



Internal Audit

E-Rate Program Compliance Audit for Fiscal Year 2022-2023

E-Rate Program Compliance Audit for FY 2022-2023

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Date: October 18, 2023

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 2022-2023

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) 2022-2023 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: E-Rate forms; training, conflicts of interest and gift disclosures; and proof of existence for E-Rate assets tracked in the District's asset management system, 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 asset locations in TipWeb were noted.
2. There were E-Rate assets with a blank Funding Request Number field 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 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 – Used to open the competitive bidding process for the products and services the District is seeking.
- Form 471, Services Ordered and Certification Form – Used to request discounts on eligible services and equipment for the upcoming funding year.
- Form 472, Billed Entity Applicant Reimbursement (BEAR) Form – Used by the applicant 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, Service Provider Invoice (SPI) Form – Used by the vendor 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 486, Receipt of Service Confirmation and Children's Internet Protection Act Certification Form – Used to notify USAC that the billed entity and/or the eligible entities that it represents is receiving, or has received, service in the relevant funding year from the named service provider(s).

The E-Rate Productivity Center (EPC) is the account and application management portal for the E-Rate Program. This system allows E-Rate participants to complete and certify forms, obtain status of applications, submit requests, receive reminders and notifications, respond to review

questions, and ask program related questions.

To receive reimbursement for E-Rate funded assets, the assets must be tracked and documented. The District manages this by utilizing the asset tracking system TipWeb. When assets are received at the District, they are recorded in TipWeb and categorized as an E-Rate asset. Each E-Rate asset must be tied to a Funding Request Number (FRN) that allows it to be tracked by funding year. The FRN is assigned by USAC when the District submits a Form 471. When assets are subsequently purchased and received, the FRN is assigned to the asset in TipWeb to tie it to the applicable funding year. The FRN is also used when requesting reimbursement via Form 472 and for tracking and audit purposes.

In addition, IT Business Services, within the Information Technology Department, uses an application called PuTTY to identify the location of certain E-Rate assets. The application provides a real-time report that shows which assets are in service at a specific 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 2022-2023; 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

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

Applicant Process

1. Form 470, Open Competitive Bidding – Auditors reviewed the EPC and determined the District did not complete a Form 470 during FY 2022-23. As a result, auditors did not perform any tests related to Form 470.
2. Form 471, Services Ordered and Certification Form – Auditors reviewed the EPC and found the District completed one Form 471 during FY 2022-2023 for category one services. To determine if the District was in compliance with USAC's requirements for completing Form 471, auditors performed the following:
 - Verified the student enrollment number reported on Form 471 was accurate by comparing the total enrollment stated on the form to Public Education Information Management System (PEIMS) data submitted to the Texas Education Agency.
 - Verified the Form 471 contained detailed information about products and services ordered.

No observations were noted.

3. Form 472, BEAR Form – To determine if the District was in compliance with USAC's requirements for completing Form 472, auditors obtained all Form 472s submitted to USAC during FY 2022-23, selected a sample of two forms, and verified the following:
 - a. The forms were completed and consistent with Form 471 and vendor invoices.
 - b. The forms were submitted after Form 486.
 - c. Goods and services were received/performed.
 - d. The form was filed no later than 120 days after the latest of the following:
 - i. Service delivery deadline (the last date to receive service).
 - ii. date of the FCC Form 486 notification letter.
 - iii. date of the approved post-commitment Revised Funding Commitment Decision Letter; or
 - iv. date of an approved appeal Revised Funding Commitment Decision Letter on a previously denied or reduced funding request.
 - v. Invoice deadline date

No observations were noted.

4. Form 474, SPI Form – To determine if the District was in compliance with its policies related to Form 474, auditors obtained all invoices associated with Form 474s submitted by vendors to USAC during FY 2023-23, selected a sample of two FRNs¹, and verified the following:
 - a. Invoices contained all goods and services provided by the vendor and reflect all charges to both the District and USAC.
 - b. Invoices itemized all E-Rate eligible and ineligible goods and/or services per the corresponding purchase order.
 - c. Invoices were submitted to and reviewed by the District prior to submission to USAC.
 - d. Invoices are free of variances between items delivered and items billed.

No observations were noted; however, results were communicated to management for review.

