

REPORT TO THE
UTAH LEGISLATURE

Number 2004-10

A Performance Audit
of
Utah's Use of the Federal
E-rate Program

December 2004

Audit Performed by:

Audit Manager John M Schaff

Auditor Supervisor Maria Stahla

Audit Staff Kade Minchey

David Gibson

Table of Contents

Page

Digest	i
Chapter I	
Introduction	1
Audit Scope and Objectives	5
Chapter II	
Utah's Use of the Federal E-rate Program Should Be Improved	7
Existing System Has Many Weaknesses	7
Some Utah Districts Not Requesting Reimbursement for All Expenditures	12
Recommendations	14
Chapter III	
More Opportunities Exist to Collect Additional E-rate Revenues	15
Impoverished Schools Could Get More E-rate Dollars	15
Schools Can Save Thousands with End-to-end Services	17
UEN Can Help Districts with End-to-end Services	22
Recommendations	26
Chapter IV	
E-Rate Should Become a Priority and Statewide Coordination Should Increase	27
Districts Should Make E-rate a Priority	27
State Agencies Should Increase Coordination	30
Recommendations	32
Appendices	33
Agency Response	43

Digest of A Performance Audit of Utah's Use of the Federal E-rate Program

This is the first of two reports regarding technology in public education. This report will review concerns regarding the school districts' participation in the federally funded E-rate program. The E-rate program was instituted in the Telecommunication Act of 1996 to help bring Internet access to every school and library in the country by providing a discounted education rate (E-rate) for telecommunications expenses. The next report will provide information on teachers and students' access to technology and will identify a number of best practices for districts to consider as they continue to move forward with technology.

Most Utah school districts have not taken full advantage of the Federal E-rate program and some still do not understand the potential of the E-rate program and what revenues it can provide for Utah's schools that struggle financially. Utah has received \$46 million in E-rate commitments since 1998 and their annual commitments have increased in each of the past three years. However, our best estimate shows that Utah may have been able to secure as much as \$47 million in additional commitments. We found that Utah's lackluster E-rate collection can generally be categorized into the following three areas:

- Many school districts are not receiving all possible E-rate reimbursements on telecommunication expenses largely because they have not submitted for reimbursement on all expenses.
- Most school districts are not taking advantage of a provision that allows them to apply for extra services for impoverished schools.
- Most school districts are not structuring contracts with telecommunications service providers in such a way that allows them to receive E-rate reimbursements on service, equipment and maintenance. Currently most districts only receive E-rate on service related charges.

These three issues are discussed in Chapters II and III. Chapter IV addresses coordination issues among school districts, the Utah Education

Chapter II: School districts have not aggressively pursued federal E-rate funding.

Chapter II Recommendations

Chapter III: Additional opportunities to increase E-rate funding.

Network (UEN), the Utah State Office of Education (USOE) and State Purchasing.

Utah’s Use of the Federal E-rate Program Should Be Improved.

Changing how Utah’s school districts apply for Federal E-rate funds will help provide the additional money for telecommunications equipment and technology in Utah’s schools. The existing system has many weaknesses because each school district seeks reimbursement from the federal government and most districts have ineffective policies and practices to request all funding to which they are entitled. District leaders and program directors in some districts also lack the appropriate understanding of the program to make informed decisions regarding its use. We estimate that since Fiscal Year 1999, as much as \$47 million may have been lost in the ineffective practices used by Utah’s school districts. The most effective way to improve system efficiency would be for school districts to submit all eligible expenses.

1. We recommend that school districts submit for all eligible telecommunications costs.
2. We recommend that school districts track all telecommunication expenses, maintain copies of invoices and provide this documentation to those filing for E-rate.

More Opportunities Exist to Collect Additional E-rate Revenues.

Most Utah school districts have not taken advantage of all opportunities to collect E-rate funds. Most districts can increase the funding they receive from the federal E-rate program and thereby get much needed funds for the technology needs of public education. This chapter illustrates two ways that districts can increase their E-rate funding. The first way to increase funding would be for districts to apply for Priority Two funds that are earmarked for impoverished schools. Priority Two funds were only requested for 6 percent of the impoverished schools in the state. Raising the awareness of the program and applying for Priority Two funds for the other 94 percent of impoverished schools will provide great benefits to those schools. The second way to increase funding would be for districts to move toward end-to-end service contracts. Implementing this new coordinated model of service will provide financial and service benefits to the statewide public education system.

**Chapter III
Recommendations**

1. We recommend that all districts apply for Priority Two funds for their impoverished schools.
2. We recommend that the UEN and the school districts move toward the proposed coordinated network model. The following points should be included:
 - The UEN will provide a statewide network for all public schools in the state.
 - To the extent feasible, the UEN will provide the network based on end-to-end service contracts.
 - School districts will pay the UEN the net cost of providing the network to elementary schools.
 - The UEN will take into consideration the individual needs of districts.

**Chapter IV:
Coordination among
state agencies and
school districts is
necessary.**

E-rate Should Become a Priority and Statewide Coordination Should Increase. Making E-rate a priority in each school district and increasing the cooperation and coordination of various employees and the E-rate coordinator will give E-rate the needed visibility to make it a potent funding source. Currently, one employee in each district is responsible for E-rate and he/she may not have the knowledge, experience, or authority to maximize the E-rate reimbursements. In addition, state agencies with influence over E-rate are not coordinating their efforts. Coordination with state purchasing can further assist districts with the E-rate process. Also, UEN and USOE should work together to improve telecommunication cost accounting and eligibility measurements for the National School Lunch Program that determine the reimbursement rate districts receive.

**Chapter IV
Recommendations**

1. We recommend that districts consider restructuring the E-rate position at the district level to give the manager maximum visibility and support within the district.
2. We recommend that the Legislature direct the USOE to collect from the school districts data on telecommunication costs as a separate object of expenditure. This data should then be shared with the UEN for analysis.
3. We recommend USOE institutes a survey to more accurately measure the National School Lunch program eligibility.

Chapter I

Introduction

Most Utah school districts have not taken full advantage of the Federal E-rate program since its inception in 1998, and some still do not understand the potential of the E-rate program and what revenues it can provide for Utah's schools that struggle financially. Our best estimate shows that Utah has secured about \$47 million less in E-rate commitments than the average state and is behind many surrounding western states.

Utah school districts have not aggressively pursued federal E-rate funding.

It appears that districts have not aggressively applied for E-rate funds because of a lack of understanding of the program and a lack of coordinated efforts to apply for funds. Raising the awareness of the E-rate program, providing support to the state and district E-rate coordinators, and implementing a new coordinated model of service will provide financial and service benefits to the statewide public education system.

Federal E-rate Program Created in 1996 and began Operations in 1998

The E-rate program was instituted in the Telecommunication Act of 1996 to help bring Internet access to every school and library in the country by providing a discounted education rate (E-rate) for telecommunications expenses. Discounts range from 20 to 90 percent based on the percentage of students participating in the federal school lunch program who are served by the school or library. Schools receive reimbursements for actual telecommunications expenditures. In the 1990s, providing schools with Internet access was a priority for the federal government. In 1998, President Clinton stated, "Until every child has a computer in the classroom and the skills to use it...until every student can tap the enormous resources of the Internet...America will miss the full promise of the Information Age." To accomplish this goal, the E-rate program was created and annually distributes \$2.25 billion to schools and libraries in the form of discounts and/or reimbursements for actual expenditures.

All schools can receive Priority One funding, but only impoverished schools can receive Priority Two funding.

E-rate funding is based on participation in the National School Lunch Program.

E-rate was designed especially to provide the greatest benefit to the poorest communities and rural populations. All schools can apply for reimbursement for “Priority One” services that include Internet access, video-conferencing services, high-speed data connections, and phone service. Impoverished schools can apply for additional reimbursement for “Priority Two” services which include internal connections, such as wiring and equipment. E-rate does not provide funds for end-user equipment such as computers, software, telephones, professional development, content, indexing or searching solutions. Appendix A provides detailed guidelines regarding what services are covered by the E-rate.

Schools and libraries receive funding based on the percentage of students participating in the National School Lunch Program (NSLP) served by the school. In Utah, the reimbursement percentage rates range from the mid 40's to the high 80's. The statewide average in Fiscal Year 2004 was 67 percent. Generally, the rural districts in the state have higher reimbursement rates although two urban districts have some of the highest reimbursement rates in the state. Appendix B shows how the discount is derived based on the percentage of students participating in the NSLP.

The E-rate is funded by money from the Universal Service Fund (USF), created in 1993 to ensure that all Americans could afford telephone service. The fund was expanded in 1997 to support telecommunications services at schools and libraries.

