



The Anatomy of 21st Century Education Reform, Part I

September 2015

National Association for Children and Safe Technology

<http://www.nacst.org>

Table of Contents

Introduction Page 4

Explains the motivation for researching 21st century education reform.

Key Words and Phrases Page 7

Provides a list of key words and phrases associated with the 21st century education reform movement and Agenda 21, serving as a guide while reading this report.

Key Highlights Page 9

Lists the five key highlights of Part I of the Anatomy of 21st Century Education Reform Report.

The Telecommunications Act of 1996 Page 10

Explains the purpose of the Telecommunications Act of 1996 and what sections of the Act pertain specifically to technology in schools.

Section 254: Universal Service Page 10

Lists and briefly explains the four Universal Service Programs mandated under Section 254 of the Telecommunications Act of 1996 including the Schools and Libraries Program or what is commonly referred to as E-rate.

Key Provisions of Section 254 Regarding Schools and Libraries Page 11

Breaks down Section 254 into sub-sections (a - h) and explains each one in more detail.

The Establishment of the Schools and Libraries Corporation (SLC) Page 12

Discusses how the Federal Communications Commission (FCC) set up the administration of the Schools and Libraries Program by establishing a private non-profit corporation without congressional approval and the controversy that resulted.

Senate Hearing on the Schools and Libraries Corporation (SLC) Page 14

Information on the Senate hearing that took place regarding the FCC's controversial

establishment of the SLC and how the corporation was eventually absorbed into the Universal Service Administration Company (USAC) and became the Schools and Libraries Division (SLD).

Government Accountability Office Findings: Waste, Fraud and Abuse Page 15

The Universal Service High Cost and E-rate Programs have been the subject of many investigations into waste, fraud and abuse over two decades.

United States Government Accountability Office Reports - 1998-2014 Page 16

Provides a list of 13 reports over almost 2 decades addressing waste, fraud and abuse in the E-rate and High Cost Programs. The key findings from each report are included.

Challenges to the Oversight of the Schools and Libraries Program Page 21

In addition to the GAO, other government agencies have conducted extensive investigations into waste, fraud and abuse. A lack of funding to ensure proper oversight of the Schools and Libraries Program has been an ongoing problem.

The USAC E-rate Task Force Page 23

The USAC downplayed the controversies surrounding the E-rate Program by establishing the E-rate Task Force.

Waste, Fraud and Abuse and E-rate Modernization Page 26

Recent E-rate modernization literature proposes to reform the waste, fraud and abuse within the E-rate Program while simultaneously upgrading the program.

The FCC Universal Service Fund Strike Force Page 27

Discusses the FCC's Universal Service Fund Strike Force and the purpose of the newly established organization.

The "Gore Tax" Page 28

The Universal Service Fund became known as the "Gore Tax". Who is really paying for E-rate and the other Universal Service Programs?

Introducing The National Education Technology Funding Corporation Page 29

Senator Carol Moseley-Braun introduced the newly established NETFC. This section details her announcement during the Senate meeting on 05 April 1995.

Section 708:The National Education Technology Funding Corporation Page 32

The NETFC became an amendment to the Telecommunications Act of 1996. What does Section 708 say regarding the purposes of NETFC?

Searching for Signs of the NETFC Page 33

Discusses what is known about NETFC although information about the organization is very limited.

"Eddie Tech" Page 34

Provides information about the NETFC doing business as "Eddie Tech".

Many Unanswered Questions Page 35

Many questions about the NETFC are left unanswered. This section lists a few of these important questions.

Public-Private-Partnerships Page 36

Briefly discusses why the public-private-partnership model of governance is troublesome and how it is driving 21st century education reform.

Diagrams and Charts Page 38

This section contains diagrams to help visualize the complex relationships between the various entities involved in the E-rate Program. Quick reference charts of government reports are also included.

Resource Document Summaries, Notes and Excerpts Page 44

Provides summaries, notes and excerpts from a wide range of documents used to complete this report. Words and phrases associated with 21st century education have been bolded within the text found in the resources.

Introduction

Wi-Fi in schools has been a focus of my attention since 2006 when I discovered the elementary school my children were attending had Wi-Fi. As a mom who has first hand experience dealing with the ill effects of wireless radiation on my family, I was concerned about this situation. There were small routers located in a few classrooms. Fortunately at the time, I was able to request rooms without routers for my children and I tried to advocate for safety as much as I could. Today at my children's schools, there is nowhere to be found that is not completely blanketed with ubiquitous Wi-Fi.

Over the course of 9 years, I have watched a transformation take place in the local schools. Every year more and more technology has been introduced. Fast forward from 2006 to 2015, at the elementary school where I have one child still attending, there is a commercial grade router in every classroom. The classrooms are very small and have low ceilings. There are routers in the hallways and in the cafeteria. The one in the cafeteria is ironically mounted next to the sign that reads, "Attention: Microwave Oven In Use". There are large Apple T.V.'s in some rooms and smart boards too. Every class visits the computer lab located in the library at least once a week where there is also a router. Each classroom has scheduled times during the week when students use the laptops and iPads from the mobile computer lab cart. An iPad robot roams the elementary school.

Year after year, I have discussed my concerns with the teachers and administrators. They have listened respectfully and have tried to accommodate my requests to the best of their ability. Unfortunately it becomes difficult to do if you are working in a district that is promoting this type of education for students. I feel like no one is really listening and the situation keeps getting worse and worse. Somehow, I get the feeling these decisions are being made not locally, but from a very high place, in a top-down fashion.

As I look back over the years at what has transpired, I see now there were hints along the way as to what was unknowingly taking place. For example, three years ago, I

contacted the Department of Education for the state and spoke with the Education Technology Coordinator. After explaining why I felt the state should only support wired technology in schools, she said, "I don't see how that could be possible with all of the **21st century digital learning** initiatives planned." I was curious what she meant by that statement but didn't have the time to learn more.

Back in 2009, when the economic crisis had everyone's attention, stimulus funds were being offered to states for education and our school district I learned was going to be receiving some of those funds. That was great news I thought, and said to the parent who had told me this, "So now we can pay for some much needed upgrades and repairs? Or maybe supplies, or more teaching staff?" They said no, the money had to be specifically used for technology upgrades only. I thought that was very odd at the time seeing as there were so many needs the school had, why would the funding only go to cover technology expenses?

Another related curiosity has been the condition of the schools and the lack of funds for basic necessities throughout the district, in contrast to the money spent on technology. I have noticed areas that are very run down, impoverished looking but then on the other hand, the district is spending millions of dollars on technology in the schools. For example, the stairway in the high school is patched with duct tape, the middle school girl's bathroom stall has a patched hole in the partition, the stairs and banister between the high school and middle school are very worn and the carpets at the elementary school my child attends are tattered. Children have to share textbooks, the gifted/talented program has been eliminated and they have cut the number of teaching positions every year. I also wonder why parents and their children need to fundraise for playground equipment, school supplies or field trips. If the district is spending \$2 million + on technology every year, then where is the money to pay for the essentials I have listed above?

As a result of the circumstances in our school district, at the beginning of the 2014-2015 school year, I decided it was time for me to do some homework on what has been happening to our schools. I thought it would only take a month or so to complete this task but it has taken me over a year and I can honestly say, I'm not

finished yet. While this reform effort moves swiftly along, I have to pause and share what I know to be factual, so far.

Shortly after deciding to research this topic, I was invited to a presentation given by Rosa Koire, the author of Behind the Green Mask: U.N. Agenda 21. I had vaguely heard of U.N. Agenda 21 and was not very familiar with it so the lecture was quite an eye-opener to say the least. According to Koire, the education reform we have been witnessing in our schools is an integral part of Agenda 21. This premise became a part of my research, to locate evidence suggesting this was in fact true (or not). I reviewed many resource documents, searching for Agenda 21 terminology. I was also looking for significant events, statements and to identify the major entities promoting 21st century education reform. This report is the result. I sincerely hope it will help us move forward to a better place and time in our schools for the sake of our children and future generations.

21st Century Education Reform Key Words and Phrases

global economy

new economy

today's global economy

global citizenship

global competitiveness

global opportunities

compete globally

digital age

digital divide

digital learning

digital learning practices

digital world

transformation

transformative

transition

21st century economy

the 21st century

the 21st century classroom

culture shift

teacher- centered vs. student centered

personalized learning

public-private partnerships

life-long learning

workforce development system

cradle to career

urgent

swift

robust networks

The Anatomy of 21st Century Education Reform, Part I

Key Highlights

- E-rate is known as a “poverty based” program. Schools with the greatest need qualify for discounts up to 90%. Companies receive full business rates for their products and services purchased by schools and libraries through the E-rate Program.
- The Schools and Libraries Program, also known as E-rate, has been plagued with chronic waste, fraud and abuse since the inception of the program. The findings from numerous government investigations over 2 decades have been largely ignored. Oversight of the E-rate Program has not been adequately funded.
- Customers pay for the E-rate Program through a continuously increasing hidden tax on their monthly phone bills, which they are required to pay.
- 21st century education reform, according to government officials and corporate leaders, is essential in order to prepare our children for the emerging global economy.
- Public-private-partnerships are the cornerstone of 21st century education reform. Authorized through the Telecommunications Act of 1996, public-private-partnerships compromise the integrity of our federal, state and local governments. They divert tax dollars and other resources to support corporations instead of public education for which they were intended.

The Telecommunications Act of 1996

The Telecommunications Act of 1996 was signed into law by President Clinton on 08 February 1996. The purpose of the Act is written as follows:

To promote competition and reduce regulation in order to secure lower prices and higher quality services for American telecommunications consumers and encourage the rapid deployment of new communications technologies.

Two main sections in the Telecommunications Act of 1996 relate directly to technology in schools -- Section 254: Universal Service and Section 708: National Education Technology Funding Corporation.

Section 254: Universal Service

The Telecommunications Act of 1996, Section 254 updated the two original Universal Service Programs that were instituted as core mandates of the Communications Act of 1934. The two original Universal Service Programs that were updated are:

- 1.) The **High Cost Program**, also known as the **Connect America Fund**, provides support to eligible telecommunication companies that offer service to consumers in hard-to serve rural areas at rates comparable to those in urban areas. The annual funding cap for the High Cost Program is \$4.7 billion.
- 2.) The **Low-Income Program**, also known as **Lifeline**, provides support to telecommunication companies that offer discounts on telecommunication services to eligible consumers. The annual funding cap for the Low-Income Program is set at \$1.8 billion.

In addition, Universal Service was expanded to include:

- 3.) The **Schools and Libraries Program**, commonly known as **E-rate**, provides support

to eligible schools and libraries qualifying for reduced rates on telecommunications, Internet access, internal connections, and basic maintenance of internal connections. Until recently, the annual funding cap for the Schools and Libraries Program was \$2.38 billion. Effective 2015, the new funding cap is \$3.9 billion.

4.) The Rural Health Care Program (RHC) provides support to eligible rural health care providers qualifying for reduced rates on telecommunication services and broadband access. Health care providers pay rates for telecommunication services similar to those of their urban counterparts, making telehealth services affordable in rural areas. The annual funding cap for RHC is \$159 million.

Key Provisions of Section 254 Regarding Schools and Libraries

- Sec 254 (c) — The Federal Communications Commission (FCC) was granted authority to reevaluate periodically what should be considered Universal Service and update the definition as needed - based on “advances in telecommunications and information technology and services.” *(This section of the act allows for the mission of E-rate to be redefined and therefore kept open-ended.)*
- Sec 254 (d) — Telecommunication carriers providing interstate telecommunication services were now required by law to contribute to the Universal Service support mechanism for the “preservation and advancement of Universal Service”. The Universal Service Fund was the support mechanism established by the FCC.
- Telecom carriers as defined under section 214 (e) would now be eligible for Federal Universal Service support.
- Sec 254 (f) — States were encouraged to establish their own USF for intrastate calls. *(Questions have been raised whether there is overlap between state run USF programs and the Federal USF programs.)*

- Sec 254 (h) —Telecommunication carriers within a geographic area are now obligated to provide their services for a discounted rate to any requesting schools or libraries within their area so long as the services requested are for educational purposes only. The FCC determines this rate based on the regular interstate service rates for that area and what is deemed “appropriate and necessary to ensure affordable access to and use of such services by such entities.” Two factors affect the discount rate - The percentage of students enrolled in the federal school lunch program, these are students from low-income families; and school status – the schools designated as rural are eligible for more funding than their urban counterparts.
- Sec 254 (h) — Carriers providing their services at discounted rates to schools and libraries can choose to:
 - 1.) Use the discount(s) they provide schools and libraries to offset the amount they are required to contribute to the Universal Service Fund; or
 - 2.) Receive reimbursement through the Universal Service Fund for the discounted amounts they provide schools and libraries.

Whether a telecommunication carrier chooses to contribute less to the USF or receive reimbursement from the USF for the discounts they provide, the telecommunication carriers are ultimately receiving full business rates for the services they provide eligible schools and libraries. It is unclear how the information provided by carriers is verified.

The Establishment of the Schools and Libraries Corporation (SLC)

Section 254 (h) did not mandate a structure for administering the Schools and Libraries Program or the Rural Health Care Program, which in turn, led to controversy.

In 1984, telephone industry representatives had formed the National Exchange Carriers Association (NECA) as a result of an FCC order, which mandated the creation of an exchange carrier association (FCC CC Docket 78-72). The initial purpose of this organization was to file common access charge tariffs, administer access charge revenue pools, and distribute the pooled revenues. In July 1997, the FCC directed the National Exchange Carrier Association (NECA) to create the Universal Service Administrative Company (USAC) to be an independently functioning subsidiary of NECA, administering the High Cost Fund and Low-Income Fund. The FCC also directed NECA to establish the Schools and Libraries Corporation (SLC) and the Rural Healthcare Corporation (RHC); both corporations were not-for-profit, independent and unaffiliated with NECA and USAC.

This report does not cover the details of how NECA or USAC were formed "legally" in contrast to the Schools and Libraries Corporation or the Rural Healthcare Corporation; further inquiry would be helpful.

The actions take by the FCC to establish the SLC and RHC, raised concerns among congressional leaders. Senator Ted Stevens (R-AK) requested a review of the FCC's implementation of Section 254 (h). The U.S. General Accounting Office's Inspector, Robert Murphy provided a report addressing those concerns and determined:

- The FCC had exceeded its authority when it established the SLC and the RHC, violating the Government Corporation Control Act, which requires a congressional law to grant any federal agency the authority to acquire or establish a corporation.
- It was also clarified that due to its corporate status, the SLC was not subject to federal statutes that commonly regulate federal entities and their employees in the areas of employment practices, procurement, lobbying and political activity, ethics, and disclosure of information to the public. It would however be subject to federal statutes applicable to private corporations unless outside the coverage of the statutes.

- Congress had no direct oversight over the corporations.

Senate Hearings on the Schools and Libraries Corporation

A contentious Senate committee meeting was held in July 1998 on the Schools and Libraries Corporation to address concerns of waste, fraud, and mismanagement. SLC's President Ira Fishman and The U.S. General Accounting Office (GAO) representative Judy England-Joseph gave testimony at the meeting.

Ira Fishman, a former Washington lawyer and lobbyist with ties to Al Gore, volunteered during Gore's 1988 presidential campaign and also fund raised for the Vice President. Although Mr. Fishman had no experience managing a business or regulatory agency, he was now overseeing the SLC and E-rate funding worth \$2.25 billion. His yearly salary of \$200,000+ bonuses was questioned and later reduced to \$151,000, the rate of pay for government officials at an executive tier.

During the Senate committee meeting, Mr. Fishman declined to answer questions about the SLC being illegally formed and did not release funding applications to the GAO auditor for review since the corporation was not subject to the laws governing federal agencies. He claimed SLC had not spent any money and denied any concerns regarding waste, fraud and abuse. Previously, Mr. Fishman testified that the corporation had already spent \$18.8 million.

Senator Burns (R-MT), a leading critic of the E-rate Program was at the time, working on legislation to transfer the Schools and Libraries Program over to the Department of Education. He questioned the high cost of the program and asked for Mr. Fishman's reassurance that it would decrease over time once the goal was met to wire all of the nation's schools. Hard wiring, after all, would be a non-recurring cost. Mr. Fishman did not give a definitive answer. The Schools and Libraries Program should not be considered a "cash cow" for the telecommunications industry, Senator Burns warned.

Despite opposition, there were those who vigorously supported the work of Mr. Fishman and the SLC such as Senator Jay Rockefeller (D-WV) and Senator Olympia Snowe (R - ME).

GAO representative, Judy England-Joseph gave testimony on the results of the GAO investigation (GAO/T-RCED-98-243). Some of the highlights from her testimony on the report were:

- The program relied heavily on self-certification on applications from schools and libraries.
- No internal controls were in place before reimbursements were scheduled to be issued.
- High-risk applications would not be audited until after funding commitments were made.
- The FCC had not developed performance goals and measures consistent with requirements of the Government Performance and Results Act of 1993.

The administrative structure of the Schools and Libraries Corporation (and the Rural Health Care Corporation) was eventually changed as a result of a congressional directive requiring a single entity administer Universal Service support for schools and libraries and rural health care. The Universal Service Administrative Company (USAC) was appointed by the FCC as the permanent administrator of the Universal Service Fund and directed the corporation to merge with USAC by 01 January 1999. Under the merger, the corporation's staff became part of USAC's Schools and Libraries Division (SLD), carrying out essentially the same functions as before.

GAO Findings: Waste, Fraud and Abuse

The SLC investigation and the subsequent changes to the administration of the E-rate Program were just the beginning of many investigations into waste, fraud and

abuse concerning the program, which continue to this day.

Among the four Universal Service programs administered by the USAC, the High Cost Fund with an annual funding cap of \$4.7 billion has been plagued by the most waste, fraud and abuse, followed by the E-rate Program with an annual funding cap of \$2.4 billion. As mentioned earlier, the new funding cap for the E-rate Program effective 2015, has been increased to \$3.9 billion to meet the needs of E-rate modernization. A list of GAO reports from over the years, most of which are concerning the E-rate Program follows. Two High Cost Fund reports are included in this list because the program is funded through the same source as E-rate. Significant waste, fraud or abuse occurring in one program negatively impacts the other programs. Every year, hundreds of millions of Universal Service Fund dollars are lost as a result of waste, fraud and abuse.

United States Government Accountability Office (GAO) Reports 1998 – 2014

**The U.S. General Accounting Office changed its name to the U.S. Government Accountability Office in 2004.*

1.) 10 February 1998 | U.S. General Accounting Office | B-278820

Telecommunications: [Comments on the Federal Communication Commission's Implementation of Section 254 (h) of the Communication Act of 1934]

- The FCC exceeded its authority when it directed the National Exchange Carrier Association, Inc. to create the Schools and Libraries Corporation (SLC).
- Congress has no direct oversight over the Schools and Libraries Corporation.

2.) 31 March 1998 | U.S. General Accounting Office | GAO/T-RCED-OGC-98-84

Telecommunications: FCC Lacked Authority to Create Corporations to Administer Universal Service Programs, Statement of Robert P. Murphy, General Counsel

- This document accompanies the previous item, #1.

3.) 16 July 1998 | U.S. General Accounting Office | GAO/T-RCED-98-243

Schools and Libraries Corporation: Actions Needed to Strengthen Program Integrity Operations Before Committing Funds

Statement by Judy A. England-Joseph, Director, Housing and Community Development Issues, Resources, Community, and Economic Development Division

- The Corporation relies heavily on self-certification by applicants to ensure compliance with FCC rules and regulations.
- The Corporation has not finalized all necessary procedures and related internal controls for the program prior to sending commitment letters.
- The FCC has not developed performance goals and measures specifically for the Schools and Libraries Program consistent with the requirements of the Government Performance and Results Act of 1993.

4.) March 1999 | U.S. General Accounting Office | GAO/RCED-99-51

Schools and Libraries Program: Actions Taken to Improve Operational Procedures Prior to Committing Funds

Statement by Judy A. England-Joseph, Director, Housing and Community Development Issues, Resources, Community, and Economic Development Division

This report outlines the steps that were taken to address the issues raised in the previous report and also reviews the outstanding concerns still needing attention such as:

- The Corporation has made progress but the report recommends they take further actions to strengthen operations before issuing any funding letter commitments to applicants.
- There were delays in processing 38% of the applications for E-rate funds from schools and libraries.
- Reviews of high-risk applications are not scheduled to occur until after funding commitment letters have been sent to applicants.
- The FCC has not developed performance goals and measures for this program consistent with the requirements for the Government Performance and Results Act of 1993.

5.) 20 August 1999 | U.S. General Accounting Office | GAO/HEHS-99-133

Telecommunications Technology: Federal Funding for Schools and Libraries

This report has been included as it provides valuable insights into waste, fraud and abuse within the E-rate Program despite its contrary assertions. It concludes there is no evidence of individual programs offering identical services to identical populations, but "similarities" among the programs were found. It also states that waste, fraud and abuse were not determined to be systemic or widespread, however, they did find individual cases of such incidents. Furthermore, the GAO did not consider the implementation of each program or conduct its own extensive

investigation.

- 35 Federal programs in 8 agencies were identified as sources of support for technology funding for schools and libraries.
- When more than one federal agency is involved in the same broad area of national need, it is referred to as mission fragmentation.
- This report is an analysis of program goals, the means to achieve them and the targeted recipients of the 35 federal programs in order to identify whether the overlapping federal programs are duplicating funding resources.
- This report / analysis is consistent with the Government Performance and Results Act of 1993.
- While multiple agencies have responsibilities for managing programs in this area, based on GAO's review, GAO did not identify instances where two individual programs were providing identical services to identical populations - that it had the same goals, the same activities or strategies to achieve them, and the same targeted recipients.
- Waste, fraud and abuse were not determined to be systemic or widespread problems.

6.) 15 December 2000 | U.S. General Accounting Office | GAO-01-105

Schools and Libraries Program: Application and Invoice Review Procedures Need Strengthening

- The USAC's Schools and Libraries Division committed more than \$3.7 billion to applicants during the 1998 -1999 program years. However, a significant amount of money has not yet been paid out.
- GAO identified millions of dollars in funds incorrectly committed to ineligible products and services.
- SLD's practice of approving most vendors' invoices without reviewing how and where the committed funds are actually being spent, leaves the program vulnerable to further funding errors and potential abuses.

7.) 11 May 2001 | U.S. General Account Office | GAO-01-672

Schools and Libraries Program: Update on E-Rate Funding

- This report looks at the trends over 3 years, from 1999-2000 related to the amount of E-rate funding requests in comparison to the annual funding cap of \$2.25 billion.
- Requests for E-rate funds are consistently outpacing the annual funding cap.

- The results of the FCC's and SLD's actions taken to reduce the amount of committed funds that go unspent is covered in this report.
- E-rate funds that are committed but unused, are held by USAC in interest bearing accounts pending requests for reimbursements. ("Floating funds")

8.) February 2005 | U.S. Government Accountability Office | GAO-05-151

Telecommunications: Greater Involvement Needed by FCC in the Management and Oversight of the E-rate Program

- FCC established the E-rate Program using an organizational structure unusual to the government without conducting a comprehensive assessment to determine which federal requirements, policies, and practices apply to it.
- The E-rate Program is administered by a private, not for profit corporation with no contract or memorandum of understanding with FCC, and program funds are maintained outside the U.S. Treasury, raising issues related to the collection, deposit, obligation, and disbursement of the funding.
- FCC has not developed useful performance goals and measures for assessing and managing the E-rate Program.
- FCC's oversight mechanisms contain weaknesses that limit FCC's management of the program and its ability to understand the scope of any waste, fraud, and abuse within the program.

9.) June 2008 | U.S. Government Accountability Office | GAO-08-633

FCC Needs to Improve Performance Management and Strengthen Oversight of the High-Cost Program

- The High-Cost Program's structure has resulted in the inconsistent distribution of support and availability of services across rural America.
- GAO was not able to identify performance goals or measures for the program. In the absence of performance goals and measures, the Congress and FCC are limited in their ability to make informed decisions about the future of the High-Cost Program.
- While some internal control mechanisms exist for the High-Cost Program, these mechanisms are limited and exhibit weaknesses that hinder FCC's ability to assess the risk of noncompliance with program rules and ensure cost-effective use of program funds.
- The carrier certification process exhibits inconsistency across the states that certify carriers; carrier audits have been limited in number; and reported findings and carrier data validation focuses primarily on completeness and

not accuracy.

10.) March 2009 | U.S. Government Accountability Office | GAO-09-253

Telecommunications: Long-Term Strategic Vision Would Help Ensure Targeting of E-rate Funds to Highest-Priority Uses

- Requests for E-rate funding consistently exceed the annual funding cap, and increased commitments for telecommunications and Internet services, combined with significant undisbursed funds, limit funding for wiring and components needed for data transmission.
- A significant amount of committed funds are not disbursed to program participants; for commitments made in 1998 through 2006, about one quarter of the funds have not been disbursed.
- Unused funds are reallocated to use in future years but are still problematic because they preclude other applicants from being funded.
- Participation rates and participants' views on program requirements indicate difficulties in the E-rate application process.
- FCC does not have performance goals for the E-rate Program, and its performance measures are inadequate.
- FCC's piecemeal approach to performance goals and measures indicates a lack of strategic vision for the program.