5. Form 486, Receipt of Service Confirmation and Children's Internet Protection Act Certification Form – Auditors reviewed the EPC and determined the District did not complete a Form 486 during FY 2022-23. As a result, auditors did not perform any tests related to Form 486.

Proof of Existence & Asset Management

1. To determine proof of existence for E-Rate assets, auditors performed the following:
 - a. Generated a TipWeb report of E-Rate assets.
 - b. Matched FRNs in the Form 472s and Form 474s submitted during FY 2022-23 to FRNs in the TipWeb report.
 - c. Identified 149 assets with a total value of \$215,763 associated with FRNs in the Form 472s and Form 474s submitted during FY 2022-23.
 - d. Selected a random sample of 51 E-Rate assets with a total value of \$76,796.
 - e. Obtained PuTTY reports to determine whether the assets selected in the sample exist and if their location matched the location recorded in TipWeb.
 - f. Visited campuses to physically locate and observe assets that could not be located using PuTTY reports and verified the location matched the location recorded in TipWeb.

¹ The invoices provided by the E-Rate Department were grouped by Funding Request Numbers.

See Recommendation 1 in this report.

2. To determine compliance with District asset management requirements, auditors verified the following E-Rate asset information was recorded in TipWeb:
 - a. Tag number
 - b. Serial number
 - c. Description
 - d. Location
 - e. FRN
 - f. Installation Date

Auditors also verified if the E-rate funding year and FRN were tagged on the assets that were physically located and observed.

See Recommendation 2 in this report.

General Compliance

1. To determine if the District was in compliance with E-Rate Program requirements related to training, conflicts of interest and gift disclosures, and the Children's Internet Protection Act (CIPA), auditors performed the following:
 - Verified E-Rate training was tracked by the E-Rate Coordinator and was completed by all E-Rate Eligible Employee's (EEE's) by June 30, 2023.
 - Verified if any EEE's reported conflict of interest forms and/or gifts.
 - CIPA – Obtained and reviewed the District's:
 - Internet Safety Policy
 - Technology Protection Measures
 - Public Notice and Hearing or Meeting – to address proposed technology protection measures and internet safety policy.

No observations were noted.

The primary criteria reviewed for this audit were:

- 1) Schools and Libraries (E-Rate) Program, Program Overview, last updated September 2021
- 2) USAC's E-Rate Applicant Process website, <https://www.usac.org/e-rate/applicant-process/>, on web as of date of this audit report
- 3) Dallas ISD, E-Rate Program Manual, last updated June 2021
- 4) Dallas ISD Purchasing Manual, published on December 1, 2021
- 5) CAA (LOCAL), Fiscal Management Goals and Objectives, Financial Ethics, issued July 2021

Audit Observations and Recommendations

Observation 1 – Instances of incorrect asset locations in TipWeb were noted.

Condition

The physical location of two E-rate assets did not match the location recorded in TipWeb. According to TipWeb, the E-Rate assets with serial numbers P257M48176 and P257M48178 were located at Lakewood Elementary and Anson Jones Elementary, respectively. However, auditors located the asset with the serial number P257M48176 at Anson Jones Elementary and IT Business Services staff located the asset with the serial number P257M48178 at Lakewood Elementary.

Cause

Human error during asset tagging and scanning resulted in the incorrect location recorded in TipWeb.

Effect

Incorrect locations in TipWeb make it difficult to track and account E-Rate assets and may result in lost or stolen E-Rate assets.

Recommendation

IT Business Services should consider performing periodic reviews in TipWeb to ensure data, including asset locations, is accurate.

Criteria

DISD E-Rate Program Manual, June 2021, Section: 3.2 E-Rate Asset Process Activities, Subsections: Inventory Documentation, and Record Retention

Inventory Documentation

1. All information must be logged into DALLAS ISD E-rate inventory tracking system using the following criterion:

- A. E-rate funding year of purchased is clearly tagged permanently on each item.
- B. Serial Number of item.
- C. Location where item is installed.
- D. Funding Request Number tagged permanently on each item.
- E. Description of Item.
- F. When item was installed.
- G. Where item was installed.
- H. The signature of an authorized DALLAS ISD technology employee or representative confirms receipt of the installed inventory.

Risk Level: Low²

² See Attachment 2 for Definition of Risk Level.