The E-rate program is regulated by the Federal Communications Commission (FCC) and is administered by the Schools and Libraries Division (SLD) of the Universal Service Administration Company (USAC), a private, not-for-profit corporation.

Auditors from the Inspector General Office of the FCC have recently uncovered some problems of waste, fraud, and abuse in the E-rate program. These issues do not appear to be a problem in Utah. However, nationally the E-rate program has received considerable scrutiny. This level of scrutiny is now being coupled with the FCC’s decision to revise some accounting rules placed upon the USAC. Consequently, a moratorium has been placed on new E-rate commitments. This problem does appear as if it will soon be solved. The FCC chairman recently commented,

“The E-rate program is vital for America...any delays are temporary while we place the program on sounder footing. We are committed to ensuring these funds flow responsibly to America’s classrooms and libraries as soon as possible.”

Even with the heightened examination of the E-rate program, it appears as if E-rate will continue to be a funding source for schools for many years to come.

Districts and UEN File For E-rate

Each school district has designated an employee to manage and coordinate the E-rate effort in their district. Most of these district managers are associated with the technology department at the district and have several other job responsibilities beyond E-rate. These district managers must ensure that all E-rate forms are accurately and completely filled out. They must respond to inquiries from the administrators of E-rate if questions arise on their applications. These inquiries can be lengthy and time consuming. The managers must also keep complete records of all E-rate information for at least five years or face the possibility of forced repayment of past reimbursements. Appendix C is a flow chart of the E-rate process.

E-rate managers at the districts work with the Utah Educational Network (UEN) to complete and file E-rate reimbursements. It is the responsibility of the E-rate district managers to ensure that the district is maximizing all E-rate dollars for which the district qualifies. The UEN files for statewide projects that they are responsible for, and they assist districts by providing updated information and training. Appendix D provides information on E-rate commitments, by district, for the past three years.

E-rate Reimburses Schools for Most Access Costs

E-rate provides reimbursement toward the cost of information access. To this end E-rate allows schools to obtain reimbursement on a variety of telecommunication and Internet services. Most likely a school can receive reimbursement for telecommunication services if the service is provided by an eligible telecommunication provider and the service is allowed under E-rate rules and guidelines. E-rate provides schools with over 30

Filing for E-rate may be difficult and time consuming, yet there are benefits for Utah’s schools that struggle financially.

Schools can receive E-rate funding for many telecommunication and Internet access costs.

pages of clarification as to which services are eligible and which are ineligible (see Appendix A).

Eligible telecommunication services include the following:

- **Cellular Service.** The cost of cellular service is eligible, but cellular equipment is not eligible. (This definition has recently been expanded).
- **Paging Service.** The paging service is eligible so long as the service is “integral, immediate, and proximate” to the education of students.
- **Long Distance Telephone Service.** Long distance service and associated charges are eligible for discount.

E-rate also reimburses schools for the “basic conduit access” to the Internet. This means that schools are reimbursed for access charges to the Internet as well as features typically needed for adequate functionality and performance. Internet services include the following:

- **Firewall Service.** This service has been deemed necessary to ensure continued operation of the network (effective for Fiscal Year 2005).
- **E-mail Service.** Email service that provides for the transmission of messages and other data is an eligible expense.
- **Wireless Internet Access.** This service is eligible if it is the most cost effective means of accessing the Internet.

UEN Has Made Major Improvements in Their Management of the E-rate Program

In the past two years, UEN’s E-rate commitments have significantly increased. They have focused on new eligible services and devoted time and attention to E-rate rules. UEN has also begun to assist school districts with their filings, and they file on behalf of a state-wide consortium. The UEN also tracks new rules and regulations relating to E-rate. The UEN E-rate coordinator disseminates this information to the districts through an e-mail group and by posting news briefs and rule clarifications to the UEN’s website. The UEN also attends meetings in Washington, D.C. where they receive training on new E-rate rules; the UEN then holds several training meetings throughout the state that

The UEN assists school districts with their filings and provides training on new E-rate rules.

district E-rate managers can attend. In addition, the UEN assists the districts with help on forms and provides suggestions for documentation needed to complete the E-rate application.

Qualified institutions may form a consortium and file for E-rate through such a consortium. Two sorts of consortiums exist in the state to which school districts belong. First, the UEN is an established consortium providing network service to secondary schools throughout the state. Second, state master contracts developed by State Purchasing can qualify under E-rate rules. The UEN, as the lead member of the consortium, is responsible for informing all members of the requirement to update their technology plans (The State Office of Education approves the plan). The UEN also helps the districts understand and adhere to E-rate rules.

Reasons for the Substantial Investment in Bringing Advanced Telecommunications to Schools

The justifications cited by federal policymakers for making such a substantial investment in bringing advanced telecommunications to schools include those in the following areas:

- **Economic:** Providing students access to computers and the Internet prepares them for an economy in which three out of five jobs require a working knowledge of information technology;
- **Educational:** Gaining access to a greater breadth and depth of up-to-date educational resources and quality educational services helps students receive education more efficiently;
- **Community Infrastructure Development:** Building technology capacity in under-served communities diminishes the competitive disadvantage faced by certain areas, especially inner cities and rural parts of the country.

Audit Scope and Objectives

The Legislative Audit Subcommittee requested an audit of how technology is used in education. This is the first of two reports regarding technology in public education. This report will review concerns

regarding the school districts' participation in the federally funded E-rate program. The next report will provide information on teachers and students' access to technology and identify a number of best practices for districts to consider as they continue to move forward with technology.

Our audit objective was to examine why Utah is one of the lowest states in the nation for collecting E-rate dollars and then to provide solutions for increasing the reimbursement rate at the district and state levels.

To answer this audit question, we collected historical information from the administrator of the program—the Schools and Libraries Division (SLD) of the Universal Service Administration company (USAC), a quasi-government institution. We also collected historical information from a sample of large, medium and small Utah school districts and interviewed E-rate coordinators in these districts. We depended on information received from the Utah Education Network (UEN), the state's E-rate coordinator. In addition, we examined information received from other state E-rate coordinators and literature written by professional groups.

Chapter II

Utah's Use of the Federal E-rate Program Should Be Improved

Changing how Utah's school districts apply for Federal E-rate funds will help provide the additional money for telecommunications equipment and technology in Utah's schools. The existing system has many weaknesses because each school district seeks reimbursement from the federal government, and many districts have ineffective policies and practices to request all funding to which they are entitled. District leaders and program directors in some districts also lack the appropriate understanding of the program to make informed decisions regarding its use. We estimate that since Fiscal Year 1999, as much as \$47 million may have been lost in the ineffective practices used by Utah's school districts. The most effective way to improve system efficiency would be for school districts to submit for all eligible expenses.

Existing System Has Many Weaknesses

Utah schools have lost millions of dollars of potential E-rate reimbursements. Even though the federal program has been in operation for seven years, reimbursements from E-rate still are not being fully utilized. Only six states have been less successful than Utah in applying for E-rate commitments. Utah's difficulty in securing E-rate reimbursements has been raised as a concern before, yet the problems remain.

Utah Lags Behind Most States In Collecting E-rate

Utah ranks very low nationally and regionally in E-rate funds collected. To determine Utah's national ranking, we weighted E-rate collection by states' participation in the National School Lunch Program (NSLP). This method adjusts for variances in population and poverty found between states and provides a reasonable measure of Utah's lackluster E-rate collection. This analysis shows that only six states have had less success than Utah in securing E-rate commitments. Utah's low E-rate collection has cost schools millions of dollars.

Utah schools have not capitalized on E-rate as a funding source.

Utah ranks 44th in the nation in securing E-rate commitments.

Utah Is as Much as \$47 Million Behind the Average State.

During the past six years, schools and libraries in the state could have received up to \$47 million if Utah had just been average in its E-rate commitments. E-rate commitments represent resolve from the School and Libraries Division (SLD) to pay schools once receipts are submitted. Commitments also show the intent and aggressiveness of school districts in requesting E-rate funding. Figure 1 shows Utah’s E-rate commitments compared to the national weighted average.

Compared to all states, Utah lags as much as \$47 million behind the average state in E-rate commitments.

Figure 1. Summary of Schools and Libraries E-rate Commitments from Fiscal Year 1999 through March 2004. Utah lags \$47 million behind the average state in E-rate commitments.

National Weighted Average E-rate Commitment	Utah’s E-rate Commitments	Dollars Behind the Average
\$ 93,855,563	\$ 46,381,952	\$ 47,473,612

Utah’s commitments are 48 percent lower than the average state. Utah’s commitments were \$376.19 for each Utah student participating in the NSLP in E-rate dollars. However, the national average was \$761.24 per student participating in the NSLP.

Utah also lags behind when compared to western states.