11.) 27 April 2009 | U.S. Government Accountability Office | GAO-09-254SP

Telecommunications: Information on Participation in the E-rate Program (GAO-09-254SP, March 2009), an e-supplement to GAO-09-253

This e-supplement includes:

- An analysis of the rates at which eligible schools and libraries participate in the E-rate Program and characteristics of participants and non-participants
- Questions from the survey and the results

12.) 29 September 2010 | U.S. Government Accountability Office | GAO-10-908

Telecommunications: FCC Should Assess the Design of the E-rate Program's Internal Control Structure

- E-rate's internal control structure centers around USAC's complex, multilayered application review process.
- The design of E-rate's internal control structure may not appropriately

consider program risks.

- USAC's application review process incorporates a number of different types and levels of reviews, but that it was not clear whether this design was effectively or efficiently targeting resources to risks.
- No controls are in place to periodically check the accuracy of USAC's automated invoice review process.
- While USAC has expanded and adjusted its internal control procedures, it has never conducted a robust risk assessment of the E-rate Program's core processes.
- The results of beneficiary audits are used to identify and report on E-rate compliance issues, but GAO found that the information gathered from the audits has not been effectively used to assess and modify the E-rate Program's internal controls.
- The same rule violations have been repeated each year for which beneficiary audits have been completed. For example, of 64 beneficiaries that had been audited more than once over a 3-year period, GAO found that 36 had repeat audit findings of the same rule violation.

13.) July 2014 | U.S. Government Accountability Office | GAO-14-587

FCC Should Improve the Accountability and Transparency of High Cost Program Funding

- GAO identified gaps in FCC's data analysis and reporting that limit FCC's ability to evaluate the program, demonstrate its effectiveness, and help ensure that the data collected will inform current and future reforms.
- The gaps include (1) a lack of transparency and accountability of high-cost spending and (2) poor accessibility and usability of data and information.

Challenges to the Oversight of the Schools and Libraries Program

Since 1997, many investigations regarding waste, fraud and abuse have been conducted by the GAO as illustrated in the previous section. The FCC Office of Inspector General (OIG), the Department of Justice, the Federal Bureau of Investigations (FBI), and applicable state and local government agencies have also conducted numerous investigations into waste, fraud and abuse. The FCC OIG for example, began in March 2002 to include a section on the oversight of the USF in

their semi-annual reports with an emphasis on the Schools and Libraries Program. These investigations require additional funding not included in the annual funding cap for the E-rate Program.

The lack of funding to ensure proper oversight of the Schools and Libraries Program and the other Universal Programs has been an on going problem as discussed in several FCC OIG semi-annual reports. In his June 17, 2004 remarks to the U.S. House of Representatives, Committee on Energy and Commerce, the Inspector General H. Walker Feaster III stated:

"My office first looked at the USF as part of our audit of the Commission's FY 1999 financial statement. Since that time, my office has continued to devote considerable resources to oversight of the USF, and the E-rate Program in particular; however, several obstacles have impeded our ability to implement effective, independent oversight of the program. The primary obstacle we have dealt with has been a lack of adequate resources to conduct audits and provide audit support to investigations. We have requested appropriated funding to obtain contract support for USF oversight activities, but those funding requests are yet to be approved..."

In closing, Inspector General Feaster remarked:

"...Until resources and funding are available to provide adequate oversight for the program, I am unable to provide assurance that the program is protected from waste, fraud and abuse."

Supporters of the E-rate Program have worked to discourage funding for appropriate oversight and downplay the widespread issues of waste, fraud and abuse. They are often taking the position that these cases are only isolated examples and E-rate is an important program that has done a lot of good.

A report was issued in 2008 by the FCC's OIG titled, "The Schools and Libraries Program Initial Statistical Analysis of Data from 2007 / 2008 | Compliances Attestation Examinations". The report is a statistical analysis of data from the

2007/2008 audits of the Schools and Libraries Program. The main reason for the OIG's audit of the Schools and Libraries Program was to determine the extent to which the program was being operated in accordance with the FCC's "rules, orders and interpretive opinions". Another reason the study was done was to provide audit results that would permit statistical estimates of the error rates under the Improper Payments Information Act of 2002 (IPIA). Under IPIA's standards, a program is at risk if the erroneous payment rate exceeds 2.5% and the amount of erroneous payments is greater than \$10 million. The terms "erroneous payment" and "improper payment" have the same meaning in the context of this report.

The report further explains:

"To assess compliance and risk, a stratified simple random sample of 260 beneficiaries was drawn and compliance attestation audits were completed. Statistical results from the sample suggest that the program is at risk. The erroneous payment rate is estimated at 13.8% with a margin of error +/- 3.1% at the 90% confidence level and erroneous payments are estimated to be \$232.7 millions."

The USAC's E-rate Task Force

In 2003, the Center for Public Integrity (CPI), a non-profit, nonpartisan organization that investigates and analyses public service, government accountability, and ethics related issues, released a report on waste, fraud and abuse within the E-rate Program. The CPI report was based on information located in the two FCC Office of Inspector General reports from 2002 and interviews. The report stirred up a great deal of controversy as it described the E-rate Program as "honeycombed with financial fraud and financial shenanigans." According to Bob Williams the author of the CPI report, "the very structure and the corporations involved constitute 'almost a formula for fraud and abuse.' " The CPI's report is referred to in articles and government documents but the original document itself has not been made accessible online. The CPI report was also responsible for prompting the in depth

Congressional investigation that produced the February 2005 GAO Report (GAO-05-151) titled, "Telecommunications: Greater Involvement Needed by FCC in the Management and Oversight of the E-rate Program".

The Universal Service Administrative Company (USAC), supported by the FCC, responded to the CPI report's allegations by establishing the E-rate Task Force, a 14 member think tank comprised of representatives from the applicant, consultant and vendor groups. The Task Force identified what they saw as areas of concern within the E-rate Program and submitted a formal report with recommendations to USAC and the FCC in September 2003.

In the Executive Summary of the Task Force report it states:

"Based on its experience with the program, Task Force members believe that outright fraud in the E-rate Program is limited, and that the Schools and Libraries Division, the FCC and law enforcement agencies are taking appropriate actions to remedy such cases."

While the Task Force report claims the problems facing E-rate are not widespread, their findings and recommendations would suggest otherwise. It stands to reason, if the E-rate Program has structural issues, the problems that arise will be pervasive. For example, one of the outstanding issues the Task Force identified as problematic was the discount matrix. The 90% discount rate for impoverished and / or rural schools often leads vendors to pay the school's 10% portion while the company receives a 90% reimbursement from the government for their products and services. There is also no incentive for these schools to buy at the lowest prices available. The E-rate Program is commonly referred to as a "poverty-based program" which the discount matrix sadly illustrates.

No limit on applicant funding requests and issues with competitive bidding either not taking place or being rigged are two other specific concerns noted by the Task Force.

These were the general issues identified by the Task Force:

- Lack of clarity in program rules and requirements;
- Rules and processes that may inadvertently encourage waste;
- Shortcomings in applicants' competitive bidding processes;
- Need for review and clarification of "eligible" services;
- Lack of accountability and consequences for program violations;
- Funding models and their impact on waste, fraud and abuse;
- Maximizing the deployment of SLD resources;
- Required standards for applicant documentation of program compliance.

A 2005 Scholastic magazine article geared towards school administrators says "headlines about E-rate shenanigans are enough to make any administrator cringe," but ultimately the article downplays the issue. Mel Blackwell, the vice president of external communications for USAC is quoted as saying, "While some high-profile cases get all the ink, that doesn't reflect what the vast majority are doing."

Win Himsworth, the executive director of E-rate Central, a private consulting company and member of the USAC E-rate Task Force, said he "believes the current negative headlines reflect the program's early days and points to the 'on-the-fly' method by which the initial program was established."

Another Task Force member, Gary Rawson, E-rate Coordinator for Mississippi, (the poorest state in the nation), said his state takes applying for E-rate funds seriously, holding application workshops throughout the year. 100% of Mississippi's school districts participate in the E-rate Program. Mr. Rawson's comments also reveal the pressure on school administrators to participate in the program:

"While the carrot for districts and libraries in the poor, mostly rural state is the chance to improve technology, the stick is the threat of bad publicity for not applying for funds. 'I just got a call from a guy ready to quit,' Rawson relates. 'If he quit, his name would be in the paper. For schools in our state not to utilize the E-Rate Program would be a travesty.'"

Waste, Fraud and Abuse and E-rate Modernization

The modernization of E-rate is discussed further in a separate section of this report. However, it is important to note a great deal of the FCC's modernization of E-rate documents address the reform of waste, fraud and abuse. For example, the 2013 E-rate Modernization Proposed Rule Making 13-184 document states the three goals of modernization:

- 1.) Ensuring that schools and libraries have affordable access to **21st century** broadband that supports **digital learning**;
- 2.) Maximizing the cost-effectiveness of E-rate funds; and
- 3.) Streamlining the administration of the E-rate program.

Many pages of the proposed rule making are dedicated to Goals 2 and 3, seemingly attempting to rectify the longstanding issues of waste, fraud and abuse within the E-rate Program. The GAO reports are referenced as well. Ironically, it would appear there is no reason for concern based on the casual manner in which the information is presented.

The proposed rule making further states:

"The need for E-rate reform is also clear given the extraordinary demand for existing E-rate support. For this funding year, schools and libraries sought E-rate funding in excess of \$4.9 billion, more than twice the annual funding cap of \$2.25 billion. The E-rate funding cap was set by the Commission when it created the E-rate program in 1997 and demand for funds has exceeded the cap every year since the inception of the program."

The FCC and other entities that support E-rate modernization, boast the demand for E-rate funding has consistently outpaced the funding cap since the program began and is therefore a clear indication the funding cap needs to be raised. On the surface

this presumption may seem logical, however with further knowledge of the E-rate and other USF Program histories of waste, fraud and abuse, it becomes difficult to sympathize with this point of view.

The FCC Universal Service Fund Strike Force

On July 14, 2014, FCC Chairman Tom Wheeler announced the creation of the Universal Service Fund (USF) Strike Force that will be dedicated to combating waste, fraud and abuse in the four USF programs. The USF Strike Force will coordinate with the FCC's Office of Inspector General (OIG), the U.S. Department of Justice and other law enforcement agencies to prosecute unlawful conduct. The Strike Force will augment but still be separate from the OIG.

Some critics of the USF are questioning the FCC's motives for starting the USF Strike Force, especially now. Combating waste, fraud and abuse may not be the only reason they are planning to aggressively seek out and end abuse of the Universal Service Fund. Shortly before announcing the creation of the USF Strike Force, the FCC also announced they were going to dedicate an additional \$2 billion over two years towards expanding broadband into schools. The \$2 billion is not new funding but money they want to find within the existing USF. They are basically looking for money that is "laying around" or "finding the spare change under the couch cushions" as one article described it. They plan to do this by terminating funding for outdated technologies and aggressively cracking down on waste, fraud and abuse. If the FCC needs to find approximately \$500 million in cost savings per year for the next 2 years, for example, they are assuming there is a significant amount of funds being paid out that is fraudulent. And the question remains, if there is so much chronic waste, fraud and abuse within the USF Programs, why has nothing been done to stop it until now, almost 20 years later?

The "Gore Tax"

In it's infancy, the Universal Service Fund became known as the "Gore Tax" because of Vice President Al Gore's enthusiastic support of the new E-rate Program. At campaign style events, he would promote E-rate, but neglected to mention how the program was to be funded, through a hidden tax on consumer phone bills.

Under the Telecommunications Act of 1996, Section 254 (d), all telecommunication carriers were required by law to contribute to the universal support mechanism for the "preservation and advancement of Universal Service." As a result, the FCC established the Universal Service Fund (USF) to be the support mechanism for the four Universal Service Programs. The private non-profit, Universal Service Administration Corporation (USAC) was established by the FCC through NECA to collect and disperse the funds. On a quarterly schedule, based on an estimate of what will be needed to cover the planned expenditures for E-rate and the other Universal Service Programs, USAC sets the percentage rate to be contributed from the carriers on all interstate and international calls.

The FCC allows participating businesses to recover their USF contribution from customers through an additional fee on monthly phone bills, called the Federal Universal Service Fee. For consumers this means all interstate and international calls they make will be taxed at the current percentage rate set by the USAC for the quarter. The current rate for the 2nd quarter of 2015 is 17.4%, up from 16.8% in the first quarter.

According to FCC Commissioner Michael O'Rielly's July 2014 blog post, the USF spending trends are disturbing and ultimately hurt consumers. The percentage rates have risen from 3.9% in 1999 to the current rate of 17.4% and the trend is expected to worsen. In 2015 alone, the Universal Service Fund is expected to grow to \$10 billion dollars. Since the Universal Service Fund's debut in 1997, it has been plagued with waste, fraud and abuse, making it difficult to see the justification for this hidden tax that just keeps increasing. It is also questionable, whether the money from the USF has actually benefited anyone other than the telecommunication carriers. For

example, it is hard to say whether E-rate funding has been responsible for improving telecommunication services in schools over other sources of funding because no one has kept any meaningful records according to decades of GAO report findings.

In 1998, one of the main architects of the Schools and Libraries Program, FCC Chairman William Kennard tried to stop telecommunication carriers from announcing their plans to notify customers of the additional tax. Commissioner Furchtogott-Roth offered a dissenting opinion stating, "...The ignorance of most American consumers about this tax is not an accident. It is planned ignorance. If American consumers knew about the tax, they might not want to pay for it."

Furthermore, tax dollars are what pay for the investigations and reports produced by the Government Accountability Office, the Department of Justice and the Federal Bureau of Investigations as well as state and local agencies that might be involved. These expenses are in addition to the billions of taxpayer dollars unknowingly subsidizing the four Universal Service Programs, with hundreds of millions of dollars unfortunately lost to waste, fraud and abuse every year.

Introducing The National Education Technology Funding Corporation (NETFC)

On April 5, 1995 at a Senate hearing, Senator Carol Moseley-Braun (D-Ill) provided testimony announcing the establishment of the National Education Technology Funding Corporation (NETFC). On May 11, 1995 she introduced Congressional Bill S.792 to officially recognize the NETFC. S.792 only made it as far as being introduced. However, Section 708, an amendment of the Telecommunications Act of 1996 contains identical text from Congressional Bill S.792.

At the April 5, 1995 hearing, Senator Moseley-Braun explained that along with her colleagues, Senators Kennedy, Pell, Simon and Wellstone, she requested the GAO perform a comprehensive, nationwide study on the condition of our nation's public school facilities. As a result, the GAO produced 5 reports. The Senator briefly mentioned the first report, released in February 1995. The report focused on the

dismal state of public schools, basic facility infrastructure needs, and reached the conclusion that \$112 billion was needed just to get public schools up to code.

The second GAO report, titled, "School Facilities: America's Schools Not Designed or Equipped for the **21st Century**", was released the same day as Senator Moseley-Braun's testimony and focused on the Nation's education technology infrastructure needs. The Senator emphasized the importance of investing in the Nation's education technology infrastructure because of the emerging **global economy**. She said, "In order to prepare American students to **compete** with their foreign counterparts, systemic school reform must occur."

Two important side notes:

1.) It is of interest to note the pairing of these two issues - concern over the deterioration of U.S. public school facilities and the urgent "need" for the installment of modern education technology infrastructure. The schools must be fixed and maintained properly not just for the sake of the students and teachers, but also for the sake of the education technology infrastructure. If there is no air conditioning and a school is too hot, for example, the computer network will not function properly. If the wiring is insufficient, there can't be as many computers running simultaneously. Ironically, 20 years later, many public schools across the country are in serious disrepair, yet manage somehow to fund state-of-the-art, multi-million dollar education technology programs year after year. These types of programs are very expensive to operate and maintain, requiring large expenditures every three to five years.

2.) The concern that public schools do not have the infrastructure to meet the needs of the 21st century has been discussed repeatedly over the last two decades. For example, in 1995 lawmakers were concerned public schools nationwide did not have suitable education technology infrastructure to meet the demands of 21st century education reform such as "high quality computers, printers, and computer networks for instructional use; modems; telephone lines for modems and telephones in instructional areas; TVs; laser disk players/video cassette recorders; cable TV fiber

optic cables; conduits/raceways for computer and computer network cables..."

Twenty years later, the same concern is expressed- schools don't have the infrastructure to meet the needs of the 21st century, and this time wireless networks, wireless devices, high-tech educational software and more that are in short supply.

Senator Moseley-Braun explained how the funding needed to implement 21st century upgrades in public schools would be too burdensome for state and local governments and relying on property taxes is simply not enough. It's the federal government that will now provide the support through the National Education Technology Funding Corporation - "an innovative, bipartisan, **public-private partnership**."

Senator Moseley-Braun introduced the founders of NETFC - former Senator Danforth (R-Mo); Jim Murray, past president of Fannie Mae; and Dr. Mary Hatwood-Futrell, past president of the National Education Association (NEA). All of the founders she said recognized the need to help states and local school districts meet the challenges of funding education reform and also how there is a need for both public and private investments in our Nation's education technology infrastructure. The Senator said she would be introducing legislation to authorize Federal departments and agencies to make grants to the NETFC that would in turn provide seed money to help NETFC provide financial assistance to states, "in order to help them improve their education technology infrastructure."

In her testimony, the Senator describes the schools of the 21st century as offering "private areas for counseling and testing, parent support activities, social / health care, day care, before- and after- school care," and they would be capable of operating 24 hours a day.

She also mentions Goals 2000, the Educate America Act. Signed into law by President Clinton on 31 March 1994, Goals 2000 created a "coherent, national framework for education reform founded on the national education goals." There are seven goals, number 5 states, "Every adult American will be literate and will possess the knowledge and skills necessary to **compete in a global economy** and exercise

the rights and responsibilities of **citizenship**." The Senator said, "It is inherently unfair to expect our children to meet national performance standards if they do not have an equal opportunity to learn. If they are denied equal access and equal facilities, then they will have a very difficult time meeting and supporting national expectations and standards."

Section 708: The National Education Technology Funding Corporation (NETFC)

Section 708 became an amendment to the Telecommunications Act of 1996 and officially recognizes "The National Education Technology Finance Corporation (NETFC) as a non-profit corporation operating under the laws of the District of Columbia and gives Federal departments and agencies the authority to provide assistance to this corporation and for other purposes." The bill also states the NETFC is not an agency or independent establishment of the Federal government. It is however as stated in Section 708, subject to audits and Congressional oversight.

Section 708 unveiled the framework of 21st century education reform that is visible in schools across the country at the present time. It was spelled out very clearly twenty years ago.

The purposes of the National Education Technology Finance Corporation are as follows:

- 1.) Leverage resources and encourage private sector investment in education technology infrastructure in the schools.
- 2.) Offer loans, grants, and other forms of assistance from the Corporation to designated state education technology agencies.
- 3.) Set guidelines to encourage states to:
 - a. Establish and maintain interactive, high capacity networks able to provide audio, visual and data communications for elementary schools, secondary schools and

libraries.

- b. Ensure that resources are distributed equitably amongst all elementary and secondary schools in the state to achieve universal access to network technology.
- c. Utilize innovative technology-based instructional tools and applications to improve the delivery and development of learning.

4.) Facilitate the development of education telecommunications and information technologies through:

a. Public-private ventures

- b. Serving as a clearinghouse for information on new education technologies.
- c. Providing technical assistance, which includes assistance to states if needed to institute state education technology agencies.

According to Section 708, the NETFC is governed by a board of directors consisting of 15 members; 5 members of public agencies representative of schools and public libraries; 5 members representative of state government, including persons knowledgeable about state finance, technology and education; and 5 members representative of the private sector, with expertise in network technology, finance and management.

How much of the proposed goals listed in Section 708 is the NETFC actually responsible for accomplishing is unknown. In a later section of this report, information is provided on several "non-profit" organizations that appear to have similar, if not identical goals.

Searching for Signs of the NETFC

It is very challenging to find information on the NETFC since there is only a limited web presence and no apparent website associated with the corporation, although it is listed on several non-profit finder websites as "active". Their office is located in Washington, D.C. and the agent for the corporation is Gail Harmon, a lawyer with expertise in exempt organizational law. She is a primary partner in the well-

established law firm Harmon, Curran, Spielberg and Eisenberg, LLP, "one of the first **private public** interest law firms in the United States." Clients of the firm include The Alliance for Excellent Education which is a "non-profit" founded by Governors Jeb Bush and Bob Wise to promote 21st century education reform. In her extracurricular activities she is listed as being on the executive committee and board of Population Services International (PSI), which is a leading social marketing organization. The Bill and Melinda Gates Foundation, Unicef and the CDC are some of the key partners of Population Services International.

"Eddie Tech"

As a part of the American Recovery and Reinvestment Act (ARRA) of 2009, the federal government expanded and created two tax credit bonds to help school districts finance construction and education technology infrastructure projects:

- **Qualified School Construction Bonds (QSCS)** to be used for the construction, rehabilitation or repair of a public school facility or the purchase of land for a public school.
- **Qualified Zone Academy Bonds (QZAB)** to be used for school modernization, equipment and developing curriculum / training. (Education technology infrastructure)

During the economic crisis, many districts faced severe budget shortfalls and there was little or no money available for construction, repairs or modernization projects. The QSCB and QZAB bonds offered a tax credit to investors instead of a cash return. Before Eddie Tech, school districts were having difficulty benefitting from these bonds because they often had to pay lenders supplemental interest, which raised costs and complicated the process.

The National Education Technology Funding Corporation doing business as "Eddie Tech" served as a bond pooling mechanism for the issuance of school modernization

bonds; similar to the role Fannie Mae plays in the home mortgage market. Eddie Tech's School Investment Pooled-Securities (SIPS) Program was intended to make the process easier and lower costs for school districts so they could take advantage of the Federal bonds. Also, the program made this type of bond more attractive to investors.

In the early part of 2010, the American Association of School Administrators (AASA), the National Education Association (NEA) and the National School Board Association (NSBA), announced they had joined together to endorse and help market Eddie Tech's SIPS Program.

No further information was located other than a few quotes about the SIPS Program from the former NETFC Executive Director Brett Mandel.

Many Unanswered Questions...

Based on the stated purposes of the NETFC and the lack of information available, many important questions remain unanswered. Here are just a few to consider:

- What types of loans, grants and other forms of assistance has NETFC provided over the years? Which state education technology agencies received support and what exactly did NETFC provide?
- Which federal departments and agencies have provided assistance to NETFC? What types of resources have they provided? When were they provided and for what purpose?
- Where are the records kept on any of these transactions? Who has access to them? Where can they be accessed through? How easy / difficult is it to do so?
- What sorts of public-private partnerships have been established? Which

entities are involved? What have the private entities given / received? What has been accomplished through their partnerships?

- Where can the NETFC education technology infrastructure guidelines set for states be accessed?
- Where are the audit reports? Where is the proof of Congressional oversight?

Regarding Eddie Tech, there are many unanswered questions as well such as:

- Which school districts have participated in the program? How have they benefitted or not?
- Which companies have invested in the pooled bonds?
- How successful has the program been?
- Where can information on the program be accessed?
- Has the Universal Service Fund been utilized in any way for NETFC purposes?

