ed.D., Superintendent

From: Robert Rubel, MBA, CPA, CIA, CISA
Chief Internal Audit Officer

Subject: E-Rate Program Compliance Audit for Fiscal Year 2021-2022

Executive Summary

The Dallas Independent School District (District) Office of Internal Audit (OIA) has completed the E-Rate Program Compliance Audit for Fiscal Year (FY) 2021-2022 to assist the District's E-Rate compliance officer in evaluating compliance with E-Rate rules and regulations.

The audit focused on assessing the District's compliance with E-Rate program rules and requirements for the following areas: general compliance, including training, conflict of interest, and gift disclosures; application and reporting processes; and proof of existence for E-Rate assets tracked in TipWeb.

Overall, results for attributes tested were compliant with E-Rate program requirements.

Opportunities for improvement were identified in the following areas:

1. Instances of incorrect Funding Request Numbers (FRNs) were documented in TIPWeb.
2. Installation dates for E-Rate assets are not being tracked in TipWeb.

Implementation of the recommendations in this report could assist the District to improve tracking processes for E-Rate assets.

Background

The E-Rate program, administered by Universal Service Administrative Company (USAC) under the direction of the Federal Communications Commission (FCC), provides affordable telecommunications and Internet services to qualified schools and libraries by offering discounts on eligible goods and services.

The mission of the Dallas ISD E-Rate program is to conduct all E-Rate activities in accordance with federal, state, and local laws as well as Dallas ISD policies applicable to E-Rate compliance.

The District appoints an E-Rate compliance officer (the District's chief technology officer) who, in collaboration with end users in various departments, ensures compliance with the E-Rate program.

Each year an eligible services list is released containing a description of the products and services

that will be eligible for discounts, along with additional helpful information such as eligibility conditions for each category of service for each specified funding year. Eligible services fall into two categories:

1. Category One Services
 - Data Transmission Services and/or Internet Access
2. Category Two Services
 - Internal Connections
 - Managed Internal Broadband Services
 - Basic Maintenance of Internal Connections

While there is no budget determined for category one services, category two funding has a five-year, pre-discount budget for those products and services based on the number of students in the school district. Applicants must validate their student counts or library square footage in the first year they apply for category two funding in the relevant five-year funding cycle.

To participate in the E-Rate program and receive discounts, the District must complete the following processes:

- Competitive Bidding for E-rate Suppliers
- Selecting Service Providers
- Applying for Discounts
- Application Review
- Notifications for Starting Services
- Invoicing for Reimbursement

To conduct the above, several FCC forms are filed with USAC to comply with E-Rate regulations. Below is a summary of forms reviewed during the audit.

- Form 470, Description of Services Requested and Certification Form - Opens the competitive bidding process for the products and services the District is seeking
- Form 471, Services Ordered and Certification Form - Requests discounts on eligible services and equipment for the upcoming funding year
- Form 472 (Reimbursements to the District), Billed Entity Applicant Reimbursement (BEAR) Form - Used to request reimbursement from USAC for the discount costs of the eligible products or services approved on the FCC Form 471, and which the applicant has received and paid for in full
- Form 474 (Reimbursements to the Vendor), Service Provider Invoice (SPI) Form - Used to request reimbursement from USAC for the discount amount for eligible services and equipment provided to the applicant and approved on the FCC Form 471
- Form 498, Service Provider and Billed Entity Identification Number and General Contact Information Form – Used to collect contact, billing, and remittance information in order to

issue an applicant ID that is needed to complete Form 472 to then be able to receive reimbursements from USAC.

To properly complete the above forms and receive reimbursement for E-Rate funded assets, the assets must be properly tracked and documented. The District manages this by utilizing an asset tracking system (TipWeb). When assets are received at the District, they are input into TipWeb and categorized as an E-Rate asset in the system. Each E-Rate asset should have a FRN assigned to it that allows it to be tracked by funding year. The FRN is determined when the District submits a form 471. Each form 471 will list out the E-Rate assets to be purchased in the correlating funding year. When the asset is subsequently purchased and received, this funding number is assigned to the asset within TipWeb in order to properly tie it to the applicable funding year. These assets are also listed by FRN when submitted for reimbursement via the Form 472. In addition, the District uses the FRN to identify E-Rate assets for tracking and audit purposes.