Utah Also Ranks Low Regionally. Utah also lags behind many surrounding western states in securing E-rate commitments. When weighting E-rate dollars by students participating in the NSLP, Utah is significantly lower than many other western states. Figure 2 shows Utah’s E-rate commitments compared to other western states.

Figure 2. Comparison of Total E-rate Commitments For Utah and Surrounding Western States – Fiscal Years 1999-2004.

Utah lags behind many surrounding western states and there is no correlation between E-rate commitments and a state’s total expenditures per student.

State	Amount Committed Per NSLP Student	Total E-rate Commitments for Education ¹
New Mexico	\$ 1,309.48	\$ 200,070,625
Arizona	854.89	296,076,621
Wyoming	597.50	13,092,967
Colorado	553.53	90,964,681
Utah	367.96	45,367,010
Idaho	329.94	25,780,523
Nevada	296.51	26,138,063

1. These numbers only include funding for education; libraries were excluded from this analysis.
 Source: Schools and Libraries Division (SLD):
[Http://www.sl.universalservice.org/funding/OpenDataSearch/Search1.asp](http://www.sl.universalservice.org/funding/OpenDataSearch/Search1.asp)

Figure 2 shows a wide range of commitments per NSLP student with Utah near the bottom. New Mexico’s ranking may be inflated because of irregularities found in a few schools that may be required to repay E-rate dollars. Conversely, Idaho and Nevada are at the bottom of commitments. Idaho may not have been actively pursuing E-rate funding because they have been providing state appropriations for technology for 10 years similar to Utah’s ETI program. In addition to state appropriations, Idaho has also received millions of dollars for technology from a private foundation.

There is no correlation between the amount of E-rate commitments and a state’s overall education expenditures. Utah ranks 51st in education spending per student; however, this figure does not mean that they must necessarily rank at the bottom of E-rate commitments. In comparison, Arizona ranks 50th in total education spending using National Education Association published statistics and 44th using Morgan Quitno Press published statistics; however, they receive two and one-quarter times the amount of E-rate commitments than does Utah.

Utah's poor E-rate collection rate was raised two years ago, yet little has improved.

Utah's Low E-rate Collection Revealed Two Years Ago

Utah's lackluster E-rate collection rate has previously been raised as a concern. The Information Technology Commission (now Utah Technology Commission) received testimony concerning Utah's low E-rate collection during the summer of 2002. In a report to this Commission, the Utah Fiscal Analyst reported the following:

- Four Utah school districts received no E-rate commitments in Fiscal Year 2001.
- An estimated \$1 to \$2 million in additional "Priority One" discounts is possible.
- Central coordination drives collections and might improve aggressiveness toward E-rate collection.

The executive director for the Utah Education Network (UEN) also reported to the commission that while UEN had been successful in applying for reimbursements for all circuit charges, many other states had been more aggressive than the UEN and Utah's schools. The director cited two developments that have given other states higher E-rate reimbursements.

- End-to-end service contracts allow institutions to be reimbursed for equipment and maintenance costs that are included in the services provided by the vendor.
- E-rate programs have been coordinated on a state-wide basis, which helps assure schools are taking advantage of E-rate. State-wide planning also helps with coordination which helps maximize E-rate.

E-rate Could Have Aided State ETI Dollars

State Educational Technology Initiative (ETI) dollars could have been used to purchase more computer equipment for schools if E-rate had been better utilized for network costs. The 1990s was a period of change in education, and the need for computers and Internet access grew significantly during this decade. The Legislature understood the need for

If districts had applied for E-rate funds, they could have used state funds for other technology needs.

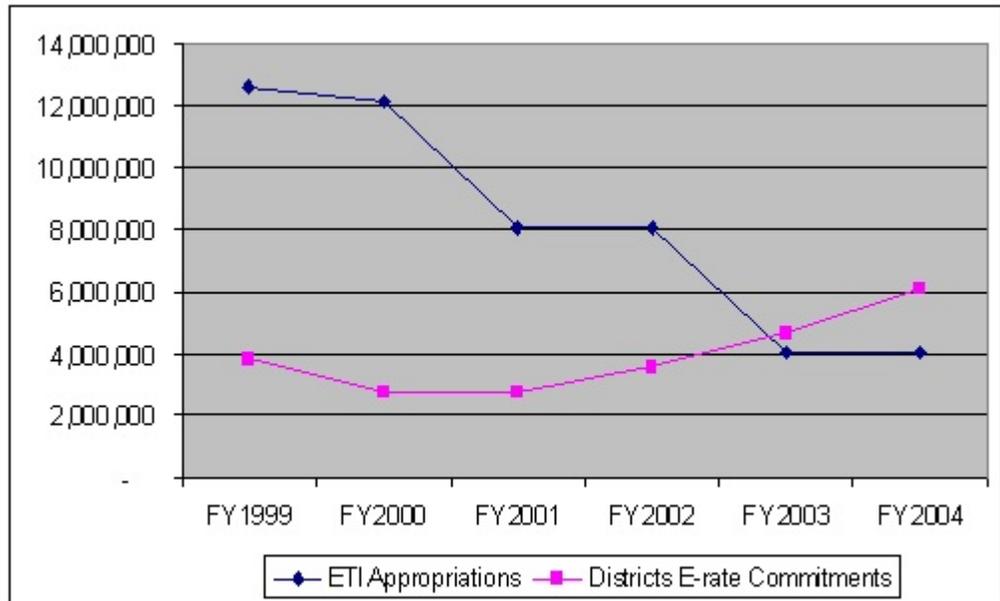
technology in classrooms and created the Utah Educational Technology Initiative in 1990 (H.B. 468). The Legislature appropriated more than \$120 million in state dollars to ETI during the 1990s to ensure that technology reached every classroom in the state. An independent report commissioned by the Utah State Office of Education (USOE) reported,

“The Utah Educational Technology Initiative has had a major impact on the technological and human infrastructure of Utah education. This is most easily seen in the new educational technology found in almost every Utah school. New computers, computer networks, scanners, printers are ubiquitous.”

One of the goals of ETI was to “make technology available to each school district so all students in the state have access.” Indeed, ETI funds significantly helped provide access to students across the state. However, more ETI funds could have been used for computers and other end-user equipment if E-rate dollars had been more aggressively pursued.

School districts could have relied on E-rate as an aid to build and maintain the network at schools. This move would have made more state ETI dollars available for purchasing school and classroom computers. We were not able to determine the extent ETI funds were used on E-ratable network services; nevertheless, ETI clearly carried a larger than necessary burden of providing schools’ networks. Unfortunately, it was not until ETI was reduced that E-rate commitments began to increase. Figure 3 illustrates this inverse relationship between ETI and E-rate.

Figure 3. State ETI Appropriations and District E-rate Commitments—Fiscal Years 1999-2004. Districts began applying for E-rate commitments after state ETI appropriations stopped.



Totals do not include UEN commitments.

E-rate commitments coming to Utah’s schools were very low until ETI began to taper off. The first three fiscal years of the E-rate program (1999-01), the schools’ commitments were flat and significantly low. E-rate reimbursements did not begin to increase until Fiscal Year 2002, the first year that ETI was rolled into a block grant. Then, in Fiscal Year 2003 E-rate collection was further propelled when the Utah Fiscal Analyst reported Utah’s lackluster E-rate collection to the Legislature, and block grant funding was cut in half. Even though some improvements have been made, more still needs to be done.

Some Utah Districts Not Requesting Reimbursement For All Expenditures

In some instances, school districts are purchasing eligible E-rate services, but they are not submitting the expenses for reimbursement and are, therefore, not collecting reimbursements from the federal program. This oversight has cost schools thousands of dollars. E-rate managers can do more to ensure that schools are receiving all possible reimbursements.

Districts are not requesting reimbursement for expenditures they have made.

Schools Lost Thousands of E-rate Dollars

Some school districts are purchasing eligible services, but they are not applying for reimbursement for all eligible expenditures. To understand the amount that schools have forgone in E-rate dollars, we conducted a review at four school districts that account for 44 percent of the public school students in the state. We quantified forgone dollars associated with basic telecommunication and Internet services. We did not have the time to determine if schools received funding for other eligible E-rate services. However, we did analyze other factors that have cost Utah schools E-rate dollars and discuss these in Chapter III.

While conducting our analysis, considerable attention was given to only include eligible E-rate services. However, since the SLD ultimately decides the eligibility of services, it is not possible to conclude in certain terms that a particular service would have been funded and to what extent it would have been funded. Nevertheless, we feel our analysis does provide a realistic picture of forgone dollars. We used the following methodology to calculate lost dollars.

First, we determined the amount the districts paid service providers for basic eligible telecommunication services. Second, we determined what portion of the districts’ cost could have qualified for E-rate. Third, we compared the qualified amount by the amount the districts attempted to obtain from E-rate. We found that districts did not request reimbursement for all qualified expenses, and the amount of lost dollars is shown in Figure 4.