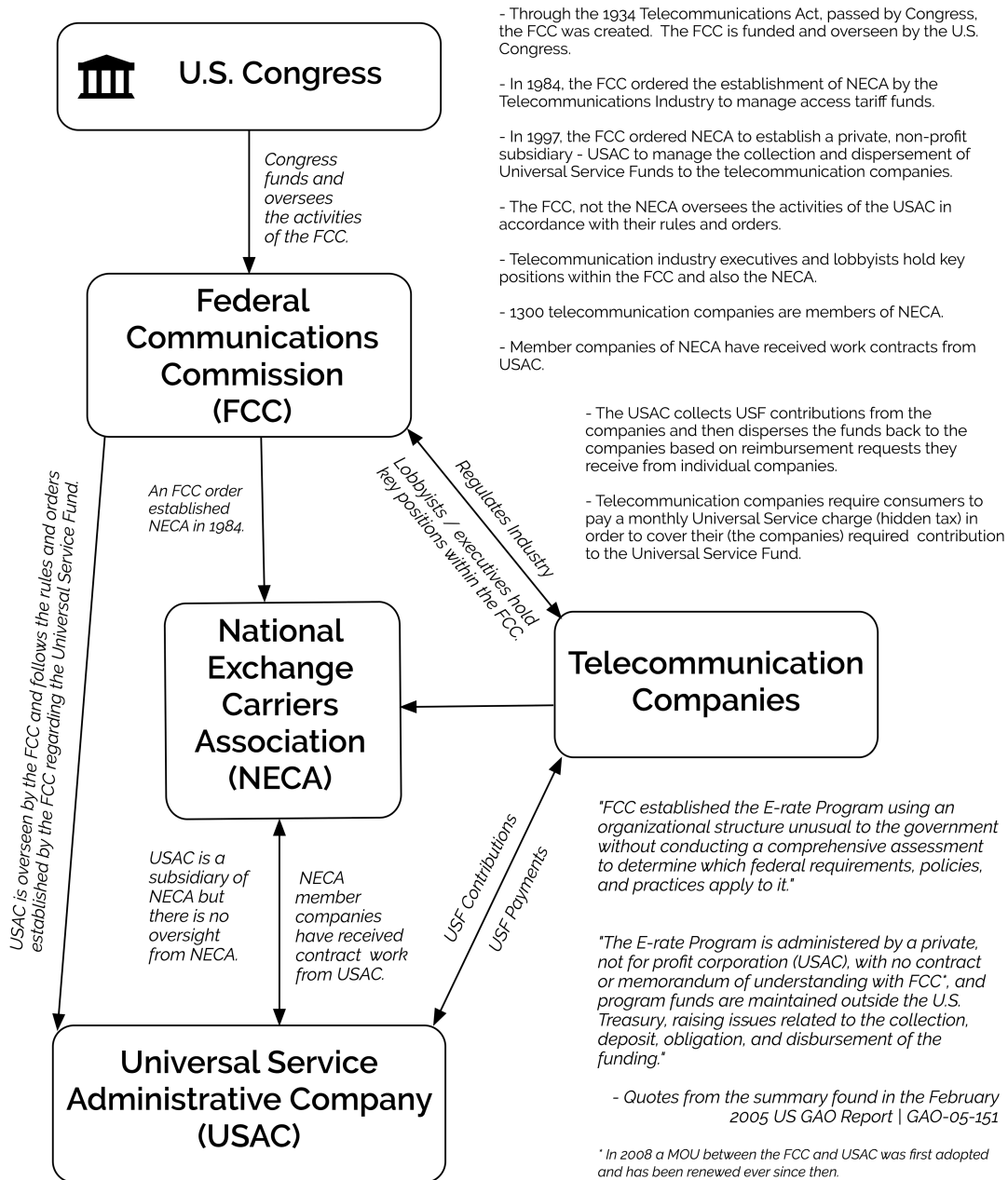
Public-Private-Partnerships

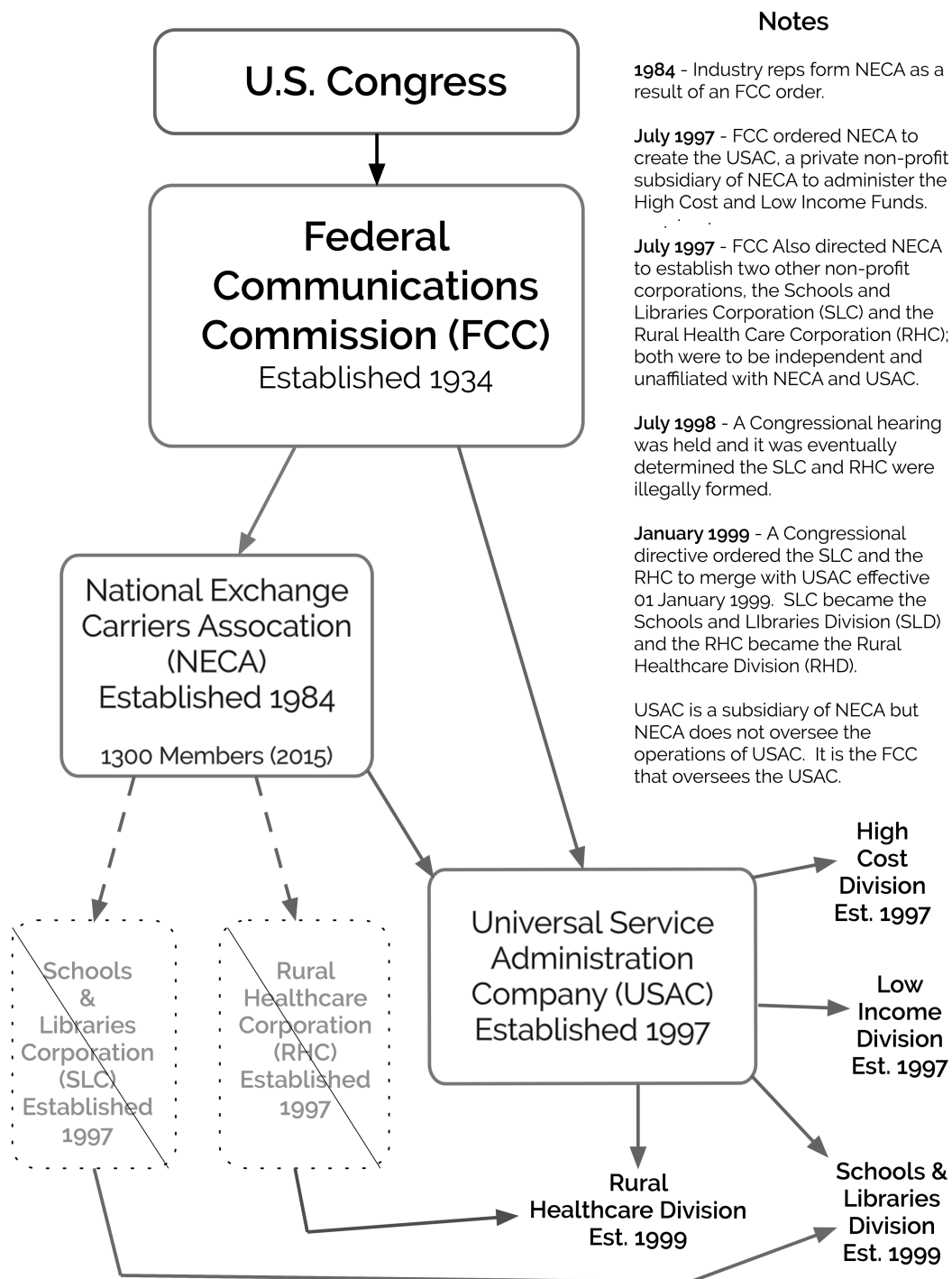
Public-private-partnerships are the cornerstone of 21st century education reform. Without them, the reforms taking place in public education would not be possible. Sections 254 and 708 of the Telecommunications Act of 1996 authorized education technology public-private-partnerships.

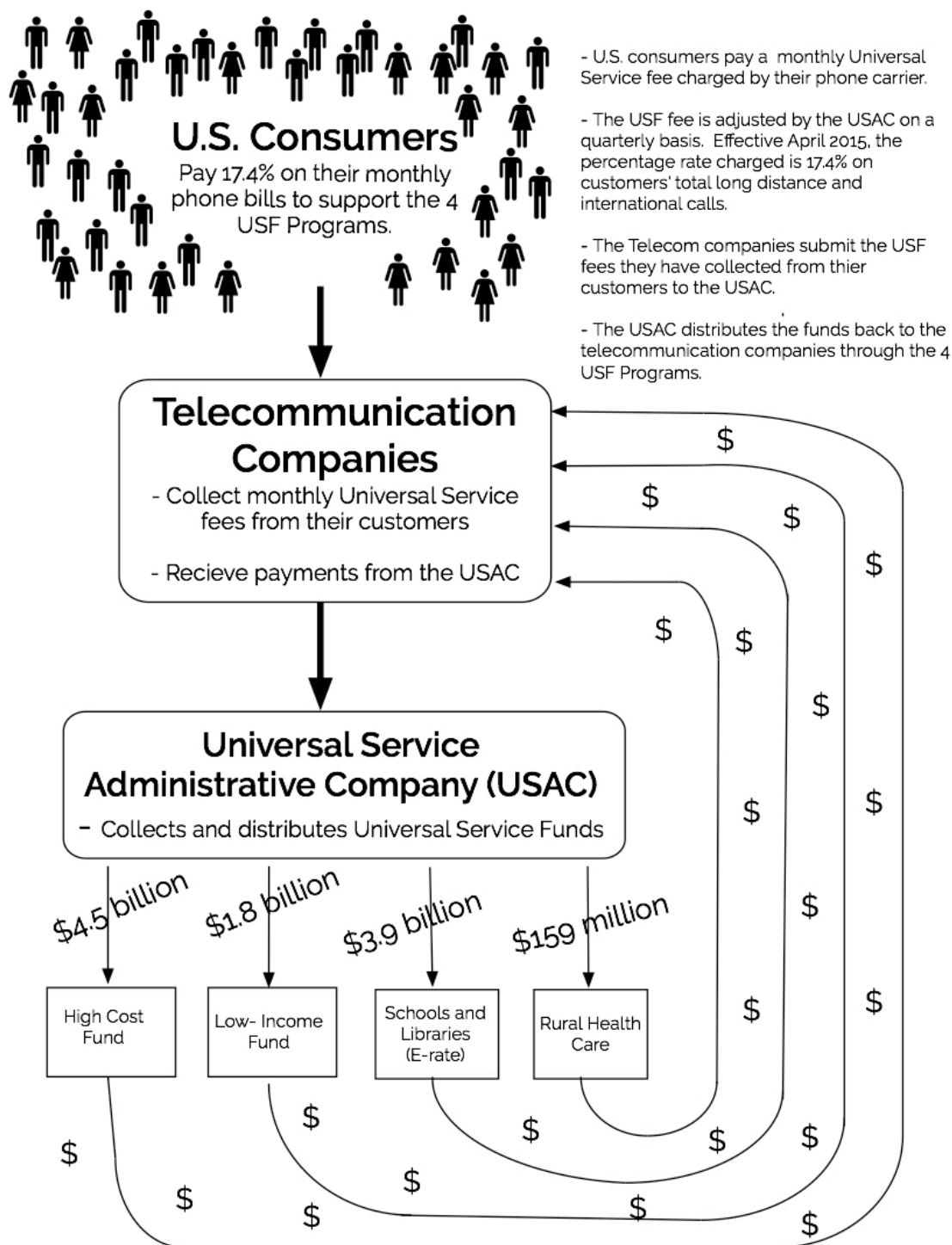
Establishing public-private-partnerships in education may seem like a win – win situation, until they are examined closely and it becomes apparent this sort of government / corporate relationship does more harm than good. Corporate industries offer to support a government program and in return, the government

offers special privileges and funding through tax dollars. A guaranteed market for the industry is created and the lines between the government and the industry appear to fade. Our governments, whether at the federal, state or local level become ineffective at protecting the public interests for which they were intended. Checks and balances are not evident, leading to dangerous circumstances as we are seeing in many areas of government now, including public schools and 21st century education reform.

Overview of Key Organizations







February 1998 Telecommunications: Comments on the FCC's Implementation of Section 254 (h) of the Communications Act of 1934

March 1998 GAO/T-RCED-OGC-98-84
Telecommunications: FCC Lacked Authority to Create Corporations to Administer Universal Service Programs

July 1998 GAO/T-RCED-98-243
Schools and Libraries Corporation:
Actions Needed to Strengthen Program Integrity Operations Before Committing Funds

March 1999 GAO/RCED-99-51
Schools and Libraries Program:
Actions Taken To Improve Operational Procedures Prior to Committing Funds

August 1999 GAO/HEHS-99-133
Telecommunications Technology: Federal Funding for Schools and Libraries

December 2000 GAO-01-105
Schools and Libraries Program: Application and Invoice Review Procedures Need Strengthening

May 2001 GAO-01-672
Schools and Libraries Program: Update on E-rate Funding

February 2005 GAO-05-151
Telecommunications: Greater Involvement Needed by FCC in the Management and Oversight of the E-rate Program

June 2008 GAO-08-633
FCC Needs to Improve Performance Management and Strengthen Oversight of the High Cost Program

March 2009 GAO-09-253
Telecommunications: Long-Term Strategic Vision Would help Ensure Targeting of E-rate Funds to Highest-Priority Uses

April 2009 GAO-09-254SP
Telecommunications: Information on Participation in the E-rate Program (GAO-09-254SP, March 2009), an e-supplement to GAO-09-253

September 2010 GAO-10-908
Telecommunications: FCC Should Assess the Design of the E-rate Program's Internal Control Structure

July 2014 GAO-14-587
FCC Should Improve the Accountability and Transparency of High Cost Program Funding

30 September 2003 Semiannual Report to Congress April 1, 2003 - September 30, 2003
Federal Communications Commission, Office of Inspector General

09 March 2004 CRS Report to Congress | The E-Rate Program: Universal Service Fund
Telecommunications Discounts for Schools
Library of Congress, Congressional Research Service

17 June 2004 Problems with the E-rate Program: Waste, Fraud, and Abuse Concerns in
the Wiring of Our Nation's Schools to the Internet
Federal Communications Commission, Office of Inspector General

04 March 2005 Telecommunication Discounts for Schools and Libraries: The "E-Rate"
Program and Controversies
Library of Congress, Congressional Research Service

07 April 2005 Six Corporations and Five Individuals Indicted in Connection with Schemes
to Defraud the Federal E-rate Program
United States Department of Justice

November 2005 Waste, Fraud, and Abuse Concerns with the E-rate Program
Subcommittee on Oversight and Investigations of the Committee on Energy and
Commerce, United States House of Representatives, 109th Congress

31 March 2007 Semi-Annual Report to Congress October 1, 2006 - March 31, 2007
Federal Communications Commission, Office of Inspector General

30 September 2007 Semi-Annual Report to Congress April 1, 2007 - September 2007
Federal Communications Commission, Office of Inspector General

12 December 2008 The Schools and Libraries Program Initial Statistical Analysis of
Data from the 2007 / 2008 Compliances Attestation Examinations
Federal Communications Commission, Office of Inspector General

E-rate Program Discount Matrix

The basic discount calculation is performed at the school district level. Individual schools within a school district and library outlets/branches within a library system do not calculate individual discounts. Independent schools not part of a public or non-public school district or library system will calculate their discounts based on the own student population.

Income Measured by % of students eligible for the National School Lunch Program. If the percentage of students in your school that qualifies for the National School Lunch Program is...	Urban Location Discount ...and you are in an URBAN area, your discount will be...	Rural Location Discount ...and you are in a RURAL area, your 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%*

*The same discount rates apply to both category 1 and category 2 services except for category 2 at the 75 - 100% level, which is 85% instead of 90%. This applies to both urban and rural schools.

Resource Document Summaries, Notes and Excerpts

This section contains information from a variety of documents, articles and webpages used to complete Part I of this report. Information was gathered and referenced in a simplified way so it would be easier to compare and contrast many sources of text and make sense of this subject matter. The information for each entry is organized under the appropriate sub-heading. Items are then organized in chronological order from oldest to newest.

Another purpose of this section is to show examples of text that include the words and phrases associated with 21st century education reform / Agenda 21 such as "21st century learning" and "compete in the global economy". Please see pages 7 and 8 for more examples. Key words and phrases found within the different texts have been bolded.

Table of Contents

The Telecommunications Act of 1996 – Page 45

Section 254 – Universal Service – Page 50

Federal Communication Commission (FCC) Documents – Page 50

Universal Service Administration Company – Page 61

Universal Service Fund Information From Company Websites – Page 71

Federal Government Reports – Page 74

Academic (Non-Government) Reports – Page 129

The "Gore Tax" – Page 143

Other Articles / Commentary – Page 156

Section 708 – National Education Funding Corporation – Page 179

S.792 – Page 179

Eddie Tech – Page 186

National Education Funding Corporation Activity – Page 202

Miscellaneous – Page 206

The Telecommunications Act of 1996

(No Author). (03 January 1996). The Telecommunications Act of 1996. United States Government Publishing Office. Retrieved from <http://www.gpo.gov/fdsys/pkg/PLAW-104publ104/pdf/PLAW-104publ104.pdf> on 14 April 2015.

Summary: The general purpose of the Telecommunications Act of 1996 is -

To promote competition and reduce regulation in order to secure lower prices and higher quality services for American telecommunications consumers and encourage the rapid deployment of new communications technologies.

Sections 254 and 708 of the Act pertain to schools.

Section 254

Section 254 (b) (4) requires telecommunication providers to "contribute to the preservation and advancement of universal service."

Section 254 (c) (1) states that universal service is "an evolving level of telecommunications services that the commission shall establish periodically under this section, taking into account advances in telecommunications and information technologies and services."

Section 254 (c) (3) SPECIAL SERVICES - "In addition to the services included in the definition of Universal Service under paragraph (1), the Commission may designate additional services for such support mechanisms for schools / libraries and health care providers for the purposes of subsection (h)."

Section 254 (d) TELECOMMUNICATIONS CARRIER CONTRIBUTION - "Every telecommunications carrier that provides interstate telecommunication services shall contribute, on an equitable and non-discriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance Universal Service."

Section 254 (e) UNIVERSAL SERVICE SUPPORT - "...only an eligible telecommunications carrier designated under 214 (e) shall be eligible to receive specific Federal Universal Service support. A carrier that receives such support shall use that support only for the provision, maintenance and upgrading of facilities and services for which the support is intended. Any support should be explicit and sufficient to achieve the purposes of this section."

Section 254 (f) This paragraph encourages states to establish their own universal service fund for intrastate calls.

Section 254 (h) TELECOMMUNICATION SERVICES FOR CERTAIN PROVIDERS - This section addresses Rural Health Care and the Schools and Libraries Program.

Section 254 (h) (B) - "Educational Providers and Libraries - All telecommunication carriers serving a geographic area shall upon a bona fide request for any of its services that are within the definition of universal service under subsection (c) (3), provide such services to elementary schools, secondary schools, and libraries for educational purposes at rates less than the amounts charged for similar services to other parties. The discount shall be an amount that the commission with respect to interstate services, determine is appropriate and necessary to ensure affordable access to and use of such services by such entities. A telecommunications carrier providing service under this paragraph shall -

1. Have an amount equal to the amount of the discount treated as an offset to its obligation to contribute to the mechanisms to preserve and advance universal service, or
2. Notwithstanding the provisions of subsection (e) of this section, receive reimbursement utilizing the support mechanisms to preserve and advance universal service."

(Translation: Eligible companies can either subtract the amount of the discount they provide to the schools and libraries they serve from their required contribution to USF; or receive reimbursement through the USF for the discount amount they provided. Companies receive full business rates for their products and services.)

Section 708

Section 708 became an amendment to the Telecommunications Act of 1996 and recognizes "The National Education Technology Finance Corporation (NETFC) as a non-profit corporation operating under the laws of the District of Columbia and gives Federal departments and agencies the authority to provide assistance to this corporation and for other purposes." The bill also makes it clear that the NETFC is not an agency or independent establishment of the Federal government.

According to Section 708, "The NETFC is governed by a board of directors consisting of 15 members; 5 members of public agencies representative of schools and public libraries; 5 members representative of state government, including persons knowledgeable about state finance, technology and education; and 5 members representative of the private sector, with expertise in network technology, finance and management."

The purposes of the NETFC are as follows:

(A) "to leverage resources and stimulate private investment in education technology infrastructure;

(B) to designate State education technology agencies to receive loans, grants or other forms of assistance from the Corporation;

(C) to establish criteria for encouraging States to -

create, maintain, utilize and upgrade interactive high capacity networks capable of providing audio, visual and data communications for elementary schools, secondary schools and public libraries; distribute resources to assure equitable aid to all elementary schools and secondary schools in the State and achieve universal access to network technology; and; upgrade the delivery and development of learning through innovative technology-based instructional tools and applications.

(D) to provide loans, grants and other forms of assistance to State education technology agencies, with due regard for providing a fair balance among types of school districts and public libraries assisted and the disparate needs of such districts and libraries;

(E) to encourage the development of education telecommunications and information technologies through **public-private** ventures, by serving as a clearinghouse for information on new education technologies, and by providing technical assistance, including assistance to States, if needed to establish State education technology agencies."

It also states in this section that "Federal departments or agencies are authorized to award grants or contracts, or provide gifts, contributions, or technical assistance, to the Corporation to enable the Corporation to carry out the corporate purposes" as described above.

(No Author). (08 February 1996). Al Gore | A Short Summary of the Telecommunications Reform Act of 1996. The White House. Retrieved from <<http://clinton4.nara.gov/WH/EOP/OP/telecom/summary.html>> on 20 November 2014.

Summary: "For the past three years, President Clinton and Vice President Gore have worked for telecommunications reform that stimulates private investment, promotes competition, protects diversity of viewpoints and voices among the media, provides families with technologies to help them control the kinds of television programs that come into their homes, and strengthens and improves universal service so that all Americans can have access to the benefits of the information superhighway. With passage of the Telecommunications Reform Act of 1996, this important national goal has been met. Signed into law by President Clinton today, this legislation will lead all Americans into a more prosperous future by preparing our **economy** for the **21st Century** and opening wide the door to the Information Age."

"Universal Service

The President and Vice President want to ensure that all Americans have access to the benefits of the information superhighway. The Act ensures that schools, libraries, hospitals and clinics have access to advanced telecommunication services, and calls for them to be connected to the information superhighway by the year 2000. It will help connect every school child in every classroom in America to the information superhighway — opening up worlds of knowledge and opportunities in rural and low-income areas."

Clinton, William J. (08 February 1996). Statement on Signing the Telecommunications Act of 1996. The American Presidency Project. Retrieved from <<http://www.presidency.ucsb.edu/ws/?pid=52289>> on 20 November 2014.

Summary: These are President Clinton's remarks after the historic signing of the Telecommunications Act of 1996.

"This landmark legislation fulfills my Administration's promise to reform our telecommunications laws in a manner that leads to competition and private investment, promotes universal service and open access to information networks, and provides for flexible government regulation. The Act opens up competition between local telephone companies, long distance providers and cable companies; expands the reach of advanced telecommunications services to schools, libraries, and hospitals; and requires the use of new Vchip technology to enable families to exercise greater control over the television programming that comes into their homes.

For nearly two decades, Vice President Gore has worked to spur creation of a national information superhighway. This act lays the foundation for the robust investment and development that will create such a superhighway to serve both the private sector and the public interest."

"I am also pleased that the Act requires interstate telecommunications carriers to contribute to a fund to preserve and advance Universal Service. The fund would be spent to provide and upgrade facilities and services, as prescribed by the FCC. And carriers would receive credit toward their contributions by providing discount service to schools, libraries, and health care providers in rural areas. In addition, equipment manufacturers and service providers would be required to address the needs of individuals with disabilities if readily achievable."

"The Telecommunications Act of 1996 will strengthen our economy, our society, our families, and our democracy. It promotes competition as the key to opening new markets and new opportunities. It will help connect every classroom in America to the information superhighway by the end of the decade. It will protect consumers by regulating the remaining monopolies for a time and by providing a roadmap for deregulation in the future. I am pleased to have signed this historic legislation."

Lamolinara, Guy. (19 February 1996). Wired for the Future | President Clinton Signs Telecom Act at LC. The Library of Congress | Information Bulletin. Retrieved from <<http://www.loc.gov/loc/lcib/9603/telecom.html>> on 21 November 2014.

Summary: "In an event that brought together the nation's political leadership, the Librarian of Congress (Dr. Billington) and the titans of the communications industry; President Clinton, on Feb. 8, signed the Telecommunications Act of 1996 into law in the Main Reading Room of the Library.

During the ceremony, Dr. Billington was praised for the pioneering role the library is playing as a major intellectual-content provider on the Internet."

"Vice President Albert Gore, who in 1993 joined Dr. Billington in hosting a Library conference on the Information Superhighway, said, 'This legislation will expand and strengthen universal service...It allows open access to the pipelines of knowledge.' "

"The event was historic in two ways: The Telecommunications Act of 1996 was the first bill to be signed into law at the Library of Congress and the first to be signed in cyberspace. After the President signed the bill on paper, he also 'signed' it electronically — the entire event was available in real time over the Internet using a high-speed, fiber-optic synchronous optical network link.

Lily Tomlin, playing Ernestine the phone operator, brought her own brand of levity to the August occasion. 'Have I reached the party to whom I am speaking' she asked Mr. Gore, who was trying to reach Washington's Calvin Coolidge High School to speak with students about their use of the Information Superhighway.

Ms. Tomlin appeared on a monitor with the Internet connection. 'Oh, Mr. Veep, Surfing the 'Net, downloading images of global climate change again? You crazy guy. It's true what I've been telling my friends. You're not stiff; you're just a techno-nerd. Hold on to your semiconductor. I'll load the software right away...You and the President are infonauts,' she said as she placed the call and signed off."

" 'How do you think this bill will have an impact on your lives?' the Vice President asked the students."

One student said, "Thanks to the telecommunications bill, I believe that it will open up new horizons for international access for cultures all over the world."

After President Clinton's remarks, key members of Congress who had worked on the bill spoke. Speaker Gingrich acknowledged Dr. Billington as "a leader on a world basis in knitting the world together" through the Library's National Digital Library Program.

Dr. Billington said that "as an avid inventor and educator, Jefferson, were he here today, would surely be intrigued with this new world of computer and telecommunication technology — and glad to see so many entrepreneurial forces gathered together with national political leaders in the building that bears his name."

"Those entrepreneurial forces were well represented in the Main Reading Room by Ted Turner, whose Turner Classic Movies channel helps support the Library's National Film Registry Tour (see LC Information Bulletin, Feb. 5, 1996), and by several members of the Madison Council, the Library's private sector advisory group: John Hendricks of the Discovery Channel, Glenn Jones of Jones Intercable, Jean Monty of Northern Telecom, Donald Newhouse of Advance Publications, William O'Shea of Reuters Ltd. and Ray Smith of Bell Atlantic."

Dr. Billington continued: "We like to think that [Jefferson] who also be pleased to see the Library launching through a new kind of **public-private partnership**: an ambitious

program to digitize 5 million items from our unique collections of Americana for educational and inspirational use in schools, libraries and homes all over America.

Inventing a new nation required studying a lot of past history in Jefferson's time, and new technologies can help us in our own time to rediscover the old records and values that can lead us on to new creativity. America's free libraries keep democracy dynamic by using new means to give more people more access to the ever expanding body of human knowledge."