In addition, IT Business Services, within the Information Technology Department, uses an application called PuTTY that allows certain E-Rate assets to be identified at their given locations. The application provides a real-time report by location that shows what assets are in service at that location. IT Business Services currently uses this application to conduct self-audits of E-Rate assets.

Scope

The audit focused on assessing the District's compliance with E-Rate program rules and requirements in FY 2021-2022; however, certain other matters, procedures, and transactions outside that period were reviewed to understand and verify information during the audit period.

Objective

The objective of the audit was to assess the District's compliance with E-Rate program rules and requirements.

Methodology

OIA identified compliance requirements related to the District's E-Rate program activity, interviewed key personnel, and performed the following audit procedures:

General Compliance

1. To determine if the District has controls in place for general E-Rate compliance requirements, auditors requested the E-Rate Eligibility Employee list for July 1, 2021, through May 2022 and reviewed the following:
 - Verified E-Rate training is tracked by the E-Rate coordinator
 - Verified conflict of interest forms are tracked
 - Verified gift disclosure statements are tracked
 - Where applicable, reviewed documentation regarding action taken by the District to approve or remedy any known potential conflicts of interest or gifts disclosed

2. Additionally, auditors verified publication of the USAC and District whistleblower telephone numbers on the District's website and called the District hotline to verify it is functioning.

No exceptions were noted.

Applicant Process

1. Form 470, Open Competitive Bidding - OIA reviewed two Form 470s completed during FY 2021-2022. To determine if the District's competitive bidding process to procure eligible assets and/or services complies with E-Rate requirements, auditors performed the following:
 - Verified the Form 470 and related request for proposal were posted at least 28 days prior to closing the competitive bidding process.
 - Verified that bid/proposal solicitations were announced in one or more local newspapers of mass-distribution for a minimum of two consecutive weeks
 - Obtained and reviewed evaluations to verify the following:
 - the criteria used to evaluate bid responses was consistent with those published in the request for proposal
 - price was the most heavily weighted factor on the bid evaluations
 - clerical accuracy of the evaluations
 - highest rated bidder was selected

No exceptions were noted.

2. Form 471, Funding for Eligible Services and Commitment Decision Letters - The District completed two Form 471s during FY 2021-2022, one for category one services and one for category two services. To determine if the total enrollment number reported for category two services on Form 471 is accurate, auditors compared the total enrollment on the form to the Public Education Information Management System (PEIMS) data submitted to the Texas Education Agency. Note: enrollment numbers on the category one form were not reviewed as there is no enrollment cap on category one services.

No exceptions were noted.

3. Form 472, District Reimbursements - To determine if reimbursements for E-Rate assets/services to the District were accurate, auditors performed the following:

The District completed one Form 472 during FY 2021-2022 (for funding year FY 2019-2020). For the Form 472 auditors performed the following:

- Vouched the total undiscounted amount for services reported on Form 472 to supporting invoices
- Verified the District received a 90 percent discount rate for the amount to be reimbursed from USAC
- Vouched the total reimbursement amount billed on Form 472 to the payment received of \$3,032,617 on the July 2021 bank statement

No exceptions were noted.

4. Form 474, Vendor Reimbursements – To determine if processes are in place to ensure vendor billings are accurate, auditors reviewed reconciliations submitted by vendors related to 3 Form 474s for goods/services delivered during FY 2021-2022. Auditors verified the District paid 15% of the non-discounted amount to the vendor(s).

No exceptions were noted.

Proof of Existence

1. To determine proof of existence for E-Rate assets, auditors made the below sample selections and performed the following:

1 year - For assets purchased from July 1, 2021, through May 13, 2022, auditors obtained an asset listing from TipWeb and selected a judgmental sample of 17 E-Rate assets totaling \$68,646 from a population of 1,142 assets totaling \$1,695,717.

- For 14 of the sample selections, auditors obtained the PuTTY report and verified each asset was identified at the location listed in TipWeb.
- For 3 of the sample selections, auditors physically verified each asset was at the location listed in TipWeb.

5 year - For assets purchased from January 1, 2017, through December 31, 2021, auditors obtained an asset listing from TipWeb and selected a judgmental sample of 50 E-Rate assets totaling \$65,257 from a population of 13,100 assets totaling \$16,892,362.