Figure 4. Estimate of E-rate Dollars Lost by Four Districts. Four districts have lost as much as \$600,000 by not requesting reimbursement for all expenditures made.

Four districts have lost \$600,000 by not requesting reimbursement for expenditures that they have made.

District	Dollars Lost (Fiscal Year 2002-2004)
District A	\$ 227,876
District B	186,533
District C	161,095
District D	35,238
Total	\$ 610,742

Figure 4 shows that schools in these four districts collectively lost as much as \$600,000. We discovered several factors that contributed to forgone dollars.

- **Lack of Planning** - E-rate managers had a difficult time planning. E-rate commitments are filed a year ahead of time, and many managers were unable to foresee changes.
- **Lack of Understanding of Eligible Reimbursements** - Districts lost E-rate dollars because they failed to ask for reimbursements on certain services. We found that generally E-rate managers had difficulty understanding all the services that they potentially were eligible for.
- **Not Requesting Reimbursements for All Services** – For a variety of reasons, some districts’ accounting procedures could not produce the documentation for eligible expenses they had incurred. Since they could not produce the documentation, they did not apply for all costs for which E-rate would reimburse. One accountant in a district reported that she had not captured all payments made to service providers and, consequently, were not included in the reimbursement request. She said, “I think we have not claimed all we could have in past years. This [looking up payments to service providers] was a good exercise for me to see how each year compares.”

More detail of reasons why E-rate managers are not able to collect on all E-rate reimbursements is in Chapter IV.

Recommendations

1. We recommend that school districts submit for all eligible telecommunications costs.
2. We recommend that school districts track all telecommunication expenses, maintain copies of invoices and provide this documentation to those filing for E-rate.

Chapter III

More Opportunities Exist to Collect Additional E-rate Revenues

Utah school districts have not taken full advantage of the federal E-rate program.

Most Utah school districts have not taken advantage of all opportunities to collect E-rate funds. Most districts can increase the funding they receive from the federal E-rate program and thereby get much needed funds for the technology needs of public education. This chapter illustrates two ways that districts can increase their E-rate funding.

- **Apply for Priority Two Funds.** These funds for impoverished schools can increase districts' E-rate reimbursements. Priority Two funds were only requested for 6 percent of all schools that qualified.
- **Move Toward End-to-end Services.** By restructuring contracts with telecommunications companies, districts can increase their E-rate reimbursements. One school district saw a 68 percent increase in funding in one year by creating end-to-end services. Unfortunately, no other district has taken advantage of these services. The Utah Education Network (UEN) projects that they will receive a 149 percent increase in funding in one year by taking advantage of end-to-end services.

By applying for Priority Two funds and establishing a new coordinated agreement between the UEN and the school districts, we believe schools and districts will be able to maximize federal E-rate funding.

Impoverished Schools Could Get More E-rate Dollars

Utah's impoverished schools could receive much needed additional funding from the E-rate program by applying for Priority Two funds that are earmarked for impoverished schools. Priority Two funds were only requested for 6 percent of the impoverished schools in the state. It is unclear why districts did not apply for Priority Two funds for all their impoverished schools. Applying for Priority Two funding would provide impoverished schools with much needed technology funds. Such funds

Impoverished schools can receive additional aid to purchase much needed technology.

help the impoverished schools and the entire district by generating savings in other parts of the district budget. The savings can then be funneled into other efforts at the impoverished schools.

Priority Two Funding Provides Impoverished Schools with Additional Aid

Impoverished schools can apply for federal funding for wiring, installation, and some telecommunications equipment that impoverished schools may not be able to afford on their own. Providing impoverished schools with additional funds to close the gap between the “haves” and the “have-nots” was a priority of the E-rate program when it was established by the U.S. Department of Education. One goal of E-rate was stated as follows: “E-rate will help to ensure the end of the digital divide between rich and poor schools and among urban, rural, and suburban schools.”

All schools can apply for funding to help pay for telecommunications and Internet services, but only impoverished schools can apply for the additional funding for wiring, installation, and some telecommunication equipment costs. To qualify for Priority Two services, a school generally needs a discount percent of at least 80 percent. If additional federal funding is available, the SLD may provide Priority Two funding to schools with a discount percent less than 80 percent.

Districts Did Not Apply for Priority Two Funding for Most Impoverished Schools

Last year 254 schools had a discount percent of 80 percent or higher. While 254 schools met E-rate’s classification of impoverished and potentially could have qualified for Priority Two funding, districts only applied for Priority Two funds for 14 (6 percent) of the schools. Those 14 schools collectively received more than \$90,000 in E-rate commitments for Fiscal Year 2004. It is difficult to quantify the dollars lost for the remaining 240 Priority Two eligible schools. However, it is apparent that some of the neediest schools in the state have unduly forgone a valuable funding source.

In some other states, the local school council would apply for E-rate funds independently of the district-wide application. This initiative would allow for Priority Two eligible schools to apply for E-rate funds

independent of the district. However, coordination with the district would be still be required. Regardless of who applies for Priority Two funds, it is important that it is done. District managers should be more proactive in seeking these funds.

Schools Can Save Thousands with End-to-end Services

**Only one district
uses end-to-end
services even
though it is very
helpful.**

End-to-end telecommunication services have the potential to give schools a much needed financial boon. The Davis School District received a \$300,000 (68 percent) increase in E-rate dollars by moving to end-to-end services. UEN reports that they will experience a \$2.5 million (149 percent) increase in E-rate funding by utilizing end-to-end services. We analyzed two school districts and found they could receive thousands more in E-rate funds if they changed to such telecommunications service.

Reimbursement for End-to-end Services Began in 1999

End-to-end service contracts between the district and the local telecommunication service providers allow a district to be reimbursed for service, equipment and maintenance expenditures. Specifically, end-to-end telecommunication services allow the school or district to get reimbursed for service, maintenance and equipment by entering into a lease arrangement with the local telecommunication service provider (telephone company).

Only Davis School District and the UEN have utilized end-to-end services as a means of leveraging E-rate dollars to pay for network costs. Other districts continue to purchase their equipment and, therefore, only get reimbursed for the cost of the service. Districts cannot get reimbursed for equipment and maintenance expenditures unless they use the end-to-end service.

Reimbursement for end-to-end services has been available since 1999 when the FCC ruled that Tennessee could utilize end-to-end contracts and get E-rate funding for service, equipment, and maintenance. The decision known as the "Tennessee Decision" essentially allows schools to alter their contracts to allow for equipment and maintenance to be included with the standard service contract. There are several stipulations on these lease

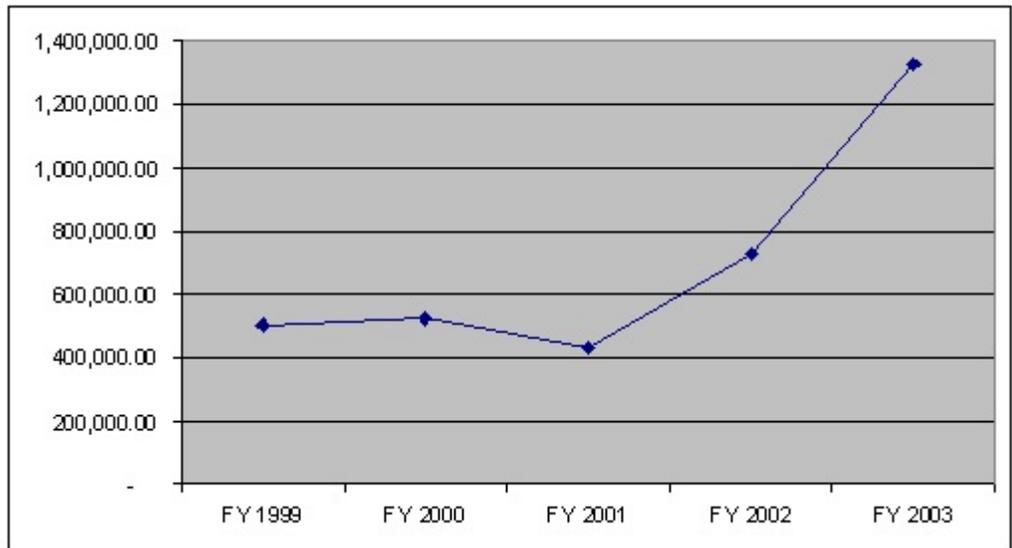
contracts—the ownership of the equipment cannot transfer to the school in the future, nor can the school purchase the equipment in the future. Also, any on-premise equipment must function as an integral component of telecommunications or Internet access service, and there can be no contractual exclusivity.