Section 254 —Universal Service

Federal Communication Commission (FCC) Documents

(No Author). (23 July 2013). Modernizing the E-rate Program for Schools and Libraries | WC Docket No. 13-184 | Notice of Proposed Rulemaking. Retrieved from <https://apps.fcc.gov/edocs_public/attachmatch/FCC-13-100A1.pdf> on 18 March 2015.

Summary: Two of the three goals of E-rate modernization are to reduce waste, fraud and abuse. Part of the table of contents from this proposed rulemaking is provided here, addressing the multiple facets of waste, fraud and abuse, which have been problematic for many years.

"MAXIMIZING THE COST EFFECTIVENESS OF E-RATE FUNDS.....	177
Federal Communications Commission FCC 13-100	
A. Background	177
B. Increasing Consortium Purchasing	179
C. Encouraging Other Types of Bulk Buying Opportunities	186
D. Increasing Transparency	191
E. Improving the Competitive Bidding Process.....	202
F. Efficient Use of Funding.....	211
G. Broadband Planning and Use.....	217
H. Innovative Approaches to Encouraging Maximum Efficiency.....	220
 V. STREAMLINING THE ADMINISTRATION OF THE E-RATE PROGRAM	224
Electronic Filing of FCC Forms and Correspondence.....	227
Increasing the Transparency of USAC's Processes	232
Speeding Review of Applications, Commitment Decisions, and Funding	
Disbursements.....	233
Simplifying the Eligible Services List	248
Funding Recovery Considerations	252
Effective Disbursement of Unused Funding.....	254
Invoicing and Disbursement Process	259
Streamlining E-rate Appeal Process	266

(No Author). (December 2013). Schools and Libraries Universal Service Description of Services Requested and Certification Form 470 | FCC Form 470. Federal Communications Commission. Retrieved from <https://apps.fcc.gov/edocs_public/attachmatch/DOC-326787A1.pdf> on 17 September 2015.

Summary: "This (9 page) form is designed to help you describe the eligible services you seek so that this data can be posted on the Fund Administrator Internet Site and interested service providers can identify you as a potential customer and compete to serve you."

O'Rielly, Michael. (12 February 2014). Commissioner O'Rielly's Blog Introduction and Views on E-rate Reform. Federal Communications Commission. Retrieved from <<https://www.fcc.gov/blog/commissioner-o-rielly-s-blog-introduction-and-views-e-rate-reform>> on 04 June 2015.

Summary: "E-Rate is the federal universal service program that helps schools and libraries obtain discounted access to telecommunications services and the Internet. I support the program. It is enshrined in the statute and I appreciate the vast opportunities that connectivity can offer students."

"There is widespread agreement, however, that the program is due for an overhaul. I support this effort as well. The statute calls for periodic review of universal service—an obligation I take seriously. Indeed, all federal government programs should be reviewed periodically to ensure that they are operating as efficiently as possible and are achieving their goals. In the case of E-Rate—where there has been well-documented waste, fraud, and abuse as well as insufficient internal controls—time is of the essence."

"First, E-Rate must not increase costs on consumers. Consumers already pay a 16.4% fee on their phone bills to support a universal service program that spends well over \$8 billion a year. During these difficult economic times, families and businesses should not be burdened with any additional assessments. In other words, any increase in the budget for E-Rate must be offset by reductions elsewhere within the federal universal service fund."

Commissioner O'Rielly lists five other guideposts he thinks are important to modernization:

#2 E-rate must be refocused on broadband access.

#3 E-rate matching requirements must be made consistent with other federal programs.

#4 E-rate funding must leverage the private sector networks and services, not overbuild them.

#5 E-rate funding must not oversupply

#6 E-rate program administration must be revised.

(No Author). (08 April 2014). FCC Guide Universal Service Program for Schools and Libraries (E-Rate). Federal Communications Commission. Retrieved from <<http://www.fcc.gov/guides/universal-service-program-schools-and-libraries>> on 23 December 2014.

Summary: This FCC guide explains the E-Rate program for schools and how it is funded. On an important side note, the second paragraph of this guide states, "Innovative **digital learning** technologies and the growing importance of the Internet in connecting students, teachers, and consumers to jobs, **life-long learning**, and information, are creating increasing demand for bandwidth in schools and libraries. In 2013, the FCC initiated a comprehensive review to modernize the program.

This guide addresses the following frequently asked questions:

1.) What are the benefits under the program?

Explains what types of services are available to schools and libraries such as "Internet access and internal connections including wiring and Wi-Fi routers to provide wireless connections in classrooms and the basic maintenance of internal connections." Discounts range from 20 - 90% and are based on need and location. Schools serving low income students receive greater E-Rate funding and rural schools also receive more.

2.) How does the E-Rate program work?

Explains the process by which schools access E-Rate funds which are managed by the Universal Service Administration Company (USAC). The USAC receives requests from schools and libraries, manages the competitive bidding process and reimburses schools and / or vendors for the approved services.

3.) How much funding is available and how are requests prioritized?

"The E-Rate program was initially capped at \$2.25 billion but it has been indexed to inflation since 2010." The demand for E-Rate funds has increased over the years. For example, funding requests were in excess of \$4.9 billion in 2013 which is more than double the cap of \$2.4 billion. The USAC distinguishes between two categories of services. Priority one services are funded first and they include "telecommunications, telecommunication services and internet access services." The USAC then allocates any remaining funds to support internal connections and basic maintenance of internal connections. Priority two services are allocated first to the highest poverty schools and libraries and down the list of applicants until the funding is gone.

4.) Who pays for the E-Rate program?

"All telecommunication service providers and certain other providers of telecommunications must contribute to the USF based on a percentage of their interstate and international end-user telecommunications revenues (generally a small fraction of the overall consumer bill). These companies include wireline phone companies, wireless phone companies, paging service companies and certain Voice-over Internet Protocol (VoIP) providers." "Some consumers may notice a 'Universal Service' line item on their telephone bills. This line item appears when a company chooses to recover its USF contributions directly from its customers by billing them this charge. The FCC does not require this charge to be passed onto customers. Each company makes a business decision about whether and how to assess charges to recover its universal service costs. These charges usually appear as a percentage of the consumer's phone bill. Companies that choose to collect universal service fees from their customers cannot collect an amount that exceeds their contribution to the USF."

5.) Does the FCC's E-Rate program duplicate state and local efforts?

"The FCC's plan complements the efforts of states and localities to bring advanced telecommunications to America's classrooms and libraries." The E-rate program has been instrumental in connecting virtually all schools and libraries to the Internet.

6.) How can I find out how schools and libraries in my area are benefiting from the E-rate program? "Visit the USAC's website to find schools and libraries E-rate funding specific to your state. Go to www.universalservice.org/sl/ and follow the prompts to funding commitments."

O'Rielly, Michael, FCC Commissioner. (07 July 2014). Disturbing Trend in USF Spending. FCC. Retrieved from <http://www.fcc.gov/blog/disturbing-trend-usf-spending> on 23 December 2014.

Summary: "Chart 1 shows actual outlays for USF and Relay Service Fund (TRS) to date and future spending projections through 2024 as estimated by the Congressional Budget Office (CBO). Under the current structure, the programs are scheduled to grow to \$10 billion in 2015 and steadily increase thereafter to reach \$11 billion in 2024. Most of the growth will continue to be attributable to USF. The funds will spend a remarkable \$13 billion more than they would have if funding would have been kept at 2013 levels. Importantly this trajectory just represents present circumstances...it does not assume that the Commission will make any programmatic changes that would further increase spending..."

"So what do CBO's USF projections mean for the average American? They represent an ever-growing strain on their pocketbook. That is because the FCC - through an entity called the Universal Service Administrative Company (USAC) - simply estimates what will be needed to cover the planned expenditures for the USF programs, assess telecom providers, and this cost is inevitably passed onto consumers in the form of a fee on their phone bills. Given the fund's projected growth, we must be increasingly sensitive to the burdens that this fee creates and strive to limit the amount of any increase."

(No Author). (14 July 2014). FCC Chairman Wheeler Announces Universal Service Fund Strike Force. Federal Communications Commission. Retrieved from <https://apps.fcc.gov/edocs_public/attachmatch/DOC-328183A1.pdf> on 18 March 2015.

Summary: "The USF Strike Force - which boosts the Bureau's existing enforcement operations - will focus on safeguarding the Universal Service Fund and the other funding programs the FCC oversees. The Strike Force will investigate violations of the Communications Act, the Commission's rules, and other laws bearing on the USF programs and contributions. In addition to leading the FCC's enforcement activities in these areas, the Strike Force will coordinate with the FCC's Office of Inspector General (OIG), the U.S. Department of Justice, and other law enforcement agencies to prosecute unlawful conduct. The Strike Force's investigations and activities will promote future compliance, protect those who depend on the funds for access, and safeguard contributors to the funds from the unlawful acts of others."

"The FCC established the USF in 1997 to fulfill the universal service mandates contained in the Telecommunications Act of 1996. All providers of telecommunications service contribute to the Fund based on their interstate end user revenues. These contributions support four separate universal service programs: (1) Lifeline (discounted service for low-income consumers); (2) E-rate (discounted service and Internet access for schools and libraries); (3) the Connect America Fund / High-Cost Program (supporting service in rural and other high-cost areas); and (4) Rural Health Care. In 2012, aggregate USF disbursements exceeded \$8.7 billion."

"The Strike force will be lead by Loyaan Egal, an experienced public corruption and fraud prosecutor who will lead the Enforcement Bureau's augmented efforts to police the integrity of USF programs and funds. He will report to Enforcement Bureau Acting Chief Travis LeBlanc."

"The Enforcement Bureau is the FCC's largest bureau and the primary organizational unit responsible for enforcement of the Telecommunications Act and other communications statutes, the Commission's rules, Commission orders, and the terms and conditions of FCC authorizations. The Bureau particularly focuses on competition, consumer protection, communications funding programs, and public safety. The Strike Force will augment, but be separate from the efforts of OIG."

Wheeler, Tom. (19 September 2014). Letter to Chairman Carper Re: GAO-14-587. Federal Communications Commission. Retrieved from <https://apps.fcc.gov/edocs_public/attachmatch/DOC-329688A1.doc> on 18 March 2015.

Summary: This is a letter written by Tom Wheeler, FCC Chairman to the Chairman of the Committee on Homeland Security and Government Affairs in regards to the recent GAO report entitled Telecommunications: FCC Should Improve the Accountability and Transparency of High-Cost Program Funding (GAO-14-587), in wake of the USF/ICC Transformation Order.

Wheeler says that the FCC agrees with the report and they are working to implement these recommendations that were made for improving accountability, transparency, and accessibility for the high cost fund and the FCC's plan to deploy broadband.

In the letter Wheeler states, "It is our responsibility to ensure that the high cost support that we disperse is used for it's intended purpose - the deployment of robust voice and broadband - capable networks to consumers and businesses in rural America so they can be active participants in the United States of the **21st century.**"

(No Author). (October 2014). Schools and Libraries Universal Service Services Ordered and Certification Form | Instructions for Completing the Schools and Libraries Universal Service Services Ordered and Certification Form (FCC Form 471). Federal Communications Commission. Retrieved from <http://www.usac.org/_res/documents/sl/pdf/forms/471i.pdf> on 17 September 2015.

Summary: This is the 23 page instruction guide to filling out form 471 used by schools and libraries to receive funding discounts through the E-rate Program. At the top of the document it says, "The Estimated Average Burden Hours Per Response: 4 Hours". This guide illustrates the complexity of the E-rate application process. It discusses multi-year funding, consortiums, and using an E-rate consultant to fill out the form. It also details the process of self-certification.

The table of contents:

"CONTENTS

I. PURPOSE OF FORM	1
II. GENERAL INSTRUCTIONS.....	1
A. Who Must File	1
B. Who Can Provide E-rate Eligible Services	3
C. When, Where, and How Many FCC Forms 471 to File	3
D. Assistance in Completing This Form	4
III. SPECIFIC INSTRUCTIONS	4
A. Block 1: Billed Entity Information.....	4
B. Block 4: Discount Calculation Worksheets.....	6
C. Block 5: Discount Funding Request(s).....	12
D. Block 6: Certifications and Signature.....	20"

The FCC Form 471 is filed to request discounts on eligible services for eligible schools, libraries, and consortia of those entities under the E-rate Program (more formally known as the schools and libraries universal service support program). Starting in Funding Year 2015, the FCC Form 471 must be completed online. The FCC Form 471 must reference services that were competitively bid with an FCC Form 470 posted on the USAC website for at least 28 days before the FCC Form 471 is filed, unless you are specifically exempted by FCC rules from the FCC Form 470 posting requirement. The 28-day waiting period begins after the FCC Form 470 is posted on the USAC website, www.usac.org/sl, or after a request for proposal (RFP) is made publicly available, whichever is later. This 28-day waiting period must occur before you may execute any contracts for contracted services, as applicable; before you select your service provider for tariffed or month-to-month services; and before you submit your completed FCC Form 471. It is possible that an FCC Form 470 posted in a prior funding year may be used where such a form resulted in a multi-year contract. (See FCC Form 470 Instructions.)"

Pg. 1 "General Instructions | Who Must File

All participants are required to file a FCC Form 471 application. Specifically, every entity responsible for making payments directly to a service provider, the "billed entity," must file an FCC Form 471 application. Even if several billed entities together file a single FCC Form 470, each billed entity must file a separate FCC Form 471. An entity that receives a bill, but does not make payments to the service provider on that bill, is not a billed entity, and therefore should not be filing an FCC Form 471 application."

Pg. 6 "B. Block 4: Discount Calculation Worksheets

The basic discount calculation is performed at the school district level. Individual schools within a school district and library outlets/branches within a library system do not calculate individual discounts. Independent schools not part of a public or non-public school district or library system will calculate their discounts based on the own student population. Independent libraries, not part of a library system, will calculate their discounts based on the NSLP data for the school district in which they are located.

- All the individual schools in a public or non-public school district use the school district average discount.
- Library systems and library outlets/branches use the NSLP information of the public school district in which the main branch of the library is located, though they calculate the urban/rural status based on the location of their own library outlets.
- A consortium or statewide application uses a simple average of the discounts of its member entities. The consortium includes the school district calculation for each school district entity number that will be featured in any worksheet on the form.
- Individual schools applying as if they were a school district or as if they were a consortium – for example, diocesan schools – use the school district or consortium model, respectively. If they are applying as a consortium, each

individual school will be treated as a consortium member and will complete a school district calculation for that individual school in addition to the entity-specific information in Item 7a."

"(a) DISCOUNT MATRICES

	Category One schools and libraries discount matrix		Category Two schools and libraries discount matrix	
	Discount level		Discount level	
Percent of students eligible for National School Lunch Program	Urban discount	Rural discount	Urban discount	Rural discount
< 1.....	20	25	20	25
1-19.....	40	50	40	50
20-34.....	50	60	50	60
35-49.....	60	70	60	70
50-74.....	80	80	80	80
75-100.....	90	90	85	85

Pg. 20 "D. Block 6: Certifications and Signatures

Block 6 requires program participants to certify certain information. This information is required to ensure that only eligible entities receive support under the universal service discount mechanism.

- When you have completed the online filing of Blocks 1-5, please print your application to retain a copy for your records.
- You must also submit the Block 6 certification.
 - If you have a PIN and wish to submit your Block 6 certification online, follow the directions online. When you submit your certification online, you will receive a confirmation. If you use the online certification, do not mail any part of your FCC Form 471 to USAC.
 - If you wish to submit the completed and signed Block 6 certification on paper, print Block 6 using your browser. When you print Block 6 using the browser, the form will automatically include your FCC Form 471 Application Number, Applicant Name, and Applicant Address. Item 36 requires the signature of the authorized person who certifies to the accuracy of the information on the form. Also, you must complete Items 22-40e. Mail the signed Block 6 to: **USAC-Form 471, P. O. Box 7026, Lawrence, KS 66044-7026**. For express delivery services or U.S. Postal Service Return Receipt Requested, send to **USAC-Forms 471, ATTN: USAC Form 471, 3833 Greenway Drive, Lawrence, KS 66046**. If the Block 6 certification is submitted on paper, you are advised to keep proof of the date of mailing.

The FCC Form 471 cannot be submitted by mail. With the exception of the Block 6 certification, the FCC Form 471 must be completed and submitted online.

Item 22 – Certify that the entities represented are eligible schools and/or libraries.

Item 23 – Check this box to certify that you can demonstrate that you have secured access to all of the resources necessary to make effective use of the products and services for which they receive discounts. As part of our review of your Item 23 certification, USAC may request additional documentation to support your certification. The certification in Item 31 below states that you will retain for at least 10 years (or whatever retention period is required by the rules in effect at the time of certification), after the last day of service delivered any and all worksheets and other records that you rely upon to fill out your FCC Form 471. For Item 23, these worksheets and records include:

- **Paying your share of E-rate eligible costs.** You may be asked to provide documentation of your ability to pay the non-discount portion of the products and services for which you have applied for discounts. You are required to already have the funds identified in your budget to pay for these costs. If your budget is not yet final, we may request additional documentation to substantiate your certification.
- **Paying for ineligible costs.** You may be asked to provide more detailed estimates of hardware, software, professional development, retrofitting (construction and electrical work necessary to prepare a building for technology), maintenance investments and other resources that are necessary to make effective use of the E-rate discounts you have requested. If these resources will be purchased under your budget, you must already have the funds identified in your budget to pay for them. However, these resources may also be ones that you already have or own, such as computers purchased or donated in a prior year."

(No Author). (Updated: 17 October 2014). Universal Service. FCC Encyclopedia | Federal Communications Commission. Retrieved from <<http://www.fcc.gov/encyclopedia/universal-service>> on 23 December 2014.

Summary: "Universal service is the principle that all Americans should have access to communications services. Universal service is also the name of a fund and the category of FCC programs and policies to implement this principle. Universal Service is a cornerstone of the law that established the FCC, the Communications Act of 1934. Since that time, universal service policies have helped make telephone service ubiquitous, even in remote rural areas. Today, the FCC recognizes high-speed Internet as the **21st Century's** essential communications technology, and is working to make broadband as ubiquitous as voice, while continuing to support voice service.

The Telecommunications Act of 1996 expanded the traditional goal of universal

service to include increased access to both telecommunications and advanced services - such as high speed Internet - for all consumers at just, reasonable and affordable rates. The Act established principles for universal service that specifically focused on increasing access to evolving services for consumers living in rural and insular areas, and for consumers with low incomes. Additional principles called for increased access to high-speed Internet in the nation's schools, libraries and rural health care facilities. The FCC established four programs within the Universal Service Fund to implement the statute. The four programs are:

Connect America Fund (formally known as High-Cost Support) for rural areas
Lifeline (for low-income consumers), including initiatives to expand phone service for residents of Tribal lands
Schools and Libraries (E-Rate)
Rural Health Care

The Universal Service Fund is paid for by contributions from providers of telecommunications based on an assessment on their interstate and international end-user revenues. Examples of entities that contribute to the Fund are telecommunications carriers, including wireline and wireless companies, and interconnected Voice over Internet Protocol (VoIP) providers, including cable companies that provide voice service. The Universal Service Administrative Company, or USAC, administers the four programs and collects monies for the Universal Service Fund under the direction of the FCC. The FCC's annual monitoring report tracks contributions and disbursements.

The FCC is reforming, streamlining, and modernizing all of its Universal service Programs to drive further investment in and access to **21st century** broadband and voice services. These efforts are focused on targeting support for broadband expansion and adoption as well as improving efficiency and eliminating waste in the programs."

This webpage also discusses the history of Universal Service and the Universal Service Fund. The FCC was created by the Communications Act of 1934 and Universal Service was one of the core mandates. "In 1934, telephone service was considered a natural 'monopoly', a service best delivered by one company rather than two or more competitors. The U.S. government allowed AT&T, then the monopoly provider, to operate in a non-competitive environment in most areas of the country in exchange for the federal and state government regulation of price and service quality."

(No Author). (01 April 2014). Universal Service Fund. Federal Communications Commission. Retrieved from
<http://transition.fcc.gov/cgb/consumerfacts/usp_Schools.pdf> on 24 December 2014.

Summary: This document is the corresponding handout with identical information found on the FCC's website under "Universal Service Fund". (See previous entry.)

Wheeler, Tom. (20 November 2014). Closing the **Digital Divide** in Rural America. Official FCC Blog | FCC. Retrieved from <www.fcc.gov/blog/closing-digital-divide-rural-america> on 28 November 2014.

Summary: Wheeler says there is “a **digital divide** that particularly impacts rural America.”

“Americans living in urban areas are three times more likely to have access to Next Generation broadband than Americans in rural areas. An estimated 15 million Americans, primarily in rural communities, don't even have access to entry level broadband in their homes. Forty-one percent of America's rural schools couldn't get a high speed connection if they tried.”

Wheeler says the FCC can help remedy this situation with two items he is circulating that “will expand access to robust broadband across rural America.” The first item is E-Rate modernization and the second is Connect America and both will require increasing the amount of contributions to the Universal Service Fund.

“In July, we opened an inquiry into the future funding needs of the E-rate Program. After our own analysis, as well as studies submitted to the record, we have concluded that additional investment is required to bring **21st century digital learning** to all schools and libraries. The E-rate's budget was set in 1997 and not adjusted for inflation until 2010, isn't up to the task. Now, we are rebooting E-rate for the **digital age** by proposing an increase in the size of the program to reflect the investment required to close the rural divide and keep American education competitive nationwide.

Closing this connectivity gap will require raising the E-rate spending cap. Now, let me be clear. We have looked long-term to forecast the funding needs going forward and based the spending cap on those forecasts. What will actually be spent - and the rate Americans will be asked to contribute - will vary from year to year. Most certainly, the contributions from Americans won't immediately jump to the cap.

I am proposing that we increase the cap on what all Americans contribute to the E-rate fund by 16 cents a month for a telephone line.”

“E-rate is funded by fees on consumers' phone bills. I take the fiduciary responsibility to invest those contributions wisely and very seriously. That's why we placed an emphasis on improving cost-effectiveness earlier this year. But the fact is that the E-rate budget hadn't received an annual inflation adjustment for 13 years. The majority of the proposed new cap accounts for the lack of inflation adjustments, with the rest going to new growth if needed.

This is the reality: while many schools and libraries have benefitted from the E-rate program, rural and low-income schools and libraries have not shared proportionally in the opportunities. The investment I am proposing enables the FCC to fulfill its

responsibility to advance **digital learning** in all American schools and libraries."

Wheeler goes on to discuss his plans for phase II of Connect America.

(No Author). (No Date). FCC Guide: Understanding Your Telephone Bill. Federal Communications Commission. Retrieve from <http://www.fcc.gov/guides/understanding-your-telephone-bill> on 01 May 2014.

Summary: This guide is provided to assist consumers in understand the various fees, taxes and charges they will find on their monthly phone bill. Here is what it says about the Universal Service charges:

"The Universal Service Fund (USF) provides support to promote access to telecommunications services at reasonable rates for those living in rural and high-cost areas, income-eligible consumers, rural health care facilities, and schools and libraries.

All telecommunication service providers and certain other providers of telecommunications must contribute to the Federal USF based on a percentage of their interstate and international end-user telecommunications revenues. These companies include wireline phone companies, wireless phone companies, paging service companies, and certain Voice over Internet Protocol (VoIP) providers. Some consumers may notice a "Universal Service" line item on their telephone bills. This line item appears when a company chooses to recover its USF contributions directly from its customers by billing them this charge. The FCC does not require this charge to be passed on to customers. Each company makes a business decision about whether and how to assess charges to recover its Universal Service costs. These charges usually appear as a percentage of the consumer's phone bill. Companies that choose to collect Universal Service fees from their customers cannot collect an amount that exceeds their contribution to the USF. They also cannot collect any fees from a Lifeline program participant."

Universal Service Administration Company (USAC)

(No Author). (05 September 2003). Task Force on the Prevention of Waste, Fraud and Abuse. Universal Service Administration Company | Schools and Libraries Division. Retrieved from <http://www.sl.universalservice.org/taskforce/default.asp> on 14 August 2015.

Summary: "The Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC) has created a Task Force on the Prevention of Waste, Fraud and Abuse. This Task Force will identify areas where improvements can be made in the support mechanism and in outreach and training and will

recommend specific actions to combat potential waste, fraud and abuse by both service providers and applicants.

The Task Force is composed of 14 members of the applicant and service provider communities. The members include representatives from public and nonpublic elementary and secondary schools, libraries, state telecommunications networks, and providers of service in all three categories of services eligible under the support mechanism — Telecommunications Services, Internet Access, and Internal Connections.

Members of the Task Force will meet to review every aspect of the E-rate Program where waste, fraud and abuse can occur — including the application process, application review and funding commitment, and invoicing. They will also review publicly available documents to determine what changes could be made to help prevent waste, fraud and abuse.

The Task Force will produce a final report to USAC in early summer summarizing its recommendations."

(No Author). (05 September 2003). Update on Task Force on the Prevention of Waste, Fraud and Abuse. Universal Service Administrative Company | Schools and Libraries Division. Retrieved from <<http://www.sl.universalservice.org/taskforce/update.asp>> on 14 August 2015.

Summary: "The Task Force on the Prevention of Waste, Fraud and Abuse held the first of three planned meetings on May 1-2.

Task force members heard presentations from representatives of the Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC), the assistant inspector general for audits of the Federal Communications Commission's Office of Inspector General, the head of special investigations for the SLD's Program Integrity Assurance staff, and a senior auditor from the internal audit staff of USAC. They described, in general terms, the kinds of situations that have raised concerns in the areas of waste, fraud and abuse. They also provided general information about auditing and other enforcement activities.