- For 38 of the sample selections, auditors obtained the PuTTY report and verified each asset was identified at the location listed in TipWeb.
- For 10 of the sample selections, auditors physically verified each asset was at the location listed in TipWeb.
- For 2 of the sample selections, auditors relied on photographs provided by an IT technician.

Recommendations 1 and 2 in this report were noted.

The primary criteria reviewed for this audit were:

- 1) Schools and Libraries (E-Rate) Program, Program Overview, updated February 2019
- 2) Texas Education Code 44.031 (g) Fiscal Management, on website as of audit report date
- 3) USAC, Category Two Budgets, 2021 Applicant and Service Provider Training, dated November 17, 2021
- 4) USAC, Sample Asset Register/Inventory List, on web as of date of this audit report
- 5) Dallas ISD Purchasing Manual, published on December 1, 2021
- 6) CAA (LOCAL), Fiscal Management Goals and Objectives, Financial Ethics, issued July 2021
- 7) CAA (REG), Fiscal Management Goals and Objectives, Financial Ethics, issued November 2020

- 8) BBFA (LOCAL), Ethics, Conflict of Interest Disclosures, issued May 2016
- 9) CH (LOCAL), Purchasing and Acquisition, issued March 2020
- 10) CHE (LEGAL), Purchasing and Acquisition, Vendor Disclosures and Contracts, issued November 2021
- 11) CHE (LOCAL), Purchasing and Acquisition, Vendor Relations, issued November 2015
- 12) DBD (LOCAL) Employment Requirements and Restrictions, Conflict of Interest, issued July 2016

Audit Observations and Recommendations

Observation 1 – Instances of incorrect FRNs were documented in TIPWeb.

Condition

Out of a total 67 assets tested, 35 (52%) had incorrect FRNs assigned in TipWeb. Additionally, 11 items in the sample were assigned an FRN in TipWeb although they were not an E-Rate asset.

Asset information, including the FRN, is put into TipWeb based primarily on information from the purchase order (PO), which does not typically provide a breakdown of E-Rate versus non-E-Rate assets, as this information is distinguished on the invoice received at a later date. There is currently not a process to update the assets in TipWeb based on the information provided on the invoice.

Criteria

Universal Service Administrative Company, Sample Asset Register/Inventory List, on web as of date of this audit report

The above provides an example of an inventory tracking worksheet that may be helpful in case of an audit or other USAC or FCC request for documentation supporting a request for E-rate program funds. The example includes tracking of the FRN.

Cause

Incorrect FRNs are being assigned due to manual data input processing errors. In addition, lack of system controls and monitoring allow for inaccurate inputs to go unnoticed. Additionally, it was noted by Information Technology Business Services that some FRNs have inadvertently changed subsequent to initial assignment in TipWeb.

Effect

Incorrect FRNs impact tracking and accounting for E-Rate assets. The FRN identifies the asset as an E-Rate asset which is accounted for differently from assets purchased with other types of funds. Without this identifier, it is difficult to determine if it is an E-Rate asset or the funding year it applies to.

Recommendation 1

Information Technology should identify and correct any inaccurately documented E-Rate assets in TipWeb that are within the required tracking period.

Information Technology should consider implementing periodic reconciliation processes to verify assets are labeled with the correct FRN. A possible solution would be to run an asset listing from TipWeb and compare the FRNs from the asset listing to the assets listed on the invoices.

Risk Level: Low¹

Observation 2 – Installation dates for E-Rate assets are not being tracked in TipWeb.

Condition

When making selections to test proof of existence, auditors noted there was no installation date documented on the asset listing obtained from TipWeb. TipWeb tracks purchase date, delivery date, and expiration date; however, no installation date is currently tracked in the system. The installation dates must be submitted on form 472 in order to receive reimbursements. In addition, the installation dates must be managed to determine when the asset is allowed to be disposed, sold, or transferred. External auditors may also request the installation date during E-Rate compliance audits.

Currently, the E-Rate Coordinator manually researches the installation date for each asset from a work authorization form, invoice, or deliverable package. The installation dates are not tracked in a centralized system where others who may require the information can access and where monitoring processes can be implemented.

Criteria

Universal Service Administrative Co, E-Rate Program List of Documents to Retain for Audits and to Show Compliance with Program Rules, Updated June 2022

Applicants must maintain an asset register/inventory list including location and disposition of equipment (e.g., replacements, upgrades, transfers, or disposals) including equipment model, serial number, quantity installed, location where originally installed, new location, date of installation/transfer, etc.