Davis District Has Capitalized On End-to-end Services

Davis' E-rate funding increased \$300,000 or 68 percent the first year (Fiscal Year 2002) the district engaged in end-to-end contracts. The following figure shows Davis School District's reimbursements since the inception of E-rate.

Davis' funding increased 68 percent when they engaged in end-to-end services.

Figure 5. Davis District E-rate Funding – Fiscal Years 1999–2003. Davis' E-rate funding grew from \$400,000 to \$728,000 to \$1.3 million when they switched to end-to-end contracts.



Fiscal Year 2004 actual reimbursements for Davis District won't be known until the SLD reconciles receipts in early 2005. Even though Davis has greatly benefitted from end-to-end services, the other school districts have not yet decided to take advantage of this arrangement.

The district reports that end-to-end services have given them the ability to bring state of the art technologies into the classroom. Beyond cost savings, the district feels that there are many other benefits to end-to-end services. One district representative stated:

“I believe you get much better support with companies both technical and non-technical when [the district] uses their bundled services instead of only pieces of the service. Bundled services allow the district to spread the cost over multiple years, which in turn enables us to get many leading edge technologies.”

Other benefits Davis district has experienced with end-to-end services include such areas as —

- **Consolidation of Bills.** This consolidation benefits the E-rate manager and accounting team when preparing E-rate paperwork.
- **Better Pricing.** The district feels that service providers can better fit their costs into the district budget because of a single price for multiple services.
- **E-rate Filing Process Is Easier.** Davis found that only having to file for one filing instead of multiple smaller filings is less time consuming and more accurate.

Even though end-to-end services provide multiple benefits, the other 39 school districts have largely ignored this approach. The UEN is also expecting an increase in E-rate funding by using end-to-end services.

UEN Will Receive Millions in E-rate Funds By Using End-to-end Services

Switching to end-to-end services will likely boost the UEN’s E-rate funding by \$2.5 million in Fiscal Year 2004. The exact amount won’t be known until January or February 2005 when the final reconciling of receipts is completed. This funding increase has already greatly benefitted education in the state. With the funding commitments that the UEN has received, they have already begun improving services. Specifically, the increase in E-rate funding has allowed the UEN to upgrade the statewide network backbone, which provides schools with increased speeds and utility.

**UEN’s E-rate
funding has
increased by \$2.5
million by using
end-to-end services.**

To achieve a \$2.5 million increase in E-rate funding, the UEN, first, identified new services that had the potential to be included in an end-to-end service contract. Second, they coordinated with service providers to identify all elements of their contracts that could be bundled into an end-to-end contract. Third, in certain situations they coordinated with several service providers to facilitate partnerships for end-to-end services in rural areas. To further quantify cost savings associated with end-to-end services, we analyzed two districts to determine cost savings.

Schools Can Save Thousands By Using End-to-end Services

We believe that all districts can benefit from end-to-end services and should pursue them as a way of alleviating the strain on state dollars. To understand the cost structure of end-to-end services, we talked with a local service provider. The service provider walked us through the process and provided us with a framework that detailed how the district's services would be established, fees the service provider would charge, and a general estimate of cost to the districts.

We then examined the impact of end-to-end services in two districts. Our basis for calculating savings was based on the service providers' estimates. Since most districts are already receiving E-rate funding for the service portion of the network-related costs, our analysis focused on E-rate reimbursements for equipment. In other words, all extra E-rate funds listed below are in addition to savings detailed in Figure 4 in Chapter II. Figure 6 shows our analysis of the additional funds two school districts could receive by moving to an end-to-end service.

Additional E-rate reimbursements for equipment are possible with end-to-end services.

Figure 6. Estimate of Savings for Two Districts Using End-to-end Services. By reworking the way districts pay for their network, they can receive additional E-rate funds.

Fiscal Year	Savings to Districts
District A	
2002	\$ 14,051
2003	46,823
2004	52,977
Total	\$ 113,851
District B	
2002	\$ 124,463
2003	140,564
2004	169,426
Total	\$ 434,453

Figure 6 shows that both districts could have realized additional funds if they had engaged in end-to-end contracts. District B could have saved more than \$400,000, or 48 percent, in three years by utilizing an end-to-end arrangement. District A’s savings were not as great because (1) they didn’t spend as much, and (2) their discount percent was lower. Still, District A could have saved more than \$100,000, or 38 percent.

Unfortunately, most districts have prematurely dismissed this option. One E-rate manager said in response to why his district did not want to try end-to-end services:

“I am happy with the amount of money the district gets back. Davis [School District] gets their money in the way they...[lease] equipment. This district doesn’t want to do that...We don’t want to follow Davis.”

It is this type of approach from many districts that have cost schools millions in E-rate funding and has forced Utah taxpayers to carry a larger

Most districts have prematurely dismissed end-to-end services.

than necessary burden of providing schools' network. Other E-rate managers reported a disconnect in communication between themselves and district leadership. We found that these managers do not have sufficient visibility in the district to get the E-rate agenda noticed. Chapter IV discusses this problem in more detail.

We believe that more must be done with end-to-end services in the state. Thus, to ensure school districts engage in end-to-end services, we feel a practical solution is to increase the partnership between the UEN and school districts.

UEN Can Help Districts With End-to-end Services

A new coordinated model between the UEN and school districts will increase E-rate funding, save districts money, unify the network and provide many elementary schools with increased bandwidths. We propose turning the responsibility for upgrading and maintaining the statewide network over to the UEN and let them manage it with the help of end-to-end services.

Coordinated Model Can Save Schools Money

The UEN is currently providing the network for nearly all secondary schools in the state. The UEN has proven their ability to maximize E-rate commitments while providing a quality network. A logical step is to bring the UEN in as a partner to coordinate and provide end-to-end services to the elementary schools. The UEN is currently in the process of piloting this type of coordinated service with three districts.

The coordinated agreement between the UEN and school districts would be similar to the existing arrangement occurring with secondary schools. UEN would expand its responsibilities of managing the network to all elementary schools in the state. To provide the network, the UEN would engage in end-to-end services with service providers. The UEN would also assume the responsibility of filing for E-rate on the statewide network. The districts would, in turn, pay the UEN the net cost of providing the service. Net cost would be calculated as the cost after E-rate reimbursement. Figure 7 shows how the coordinated model differs

**Having the UEN
provide end-to-end
services to the
elementary schools
is a logical step.**

from the new model by looking at how certain responsibilities would change.

Figure 7. UEN’s Responsibilities Would Increase under the Coordinated Model, but School Districts Would Still Have Some Responsibilities. UEN would be responsible for the entire network and provide the network to all schools, not just to secondary schools as they currently do.

Responsibility	Current Model	Coordinated Model
Network Provider	<ul style="list-style-type: none"> • UEN provides network to all secondary schools • Districts provide network to elementary schools 	<ul style="list-style-type: none"> • UEN would provide the network to all schools statewide
Network Troubleshooting	<ul style="list-style-type: none"> • UEN and districts partner to troubleshoot and fix network problems 	<ul style="list-style-type: none"> • UEN and districts will continue to work together.
E-rate filing	<ul style="list-style-type: none"> • UEN files for secondary schools • School districts file for the elementary schools’ network 	<ul style="list-style-type: none"> • UEN files for E-rate for the entire network • School districts file for telephone charges

The primary difference with the coordinated model is that UEN will provide the network and file for E-rate. These two responsibilities should significantly save school districts time and money.

As shown in Figure 6, the net cost should be lower for most districts than the current cost. In fact, for several districts the net cost would be substantially lower because the UEN uses the current state wide discount percent of 67 percent. A 67 percent discount is advantageous for several districts. The following figure shows the additional savings to the two districts analyzed earlier.

UEN has the ability to use the statewide discount of 67 percent or the district’s higher rate.

Figure 8. Districts Could Save Even More by Using the State Discount. Potentially the state discount percent could further save some districts even more dollars.

	District A	District B
With District Discount	\$ 113,851	\$ 434,453
With State Discount	178,062	553,658
Additional Savings	\$ 64,211	\$ 99,205

District A currently has a 49 percent discount. By filing, using the current statewide discount of 67 percent, the district would receive an additional \$65,000 in funding. District B currently has a 58 percent discount and received \$434,453 in funding. If UEN had filed for the district using the statewide discount of 67 percent, the district would have received an additional \$99,205 in funding. For those districts with higher discount percentages, certain E-rate guidelines may allow UEN to use the district’s discount percentage.

Additional Benefits Are Possible Beyond Cost Savings

In addition to monetary savings, other benefits exist by having the UEN responsible for the statewide network. These additional benefits would include:

- Increased bandwidth for most elementary schools. The increased bandwidth would bring elementary schools’ network on par with secondary schools.
- A unified statewide network. Bringing elementary schools on board would completely unify UEN’s network, making trouble shooting easier.
- E-rate managers at the districts would not have the burden of filing for E-rate on the network. As well, they will not have to learn the complexities of filing for end-to-end services.