The 14 task force members then shared their own different perspectives on the potential for waste, fraud and abuse in the program. By the end of their first meeting, they identified these topics as broad, shared areas of concern that should be the focus of future discussions:

- Lack of clarity in program rules and requirements;
- Rules and processes that may inadvertently encourage waste;
- Shortcomings in applicants' competitive bidding processes;
- Need for review and clarification of "eligible" services;
- Lack of accountability and consequences for program violations;

- Funding models and their impact on waste, fraud and abuse;
- Maximizing the deployment of SLD resources;
- Required standards for applicant documentation of program compliance."

"The task force currently plans two more meetings in late May and late June before preparing a series of recommendations to USAC and the FCC."

(No Author). (05 September 2003). Update on Task Force on the Prevention of Waste, Fraud and Abuse: Meeting #2. Universal Service Administrative Company. Retrieved from <<http://www.sl.universalservice.org/taskforce/update2.asp>> on 14 August 2015.

Summary: "The Task Force on the Prevention of Waste, Fraud and Abuse held its second meeting on May 29-30, 2003. The primary goal of the second meeting was to discuss and reach consensus on a series of draft recommendations to address the broad areas of concern identified in the first meeting of the Task Force.

Although Task Force members represent a diverse group of stakeholders, they are in agreement that the E-rate Program has been vitally important in helping schools and libraries across the United States gain access to **21st century learning** resources through a variety of technologies. Nevertheless, the Task Force recognizes that after five years, changes should be considered to better guard the program from those who would seek to defraud it, from those who would seek to abuse it, and from those practices and procedures that inadvertently encourage waste or tend to waste limited resources in ways that serve few policy purposes.

As Federal Communications Chairman Michael Powell said at the Commission's May 8 Forum on the E-rate Program, "To defraud the program is to steal from our children." The Task Force strongly agrees with that assessment and, to that end, proposes for further discussion these draft recommendations.

The Task Force is interested in soliciting input from stakeholders on these recommendations. In the future, it plans to refine the draft recommendations listed below to provide greater specificity, and to further explore additional recommendations. Two key areas for exploration involve consideration of possible changes in the discount matrix and some form of funding caps."

"Enforcement and Compliance Issues

The Task Force believes that it is essential to toughen enforcement procedures and compliance requirements to address certain problems related to waste, fraud and abuse."

"Issues Involving Wasteful Incentives

The Task Force believes that the E-rate Program has evolved to permit certain

practices—within the rules—that lead to the use of E-rate discounts in ways that can, in fact, promote the wasteful use of resources.”

“Competitive Bidding Issues

The Task Force believes that many issues related to waste, fraud and abuse have arisen in the area of the E-rate Program's competitive bidding rules. It recognizes that this is an area that is already under review by the FCC. It believes that these recommendations will help address these concerns by retaining the program's requirement for promoting competitive bidding while addressing specific issues that have either led to abuses or led, in certain cases, to the inappropriate rejection of funding requests.”

“Eligible Services Issues

The Task Force believes that the complexity inherent in the determination of Eligible Services contributes to the problem of waste, fraud and abuse.”

“Issues of Inadequate Education

The Task Force believes that greater education about the E-rate Program's complex rules and procedures will promote better program compliance.”

“Program Complexity Issues

The Task Force believes that the complexity of the E-rate Program makes it easier for “bad actors” to take advantage of applicants who are not well versed in the program rules, while leading other applicants to make simple mistakes that lead to the rejection of their applications. The Task Force believes, for instance, that a rural librarian seeking \$500 in discounts on traditional phone services should not have to complete the same complex forms as a school seeking \$500,000 worth of discounts on a much wider range of services.”

(No Author). (05 September 2003). Update on Task Force on the Prevention of Waste, Fraud and Abuse: Meeting #3. Universal Service Administrative Company | Schools and Libraries Division. Retrieved from <<http://www.sl.universalservice.org/taskforce/update3.asp>> on 14 August 2015.

Summary: This webpage discusses the third meeting of USAC's E-rate Task Force.

“The Task Force on the Prevention of Waste, Fraud and Abuse held its third meeting on June 25-26, 2003. The primary goal of the third meeting was to continue to review and refine Task Force recommendations and to permit more extended time to discuss addressing waste, fraud and abuse issues through a revision of the discount matrix and/or by imposing some sort of ceiling on funding requests. These were among the ideas that were considered when the Task Force outlined its broad areas of concern.” (See information on the first meeting.)

"The Task Force first discussed its initial set of draft recommendations in light of comments and feedback received from program stakeholders. As a result of that discussion, 23 of the 26 draft recommendations were adopted as written. During the third meeting, revised language was drafted for the other three recommendations. The Task Force then spent a lengthy amount of time reviewing and discussing discount matrix revisions and funding ceiling formulas. At the end of those discussions, it adopted the following draft recommendations and position statements:

Adjustment of Discount Matrix

The Task Force believes that the discount matrix, as currently structured, unintentionally encourages some waste, fraud and abuse. Applicants that are required to contribute only 10 percent of the cost of their services or products may not always have enough incentive to seek the most cost-effective prices or the most competitive bids. Adjusting the matrix may also deter some vendors from offering to cover the portion of the cost that, under program rules, is supposed to be paid by the applicant.

Under the Telecommunications Act of 1996, the primary goal of the E-rate program was to provide improved connectivity for schools and libraries. Thanks to the program, many high-discount applicants are already enjoying the benefits of broadband connectivity at substantial discounts, and might be forced to curtail these services if they lost access to their discounts. While the Task Force has observed the problems described above with both unregulated Priority One services and Priority Two services, it believes that abuses occur more frequently with Priority Two services. Consequently, at this time it recommends adjusting the current Urban/Rural discount matrix only for Priority Two services, and stipulating that applicants would have to pay at least 20 percent of the price of E-rate-eligible Priority Two services." ***The discount matrix chart is located on the webpage.

"Ceiling on Funding Requests

The Task Force further believes that the Commission should consider imposing some ceiling on the amount of funding which applicants can request. It is believed that this, along with other Task Force recommendations, would help ensure that applicants are submitting the most cost-effective funding requests by eliminating what some may perceive as a 'blank check.' Instead, applicants would be advised that both their Priority One and Priority Two funding requests are subject to a ceiling. In the brief amount of time available, the Task Force explored a handful of possible formula models for establishing this kind of ceiling. It believes that any formula adopted by the Commission should be simple to administer, based upon numbers or statistics that would be readily available and grounded in a policy that is sound and logically defensible.

Any particular formula may ultimately curtail some legitimate funding requests. Nevertheless, the Task Force believes that as long as the E-rate funding pool is not large enough to meet the legitimate funding requirements of eligible applicants, the imposition of a properly constructed ceiling on funding requests would encourage

some schools to create more cost-effective plans for ensuring access."

The webpage goes into greater detail the Task Force recommendations for each issue.

(No Author). (01 October 2003). Waste, Fraud and Abuse Task Force Members. Universal Service Administrative Company | Schools and Libraries Division. Retrieved from <<http://www.sl.universalservice.org/taskforce/members.asp>> on 14 August 2015.

Summary: This webpage provides a list of the 14 member USAC E-rate Task Force that was established to address the issues of waste, fraud and abuse that were brought to light by the 2003 Center for Public Integrity Report. The members are supposed to represent a variety of stakeholders.

Member Name | Organization | Representing

- 1.) Harry Cook | Bell South | Local Exchange Carriers
- 2.) Sara Fitzgerald | Funds for Learning| Consultants
- 3.) Wayne Hay | Westchester Library System | Libraries
- 4.) Win Himsworth | E-rate Central | Schools & Consultants
- 5.) Vicki Hobbs | Rural School Community Trust | Rural Schools
- 6.) Toni Pickle | Pioneer Telephone Cooperative | Service Providers
- 7.) Gary Rawson | Mississippi Department for ITS | Schools, State Networks
- 8.) Ron Reynolds | California Association of Private School Organizations | Private Schools
- 9.) Lauren Brown | Earthlink | Internet Service Providers
- 10.) Barbara Stoll | Sprint | Local Exchange Carriers
- 11.) Tony Wening | Missouri Research and Education Network | Libraries
- 12.) Robert Westall | School District of Philadelphia | Large Urban Public School Systems
- 13.) Alecha Stackle | Dell | Internal Connections Service Provider.
- 14.) Maureen Foley | Center City Consortium | Parochial Schools

(No Author). (22 September 2003). Recommendations of the Task Force on the Prevention of Waste, Fraud and Abuse. Universal Service Administrative Company |

Schools and Libraries Division. Retrieved from
<<https://www.fundsforlearning.com/docs/2013/02/Erate%20Task%20Force%20Report.pdf>> on 14 August 2015.

Summary: "Executive Summary

In early 1997, the Federal Communications Commission launched a program to enable schools and libraries throughout the United States to access advanced technologies and the learning resources of the Internet. Since then, schools and libraries have made use of more than \$7 billion dollars worth of discounts to help them purchase Telecommunications Services, Internet Access and Internal Connections.

Before the E-rate Program started, only 27 percent of U.S. public school classrooms were connected to the Internet, according to the National Center for Education Statistics. By 2001, NCES reported, that number had grown to 87 percent. In addition, 85 percent of public schools that are connected to the Internet reported in 2001 that they had a broadband connection. In 1997, only 60 percent of library systems provided public access in one of their outlets, while in 2002, 95 percent of public library outlets provided public access. The E-rate Program is necessary to continue to enable K-12 students and library patrons to access remote learning resources and to develop **21st century learning skills**.

Recently, concerns have been raised about the extent to which the E-rate Program may have become subject to waste, fraud and abuse. To help it address these concerns, the Schools and Libraries Division of the Universal Service Administrative Company, with support from the Federal Communications Commission, created a 14-member Task Force representing diverse program stakeholders in May 2003. The Task Force was asked to make recommendations on how best to address these concerns.

The Task Force members work with the program on a daily basis - in school districts and libraries, in private schools and consortia, as state leaders and consultants, and for companies that provide telecommunications services, Internet access and networking equipment. Task Force members brought, on average, more than five years of experience each in working with the program. In a series of four face-to-face meetings and many communications in between, Task Force members shared their diverse perspectives on where the program could be susceptible to waste, fraud and abuse and what specific steps could be taken to address those issues. Through the SLD web site and other means, the Task Force publicly solicited input on various drafts of its recommendations and received valuable feedback from many stakeholder groups and program participants. In addition, the Task Force heard a number of good suggestions for improving the operation of the E-rate Program. However, its charge was to focus on issues relating to the potential for waste, fraud and abuse, and it has limited its recommendations to those areas.

Based on its experience with the program, Task Force members believe that outright fraud in the E-rate Program is limited, and that the SLD, the FCC and law enforcement agencies are taking appropriate actions to remedy such cases. Thus, the Task Force chose to focus on areas that have the greatest potential for waste and abuse. The Task Force believes that some of these areas may involve

stakeholders following existing rules that now need to be tightened, regulations that are in need of clarification and situations in which applicants and/or service providers were found to have made mistakes because of the program's complexity.

The Task Force's recommendations fall into four broad areas:

- **BUILDING BLOCK ISSUES** - The Task Force believes changes can be made in the program's basic framework that will preserve the program's original goals while reducing the potential for waste, fraud and abuse.
- **CLARITY OF RULES** - The Task Force recommends that a number of program rules and standards be clarified so that applicants will be better able to comply with them.
- **ENFORCEMENT AND COMPLIANCE** - The Task Force believes that certain enforcement and compliance procedures should be improved to address some areas that may be particularly susceptible to potential waste, fraud and abuse.
- **EFFECTIVE USE OF RESOURCES** - The Task Force recommends refocusing the limited resources of the SLD, and those of applicants and service providers, to address areas that represent the biggest causes for concern.

The Task Force discussed a wide range of ideas for improving the program. The recommendations below are those that were supported by at least 10 members of the Task Force and opposed by no more than two members. The Task Force urges the Commission and the SLD to move swiftly to implement the recommendations. It encourages the SLD and Commission to implement as many as possible in time so that they can be communicated to applicants and service providers to guide their applications for the 2004 funding year. The Task Force recognizes that other recommendations will take longer to implement, and may require additional input to the Commission in the form of a Notice of Proposed Rule Making. The recommendations that the Task Force believes can be implemented in whole or in part by November 1, 2003 are identified with an asterisk (*).

(No Author). (30 November 2003). USAC Releases Recommendations of Task Force on Waste, Fraud and Abuse. Funds for Learning. Retrieved from <<https://www.fundsforlearning.com/news/2003/12/usac-releases-recommendations-task-force-waste-fraud-and-abuse>> on 14 August 2015.

Summary: "The Universal Service Administrative Company Nov. 26 released the final report of the Schools and Libraries Division's Task Force on the Prevention of Waste, Fraud and Abuse and an interim response on its implementation of the recommendations.

The task force's recommendations, which followed the outlines of previously publicized draft recommendations, fell into four broad categories. In its September

22 report to the SLD, the task force identified 17 of the 29 recommendations that it said it believed could be implemented, in whole or in part, by November 1. USAC reported that it had taken action on most of these, but not all.

In the case of recommendations that fell under the heading of 'Building Blocks,' including recommendations to revise the discount matrix for internal connections, consider the imposition of a funding ceiling on individual applicants and to modify the Form 470 to promote more effective competitive bidding, USAC said jurisdiction lay with the Federal Communications Commission. On a fourth recommendation in that area, USAC said it would soon begin discussions with the U.S. Department of Education, the FCC and the State Education Technology Directors Association to review the E-rate program's technology planning requirements. Similar discussions are planned with the U.S. Institute for Museum and Library Services, which is in charge of federal funding for library systems.

The task force made 12 recommendations related to clarifying E-rate rules and procedures. USAC noted that this year it had attempted to provide clarification on a number of rules in time for its annual Train-the-Trainer workshops and that revisions to the formal eligible services list were issued on October 10, 2003, head of the start of the filing window for the 2004 funding year. It said 'continuing discussions with FCC staff have provided additional clarification and expanded guidance on some matters' since the 2004 filing window opened and 'appropriate information is posted to the USAC website as it becomes available.' "

(No Author). (2013). USAC 2013 Annual Report. Universal Service Administrative Company. Retrieved from <http://www.usac.org/_res/documents/about/pdf/annual-reports/usac-annual-report-2014.pdf> on 18 March 2015.

Summary: This is the USAC's 2014 annual report for the Universal Service Fund, including the Schools and Libraries Division. Access to previous years' annual reports can be found here: <<http://www.usac.org/about/tools/publications/annual-reports/default.aspx>>

(No Author). (No Date). Universal Service Administrative Company | Universal Service Frequently Asked Questions (FAQ's). Universal Service Administrative Company. Retrieved from <<http://www.usac.org/about/universal-service/faqs.aspx#top>> on 18 March 2015.

Summary: "Q3: What are the universal service programs?

A3: The universal service programs are mechanisms for providing funding to organizations or companies eligible for support. These beneficiaries help fulfill the goals of universal service of providing affordable access to telecommunications services for all Americans.

Below are brief descriptions of each program, along with 2013 levels of universal service funding:

(1) The High Cost Program provides support to eligible telecommunications companies that in turn offer service to consumers in hard-to-serve, rural areas at rates that are comparable to those available in urban areas. In 2013, the program provided over \$4.17 billion in support.

(2) The Lifeline Program provides support to telecommunications companies that in turn offer discounts on telecommunications services to eligible consumers. In 2013, the program provided \$1.8 billion in support.

(3) The Rural Health Care (RHC) Program provides support to eligible rural health care providers (HCP) that qualify for reduced rates for telecommunication services and broadband access. This allows HCPs to pay rates for telecommunications services similar to those of their urban counterparts, making telehealth services affordable in rural areas. In 2013, the program provided over \$159 million in support.

(4) The Schools and Libraries Program, commonly known as the E-rate Program, provides support to eligible schools and libraries that qualify for reduced rates for telecommunications, telecommunication services, Internet access, internal connections, and basic maintenance of internal connections. In 2013, the program provided over \$2.2 billion in support."

(No Author). (Updated 29 October 2014). Major FCC Orders and Rulemaking Notices Regarding the Schools and Libraries (E-rate) Program. Universal Service Administrative Company. Retrieved from http://www.usac.org/_res/documents/about/pdf/fcc-orders/FCC-USF-Orders-Schools_Libraries.pdf on 18 March 2015.

Summary: "The table below lists the major FCC Orders, rulemaking notices, Public Notices, and other documents relating to the Schools and Libraries (E-rate) program. The list is in reverse chronological order. Note that the table does not include all FCC Orders, rulemaking notices, Public Notices, and other documents relating to universal service and USAC. The table may be updated on an ongoing basis."

This USAC resource includes many relevant FCC documents for the Schools and Libraries Division of the Universal Service Fund administered by the USAC and also pre-USAC, Schools and Libraries Corporation documents dating back to May 1997. The names of the documents, document #'s, dates of release and brief descriptions are provided. It was last updated in October 2014.

(No Author). (2015). FCC Filings | 2015 First Quarter Appendices. Universal Service Administrative Company. Retrieved from <http://www.usac.org/about/tools/fcc/filings/2015/q1.aspx> on 18 March 2015.

Summary: This webpage is where you can access filings for the 4 Universal Service support mechanisms administered by the UASC - High Cost, Low Income, Schools & Libraries, and Rural Healthcare. XL spreadsheets organized by years 2006 - 2014 are available here. For each year there is a separate spreadsheet for authorizations, commitments and disbursements to service providers.

(No Author). (2015). Universal Service | Frequently Asked Questions. Universal Service Administrative Company. Retrieved from <<http://www.usac.org/about/about/universal-service/faqs.aspx#top>> on 18 March 2015.

Summary: This is where to access the USAC's answer to frequently asked questions such as - What is Universal Service? What is the Universal Service Fund? What are the Universal Service Programs? Who pays for Universal Service? How does the Universal Service Fund work? What is USAC?

Universal Service Fund Information From Company Websites

(No Author). (2013). Taxes and Surcharges. GCI. Retrieved from <<http://www.gci.com/about/taxes-and-surcharges>> on 23 December 2014.

Summary: Information found on GCI's website. They **do not** mention that part of the USF fees collected go to subsidize the Schools and Libraries Program or the Rural Health Care Program but they do mention the High Cost and Low Income Programs.

"Federal Universal Service Cost Recovery Charge

Goes to: Subsidize local service in rural high cost telephone exchanges. Specifically subsidy for local switching cost and local loop (phone wire) cost. Additionally, this funds the 'Link-up America' Program (subsidizes installation costs of phone service for qualified low-income families), and the federal 'Lifeline Assistance' Program (subsidizes the federal Subscriber Line Charges for qualified low-income families). These subsidies are intended to reduce local service rates for end users.

Applies to: Business and Residential Local and Long Distance Phone and Wireless phone Customers

Jurisdiction: Federal

Local Phone Rate: 17.4% of the customer's total net interstate and international long distance charges (after the application of any discounts and credits) and the Local Subscriber Line Charge. Effective 4/1/2015

Previously 16.8% Effective 1/1/2015.

Wireless Rate: Under the Traffic Study rule, the USF tax is applied to 2.884% of the customer's net wireless charges (after the application of any discounts and/or credits) including wireless plan, feature and administrative fees, & usage charges with the exclusion of fees and usage labeled LD or Roaming.

The following items are not taxed: Handset Insurance, Data only fees and Data usage.

The customer's fees and usage that are labeled LD or Roaming are charged the same rate for Federal Universal Service Fund as LD and Local (above). Effective 4/1/15.

Previously 2.788% Effective 1/1/2015."

(No Author). (30 September 2014). Understanding the surcharges, taxes, fees and other charges on your bill. Sprint. Retrieved from http://support.sprint.com/support/article/Know_about_Sprint_surcharges_taxes_fees_and_other_charges/case-ib376964-20090810-135914?docid=7561&docid=7549&navtypeid=6&pagetypeid=7&prevPageIndex=3&lid=y on 23 December 2014.

Summary: This webpage offers explanations for the various fees, surcharges, taxes, etc. found on Sprint customer phone bills. Regarding the Universal Service Fund, at the federal and possibly state level, it says the following:

"Federal & State Universal Fund Assessment

Federal: All interstate telecommunications service providers are required to contribute to the Federal Universal Service Fund (USF). The Federal USF subsidizes telecommunication services in rural and high cost areas, services for low-income consumers, and services for schools, libraries, and rural health care providers. Sprint charges a monthly fee per line to recover the cost of these contributions and may include other charges also related to this government program. There are different assessment rates applicable to long distance and international charges, and to non-long distance charges, creating two line items on the invoice. This charge is not a tax or a government-imposed fee. The rate of this monthly charge can vary quarterly based on the USF contribution factor established by the Federal Communications Commission. As of October 1, 2014, the Federal USF contribution rate is 16.10%.

State: Telecommunication service providers may also be required to contribute to a State Universal Service Fund (USF). The funds collected maybe used to assist in providing universal service and to a variety of other programs at the state level. This charge is not a tax or government-imposed fee."

(No Author). (2014). The Federal Universal Service Fund Charge. AT&T. Retrieved

from

<<http://www.att.com/esupport/article.jsp?sid=52266&cv=820#fbid=WnZUVJg6JDE>>
on 23 December 2014.

Summary: This page explains the purpose of the Universal Service Fund and AT&T customer's responsibility.

"Purpose: The Federal Universal Service Fund (USF), created by the federal government, is designed to help ensure first-class, affordable telecommunications service for all consumers across the country, especially residents in high-cost rural communities and low-income customers. Additionally, the Federal USF provides for discounted communications services for schools, libraries and rural healthcare facilities. All telecommunications providers are required to pay into the Federal USF and their contributions maybe recovered from customers.

Customer Responsibility

AT&T recovers its Federal USF contribution costs from customers purchasing interstate telecommunications through the Federal USF charge. The charge appears on your bill under Surcharges & Fees and must be paid along with the rest of your billed charges. Incomplete or late bill payment may incur a fee or result in a service interruption.

The federal government revises the amount that companies are required to pay into the Federal USF each quarter; as a result, the amount we recover from customers may be adjusted on a quarterly basis. Effective January 1, 2014, the Federal USF rate for separately billed interstate and international toll charges changed to 16.4%. Your USF charge will not exceed that rate and in many cases may be lower."

*** "The USF charge is subject to federal, state, and city sales tax. Except for certain tax-exempt customers, federal, state, and local laws require that customers pay sales tax on rates charged for wireless services and equipment. The Federal USF charge is part of what we charge for wireless service. We are required by law to collect the taxes and forward them to the appropriate taxing entity."

(No Author). (2014). Universal Service Fee. Verizon. Retrieved from
<<http://www.verizon.com/home/Ordering/Ordering/USF>> on 23 December 2014.

Summary: "Telecommunications services provided by Verizon Long Distance are subject to a Universal Service Fund Fee. The Universal Service Fund provides telecommunications and information services to schools, libraries and rural health care facilities; it also serves to subsidize local service to high-cost areas and low-income households.

The Universal Service Fund charge will be identified on the bill as "Federal Universal Service" and will appear in the "Long Distance Plan and Other Charges" section of the bill.

The fee shall be calculated as follows: The gross amount (exclusive of taxes) attributable to interstate and international services billed to the customer by the Company multiplied by 14.3%. This percent will be subject to periodic adjustment by the Company.

Effective Jan. 1, 2015, the Federal Universal Service Fund surcharge will increase from 14.3% to 14.9%."

(No Author). (2014). Explanation of Taxes, Fees, Surcharges and Other Charges on Your Bill. Verizon. Retrieved from <http://www.verizon.com/support/residential/phone/homephone/billing/charges+and+taxes/taxes+and+surcharges+on+your+bill/95873.htm> on 23 December 2014.

Summary: This Verizon webpage details the many fees and charges that might be found on a customer's bill including the "Federal Universal Service Fund (FUSF) Charge" which describes the charge as follows:

"This monthly Verizon surcharge allows Verizon and Verizon Long Distance to recover from its customers the funds it pays to the Federal Communications Commission (FCC) on interstate services to support the FCC's Universal Service Programs. The FCC regulates this charge; reviewing and adjusting the fee quarterly based on the FCC's quarterly FUSF contribution factor. The FCC uses the fund to help keep local telephone rates affordable for all customers, support telecommunications services in schools, public libraries, and rural health-care facilities and subsidize local service to high-cost areas and low-income customers. This charge does not apply to Lifeline customers."

Federal Government Reports on Universal Service Programs

Murphy, Robert P. (10 February 1998). Letter to The Honorable Ted Stevens | United States Senate. United States General Accounting Office | Office of the General Counsel. Retrieved from www.gao.gov/assets/200/198811.pdf on 14 April 2015.

Summary: Senator Ted Stevens (R-Alaska) requested a review of the FCC's "implementation of section 254 (h) of the Telecommunications Act of 1934, as amended. 47 U.S.C. 254 (h). Subsection 254 (h) provides the authority for the Commission to authorize universal service support benefits for eligible schools and libraries and rural health care providers."