Observation 2 – There were E-Rate assets with a blank Funding Request Number field in TipWeb.

Condition

Auditors generated a report of all E-Rate assets from TipWeb and noted a high volume had a blank FRN field. Auditors filtered the report for E-Rate assets purchased during the last five fiscal years (FY 2018-19 to FY 2022-23) and found that 1,564 out of 2,868 (55%) had a blank FRN field. After being notified of the blank FRNs, IT Business Services began updating the fields in TipWeb.

Cause

IT Business Services attributed the blank FRN fields to a combination of system and human error. After entering asset data in TipWeb, staff did not verify all data had been properly saved.

Effect

Blank FRN fields in TipWeb impact tracking and accounting for E-Rate assets. The FRN identifies an asset as an E-Rate asset purchased with federal funds which is accounted for differently from other assets. Additionally, without the FRN it is difficult to determine if an asset is an E-Rate asset and the applicable funding year.

Recommendation

IT Business Services should consider performing periodic reviews in TipWeb to ensure data, including the FRN field, is completed and accurate.

Criteria

USAC Website, <https://www.usac.org/e-rate/applicant-process/before-youre-done/transfer-of-equipment/>, on web as of date of this audit report

Maintain an updated asset register including make, model, serial number, FRN, installation date, and location for all E-Rate funded equipment for a period of 10 years after purchase.

DISD E-Rate Program Manual, June 2021, Section: 3.2 E-Rate Asset Process Activities:

Inventory Documentation

1. All information must be logged into DALLAS ISD E-rate inventory tracking system using the following criterion:
 - A. E-rate funding year of purchased is clearly tagged permanently on each item.
 - B. Serial Number of item.
 - C. Location where item is installed.
 - D. Funding Request Number tagged permanently on each item
 - E. Description of Item.
 - F. When item was installed.
 - G. Where item was installed.
 - H. The signature of an authorized DALLAS ISD technology employee or representative confirms receipt of the installed inventory.

Inventory Maintenance

1. E-Rate Inventory personnel creates initial master inventory to include serial number, school name, purchase order number, FRN, and asset tag number in E-Rate database.

Risk Level: Low³

Conclusion

Overall, results for attributes tested by auditors 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 IT Business Services and Controllable Assets Management within Risk Management Services 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. The OIA believes the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

Respectfully submitted,

Robert Rubel

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Enrique Fuentes Lazzarini, CFE, Auditor II
Jamie Benitez Renteria, Auditor I

³ See Attachment 2 for Definition of Risk Level.

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 asset locations in TipWeb were noted.

Acknowledgement of observation:

- ☒ Agree
☐ Disagree

Management's Response: Management agrees with the concern and is committed to ensuring accurate data is maintained within the TIPWeb-IT/Hayes database. To address the data quality assurance, the technology department will augment existing staff with additional quality specialists for the sole purpose of ensuring accurate data quality of E-Rate assets in the system. The project management and business team will develop a checklist for field quality specialists to verify specific items that correlate to fields in TIPWeb. This information will be verified, and the checklist submitted for filing with asset delivery confirmation and invoice payment. The new specialists will be managed by the technology project management team as they are closest to the timelines, schedules, and placement of E-Rate equipment. The business team will ensure all specialists and technicians are properly trained on use of TIPWeb or any future asset inventory systems and receive proper equipment for data entry.

Estimated Implementation Date: June 30, 2024

Individuals responsible for implementation:

Rebecca Sanchez, EdTech-Business Services Director

C. Lucas Gutierrez, EdTech-Architecture and Operations Executive Director

Observation 2 – There were E-Rate assets with a blank Funding Request Number field in TipWeb.

Acknowledgement of observation:

- ☒ Agree
☐ Disagree

Management's Response: The E-Rate assets with a blank Funding Request Number field have been corrected in TIPWeb-IT/Hayes. To abate this issue in the future, the inventory technicians will create and utilize a checklist of items that correlate precisely to asset fields in TIPWeb. The technicians will also run a report in TipWeb before assets are delivered to a specific site. The report will follow the asset to the delivery site and help ensure everything required in TIPWeb to the point of delivery is entered and not left blank.

Estimated Implementation Date: November 30, 2023

Individuals responsible for implementation:

Adrean White, Bond/E-Rate Manager