These additional benefits coupled with the positive financial impact makes the coordinated model between the UEN and school districts a viable option worthy of consideration.

In providing this new service to the districts, the UEN would update network operation agreements with each district. These agreements would allow the districts to maintain a level of responsibility that the district would be comfortable with. At a minimum, the established partnership would dictate that the district would continue to assume some responsibility for dispatching district personnel to fix certain field problems. The UEN is limited to the number of technicians they have in the field. Since the districts are currently fulfilling this responsibility, it would not be an additional burden to them.

Other Considerations with the Coordinated Model

The coordinated model would be nearly cost neutral to the state, except for two additional FTEs at the UEN. According to the Executive Director of the UEN, the UEN would need one additional FTE in the accounting department to assist with E-rate collection and another tier-three network technician to monitor the increase in network volume.

The coordinated model entails a contractual agreement for services with the UEN. Districts would pay a monthly lease payment instead of purchasing equipment outright. This shift may have a fiscal impact on districts by moving the expenditures from one-time capital outlay funds to monthly lease obligations out of maintenance and operations funds. Some provisions exist that could help the districts accomplish this move. Although we were unable to audit the feasibility each district has in pursuing these provisions, we believe that enough benefits exist with end-to-end services that districts should strongly pursue avenues that would allow them to utilize end-to-end services.

Lastly, the practicality of when and exactly how districts transition into the coordinated model will vary with each district. Each district has unique needs and situations that will need to be resolved with the UEN before full implementation can occur.

Recommendations

1. We recommend that all districts apply for Priority Two funds for their impoverished schools.
2. We recommend that the UEN and the school districts move toward the proposed coordinated network model. The following points should be included:
 - The UEN will provide a statewide network for all public schools in the state.
 - To the extent feasible, the UEN will provide the network based on end-to-end service contracts.
 - School districts will pay the UEN the net cost of providing the network to elementary schools.
 - The UEN will take into consideration the individual needs of districts.

Chapter IV

E-Rate Should Become a Priority and Statewide Coordination Should Increase

This chapter provides additional reasons Utah has not received more E-rate funding and provides recommendations that should improve the total E-rate funding coming into the state. Currently, one employee in each district is responsible for E-rate and he/she may not have the knowledge, experience, or authority to maximize the E-rate reimbursements. Making E-rate a priority in each school district and increasing the cooperation and coordination of various employees and the E-rate coordinator will give E-rate the needed visibility to make it a potent funding source. In addition, state agencies with influence over E-rate are not coordinating their efforts. To maximize E-rate reimbursements, we feel districts should make E-rate a priority, consider restructuring the organizational placement of the E-rate manager position, and state agencies should coordinate their efforts.

Districts Should Make E-rate a Priority

To be more successful in securing E-rate funding, districts should make E-rate a priority with local school boards, superintendents and other district employees. Also, districts should consider elevating E-rate's priority by restructuring the E-rate manager position and drawing upon experienced employees throughout the district to assist in the E-rate process.

Making E-rate a Priority Is Important

E-rate must be a priority with the local school boards and superintendent for it to be successful. However, in most districts we reviewed, E-rate was not highly promoted by the superintendent; rather, it was left to an employee in the technology department. We found some of the most successful school districts in the nation, in terms of collecting E-rate, were led by superintendents who understood and were involved in the E-rate process. Some of these districts reported that E-rate can only be accomplished when district leadership is involved, supportive, and provides direction.

The district E-rate manager needs more visibility.

We found this same pattern in a Utah district that is successful in E-rate collection. The E-rate manager of this district reported that the past several superintendents in the district have encouraged E-rate because it promoted technology as a means for increasing the education of students. This district also utilized the talents of many individuals to move the E-rate program forward. The superintendent further perpetuated E-rate collection by: (1) allowing the dollars to remain in the technology budget and, (2) maintaining the technology department's district budget despite an increase in E-rate reimbursements.

In the districts we reviewed, district leadership was not involved in the process, a team approach was not being used, and partnerships were not being developed. For Utah districts to become successful at collecting E-rate, they should change their approach.

Districts Should Review the Organizational Placement of the E-rate Manager Position

To become more successful at securing E-rate dollars, districts should change the way they are managing the E-rate program. We recommend two changes to help Utah districts become more successful at collecting E-rate.

The E-rate Manager Needs More Visibility. The E-rate manager should be in a position of authority in the district so that he would have the ability to promote E-rate policies and programs with the local board and superintendent. Since E-rate dollars are reimbursed at the end of the fiscal year, cash flow often becomes an issue for districts. Initial funding is often required to get a new E-rate eligible service started. Thus, the E-rate manager should have the authority to leverage funding.

One E-rate manager commented that in the past he has wanted to do end-to-end contracts but he has not been able to leverage the "kick start" money to get the contract going. He said, "I would love to take advantage of it [end-to-end], but I don't have the money to get started. I would love to be able to do it." If this E-rate manager had been in a position to leverage funding, this district may well have already saved thousands with end-to-end services.

A Team Approach Should Be Taken. A single employee cannot successfully complete the E-rate process alone. An E-rate manager with

many other job responsibilities will most likely fail to maximize E-rate on his/her own. We found that every district E-rate manager in Utah also had other job responsibilities that take the majority of his/her time. One manager estimated that he is only able to devote 3 percent of his time to E-rate. The best approach is to develop a team where several employees devote a portion of their time to E-rate.

An district administrator in another state that is very successful at collecting stated:

“E-rate is a cross-functional project because it requires an unusual level of collaboration among many departments that are rarely required to coordinate with one another around an individual project. Submitting successful applications to the SLD has required pulling people from many departments; e.g., legal, purchasing, information technology, and school operations . . . E-rate gets into everybody’s business.”

E-rate is a highly challenging process that requires intense collaboration. However, the payoffs from E-rate are tremendous. Not only can districts receive significant financial assistance, but the E-rate process helps build positive relationships with state, local and private partners. Another successful district reported, “In spite of these challenges, the process of applying for E-rate has led to new types of relationships among district departments, between the district and local business and universities.”

This collaborative effort should be directed or overseen by a member of district leadership. At a minimum, the team should include employees from the technology department, business office, purchasing department, and contract specialists/legal counsel. Together these employees can ensure that the district reaps the many rewards of the E-rate program.

E-rate Coordinators Need to Do A Better Job of Planning

E-rate managers should also heighten their level of awareness. E-rate managers need to be assertive and forward thinking. We found that many E-rate managers have a lackadaisical approach to E-rate. One E-rate manager who was not applying for several eligible services being utilized at the district stated that:

**E-rate requires
intense coordination
and collaboration
but pay off
tremendously.**

“I have not done a thorough search of what new services E-rate allows or what different services for which the district could be eligible. E-rate already takes so much of my time. Besides, the district already gets so much back that it would not be worth my time to get more E-rate reimbursements.”

This district had forgone more than \$150,000 in a three-year period. Unfortunately, this manager and his views on E-rate are too common. Several managers told us that it would not be worth their time to collect on further E-rate reimbursements.

Part of the problem is that E-rate managers need to plan better. We found that most E-rate managers have not completed a full inventory of all the eligible services schools are using. Managers do not have all their Internet and telecommunication services summarized and defined. The E-rate manager should know every eligible service provider used at the district. The manager should also maintain an updated list of all eligible payments made to these service providers. Schools are losing out on E-rate reimbursements because this information is not known.

State Agencies Should Increase Coordination

The E-rate process can improve if some state agencies increase their collaboration. Increased coordination will help ease the filing process and provide a measure of accountability over E-rate managers. Increasing the coordination between UEN and State Purchasing, begun during the audit, and coordination between USOE and UEN can help districts maximize their reimbursements.

Newly Developed Coordination Between UEN And State Purchasing Will Aid E-rate Process

Coordination with state purchasing can further assist districts with the E-rate process. Between fiscal years 2000-2003, school districts purchased more than \$55 million worth of goods and services from state master contracts that had some aspect of eligible E-rate services included in them. By coordinating with UEN and state purchasing, requesting E-rate reimbursements on the various contracts will be easier for districts.

State agencies need to increase coordination in order to maximize E-rate funding for the state.

The UEN can submit the necessary E-rate forms for all state contracts. The district can then simply piggyback onto those forms, making it easier and faster for district E-rate managers to submit claims. E-rate allows a state division or head of a consortium to engage in the E-rate process for the eligible entities underneath them.

For the UEN to fulfill this role, state purchasing must keep the UEN apprised of new contracts well in advance of them being signed and activated. State purchasing has agreed to establish a relationship with the UEN where communication on contracts can easily flow between the two state agencies. State purchasing has also agreed, to the extent feasible, to write state contracts in accordance with E-rate rules.