"Your request concerns those provisions of the Commission's (FCC) orders implementing subsection 254(h) that led to the incorporation in Delaware of two not-for-profit corporations. These corporations were formed to administer certain functions of the universal service programs for schools and libraries and rural health

care providers. The Chairman of the Commission selects or approves the board of directors for these entities and the operating expenses of the corporations are recovered from industry fees assessed to support universal service. You asked whether the Commission has the legal authority to establish such corporations. In addition, you asked us to describe the federal laws (for example, the Federal Advisory Committee Act), employment rules, and congressional oversight that govern the operation of the corporations."

"Question 1: Was the Commission authorized to establish the Schools and Libraries Corporation and the Rural Health Care Corporation?

Answer: As explained more fully below, the Commission exceeded its authority when it directed the National Exchange Carriers Association Inc. (NECA) to create the Schools and Libraries Corporation and the Rural Health Care Corporation. The Government Corporation Control Act specifies that "a[n] agency may establish or acquire a corporation to act as an agency only by or under a law of the United States specifically authorizing the action." 31 U.S.C. 9102. These entities act as the agents of the Commission and, therefore, could only be created pursuant to specific statutory authority. Because the Commission has not been provided such authority, the creation of the two corporations violates the Government Corporation Control Act."

The letter goes into greater detail the explanation of their opinion. The FCC disagreed with their determination.

"NECA was established in 1983 at the direction of the Commission, as an association of local exchange carriers to administer the interstate access tariff and revenue distributing process. Prior to that time, AT&T had acted as a tariff filling agent for the entire industry..."

"On July 18, 1997, the Commission released NECA's Governance Order and directed NECA to create an independently functioning not-for-profit subsidiary to be designated the Universal Service Administration Company (USAC)..."

NECA was also directed by the Commission "to create two unaffiliated, not-for-profit corporations to be designated the Schools and Libraries Corporation and the Rural Health Care Corporation" and to ensure they were independent and unaffiliated with NECA or USAC.

Background information on the Government Corporation Control Act of 1945: "Prior to enactment of the Government Corporation Control Act in 1945, there was no requirement for specific authority to create corporations. As the Supreme Court noted in Lebron v. National Railroad Passenger Corporation, "Ibly the end of World War II, government created and -controlled corporations had gotten out of hand, in both their number and their lack of accountability." Lebron v. National Railroad Passenger Corporation, 513 U.S. 374, 389 (1995).

Partly in response to this proliferation of corporations, a Joint Committee of Congress conducted a 2-year study and issued a 'Report on Government Corporations in 1944'. The report concluded that from simple beginnings the government corporation concept had evolved into a rationale for a maze of quasi-governmental corporations

with little accountability. The inevitable result of this growth, noted the report, was the impairment of control by Congress...The report went on to find that the corporations had little congressional or executive branch supervision, few fiscal controls, and in many instances were in competition with the private sector. Specifically the report stated: 'There is no effective over-all control. Alone, or in certain groups, these corporations are autonomous.' The Committee called for over-all public control to be established."

In reference to the Government Corporation Control Act of 1945, "...if an entity was to be established for the purpose of carrying out government functions under the control of an agency, legislation would be necessary. In other words, an agency on its own could not create or cause to be created a 'captive corporation' to carry out government functions and designate such an entity as 'private.' "

"NECA simply acted as the incorporator for the convenience of the Commission. There is no nexus between NECA's role as temporary administrator and the creation of these corporations. By the Commission's own rules, these entities were removed from the mandates of both the temporary and permanent administrator. Under the circumstances we conclude that the Commission violated the Government Corporation Control Act by directing the establishment of the Schools and Libraries Corporation and the Rural Health Care Corporation to act as its agents in carrying out functions assigned by statute to the Commission."

"Question 2: What federal laws (for example the Federal Advisory Committee Act), employment rules, and congressional oversight apply to the operation of the corporations?

Answer 2: The Commission's Order required that private corporations be established. As such, they are not subject to statutes that impose obligations on federal entities and federal employees in the areas of employment practices, procurement, lobbying and political activity, ethics, and disclosure of information to the public. On the other hand, each of the corporations is subject to federal statutes applicable to private corporations, unless outside the coverage of the statute..."

(No Author). (10 February 1998). Telecommunications: [Comments on the Federal Communications Commission's Implementation of Section 254(h) of the Communications Act of 1934]. United States Government Accountability Office. Retrieved from <<http://www.gao.gov/products/159880>> on 02 May 2015.

Summary: This GAO webpage provides highlights of the 17 page report addressed to Senator Ted Stevens:

"Pursuant to a congressional request, GAO commented on the Federal Communications Commission's (FCC) implementation of section 254(h) of the Communications Act of 1934, focusing on:

(1) Whether FCC has the authority to establish two not-for-profit corporations--the

Schools and Libraries Corporation and the Rural Health Care Corporation; and

(2) the federal laws, employment rules, and congressional oversight that govern the operation of the corporations.

GAO noted that:

- FCC exceeded its authority when it directed the National Exchange Carriers Association, Inc. to create the Schools and Libraries Corporation and the Rural Health Care Corporation;
- the Government Corporation Control Act specifies that an agency may establish or acquire a corporation to act as an agency only by or under a law of the United States specifically authorizing the action;
- these entities act as the agents of the FCC and, therefore, could only be created pursuant to specific statutory authority;
- because FCC has not been provided such authority, creation of the two corporations violated the Government Corporation Control Act;
- since FCC's Order required that private corporations be established; they are not subject to statutes that impose obligations on federal entities and federal employees in the areas of employment practices, procurement, lobbying and political activity, ethics, and disclosure of information to the public;
- on the other hand, each of the corporations is subject to federal statutes applicable to private corporations, unless outside the coverage of the statute; and
- Congress has no direct oversight over the corporations."

Murphy, Robert P. (31 March 1998). Testimony Before the Subcommittee on Telecommunications, Trade and Consumer Protection, Committee on Commerce, House of Representatives | Telecommunications | FCC Lacked Authority to Create Corporations to Administer Universal Service Programs | Statement of Robert P. Murphy, General Counsel. United States General Accounting Office. Retrieved from <<http://www.gao.gov/assets/110/107346.pdf>> on 17 April 2015.

Summary: This document is GAO General Counsel Murphy's testimony to Congress regarding the FCC's creation of two private, non-profit corporations to administer the Schools and Libraries and Rural Healthcare Programs. In addition to the testimony this document also includes the letter (see previous entry) sent to Senator Ted Stevens in response to his two questions.

England-Joseph, Judy A. (16 July 1998). Testimony | Before the Committee on Commerce, Science, and Transportation U.S. Senate | Schools and Libraries Corporation | Actions Needed to Strengthen Program Integrity Operations Before Committing Funds | Statement by Judy A. England-Joseph, Director, Housing and Community Development Issues, Resources, Community, and Economic Development Division | GAO\T-RCED-98-243. United States General Accounting Office. Retrieved from <www.gao.gov/assets/230/226971.pdf> on 16 April 2015.

Summary: The report begins with a letter addressed to Senator John McCain –

“As you know, the Telecommunications Act of 1996 expanded universal service—affordable, nationwide telephone service—to eligible schools and libraries and authorized the Federal Communications Commission (FCC) to implement a program to assist these institutions in acquiring modern telecommunications services. As implemented by FCC, schools and libraries eligible for this program could receive discounts from vendors on the cost of approved telecommunications services, Internet access, and internal connections. To administer the program, FCC directed the creation of the Schools and Libraries Corporation (the Corporation), which was established in late 1997.

Concerned about the Corporation's start-up activities, you asked us to review its procedures and internal controls. In our testimony before your Committee on July 16, 1998, we noted that the Corporation had made progress in establishing an operational framework for the program that was consistent with relevant FCC Orders. However, we also found several areas of concern and recommended that the FCC Chairman direct the Corporation to take the following actions to strengthen its operations before issuing any funding commitment letters to applicants:

- analyze a random sample of processed applications to determine if there are any systemic weaknesses in the application review procedures;
- complete the design of the program's operational procedures, automated systems, and internal controls; and
- obtain a report from its independent accountants that finds that the Corporation has developed an appropriate set of internal controls to mitigate against waste, fraud, and abuse.

In addition, we recommended that the Corporation conduct in-depth reviews of applications designated as 'high risk' before, rather than after, issuing commitment letters to these applicants. We also recommended that FCC develop goals, measures, and performance targets for the program that are consistent with the requirements of the Government Performance and Results Act of 1993. Following our July testimony, both the FCC Chairman and the Corporation agreed to implement these recommendations to strengthen program operations. This report responds to your subsequent request that we assess the Corporation's progress in implementing our recommendations. You also asked us to highlight any additional

issues that need to be monitored as the program moves forward."

(No Author). (16 July 1998). Schools and Libraries Corporation: Actions Needed to Strengthen Program Integrity Operations Before Committing Funds | T-RCED-98-243. United States General Accounting Office. Retrieved from <<http://www.gao.gov/products/GAO/T-RCED-98-243>> on 16 April 2015.

Summary: The information on this webpage complements and summarizes the July 1998 report, GAO\T-RCED-98-243, listed above. It also provides a chart with "Recommendations for Executive Action" and the corresponding status of the recommendation. For example, how has it been implemented by the affected agency or not?

The highlights:

"GAO discussed issues related to the Schools and Libraries Corporation's operating procedures and internal controls, focusing on: (1) its progress in reviewing applications; (2) the scope and timing of key compliance tests; (3) the status of its efforts to finalize its operating procedures; and (4) the status of the independent audit to determine whether the Corporation has developed an appropriate set of internal controls to mitigate against fraud, waste, and abuse.

GAO noted that:

(1) the Corporation has made substantial progress in establishing an operational framework for the program that is consistent with relevant Federal Communications Commission (FCC) orders;

(2) with regard to processing applications, the Corporation has worked with schools and libraries to inform them about the program and its application procedures; during the initial application period, which began on January 30, 1998, and ended on April 15, 1998, schools and libraries sent in over 32,600 applications for discounts;

(3) however, processing these applications has taken longer than either the Corporation or FCC expected;

(4) the Corporation relies on a combination of applicants' self-certifications, third-party reviews, and its own procedures to ensure compliance with FCC's rules and regulations;

(5) the Corporation tests applications for compliance with rules on the eligibility of applicants and requested services, and on the amount of requested discounts;

(6) also, while the Corporation plans to conduct additional tests and reviews to ensure that applications are consistent with program rules, their scope and timing have not been finalized;

(7) while the Corporation has established procedures for initially reviewing the applications, it has not yet finalized all necessary procedures and related internal controls for the program;

(8) GAO is particularly concerned about this because the Corporation estimates that invoices for payment could begin to arrive as soon as 15 days after commitment letters are sent out;

(9) the FCC Chairman has called for an independent audit of the Corporation's internal controls to help mitigate against fraud, waste, and abuse;

(10) since applicants and vendors could begin submitting forms and invoices for disbursement of funds as soon as 15 days after they receive their commitment letters, it is important that the Corporation have all of its disbursement procedures, systems, and controls in place and reviewed by the independent auditor before sending these letters;

(11) the FCC has not developed performance goals and measures for this program consistent with the requirements of the Government Performance and Results Act of 1993;

(12) FCC's Strategic Plan for Fiscal Year 1997-2002 and Annual Performance Plan for Fiscal Year 1999 mentions the schools and libraries program in the context of a large number of telecommunications initiatives, but establishes no specific performance measures or target levels of performance to be achieved by the program; and

(13) the Corporation is still developing and finalizing some of its procedures and controls, and they are subject to change.

England-Joseph, Judy A. (05 March 1999). Report to the Chairman, Committee on Commerce, Science, and Transportation, U.S. Senate | Schools and Libraries Program | Actions Taken to Improve Operational Procedures Prior to Committing Funds | GAO/RCED-99-51. Retrieved from <www.gao.gov/assets/230/226971.pdf> on 16 April 2015.

Summary: The 16 page report begins with a letter dated 05 March 1999, addressed to Senator John McCain, Chairman of the Committee on Commerce, Science and Transportation.

"Dear Mr. Chairman: As you know, the Telecommunications Act of 1996 expanded universal service—affordable, nationwide telephone service—to eligible schools and libraries and authorized the Federal Communications Commission (FCC) to implement a program to assist these institutions in acquiring modern telecommunications services. As implemented by FCC, schools and libraries eligible for this program could receive discounts from vendors on the cost of approved telecommunications services, Internet access, and internal connections. To administer the program, FCC directed the creation of the Schools and Libraries

Corporation (the Corporation), which was established in late 1997.

Concerned about the Corporation's start-up activities, you asked us to review its procedures and internal controls. In our testimony before your Committee on July 16, 1998, we noted that the Corporation had made progress in establishing an operational framework for the program that was consistent with relevant FCC Orders. However, we also found several areas of concern and recommended that the FCC Chairman direct the Corporation to take the following actions to strengthen its operations before issuing any funding commitment letters to applicants:

- analyze a random sample of processed applications to determine if there are any systemic weaknesses in the application review procedures;
 - complete the design of the program's operational procedures, automated systems, and internal controls; and
- obtain a report from its independent accountants that finds that the Corporation has developed an appropriate set of internal controls to mitigate against waste, fraud, and abuse.

In addition, we recommended that the Corporation conduct in-depth reviews of applications designated as 'high risk' before, rather than after, issuing commitment letters to these applicants. We also recommended that FCC develop goals, measures, and performance targets for the program that are consistent with the requirements of the Government Performance and Results Act of 1993.

Following our July testimony, both the FCC Chairman and the Corporation agreed to implement these recommendations to strengthen program operations. This report responds to your subsequent request that we assess the Corporation's progress in implementing our recommendations. You also asked us to highlight any additional issues that need to be monitored as the program moves forward."

"The (Telecommunications Act of 1996) act did not prescribe a structure for administering the program. However, in 1997, FCC directed the establishment of the Schools and Libraries Corporation to carry out this function. The Corporation works within the framework of the FCC's orders and rules to administer certain program functions.

The Corporation, with a 14-member staff based in Washington, D.C., contracted out most of its application-processing, client support, and review functions to the National Exchange Carrier Association (NECA), located in New Jersey. NECA's key responsibilities include reviewing applications to ensure compliance with the program's requirements and processing invoices from telecommunications vendors to reimburse them for the cost of discounts they provide. NECA, in turn, has subcontracted with two other organizations to help answer applicants' questions, process and enter applications into the Corporation's database, and establish and maintain the Corporation's public web site, which contains important information about program operations and application procedures.

FCC changed this administrative structure in November 1998 in response to the Congress's directive that a single entity administer universal service support for schools and libraries and rural health care providers. FCC appointed the Universal

Service Administrative Company (USAC) as the permanent administrator of the universal service fund and directed the Corporation to merge with USAC by January 1, 1999. Under this merger, the Corporation's staff will become part of USAC's Schools and Libraries Division, carrying out essentially the same functions as before. Since our review ended prior to the reorganization, we continue to refer to 'the Corporation' in this report."

"FCC orders state that the level of discount that each school or library can receive should be determined by the applicant's economic need and location. Discounts range from 20 to 90 percent of the costs of the services to the applicants, with higher discounts going to those in low-income and rural areas. Applicants calculate the discount level to which they are entitled by following instructions and criteria on the application form and certify that their discount calculations are correct.¹¹ When the Corporation processes an application, it uses an automated test to check the requested discount level. This test compares the applicant's requested discount with a discount level calculated from data on schools in the Corporation's database. If the applicant is requesting a higher discount than indicated by the Corporation's database, the test can flag the application for special review. As part of this review, a program official contacts the applicant and gathers information to determine whether the requested discount level is in fact correct.

It is possible for the automated system to flag every application that shows a variance from the Corporation's own calculation. However, the Corporation decided that such a stringent approach was not warranted because of limitations in the database it uses to make its calculations. For example, the database contains the number of students actually participating in the National School Lunch Program, rather than the number eligible to participate, which is the measure adopted by FCC. Moreover, the data are about a year old. Mindful of these limitations, the Corporation decided to establish some latitude in its review procedures for eligible discounts. Thus, the Corporation allows applications to pass unchallenged through its automated discount review if the requested discount level does not exceed a certain threshold of variance from the Corporation's own calculation. Applications that cross this threshold are flagged for manual review by a program official. Corporation officials stated that adopting this procedure was a reasonable business decision because the cost of manually reviewing all applications that showed any variance from the Corporation's own calculations would exceed the benefits gained.

We found in our initial review, however, that the Corporation had not performed a sound benefit-cost analysis to justify this business decision. We were concerned about this situation not only because of the need to enforce program rules for the sake of equity but also because the total amount of funding available during the program's first year was not enough to cover all of the applicants' requests for support. Providing funding for ineligible services or allowing inappropriate discount levels could result in some applicants' proper requests for support being denied.

The Corporation's review of a sample of 100 processed applications showed that 57 of them requested discount levels that varied from the Corporation's own calculation. After obtaining additional information for these 57 applications, the Corporation determined that at least 9 could not support their requested level of discounts. The dollar amount of these inappropriate discount requests totaled about

\$14,000 out of the approximately \$4.5 million in requested funding.

At the request of its independent accountants, the Corporation conducted a review of an additional sample. The Corporation selected 50 applications that requested \$100,000 or more in support. In this second sample, 39 of the 50 processed applications contained discount levels that varied from the Corporation's own calculation. The Corporation found that 6 of the 39 applications requested discounts that could not be validated. The funding that would have been awarded for these inappropriate discount levels totaled about \$35,000 out of approximately \$28.5 million in requested funding.

Having considered these results, Corporation officials decided that they did not need to change their procedures for reviewing requested discount rates for the first funding year. As before, they maintained that the amount of inappropriate funding in question was not large enough to warrant the time and cost of performing follow-ups on every application that showed any variation from the discount level calculated by the Corporation's automated check.

We remain concerned, however, that the amount of inappropriate discounts passing unchallenged through the review process, though relatively low now, could grow larger in subsequent funding years. We therefore believe that the Corporation needs to explore methods for mitigating this risk in a cost-beneficial manner. Aware of our continuing concern, the FCC Chairman directed the Corporation in November 1998 to work with FCC staff 'to establish a method for improving the procedures for ensuring that discounts are provided in accordance with the discount levels set forth in the Commission's rules.' "

Shaul, Marnie S. (August 1999). Report to the Chairman, Committee on Commerce, and the Chairman, Committee on Education and the Workforce, House of Representatives | Telecommunications Technology | Federal Funding for Schools and Libraries | GAO/HEHS-99-133. United States General Accounting Office. Retrieved from <www.gao.gov/assets/230/227868.pdf> on 01 May 2015.

Summary: This letter and 76 page report was addressed to The Honorable Tom Bliley, Chairman, Committee on Commerce, House of Representatives and The Honorable William F. Goodling, Chairman, Committee on Education and the Workforce, House of Representatives.

"The nation's schools and libraries face a large bill for acquiring telecommunications and information technology. A 1996 study by the RAND Corporation estimated that providing a 'technology-rich' learning environment in every school would cost \$10 billion to \$20 billion per year. Another organization has estimated that U.S. schools are already spending more than \$5 billion a year on such efforts. In recent years, the Congress has provided increasing support, through a number of programs, for school and library efforts to acquire information technology, including computer hardware and software, wiring, Internet access, and teacher training. As the number of federal programs providing such aid has risen, questions have been raised about

the potential for duplication, which can waste scarce funds, confuse and frustrate program customers, and limit overall program effectiveness.

You asked that we review federally created or facilitated programs for helping schools and libraries with their telecommunications and information technology efforts. In September 1998, we testified before your Committees on the work we had conducted up to that time. As agreed with your offices, we have continued our work to compile a more complete response. The specific questions you asked us to address are shown in table 1. We are presenting brief answers to these questions in the body of this report and more detail in the appendixes."

"Background

Policymakers at the federal, state, and local levels have increasingly recognized that technology is becoming a central component of many jobs, changing the skills and knowledge needed to be successful in the **workplace**. The concern about the **academic competitiveness** of U.S. students, coupled with these changes in needed work skills, has heightened interest in integrating technology into the elementary and secondary curriculum in an effort to address both sets of needs. Schools have used a variety of funding sources to establish and support their technology programs. Some rely on state funding, while others use local tax moneys. Some private funding is also available, and federal funding sources also play a role in supporting technology. Our 1998 report on five school districts found that each used a combination of sources to fund its technology program.

In our previous work we determined that multiple federal agencies provide funds that schools or libraries can use to obtain technology. When more than one federal agency is involved in the same broad area of national need, this is referred to as mission fragmentation. While mission fragmentation and program overlap are relatively straightforward to identify, determining whether overlapping programs are actually duplicative requires an analysis of program goals, the means to achieve them, and the targeted recipients. This kind of analysis is consistent with the Government Performance and Results Act of 1993."

(No Author). (20 August 1999). Telecommunications Technology: Federal Funding for Schools and Libraries | HEHS-99-133. United States General Accounting Office. Retrieved from <<http://www.gao.gov/products/HEHS-99-133>> on 01 May 2015.

Summary: This GAO webpage provides the highlights from the Federal Funding for Schools and Libraries report listed above.

"Pursuant to a Congressional request, GAO reviewed federally created or facilitated programs for helping schools and libraries with their telecommunications and information technology efforts.

GAO noted that:

- GAO identified 35 federal programs in 8 agencies that could be used as a source of support for telecommunications and information technology by libraries or elementary and secondary schools in fiscal year (FY) 1998;
- 10 programs specifically targeted technology, while the remaining 25 included technology as one of many possible uses of funds;
- the 10 technology-targeted programs provided about \$650 million in FY 1998 and about \$1.7 billion in discounts from the universal service fund for January 1998 to June 1999; in 1997, 9 programs provided about \$343 million; and in 1996, 8 programs provided about \$102 million;
- for the 25 programs not primarily targeted to technology, expenditures for technology cannot be precisely determined because programs do not track how much they spend specifically for technology, according to program officials;
- with respect to funding award procedures, 22 programs use a competitive process, while 12 distribute funding on the basis of formulas and 1 program uses both methods;
- estimates of administrative expenses for the 35 programs in FY 1998 ranged from less than 1 percent to 15 percent and estimates of the number of federal and nonfederal full-time equivalent positions established to administer the programs ranged from less than 1 to nearly 200, depending on the program;
- while multiple agencies have responsibilities for managing programs in this area, based on GAO's review, GAO did not identify instances where two individual programs were providing identical services to identical populations--that is, had the same goals, the same activities or strategies to achieve them, and the same targeted recipients;
- programs typically shared some characteristics and differed in others;
- while focusing their efforts in different ways, both the Department of Education's Office of Education Technology (OET) and the White House Office of Science and Technology Policy (OSTP) have worked to coordinate federal education technology programs;
- OET's mission is to create policy and provide oversight for technology issues within Education and to participate in coordination activities and policy initiatives associated with education technology across the federal government and within the education community;
- in contrast, OSTP focuses on broad national science and technology goals, and facilitates the development and implementation of federal policies associated with these goals, including coordinating interagency efforts to develop and implement technology policies, programs, and budgets; and

- GAO did not identify information that indicates that fraud, waste, and abuse are systemic or widespread problems."

(No Author). (December 2000). Report to the Subcommittee on Commerce, Justice, State, the Judiciary, and Related Agencies, Committee on Appropriations, U.S. Senate | Schools and Libraries Program | Application and Invoice Review Procedures Need Strengthening | GAO-01-105. United States General Accounting Office. Retrieved from <www.gao.gov/assets/230/229910.pdf> on 16 April 2015.

Summary: This 73 page GAO report is addressed to "The Honorable Judd Gregg, Chairman and The Honorable Ernest F. Hollings, Ranking Minority Member of the Subcommittee on Commerce, Justice, State, the Judiciary, and Related Agencies, Committee on Appropriations, U.S. Senate."

"In June 1999, you directed us to review several additional aspects of the program as it neared the beginning of its third year. Specifically, this report discusses four issues:

- (1) the amount of E-rate funding requested by applicants, the amount of funds committed to them, and the amount of committed funds they actually used;
- (2) whether E-rate funds have been committed to products and services that are ineligible for support under the program's rules;
- (3) whether the administrative costs of the program are increasing and how they compare with those of other federal programs; and
- (4) FCC's progress in establishing performance goals and measures for the program."

"Results in Brief

The amount of annual E-rate funding requested by schools and libraries almost doubled from \$2.4 billion in 1998 to an estimated \$4.7 billion in 2000. For the first 2 program years (1998 and 1999), SLD committed a total of \$3.7 billion in E-rate funding to applicants. However, at least \$1.3 billion (35 percent) of the funds committed in these two years had not been paid out as of the end of August 2000, even though FCC extended its deadlines for applicants to use their funds. Although funding commitments for the third program year were not complete at the end of August 2000, about \$1.5 billion had already been committed, and SLD estimated that it would be committing an additional \$600 million.

Weaknesses in SLD's E-rate application review process resulted in commitments of funds for ineligible products and services. We reviewed 44 second-year applications that received funding commitments for internal connections - the type of service most likely to include ineligible items. After screening out \$20 million from requests that included ineligible items, SLD committed \$285 million in E-rate funds to these applications for internal connections. However, we found that SLD reviewers failed to identify other ineligible items, resulting in at least \$6 million in funding errors. This

amount understates the extent of the problem because it does not include cases in which we found funds mistakenly committed for ineligible items whose costs could not be determined from the application materials. Also, it does not include the costs of other items whose eligibility was questionable but could not be resolved using the application materials and current review criteria. We traced these funding commitment mistakes and problems to procedural errors, unclear review criteria, and a lack of sufficient information in some applications for reviewers to determine the eligibility of questionable items. In addition, we found that SLD's process for reviewing invoice forms prior to disbursing committed funds provides another opportunity to identify ineligible items. However, the invoice review process requires applicants to submit much less information than found on their applications and involves less comprehensive reviews. An independent auditor hired by SLD has uncovered preliminary evidence that some program funds were spent on ineligible services after clearing SLD's application and invoice reviews. We are making recommendations to further improve SLD's ability to identify and deny funding for ineligible products and services. After reviewing a draft of this report, FCC and USAC said they had begun to implement the recommendations and had already completed action on some of them."