Code of Federal Regulation, Title 47, Chapter I, Subchapter B, Part 54,

§ 54.513 Resale and transfer of services.

(b) Disposal of obsolete equipment components of eligible services. Eligible equipment components of eligible services purchased at a discount under this subpart shall be considered obsolete if the equipment components have had been installed for at least five years. Obsolete equipment components of eligible services may be resold or transferred in consideration of money or any other thing of value, disposed of, donated, or traded.

¹ See Attachment 2 for Definition of Risk Level.

Cause

E-Rate assets are input into TIPWeb when received at the Ervay warehouse based on information on the PO. Assets are subsequently transferred to their assigned location and then installed. Since the information in TipWeb primarily comes from the PO prior to installation, no installation date is added for the asset.

Effect

Not including an installation date in TipWeb could result in inefficiencies in obtaining and tracking compliance required data. In addition, not having this information in a centralized tracking system, may increase the risk of assets being improperly disposed.

Recommendation 2

Information Technology should consider implementing a process to upload installation dates into TipWeb for E-Rate assets as well as monitoring procedures to ensure installation dates are accurate. Potential solutions could include reconciling installation dates listed on the invoices with installation dates input in TipWeb.

Risk Level: Low²

Conclusion

Overall, results for attributes tested by OIA for the E-Rate program were compliant with program requirements.

Implementing the recommendations in this report could assist the District to improve accuracy of asset identifiers documented in TipWeb and tracking processes for E-Rate assets.

We would like to thank the Information Technology department and Risk Management Controllable Assets for their cooperation and assistance with this audit.

The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Those standards require OIA to plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. OIA believes the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

² See Attachment 2 for Definition of Risk Level.

Respectfully submitted,

Robert Rubel

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Chief Internal Audit Officer

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Alyssa Zhang, Auditor I

Definition of Risk Level

Risk Level	Definition
High	High probability of occurrence that would significantly impact District operations and have a significant financial or compliance risk. These observations are defined as an observation by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of the District
Medium	Risks are considered to be substantially undesirable and pose a moderate level of risk exposure to District operations. Without appropriate controls, the risk will happen on a consistent basis.
Low	The risks are considered to be undesirable and could moderately expose the District. Without appropriate controls, the risk will occur some of the time.

Management Response

Observation 1 – Instances of incorrect Funding Request Numbers (FRNs) were documented in TIPWeb.

Acknowledgement of observation:

- ☒ Agree
☐ Disagree

Management's Response:

Notification of Status Changes and Internal Transfers are available in TIPWeb-IT (Asset Management) and will be redirected from Capital Asset Management to IT Business Services to assist IT Infrastructure system controls and monitoring. Additional reporting and system concerns will be explored with the software vendor.

FRNs dating from 2018 to current will be compared by each campus to ensure accuracy and completeness as a districtwide data download is unavailable. Information Technology has initiated a shared document tracking equipment data which includes FRN information as applicable for comparison. Central Receiving should continue to ensure the FRN field in TIPWeb-IT remains blank for all general equipment purchases their department receives.

Estimated Implementation Date:

June 30, 2023

Individuals responsible for implementation:

Brent Frederick, Network Manager, IT Infrastructure, Information Technology
Lyn Wilkerson, Manager, Controllable Assets, Risk Management, Financial Services
Rebecca Sanchez, Director II, IT Business Services, Information Technology

Observation 2 – Installation dates for E-Rate assets are not being tracked in TipWeb.

Acknowledgement of observation:

- ☒ Agree
☐ Disagree

Management's Response:

Information Technology has initiated a Google shared document for each vendor to input installation dates for current and future installations of E-Rate equipment at sites. IT Infrastructure will perform confirmation physically and systematically ensuring TIPWeb-IT is updated accurately and completely.

Previous installation dates from invoice documentation must be thoroughly researched and submitted via a bulk upload to TIPWeb-IT. Technicians and inventory specialists are in the

process of reviewing invoice documentation and adding information as each campus is examined.

Estimated Implementation Date:

June 30, 2023

Individuals responsible for implementation:

Brent Frederick, Network Manager, IT Infrastructure, Information Technology

Rebecca Sanchez, Director II, IT Business Services, Information Technology