For schools to take full advantage of state master contracts, they must, then, have specific start and stop dates. A rule of E-rate is that contracts must remain active until June 30. If the contract expires before June 30 and there is not a continuation clause, E-rate will discontinue funding on the expiration date. For example, if a state contract expired on March 31, schools would not get E-rate reimbursements for the months of April, May and June.

The new coordination established between the UEN and state purchasing during this audit will navigate through these rules. Also, this coordinated effort should make it easier for schools to receive reimbursements.

**Auditors brought
together UEN and
state purchasing.**

USOE and UEN Need to Coordinate Efforts

USOE and the UEN can help districts maximize their reimbursements on telecommunication costs. The Fiscal Analyst stated in the Fiscal Year 2004 Budget Analysis, “[The] UEN and the State Office of Education must work together to improve telecommunication cost accounting and NSLP eligibility measurements.”

The USOE has the ability to electronically collect telecommunication cost data from school districts. The UEN has the expertise and knowledge to analyze this data for E-rate maximization. The UEN can then provide E-rate managers with recommendations to improve their collection of E-rate. We recommend that collection of telecommunication cost data be collected by the USOE and then given to the UEN for analysis.

It is important to establish the number of students eligible for the NSLP.

A More Accurate Measure of Free and Reduced Lunch Eligibility Will Increase Discount Percent

The discount provided to schools on telecommunications technologies is based on the degree a school can leverage E-rate funds based on the schools' eligibility for the National School Lunch Program (NSLP). In Utah, it is unknown how many Utah students are eligible for the NSLP because a survey instrument is not used. NSLP participation rate is usually lower than the NSLP eligibility rate.

Other states use survey instruments to determine the actual number of students eligible for the NSLP. One district in another state even offered prizes such as a trip, movie passes, sports tickets and autographed sports paraphernalia for completing the survey.

The need for a survey instrument was recommended by the Utah Fiscal Analyst in 2003, but a survey still has not been implemented. We concur with the Fiscal Analyst and believe the USOE should look into instituting a survey to more accurately measure the NSLP eligibility in the state.

Recommendations

1. We recommend that districts consider restructuring the E-rate position at the district level to give the manager maximum visibility and support within the district.
2. We recommend that the Legislature direct the USOE to collect from the school districts data on telecommunication costs as a separate object of expenditure. This data should then be shared with the UEN for analysis.
3. We recommend USOE institutes a survey to more accurately measure the National School Lunch program eligibility.

Appendices

This Page Left Blank Intentionally

Appendix A General Service Categories and Eligibility Status

Service Category	Description	Examples	Eligibility Status
Telecommunications Services	These services are used to communicate information electronically between sites. Services <i>must</i> be provided by an eligible provider.	Basic phone services, cellular service, conferencing services, distance learning circuits, long distance, paging services and data lines	Eligible (some of the examples have eligible user conditions).
Internet Access	This includes basic conduit access to the internet, including e-mail. Does <i>not</i> have to be provided by an eligible telecommunication provider	Domain name registration, e-mail service, firewall service, wireless internet	Eligible
Infrastructure serving multiple users, such as cabling and file servers	Wiring and components that expand access within a school	Wiring, file servers, PBX (telephone switching), and routers	Eligible as Internal Connections (Priority Two schools)
Software	Software programs that provide optional operational features	Word processors, spreadsheets, graphic programs	Not eligible, except core network operating systems and e-mail software
Content	Internet content that is available at extra cost is not considered basic conduit access	Electronic libraries, on-line news services, classroom management tools and file storage	Not Eligible
End user equipment	Equipment used by end users in a stand-alone environment or connected to a host mainframe computer as part of a network.	Personal computers, keyboards, mouse, monitors.	Not Eligible

For more information see <http://www.sl.universalservice.org/reference/eligible.asp>

This Page Left Blank Intentionally

Appendix B

Determining District Discount Percentage

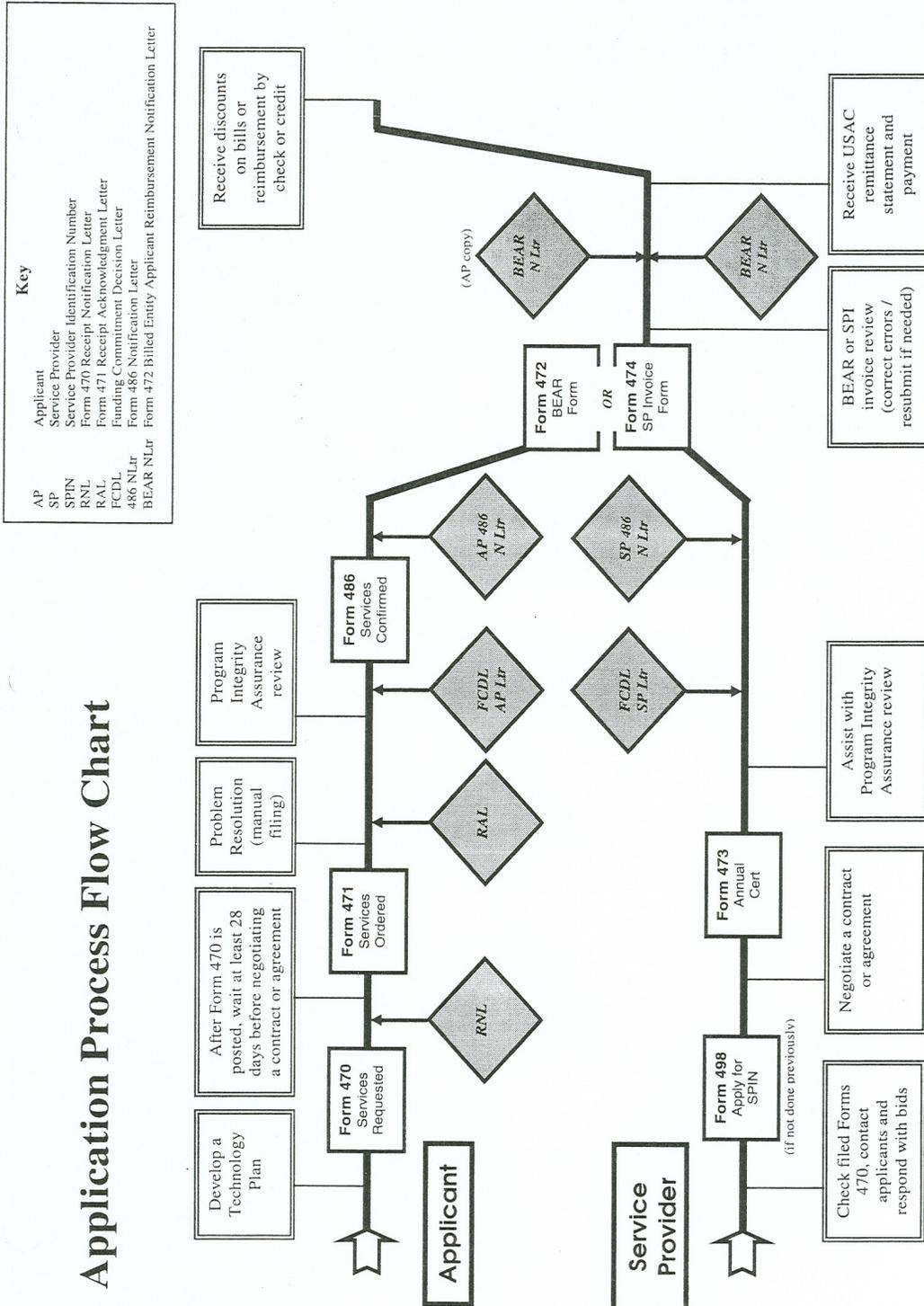
The level of reimbursement (discount) a school can receive is based upon the level of eligibility in the National School Lunch Program (NSLP). The discount percent factors in a school's location in an Urban or Rural setting. The following chart illustrates how the discount percent is calculated.