"Until recently, the E-rate program lacked meaningful performance goals and measures as defined by the Government Performance and Results Act of 1993. FCC's initial goals focused on increasing the percentage of school buildings connected to the Internet, but these connectivity goals were much lower than the percentage of schools already connected. In September 2000, FCC finalized new goals and measures that focus on Internet connections to classrooms. Unlike the old goals, these properly reflect the percentage of classrooms already connected. The new goals including having 100 percent of public school instructional classrooms connected to the Internet by 2002 and 95 percent of private school instructional classrooms connected by 2003. The plan also seeks to improve participation in the E-rate program by urban low-income school districts located outside of towns, as well as rural libraries and libraries service small populations. According to FCC data, the participation rates for these groups currently fall below the average rates of participation for all groups of applicants."

"Background

Universal service traditionally has meant providing residential customers with nationwide access to basic telephone service at reasonable rates. The Telecommunications Act of 1996, however, broadened the scope of universal service, in part by extending universal service support to include eligible schools and libraries. The new program (often referred to as the 'e-rate' program) is designed to improve schools' and libraries' access to advanced telecommunications and information services.

The Telecommunications Act of 1996 did not prescribe to FCC a structure for administering the program. In 1997, FCC directed the establishment of the Schools and Libraries Corporation as a not-for-profit organization working within the framework of FCC orders and rules to carry out the program's day-to-day operations, such as processing and reviewing E-rate applications. In November 1988, FCC changed the program's administrative structure in response to legal

concerns about FCC's authority to create a corporation and the Congress' directive that a single entity should administer the E-rate program and a related program that provides telecommunications support to rural health care providers. FCC appointed an existing body, the Universal Service Administrative Company (USAC), as the permanent administrator of the program and directed the Schools and Libraries Corporation to merge with USAC by January 1, 1999. Under this merger, the Corporation's staff became part of a new USAC unit called the Schools and Libraries Division (SLD), carrying out essentially the same functions as before. In this report, we will refer to SLD when discussing operational issues associated with the program. FCC retains responsibility for overseeing the program's operations and ensuring compliance with its orders. Among other things, FCC reviews USAC's budget, makes E-rate policy decisions as needed, and handles appeals about funding decisions that are not resolved by SLD in favor of the applicant." (See page 7 for the related footnotes.)

(No Author). (15 December 2000). Schools and Libraries Program: Application and Invoice Review Procedures Need Strengthening | GAO-01-105. United States General Accounting Office. Retrieved from <<http://www.gao.gov/products/GAO-01-105>> on 18 April 2015.

Summary: Provides the highlights of the GAO-01-105 report listed above as well as recommendations for Executive Action and the status of those actions by the affected agency.

"The Telecommunications Act of 1996 expanded the concept of universal telephone service to include telecommunication support services for eligible schools and libraries. Under this program, called the "e-rate program," schools and libraries can apply for discounts on telecommunications services, Internet access, and internal connections. GAO found that the Universal Service Administrative Company's (USAC) Schools and Libraries Division (SLD) committed more than \$3.7 billion to applicants during the 1998 and 1999 program years. However, a significant amount of this money has not yet been paid out, even though the deadlines for applicants and vendors to use the funds has been extended more than once. In addition, more funding would be available for eligible requests if SLD's review procedures were more effective at identifying and denying ineligible requests. Despite procedures requiring reviewers to deny funding for ineligible items and to confirm that conditionally eligible services are being used according to program rules, GAO identified millions of dollars in funds incorrectly committed to ineligible products and services. Finally, SLD's practice of approving most vendors' invoices without reviewing how and where the committed funds are actually being spent leaves the program vulnerable to further funding errors and potential abuse."

Czerwinski, Stanley J. (11 May 2001). Report to the Subcommittee on Commerce, Justice, State, the Judiciary, and Related Agencies, Committee on Appropriations,

Summary: "Schools and libraries do not receive funding directly from the program. The committed funds are held by USAC, which reimburses vendors directly for the discounted portion of the e-rate-approved services that they provide. In accordance with its internal control procedures, SLD will not approve payments of committed funds until (1) the applicant submits a form certifying that it has begun to receive e-rate-supported services from its vendor and (2) the vendor or the applicant has filed an invoice form requesting reimbursement for these services. Once SLD reviews these forms and approves payment, USAC disburses program funds to the vendors.

In our December 2000 report on e-rate issues, we included data on the amount of program funds requested, committed, and approved for payment during the first 2 program years (1998 and 1999), broken out by state. Funding commitments for the third program year (2000) were not yet available because SLD and FCC had not finished making all of their commitment decisions at the time we concluded our review. After subsequent discussions with Subcommittee staff, we agreed to provide state-level data on (1) the amount of funds requested and committed for all 3 program years and (2) an update on the amount of committed funds approved for payment during the first 2 program years. In addition, we have included a preliminary estimate of the amount of e-rate funding requested for the fourth program year (2001)."

"Results in Brief

Requests for e-rate support have increased steadily from year to year since program funding began in 1998. For the third and fourth program years, total requests greatly exceeded the program's current annual funding cap of \$2.25 billion. For the third program year (2000), the requests exceeded \$4.2 billion. Although SLD had sufficient e-rate funds to support all valid requests for telecommunications services and Internet access for the third year, it could not support requests for internal connections from applicants with discount levels of 81 percent or lower, leaving nearly \$2 billion of the \$3.2 billion requested for internal connections unfunded. For the fourth program year (2001), SLD estimates that applicants requested nearly \$5.2 billion in program funds as of April 17, 2001. This estimate is subject to change as SLD reviews applications to eliminate invalid requests and accepts additional applications postmarked before the deadline. However, it appears that a large proportion of the nearly \$3.5 billion in internal connection requests may go unfunded.

Data from January 2001 indicate that more than \$880 million (24 percent) of the \$3.7 billion committed to applicants for the first 2 program years remains unused. This is a decrease from \$1.3 billion in unused funds (35 percent) at the end of August 2000. Funds that are committed, but unused, are held by USAC in interest-bearing accounts pending requests for reimbursements. FCC and SLD have taken steps to reduce the mount of committed funds that go unspent, including canceling the funding commitments of second-year applicants that have not confirmed that they have begun receiving services associated with these funds. Commenting on a draft of this report, FCC's Managing Director agreed with our analysis and provided some

updated information. For example, FCC stated that as of April 2001, the amount of unused funds had decreased further to \$774 million. USAC's Chief Executive Officer commented that our report provides a useful update, and she also clarified USAC's policy on how it maintains its data. Copies of FCC's and USAC's comments are included in appendix II."

"Demand for E-rate Support is Exceeding the Program's Funding Cap

Table 1 summarizes the funding requests for the first 3 program years at the national level. (Detailed state-level tables providing data on funding for each program year are found in app. I). SLD's data indicate that applicants requested more than \$2.3 billion in discount funding in the first program year. Because FCC set the first-year funding level at \$1.925 billion, not all of the requests could be funded. In accordance with FCC's funding priorities, SLD first committed funds to all valid requests for telecommunications and Internet access, and it then committed the remaining funds to valid internal connections requests from applicants with discount levels of 70 percent or higher. During the second program year (1999), FCC raised the funding level to the full \$2.25 billion allowed under the cap. After screening out approximately \$700 million in ineligible requests, SLD found that it had more than enough funds to approve all of the valid requests it received before the initial application deadline. Thereafter, FCC directed SLD to reopen the second-year application period so that the remainder of the funds could be used. In the third program year (2000), applicants requested more than \$4.2 billion in discount funding. Although the amount of funds requested for all categories of service increased from the previous program years, most of the additional funding requests were for internal connections. Because the program's annual funding cap remained at \$2.25 billion, SLD again approved requests using the funding priority rules. SLD was able to fund all eligible requests for telecommunications and Internet access, but it could fund internal connections requests only from applicants with discount levels of 82 percent or higher.

For the fourth program year (2001), requests have again increased significantly. SLD's preliminary estimates indicate that applicants have requested almost \$5.2 billion in program funds. As shown in table 2, applicants requested about \$1.7 billion for telecommunications and Internet access. Under the current cap, this leaves only \$517 million from which to fund internal connections requests and other program needs –far less than the nearly \$3.5 billion requested by applicants for this purpose. Although these figures may change as SLD accepts additional valid applications and excludes ineligible requests, it appears likely that there will be insufficient funds to cover the \$1.6 billion in internal connections support requested by applicants in the highest priority level (i.e., those with a 90 percent discount level). According to FCC's priority rules, if the remaining funds are not sufficient to support all of the funding requests within a particular discount level, the total amount of remaining support available is to be divided by the amount of support requested within the particular discount level to produce a pro rata factor. The support level for each applicant within the particular discount level is then reduced by the amount derived from multiplying each applicant's requested amount of support by the pro-rata factor. SLD officials said that FCC is also considering other prioritization options."

"A Significant Amount of Funds Remain Uncommitted

Although demand for program funds has been high, our December 2000 report noted that a significant portion of the funds committed for the first and second program years (1998 and 1999) remained unused. Specifically, as of August 31, 2000, at least 35 percent (\$1.3 billion) of the \$3.7 billion in program funds committed to applicants for these years had not yet been approved for payment. As table 3 below shows, this situation has improved somewhat, with the balance of unused funds decreasing to 24 percent (\$885 million) as of January 2001. According to FCC, as of April 24, 2001, \$774 million in committed funds remained unspent. Most of the decrease is due to additional disbursements of funds committed for the second program year. More of the unused funds may still be disbursed because, under certain circumstances, vendors can request payment for services until September 2001. USAC holds the unused, committed funds in interest-bearing accounts.

In our December report, we noted that FCC and SLD had not conducted a comprehensive analysis to determine why this situation was occurring. FCC and SLD officials recently told us that they have taken several steps to address this situation, including implementing new policies to provide applicants with flexibility to change service providers or modify the services originally requested. Also, they said that they have established new deadlines for notification of the receipt of services and for submitting invoices. If these deadlines are not met, SLD will recapture the committed funds. For example, in January 2001, SLD sent letters to applicants that had not confirmed that they were receiving services for second-year funding commitments. The letters stated that if the applicants did not confirm by February 15, 2001, that they had begun receiving these services, their funding commitments would be automatically cancelled. According to SLD, these cancellations will make more money available to second-year applicants that submitted requests after the initial application deadline. FCC still needs to determine whether changes to program rules and procedures are needed to address the difficulties that applicants maybe having in using committed funds in a timely manner, as recommended in our December 2000 report."

(No Author). (11 May 2001). Schools and Libraries Program | Update on E-rate Funding | GAO-01-672. United States Government Accountability Office. Retrieved from <<http://www.gao.gov/products/GAO-01-672>> on 02 May 2015.

Summary: This information on the GAO website summarizes the highlights of the report, GAO-01-672, listed above.

"The Telecommunications Act of 1996 expanded the traditional definition of universal service--affordable, nationwide telephone service--to include eligible schools and libraries. The act authorized the Federal Communications Commission (FCC) to begin a program to help these institutions acquire advanced telecommunications services. Under FCC's program, often referred to as the 'e-rate' program, schools and libraries can receive discounts from the vendors on the cost of eligible telecommunications services, Internet access, and internal connections. FCC appointed the Universal Service Administrative Company (USAC) as the program's permanent administrator,

although FCC retains responsibility for overseeing the program's operations and ensuring compliance with its rules. USAC's Schools and Libraries Division (SLD) is responsible for carrying out the program's day-to-day operations. Schools and libraries do not receive funding directly from the program. The committed funds are held by USAC, which reimburses vendors directly for the discounted portion of the e-rate approved services that they provide. This report provides information on: (1) the amount of funds requested and committed for all three program years (1998-2000) and (2) the result of FCC and SLD's steps to reduce the amount of committed funds that go unspent. GAO found that requests for e-rate support have risen steadily each year since program funding began in 1998. For the third and fourth program years, total requests greatly exceeded the program's current annual funding cap of \$2.25 billion. For the third program year (2000), the requests exceeded \$4.2 billion. Although SLD had sufficient e-rate funds to support all valid requests for telecommunications services and Internet access for the third year, it could not support requests for internal connections from applicants with discount levels of 81 percent or lower, leaving nearly \$2 billion of the \$3.2 billion requested for internal connections unfunded. For the fourth program year (2001), SLD estimates that applicants requested nearly \$5.2 billion in program funds as of April 2001. However, it appears that a large proportion of the nearly \$3.5 billion in internal connection requests may go unfunded. Data from January 2001 indicate that more than \$880 million (24 percent) of the \$3.7 billion committed to applicants for the first two program years remains unused. This is a decrease from \$1.3 billion in unused funds (35 percent) at the end of August 2000. GAO also found that FCC and SLD have taken steps to reduce the amount of committed funds that go unspent, including canceling the funding commitments of second-year applicants that have not confirmed that they have begun receiving services associated with these funds."

Feaster III, Walker H. (01 April - 30 September 2003). Office of Inspector General Semiannual Report to Congress. Office of Inspector General | Federal Communications Commission. Retrieved from <<https://transition.fcc.gov/oig/SAR93003.pdf>> on 09 June 2015.

Summary: "Oversight of the Universal Service Fund (USF)
Beginning with our semi-annual report for the period ending March 31, 2002, we have included a section on oversight of the Universal Service Fund (USF). We decided that it was necessary to highlight our efforts to provide oversight of the USF to ensure that report recipients and other constituents clearly understood our concerns about this program. We have also used this section of the semi-annual report to discuss our specific efforts to provide oversight and to identify obstacles to the effective implementation of our oversight program.

I am pleased to report that we have continued to make progress implementing oversight of the USF during this semi-annual reporting period. In this semi-annual report, we provide a brief background on our efforts implementing oversight of USF, an update on oversight activity during the reporting period, and comments on those areas of the program where we have concerns as a result of our involvement in audits and investigations.

History of USF Oversight

Due to materiality and audit risk, we have focused much of our interest on the USF mechanism for funding telecommunications and information services for schools and libraries, also known as the "Schools and Libraries Program" or the "E-rate" program. Pursuant to the Telecommunications Act of 1996 (the Act), Congress directed the Commission to create a universal service support mechanism for schools and libraries (Schools and Libraries Program), which was designed to ensure that all eligible schools and libraries have affordable access to modern telecommunications and information services. On May 7, 1997, the Commission adopted an order implementing the Act. Up to \$2.25 billion annually is available to provide eligible schools and libraries with discounts for authorized services.

Eligible schools and libraries may receive discounts on eligible telecommunication services ranging from 20 percent to 90 percent, depending on economic need and urban or rural location. The level of discount is based upon the percentage of students eligible for the National School Lunch Program or other federally approved alternative mechanisms contained in the Improving America's Schools Act. Libraries use the discount percentage of the school district in which they are located. Discounts can be applied to commercially available telecommunications services, Internet access, and internal connections. Eligible services range from basic local and long distance telephone services and Internet access services to the acquisition and installation of equipment for providing internal connections to telecommunications and information services. Over 40,000 applications were submitted during each of the program's first five program years (1998 – 2002) from schools and libraries in each of the 50 states, the District of Columbia and most territories.

Although independent oversight of the USF program is the responsibility of the FCC OIG, much of the oversight activity that has been performed to date has been performed under the direction of the Universal Service Administrative Company (USAC) and FCC management as part of the oversight program that they have established in accordance with Commission rules.

USAC Oversight

In 2000, USAC contracted with a public accounting firm to conduct audits of eighteen (18) beneficiaries of funding from the first year of the Schools and Libraries program that were identified as potentially high-risk. E-rate disbursements to these beneficiaries totaled \$134.6 million in the first year of the program. The report prepared by the public accounting firm that conducted these audits was adopted by the USAC Board of Directors on October 17, 2001. The audit report disclosed weaknesses at many of the beneficiaries and questioned approximately \$8 million in funding disbursements. Several million dollars in questioned disbursements will not be recovered due to a rule waiver issued by the Commission and determinations of non-materiality. As of the end of this semi-annual reporting period, USAC has recovered \$280,362 in questioned disbursements resulting from this audit. During October 2003, USAC issued recovery letters for an additional \$45,993. In addition to the audit findings, this audit resulted in an investigation with representatives from the Federal Bureau of Investigation (FBI) and Office of Inspector General lending support. The matter has been referred as a civil false claims suit to the Department of Justice.

where it remains under consideration.

In 2001, USAC contracted with a public accounting firm to conduct audits at twenty-five (25) beneficiaries from the second and third funding years. E-rate disbursements to these beneficiaries totaled \$322.0 million in the second and third funding years of the program. The draft report prepared by the public accounting firm that conducted these audits was dated May 31, 2002. The final report, including responses from the USAC Schools and Libraries Division, was released by the Schools and Libraries Committee of the USAC Board of Directors on April 23, 2003. The audit report disclosed monetary findings at fourteen (14) of the twenty-five (25) beneficiaries including \$11.4 million dollars in inappropriate disbursements and unsupported costs. In addition, the report identified findings at many of the beneficiaries where there are no monetary findings. As of the end of this semi-annual reporting period, USAC has recovered \$1,927,579 in inappropriate disbursements and unsupported costs and initiated recovery actions for \$1,353,741, of which \$709,013 is under appeal. During October 2003, USAC initiated recovery actions for an additional \$1,078,851. USAC has indicated that they will be issuing recovery letters for an additional \$6,980,290.

In December 2002, USAC established a contract with a public accounting firm to perform agreed-upon procedures at a sample of seventy-nine (79) beneficiaries from funding year 2000. The sample of beneficiaries was selected by the OIG. In a departure from USAC's two previous E-rate beneficiary audits, the agreed-upon procedures being performed under this contract will be performed in accordance with both the Attestation Standards established by the American Institute of Certified Public Accountants (AICPA) Standards and Generally Accepted Government Auditing Standards, issued by the Comptroller General (GAS 1994 revision, as amended) (GAGAS)."

"Concerns about the E-rate Program

Since we became involved in USF oversight in 2000, we have devoted considerable resources to oversight of this program, focusing primarily on E-rate spending. We have conducted audits and evaluated the results of audits conducted by others, supported numerous federal, state, and local investigations, and examined the program for purposes of planning effective oversight. I believe that the work that we have performed provides us with a unique perspective on fraud, waste and abuse in the E-rate program. In my last three semiannual reports, I have discussed aspects of the program where we have concerns as a result of our involvement in audits and investigations. In some cases, these concerns represent non-compliance with program rules. In other cases, these concerns relate to areas of the program where requirements have not been codified as program rules. The four areas are as follows:"

Technology Planning

Competitive Procurement

Discount Calculation and Payment of the Non-Discount Portion

Delivery of Goods and Services

"Management Issues

In addition to issues related to the E-rate program, we have continued to explore issues related to efficient and effective management of the fund. These issues

include strengthening the nature of the relationship between the Commission and USAC, addressing concerns of Commission financial operations related to USF fund management, and use of the USF to pay for the cost of OIG oversight.

USAC administers the USF at the direction of the Commission. Part 54 of Title 47 of the Code of Federal Regulations (47CFR54) defines the relationship between the Commission and USAC. However, numerous functions, particularly in the area of financial management and oversight, are performed voluntarily by USAC under undocumented, oral agreements. On September 26, 2003, the Commission adopted an order amending Commission rules governing certain financial reporting and auditing requirements applicable to the Universal Services Fund and the Telecommunications Relay Services (TRS) Fund. The amended rules require the Administrators of the Funds, including USAC, to prepare financial statements for the Funds consistent with generally accepted accounting principles for federal agencies (Federal GAAP) and to keep the Funds in accordance with the United States Government Standard General Ledger (USGSL). In addition, the amended rules require fund Administrators to conduct audits of the Funds pursuant to generally accepted government auditing standards. This order addresses some of the issues that have complicated financial management and fund oversight. However, it is our opinion that fund management could be further strengthened by continuing to formalize the relationship between the Commission and USAC.

In addition to addressing the relationship between USAC and the Commission, we have been considering issues regarding financial management of the USF. Based on our knowledge of USF financial management matters, it is our opinion that fund management would benefit from the additional control it would be afforded if it were maintained in an account managed by the Department of the Treasury.

The last management issue relates to use of the fund to pay for the cost of OIG oversight. Currently, the Commission does not have the authority to use USF funds to pay for the FCC's cost of administering the fund, including the costs associated with providing oversight. In my last three semi-annual reports, I have reported the lack of resources as an obstacle to implementation of effective and independent program oversight. While we are hopeful that appropriated funding will be available in FY 2004, we remain convinced that the best solution for ensuring that adequate resources for program oversight are available would be accomplished by using the fund to pay for OIG oversight. We believe that these issues should be explored further. We will continue to encourage their consideration in discussions with FCC management and other appropriate officials."

"Conclusion

The Office of Inspector General remains committed to providing effective oversight of the Universal Service Fund program. As we begin FY 2004, we are continuing to implement the oversight program that we have designed. The Commission's FY 2004 budget estimate to Congress included \$3 million "to support the agency efforts to prevent waste, fraud and abuse within Commission programs." The Commission's Managing Director has advised us that all of this funding is intended for USF oversight by the OIG. We anticipate using this funding to have contract resources conduct an audit of a statistical sample of E-rate funding recipients that will enable us to achieve both attribute and variable estimation results (i.e., both percentage and

dollar value of improper payments identified during the audit process) with a high degree of confidence. In addition, we intend to conduct audits of selected funding recipients based on identified risks and other criteria. We will also explore expanding our audit coverage to include service providers (vendors of goods and services) that participate in the program, as well as the applicants (schools and libraries). In addition to audits, we anticipate using contract resources to provide audit support to a number of on-going investigations. To date, the OIG has provided audit support to a number of these investigations with OIG staff, detailed auditors, and in teaming arrangements with USAC internal audit. The availability of appropriated funding for contractor support will enable us to enhance our investigative support capability. We are hopeful that we will be able to fully implement the oversight program that we have designed during FY 2004. However, despite the positive developments during this reporting period and the likelihood of funding for this fiscal year, our position remains as we have previously stated - until such time as resources and funding are available to provide adequate oversight for the USF program, we are unable to give the Chairman, Congress and the public an appropriate level of assurance that the program is protected from fraud, waste and abuse."

Jackson, Charmaine. (09 March 2004). CRS Report for Congress | The E-Rate Program: Universal Service Fund Telecommunications Discounts for Schools. Library of Congress | Congressional Research Service. Retrieved from <http://www.ipmall.info/hosted_resources/crs/RL32018_040309.pdf> on 21 July 2015.

Summary: This report explains the history of the E-rate Program, how it operates and includes information on the issues of fraud, abuse, oversight, and committed but unused funds.

"Selected Issues

Fraud and Abuse: There has been much written lately about fraud and abuse within the E-rate program. The Center for Public Integrity authored a report entitled Phone Fund for Schools, Libraries Riddled with Fraud, in which E-rate was described as being 'honeycombed with fraud and financial shenanigans.' The Inspector General (IG) for the FCC conducted an investigation in which they noted errors ranging from regulatory non-compliance to computational errors, all of which resulted in approximately \$8 million being erroneously disbursed (Federal Communications Commission, Office of Inspector General, Semiannual Report, October 31, 2002).

In 2002, federal prosecutors filed criminal charges against Connect2 Internet Networks, Inc. alleging that the owner of the company and three employees conspired to defraud the program of several million dollars. The complaint states that the defendants persuaded administrators from schools with the highest need (those that qualify for a 90% telecommunications services discount) to purchase expensive equipment and told them that a foundation would pay the remaining 10% - the school's required percentage. As a result, several administrators reportedly

purchased equipment that was significantly more expensive than what they would have purchased if they had to pay a portion of the bill. By doing this, it was charged that Connect2 was able to sell large quantities of equipment and services to schools with little to no restriction on the amount they charged."

"Oversight: The E-rate program has very few resources dedicated to oversight of the program. In the referenced report by the FCC's IG, it was noted that lack of funds was a significant problem for program oversight. Specifically, the report states that the FCC is unclear whether it possesses the authority to utilize funds from the Universal Service Fund for oversight. At present, the funds are solely dedicated to discounts and administrative costs. Although additional funds have been requested for oversight for FY2004, the IG predicted that absent additional funding for FY2003, the only service that office could render would be investigative support. In the report, the IG states that the Universal Service Fund is 'subject to unacceptable high risks of malfeasance through noncompliance and program weaknesses.' Furthermore, the report maintains that without additional resources the IG cannot guarantee 'any level of assurance that the program is protected from fraud, waste and abuse.' "

In addition to the lack of oversight, the program does not have suspension or debarment authority. The current rules do not authorize the USAC to suspend or debar entities (beneficiaries or service providers) for noncompliance or other program related abuses. FCC is currently considering rules that would enable chronic abusers to be suspended or disbarred from the program."