INCOME Measured by percent of students eligible for NSLP	URBAN LOCATION Discount	RURAL LOCATION Discount
If the percentage of students qualifying for the NSLP is...	...and the school is in an URBAN area, the E-rate discount will be...	...and the school is in a RURAL area, the E-rate discount will be...
Less than 1%	20%	25%
1% to 19%	40%	50%
20% to 34%	50%	60%
35% to 49%	60%	70%
50% to 74%	80%	80%
75% to 100%	90%	90%

Source: Schools and Libraries Division (SLD) [<http://www.sl.universalservice.org/reference/dmatrix.asp>]

This Page Left Blank Intentionally

Appendix C E-rate Process Flow Chart



September 2003

Source: Schools and Libraries Division (SLD) [<http://www.sl.universalservice.org/applicants/processflow.asp>]

This Page Left Blank Intentionally

Appendix D

Utah's E-rate Reimbursements By District

	E-rate per NSLP Student (Fy 2003)	FY 2001	FY 2002	FY 2003
UTAH EDUCATION NETWORK		\$ 1,612,182	\$ 1,894,943	\$ 1,726,966
DAVIS COUNTY SCHOOL DISTRICT	\$ 99.89	434,488	728,446	1,329,679
WAYNE COUNTY SCHOOL DISTRICT	97.67	18,387	25,015	28,617
DAGGETT COUNTY SCHOOL DISTRICT	88.31			5,298
PROVO CITY SCHOOL DISTRICT	78.34	259,186	108,668	413,934
TINTIC SCHOOL DISTRICT	53.34	7,766	10,604	10,028
GARFIELD COUNTY SCHOOL DIST	52.12	28,014	31,756	26,010
*PARK CITY SCHOOL DISTRICT	47.86		5,304	18,425
NORTH SUMMIT SCHOOL DISTRICT	45.11	6,350	8,639	9,247
DUCHESNE COUNTY SCHOOL DIST	40.71	90,128	105,733	72,182
EMERY COUNTY SCHOOL DISTRICT	39.94	19,393	31,282	44,648
PIUTE COUNTY SCHOOL DISTRICT	38.08	1,446	8,640	7,425
RICH COUNTY SCHOOL DISTRICT	36.61	3,662		9,702
BEAVER COUNTY SCHOOL DISTRICT	28.42	13,085	14,600	17,169
OGDEN CITY SCHOOL DISTRICT	25.63	176,202	182,519	216,665
CARBON COUNTY SCHOOL DISTRICT	24.24	41,243	42,357	42,178
SOUTH SANPETE SCHOOL DISTRICT	23.46	26,191	29,722	29,865
GRANITE SCHOOL DISTRICT	22.99	142,316	294,279	595,611
BOX ELDER SCHOOL DISTRICT	19.96	52,900	65,699	69,692
JUAB SCHOOL DISTRICT	18.01	8,625	13,041	11,331
NEBO SCHOOL DISTRICT	17.92	73,332	105,152	108,131
JORDAN SCHOOL DISTRICT	17.76	269,690	166,709	256,811
NORTH SANPETE SCHOOL DISTRICT	17.52	20,217	24,613	20,974
SEVIER SCHOOL DISTRICT	16.31	24,551	30,531	31,454
MORGAN SCHOOL DISTRICT	16.28		6,675	5,550
CACHE SCHOOL DISTRICT	15.44	29,886	57,262	56,643
MURRAY CITY SCHOOL DISTRICT	14.94	18,751	22,885	21,834
WASHINGTON COUNTY SCHOOL DIST	14.42	101,289	102,950	88,392
SALT LAKE CITY SCHOOL DISTRICT	13.77	47,686	49,249	203,276
WEBER COUNTY SCHOOL DISTRICT	12.56	94,445	92,903	77,286
SAN JUAN COUNTY SCHOOL DIST	12.24		30,349	26,058
LOGAN CITY SCHOOL DISTRICT	12.02	32,793	28,370	27,433
IRON COUNTY SCHOOL DISTRICT	11.83	25,668	35,250	34,054
UINTAH COUNTY SCHOOL DISTRICT	9.33	122,921	116,539	24,537
ALPINE SCHOOL DISTRICT	8.87	116,809	41,227	101,795
MILLARD COUNTY SCHOOL DISTRICT	2.26	3,060	27,472	3,197
*GRAND COUNTY SCHOOL DISTRICT				
*KANE COUNTY SCHOOL DISTRICT				
SOUTH SUMMIT SCHOOL DISTRICT				
TOOELE COUNTY SCHOOL DISTRICT		21,325	25,695	
WASATCH COUNTY SCHOOL DISTRICT				
Grand Total		\$ 3,943,987	\$ 4,565,076	\$ 5,772,097

Data queried May 2004 from the SLD. Changes to the numbers may have occurred after this date

*These districts received commitments in FY 2001, but did not get any reimbursements for actual expenditures.

Source: Schools and Libraries Division (SLD) [<http://www.sl.universalservice.org/funding/OpenDataSearch/Search1.asp>]

This Page Left Blank Intentionally

Agency Response

November 16, 2004

Audit Subcommittee
Of the Legislative Management Committee
State Capitol Building
Salt Lake City, Utah State Office of Education

Dear Committee Members:

Thank you for the opportunity to respond to the **Performance Audit for Utah's Use of the Federal E-Rate Program**, October 20, 2004. The audit identifies that most Utah school districts have not taken full advantage of the Federal E-rate program and that Utah is far below the average state and behind most surrounding states in E-rate reimbursements. Two possible reasons are cited:

- 1). A lack of understanding of the program, and
- 2). The lack of coordinated efforts to apply for funds.

In response to your recommendations, we offer the following comments and suggestions for your consideration.

Page 14 – Recommendation

- 1. We recommend that school districts submit for all eligible telecommunication costs.**

Utah Education Network (UEN) and Utah State Office of Education (USOE) are committed to providing the support necessary to help districts leverage e-rate funding in order to maximize scarce available resources.

- District technology specialists need help and support in meeting and understanding the complex, changing E-Rate requirements.
 - Because E-Rate is a rebate program, districts struggle to have the financial means necessary to fund the up front costs for all existing services and to pay the costs for any newly requested services. An upfront funding source would help alleviate this concern.
 - Once the money is rebated, it is recommended that technology departments hold those funds in reserve to pay for the next year's up front costs.
- 2. We recommend that school districts track all telecommunication expenses, maintain copies of invoices and provide this documentation to those filing for E-rate.**

We are in agreement with this recommendation noting that the state has a Financial Information System that could be leveraged to help meet these needs.

Page 25 – Recommendations

- 1. We recommend that all districts apply for Priority Two funds for their impoverished schools.**

We agree with this recommendation.

- 2. We recommend that the UEN and the school districts move toward the proposed coordinated network model. The following points should be included:**
 - The UEN will provide a statewide network for all public schools in the state.**
 - To the extent feasible, the UEN will provide the network based on end-to-end service contracts.**
 - School districts will pay the UEN the net cost of providing the network to elementary schools.**
 - The UEN will take into consideration the individual needs of districts.**

The mission critical use of the Internet makes connectivity a basic necessity for all public schools. The statewide education network coordinated by the UEN has grown exponentially in its use since its inception more than a decade ago. Its daily use includes diverse functions such as:

- Student information systems including online grading and attendance
- Online testing
- District financial information systems
- Communication including e-mail and video conferencing
- Educational resources including Pioneer – Utah’s Online Library

Because elementary schools have the same mission critical use issues of secondary schools, it is recommended that funding be allocated that would cover the cost of connectivity for all public schools.

In order to provide schools with sufficient network capacity, it is essential that the districts and UEN work together in a coordinated effort. School districts will benefit from a coordinated effort through the elimination of budgetary cash flow issues resulting from the delay of approval of e-rate applications and submitting for e-rate reimbursement. The district would be able to budget for an agreed dollar amount per month that would not fluctuate. UEN would take on the budgetary issues related to e-rate. UEN has the flexibility to handle the cash flow issues, along with their staff’s ability to file immediately for the reimbursement.

Page 32 – Recommendation

- 1. We recommend that districts restructure the E-rate position at the district level to give the manager maximum visibility and support within the district.**

The success of e-rate needs to start with the leadership of district superintendents. USOE and UEN will partner to help district superintendents and their staffs fully understand the E-rate program and how to maximize the use of available funds. Training would include an over view of the e-rate program, the responsibilities of the state e-rate coordinator, and the tools needed at the district level to have a successful e-rate program. USOE could discuss the importance of the audit and the problems the districts experience when filing e-rate.

- 2. We recommend that the Legislature direct the USOE to collect from the school districts data on telecommunication costs as a separate object of expenditure. This data should then be shared with the UEN for analysis.**

We support this recommendation recognizing that as E-Rate regulations change, the systems put in place to track and report telecommunications expenses need to be flexible enough to accommodate those changes. This information would provide an excellent tool to measure performance.

- 3. We recommend USOE institutes a survey to more accurately measure the National School Lunch program eligibility.**

This eligibility survey would provide us with more accurate figures that should result in a higher discount. This would result in more e-rate dollars coming back to Utah. It is important that UEN and all school districts receive the eligibility information in a timely manner. A statewide survey could be conducted at the time of registration at the beginning of each school year.

We appreciate the opportunity we have to respond to this audit.

Sincerely,

Patti Harrington
State Superintendent
of Public Instruction

Mike Petersen
Executive Director
Utah Education Network