"Committed but Unused Funds: The General Accounting Office (GAO) issued a report, Schools and Libraries Program: Application and Invoice Review Procedures Need Strengthening (December 2000), that indicates several million dollars remain to be spent from earlier funding cycles. Specifically, as of August 2000, \$1.3 billion of committed funds still had not been used. The GAO report alludes to the reliance on deadline extensions as part of the reason the funds have not been used. During the first two funding cycles - because of late notification of funding commitments- SLD extended the deadline on more than one occasion for applicants to use the funds committed to them. In addition to the extensions, SLD does not authorize payments for services and equipment until the applicant certifies that they have in fact received the E-rate supported services, and the provider submits an invoice for the services. At the time of the audit, several applicants had not certified receipt of services and/or the provider had not submitted an invoice to the SLD.

In June 2002, the FCC issued an order that allows funds that have been previously authorized to schools and libraries for discounted services and equipment, but have not been allocated or claimed, to be carried over for disbursement in subsequent years. The order eliminates the problem of unused funds, and it increases the amount of money available for additional discounts."

Feaster III, Walker H. (17 June 2004). Problems with the E-rate Program: Waste, Fraud, and Abuse Concerns in the Wiring of Our Nation's Schools to the Internet. Federal Communications Commission Office of the Inspector General. Retrieved

from <https://transition.fcc.gov/oig/Oral_Statement.pdf> on 07 May 2015.

Summary: "Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to come before you today to discuss oversight of the E-rate Program and to discuss concerns that my office has with the program as a result of our involvement in audits and investigations. In my testimony, I will briefly summarize my office's involvement in USF oversight, discuss our specific actions with respect to the Puerto Rico Department of Education's, or PRDOE's, involvement in the E-rate Program, and describe in more general terms concerns my office has regarding the program."

"I believe that it is particularly timely that we meet now to discuss waste, fraud and abuse in the E-rate program given recent events and media interest.

- In November 2003, Florida Today and WKMG Channel 6 in Orlando, Florida published a series of reports describing questionable spending of E-rate funding by the Brevard County School District.

- In April 2004, five individuals were indicted in connection with charges of conspiracy, mail fraud, and money laundering involving the E-rate program. The indictment charges that USAC paid these individuals over \$1.2 million dollars for goods and services that were not provided to the schools.

- Last month NEC-Business Network Solutions Inc. agreed to plead guilty and to pay a total \$20.6 million criminal fine, civil settlement and restitution today relating to charges of collusion and wire fraud in the E-Rate program. NEC/BNS was charged with rigging bids, wire fraud, inflating bids, agreeing to submit false and fraudulent documents to hide the fact that it planned on installing ineligible items, agreeing to donate 'free' items that it planned to bill E-rate for, and submitting false and fraudulent documents to defeat inquiry into the legitimacy of the funding request.

Also last month, the Atlanta Journal-Constitution (AJC) ran a series of articles reporting wasteful spending of E-rate funding by the Atlanta Public School system. The Atlanta Journal Constitution reported that the Atlanta Public School system bought more equipment than it needed, routinely overpaid for goods and services, and stored unused network equipment worth about \$4.5 million in warehouses."

"Background

My office first looked at the USF as part of our audit of the Commission's FY 1999 financial statement. Since that time, my office has continued to devote considerable resources to oversight of the USF, and the E-rate program in particular; however, several obstacles have impeded our ability to implement effective, independent oversight of the program.

The primary obstacle we have dealt with has been a lack of adequate resources to conduct audits and provide audit support to investigations. We have requested appropriated funding to obtain contract support for USF oversight activities, but those funding requests are yet to be approved. I am presently able to devote three auditors full time and two auditors part time to the USF. Despite these limited resources, my office has implemented an independent oversight program that

includes audits conducted using both internal resources and other federal Offices of Inspector General under reimbursable agreements; review of audit work conducted by USAC; and active participation in federal investigations of E-rate fraud. In addition to further audits of compliance, I believe it would be appropriate to conduct a broad-based review of the program."

"Puerto Rico Department of Education

I would like to briefly discuss allegations that my office received regarding wrongdoing related to PRDOE's involvement in the E-rate program and programmatic concerns that are highlighted by PRDOE.

In April 2001, my office was contacted by an auditor from the Office of the Comptroller of Puerto Rico, who alleged wrongdoing by PRDOE related to the receipt of E-rate funding. The allegations were that PRDOE did not comply with state and local procurement regulations during the E-rate vendor selection process and that PRDOE had not secured access to all the resources, such as teacher training and electrical infrastructure at the schools, necessary to make effective use of the goods and services being provided.

Based on information we gathered and reviewed in a preliminary investigation, we referred this matter to Federal law enforcement on May 31, 2001. That investigation is on-going and we are continuing to provide support to the investigation as warranted."

"Concerns with the E-rate Program

The Puerto Rico matter highlights several concerns that my office has with this program. These concerns include a lack of timely and effective resolution for audit findings from E-rate beneficiary audits, inadequacies in the competitive procurement requirements, effective use of purchased goods and services, and inadequacies in applicant certifications regarding compliance with program requirements.

Program rules require that applicants use a competitive procurement process to select vendors. We question whether the rules are adequate to ensure a competitive process is followed. In addition, weak recordkeeping requirements to support the procurement process, as well as other aspects of the E-rate application, offer little protection to the program.

Site visits to PRDOE facilities have verified that the schools had neither the physical infrastructure to support the system that was planned nor appropriate equipment and training to effectively use the E-rate funded system. Additionally, some assets purchased with E-rate funding are yet to be installed in Puerto Rican schools. These conditions exist despite PRDOE certifications that they were prepared to make effective use of the goods and services purchased with E-rate funds. The E-rate program is heavily reliant on applicant certifications, in lieu of independent verification.

In addition to concerns that are highlighted by PRDOE, my office has identified other concerns as a result of audits and investigations. USAC has implemented numerous procedures to administer the E-rate Program. The Commission has formally adopted some, but not all, of the USAC operating procedures. We believe that this

distinction between program rules and USAC implementing procedures represents a weakness in program design and we believe that this situation contributes to confusion regarding the rules governing the program."

"The Office of Inspector General remains committed to meeting our responsibility for providing effective independent oversight of the USF and we believe we have made significant progress. However, until resources and funding are available to provide adequate oversight for the program, I am unable to provide assurance that the program is protected from fraud, waste and abuse."

(No Author). (08 February 2005). Report to the Chairman, Committee on Energy and Commerce, House of Representatives | Telecommunications | Greater Involvement Needed by FCC in the Management and Oversight of the E-Rate Program | GAO-05-151. United States Government Accountability Office. Retrieved from <www.gao.gov/new.items/d05151.pdf> on 16 April 2015.

Summary: "What GAO found

FCC established the E-rate program using an organizational structure unusual to the government without conducting a comprehensive assessment to determine which federal requirements, policies, and practices apply to it. The E-rate Program is administered by a private, not-for-profit corporation with no contract or memorandum of understanding with the FCC, and program funds are maintained outside of the U.S. Treasury, raising issues related to the collection, deposit, obligation, and disbursement of the funding. While FCC recently concluded that the Universal Service Fund constitutes an appropriation and is subject to the Antideficiency Act, this raises further issues concerning the applicability of other fiscal control and accountability statutes. These issues need to be explored and resolved comprehensively to ensure that appropriate governmental accountability standards are fully in place to help protect the program and the fund from fraud, waste, and abuse.

FCC has not developed useful performance goals and measures for assessing and managing the E-rate program. The goals established for fiscal years 2000 through 2002 focused on the percentage of public schools connected to the Internet, but the data used to measure performance did not isolate the impact of E-rate funding from other sources of funding, such as state and local government. A key unanswered question, therefore, is the extent to which increases in connectivity can be attributed to E-rate. In addition, goals for improving E-rate program management have not been a feature of FCC's performance plans. In its 2003 assessment of the program, OMB noted that FCC discontinued E-rate performance measures after fiscal year 2002 and concluded that there was no way to tell whether the program has resulted in the cost-effective deployment and use of advanced telecommunications services for schools and libraries. In response to OMB's concerns, FCC is currently working on developing new E-rate goals.

FCC's oversight mechanisms contain weaknesses that limit FCC's management of

the program and its ability to understand the scope of any waste, fraud, and abuse within the program. According to FCC officials, oversight of the program is primarily handled through agency rule making procedures, beneficiary audits, and appeals decisions. FCC's rule makings have often lacked specificity and led to a distinction between FCC's rules and the procedures put in place by the program administrator - a distinction that has affected the recovery of funds for program violations. While audits of E-rate beneficiaries have been conducted, FCC has been slow to respond to audit findings and make full use of them to strengthen the program. In addition, the small number of audits completed to date do not provide a basis for accurately assessing the level of fraud, waste, and abuse occurring in the program, although the program administrator is working to address this issue. According to FCC officials, there is also a substantial backlog of E-rate appeals due to part to a shortage of staff and staff turnover. Because appeal decisions establish precedent, this slowness adds uncertainty to the program."

"Why GAO did this study

Since 1998, the Federal Communication Commission's (FCC) E-rate Program has committed more than \$13 billion to help schools and libraries acquire Internet and telecommunications services. Recently however, allegations of fraud, waste, and abuse by some E-rate Program participants have come to light. As steward of the program, FCC must ensure that participants use E-rate funds appropriately and that there is managerial and financial accountability surrounding the funds. GAO reviewed (1) the effect of the current structure of the E-rate program on FCC's management of the program, (2) FCC's development and use of E-rate performance goals and measures, and (3) the effectiveness of FCC's oversight mechanisms in managing the program.

To strengthen FCC's management and oversight of the E-rate Program, we are recommending that FCC (1) determine comprehensively which federal accountability requirements apply to E-rate; (2) establish E-rate performance goals and measures; (3) take steps to reduce the backlog of beneficiary appeals. In response, FCC stated that it does not concur with (1) because it maintains it has done this on a case by case basis. We continue to believe the major issues remain unresolved. FCC concurs with (2) and (3), noting that it is already taking steps on these issues."

Gilroy, Angele A. (04 March 2005). Telecommunications Discounts for Schools and Libraries: The "E-Rate" Program and Controversies. Library of Congress | Congressional Research Service. Retrieved from <http://www.ipmall.info/hosted_resources/crs/IB98040_050304.pdf> on 21 July 2015.

Summary: This 20 page CRS Brief for Congress contains detailed explanations regarding the E-rate Program and its history. It mentions specific legislation and dates of enactment, which is very helpful for further understanding of the program. Various updates are in circulation – 04 December 2003, 04 March 2005, 15 September 2004 and 28 July 2005.

The report also discusses the controversies surrounding the program.

"Restructuring — from SLC to SLD:

In its May 8 Report to Congress (FCC 98-85), and a subsequent action of June 12, 1998 (CC Docket No. 96-45), the FCC: proposed the elimination of the SLC as a separate entity; lowered the compensation level of officers and employees of the SLC; and requested that Congress grant specific statutory authority for the newly proposed restructuring. The FCC requested that the administrative entities affected by this proposal submit a reorganization plan to implement these changes for FCC approval.

The restructuring plan was submitted to the FCC on July 1, 1998 and after receiving public comment was approved, with modifications, by the FCC on November 19, 1998. The approved plan, which went into effect on January 1, 1999, calls for the administration of all forms of federal universal service support to be consolidated in a single entity, the Universal Service Administrative Company (USAC). The USAC, the entity that among other duties currently administers the high cost and low income portions of the universal service program, was to become the permanent, sole administrator of all universal service programs, subject to FCC determination, after one year, that the USAC is administering support in an 'efficient, effective, and competitively neutral manner.' The SLC would become the Schools and Libraries Division (SLD), one of three divisions within the USAC. The USAC CEO would manage all three divisions. The USAC will continue to function as a subsidiary of the National Exchange Carrier Association (NECA), and the FCC will review, after one year, whether the USAC should be divested from the NECA. This reorganization plan, became effective as of January 1, 1999 and the independent SLC ceased to exist. (A copy of the approved reorganization plan can be found on the FCC's web page at [http://www.fcc.gov/wcb/universal_service/usacjuly.pdf].)"

"The FCC also directed that effective July 1, 1998, the level of compensation be lowered for the officers and employees of the SLC. Compensation cannot exceed the rate of basic pay for level I of the Federal Executive schedule, which is currently \$151, 800 a year. (The May 8, 1998 Report to Congress, and the subsequent June 12, 1998 order are available at the FCC's website at [<http://www.fcc.gov>]."

"Under a section of this report titled, Need for the Program it says, 'Some question whether the E-rate program as designed duplicates or overlaps existing federal programs.' In an attempt to address this concern then House Commerce Committee Chairman Bliley (106th Congress) and House Education Committee Chairman Goodling (106th Congress) asked the General Accounting Office (GAO) to undertake an examination of federal programs, previously identified by the GAO at the request of Senator Stevens, that may in some way be duplicative.

The report was directed to examine a number of areas including the potential for duplication and potential problems associated with fraud, waste, and abuse. The GAO report (Telecommunications Technology: Federal Funding for Schools and Libraries), which was released in August 1999, identified 35 federal programs that could be used as a source of support for telecommunications and information technology by libraries or elementary or secondary schools in FY1998;

ten programs specifically targeted technology while the remaining 25 included technology as a possible use of funds.

Based on the GAO's review it found that there are 'similarities' among the programs, but the GAO '... did not identify instances where two programs were designed to provide identical services to identical recipients.' Furthermore, the GAO did not 'identify information that indicates that fraud, waste, and abuse are systemic or widespread problems' but did find instances of such problems with individual guarantees. The GAO noted that action was taken against these individual guarantees and to prevent reoccurrence of such problems. The GAO did not examine the implementation of each program or conduct its own audits but relied on interviews, agency program documents, and reports to reach its conclusions."

Other headings in this report that discuss concerns regarding the E-rate Program:
FCC Funding Modifications
Restructuring and Funding Alternatives
Eligible Services and Application Integrity

(No Author). (07 April 2005). Six Corporations and Five Individuals Indicted in Connection with Schemes to Defraud the Federal E-rate Program. United States Department of Justice. Retrieved from http://www.justice.gov/atr/public/press_releases/2005/2088469.htm on 04 June 2015.

Summary: "Schools in Seven States Affected--Arkansas, California, Michigan, New York, Pennsylvania, South Carolina and Wisconsin

WASHINGTON, D.C. — A federal grand jury in San Francisco today returned a 22-count indictment against six companies and five individuals on charges of fraud, collusion, aiding and abetting, and conspiracy in connection with E-Rate projects at schools in seven states--Arkansas, California, Michigan, New York, Pennsylvania, South Carolina, and Wisconsin--the Department of Justice announced.

The E-Rate Program subsidizes the provision of Internet access and telecommunications services, as well as internal computer and communications networks, to economically disadvantaged schools and libraries. The program was created by Congress in the Telecommunications Act of 1996 and is administered by the Universal Services Administrative Company (USAC), a non-profit corporation, under the auspices of the Federal Communications Commission (FCC).

'Collusion by competitors in the E-Rate program, such as bid rigging and project allocation, steals funds from some of our nation's neediest schools,' said R. Hewitt Pate, Assistant Attorney General in charge of the Department's Antitrust Division. 'Those who try to illegally profit from this important program will be prosecuted.' "

"The charges announced today resulted from an ongoing federal investigation of fraud and anti-competitive conduct in the E-Rate Program. The investigation is being conducted jointly by the United States Attorney's Office for the Northern District of

California along with the Antitrust Division, with the assistance of the San Francisco, Los Angeles, Fresno, and Detroit offices of the Federal Bureau of Investigation."

(No Author). (November 2005). Waste, Fraud, and Abuse Concerns with the E-rate Program. Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce | U.S. House of Representatives, 109th Congress. Retrieved from <<http://www.gpo.gov/fdsys/pkg/CPRT-109HPRT24466/html/CPRT-109HPRT24466.htm>> on 18 March 2015.

Summary: This 57 page congressional staff report is the result of a two-year investigation into allegations of waste, fraud and abuse concerning the E-rate Program. Joe Barton, Texas, was the Chairman of the Committee on Energy and Commerce was responsible for this report.

"While E-rate has arguably benefited the nation's children, the program falls far short as an example of efficiency, effectiveness, or integrity. In fact, the Subcommittee on Oversight and Investigations' in-depth examination of the E-rate program uncovered serious instances of waste, fraud, and abuse. This work highlighted instances of waste, fraud, and abuse. This work highlighted instances in which all program participants — the FCC, USAC, schools, and vendors — have neglected their respective obligations and responsibilities under the program's rules."

"Key Findings

The Subcommittee's investigation developed along several directions, culminating in three public 'case study' style hearings and the compilation of significant additional information regarding the E-rate Programs at Chicago Public Schools and Atlanta Public Schools. Further information was developed, at the direction of the Subcommittee, through a comprehensive review by the Government Accountability Office (GAO), which was reviewed in a fourth public hearing on the E-rate program. Key findings from the Subcommittee investigation include:

- (1) The FCC crafted an ambitious multi-billion-dollar funding program, utilizing an 'unusual' organizational structure, and then never conducted a comprehensive assessment to determine which federal requirements, policies, and practices apply to the E-rate program, to USAC, or to the Universal Service Fund itself.
- (2) Although more than \$15 billion has been 'committed' by the E-rate Program during the past 8 years, the FCC did not develop performance goals and measures that could be utilized to assess the specific impact of the funds and to improve the management of the program.
- (3) Over the course of three program years, more than \$100 million in E-rate funds were provided to one large school district after it certified that its E-rate funded network would be operational and put to educational use, when, in fact, it was never made operational or put to any significant educational use.
- (4) The FCC's failure to help resolve the above school district's enormous

mismanagement and planning problems contributed to the waste of E-rate funds, and reflects the underlying deficiencies of the FCC's program management and oversight.

(5) Currently, the E-rate Program does not require beneficiaries of large sums of E-rate funds to comply with standard federal oversight and accounting requirements, such as the Single Audit Act.

(6) Some school districts have acquired goods and services through the E-rate Program without using a formal bidding process, contrary to both the program's rules and local regulations, even though those districts might have otherwise followed the E-rate Form 470 application process.

(7) A fundamental weakness in the program involves technology planning. More broadly, E-rate's current technology plan requirements provide no meaningful protection from 'gold-plating' (procurement of technology goods and services far beyond reasonable school district needs and resources).

(8) The FCC Inspector General (IG) cannot provide adequate assurance that the program is sufficiently protected against waste, fraud, and abuse. Furthermore, the FCC Wireline Competition Bureau (WCB) does not know the magnitude of the potential fraud.

(9) The FCC IG faces several obstacles in implementing effective independent oversight of the program, including insufficient resources to conduct audits and provide audit support to law enforcement investigations.

(10) The certifications contained on E-rate Program application documents apparently have little effect in deterring some school officials and some vendors from taking advantage of the program's weaknesses. In one case examined by the Subcommittee, school officials and several employees of service providers forged documents and signatures as a part of a conspiracy to defraud the E-rate Program.

(11) Weakness in the E-rate Program application process and related certifications permitted non-competitive procurement of E-rate program goods and services around the country in Funding Years 2001 and 2002. The flawed application process resulted in the waste of millions of dollars in one school district in Funding Year 2001, and almost lead to the waste of tens of millions more among 21 other large school districts in Funding Year 2002. Today, the FCC continues to allow anti-competitive or insufficiently competitive procurement practices, due to remaining weaknesses in the application process.

(12) The FCC only recently established guidelines for debarment of vendors and applicants, but set standards of program abuse too high, requiring first a civil judgment or criminal conviction against the participant before a suspension may occur and debarment can be considered.

(13) The E-rate Program's ambiguous rules and procedures, and extensive delay in the distribution of funding, create significant confusion and delay and tends to increase program waste.

(14) E-rate Program fund disbursements generally go directly to vendors, rather than being disbursed through the program applicants (the schools and libraries), which lessens applicants' control over work performed and diffuses responsibility and accountability for the program integrity; although this structure stems from the FCC's interpretation of the underlying statutory language, it nevertheless makes oversight and enforcement difficult."

As a result of the report findings, "staff identified several (11) overarching principles that should guide program reform."

"In sum, the Subcommittee's investigative work reveals a well-intentioned program that nonetheless is extremely vulnerable to waste, fraud, and abuse, is poorly managed by the FCC, and completely lacks tangible measures of either effectiveness or impact. This bipartisan staff report recommends certain principles that should guide any effort to improve the E-rate Program. These principles are substantially based upon the results of the Subcommittee's investigation and staff opinion that effective improvements may likely require significant legislative reform.

- More rigorous oversight of the program by the FCC and the USAC.
- The E-rate Program must have concrete and achievable goals and measures of effectiveness, so Congress can assess the specific impact and value of program spending.
- There must be a mechanism put in place to prevent 'gold-plating'. Revise the technology planning process and requirements as a preventative measure.
- Reform should incorporate the GAO's recent recommendations for the FCC: (a) determine which Federal accountability requirements apply to E-rate, (b) establish meaningful E-rate Program performance goals and measures; and (c) take steps to reduce its backlog of appeals and examine the organizational structure as a contributing factor.
- Fix organizational structure to increase greater accountability of all program participants.
- FCC must provide to Congress with some tangible measure of the extent and scope of program waste, fraud, and abuse.
- School districts should have greater responsibility and accountability in their applications for E-rate discounts.
- Have stronger 'built-in' disincentives to waste, fraud, and abuse.
- The program needs much more robust competitive bidding structure than it currently possesses to ensure E-rate Program funds support the highest per dollar value possible.

- The FCC and USAC should act immediately to specify that, for all 'priority II' (internal connections) exceeding a reasonable threshold, a portion of the districts' funding must be set aside for an independent audit of the total funds committed.
- The GAO should examine the potential for (and scope of any) waste, fraud, and abuse in the E-rate Program's funding of 'Priority I' services."

Nilsson, Kent R. (31 March 2007). Semi-Annual Report to Congress October 1, 2006 - March 31, 2007. Federal Communications Commission | Office of Inspector General. Retrieved from <https://apps.fcc.gov/edocs_public/attachmatch/DOC-274206A1.pdf> on 09 June 2015.

Summary: "Beginning with the Inspector General's semiannual report for the period ending March 31, 2002, the IG has included a section that covers the Office's efforts to oversee the Universal Service Fund (USF). In the last semiannual report, we stated that this Office has initiated an unprecedented audit effort of USF Programs including the Schools and Libraries, High Cost, Rural Health Care and Low Income Programs as well as audits of contributors to the USF. In this section, we provide an update on our oversight activities and on audits being conducted by other Federal Offices of Inspector General on our behalf. We also summarize related significant investigative activity.

For the first time, all of these programs and sources of revenue have been subject to random statistical sampling and attest audits to determine whether these programs comply with the Commission's rules and regulations. In addition, the sampling methodologies and attest audit protocols were also developed to instantiate an assessment program consistent with the Improper Payments Improvement Act of 2002, Public Law No. 107- 300. It is the Inspector General's expectation that statistical analyses will improve the application of investigative and audit resources and yield information to the Commission that will enable it to improve the administration of these programs and further reduce fraud, waste and abuse.

Our involvement in contributor and beneficiary audits and investigations has not lessened our concerns about fraud, waste, and abuse in USF programs. We remain committed to meeting our statutory responsibility to provide effective, independent oversight of all aspects of the USF program. We believe we are making significant progress toward our goal of achieving an effective oversight program. Additional audit, investigative, and legal resources will facilitate achieving that objective and we accordingly request Congressional approval of the funding requests that are before it."

"Update on OIG Oversight Activities

As of March 31, 2007, we are making significant progress on the 460 audits initiated during the prior reporting period. Audit fieldwork is complete for over 90% of the audits and draft audit reports are now being reviewed by four quality assurance

firms, our Office and the Universal Service Administrative Company (USAC). All initial draft reports are to be submitted by April 30, 2007 and final reports are scheduled to be completed by July 31, 2007. To ensure that the July 31, 2007, deadline is met, we encouraged USAC to develop their program management capabilities to increase the probability that the audits will be completed as scheduled. As a result, USAC established a Project Management Office (PMO) with a Chief Operations Officer. The PMO function was outsourced to a professional program management consulting firm under the direction of USAC and subject to our oversight. The PMO developed a web-based data management system that provides: 1) web access for remote audit data input by each firm; 2) management of audits through project plans; and 3) tracking of audit milestones and Earned Value Management reports.

We have also developed an audit sampling design to determine an error rate for improper payments in each of the four universal service programs and to determine whether contributors are properly charged for their USF contributions. USAC, in coordination with its contracted statistician from George Mason University and the FCC OIG statisticians, continue to work with accounting firms and the OIG to execute the statistical design as planned and deliver the error rate for improper payments. Additionally, statistical data concerning compliance or non-compliance with FCC rules, along with the reasons for non-compliance will be collected, analyzed and used to improve USF programs, contributions and the audit process.

As this new initiative unfolds, the OIG and USAC continue to review and finalize KPMG's previous audits of the Schools and Libraries program. To date, we have finalized 95 of the 100 audits. We reviewed and released 44 audit reports in this reporting period that identified \$59,478,152 of apparently improper payments that were made in the Schools and Libraries Program. The process of attempting to recover these funds is underway.

These audits identified several areas in which beneficiaries of USF funds have not complied with the Commission's rules. These audits also enable us to recommend changes to the FCC's management that will help to ensure that necessary controls to promote efficiency and to prevent fraud, waste, and abuse will be instantiated. A summary of the types of findings most frequently encountered in these audits are described in Table I below:

Table I: Summary of E-rate Audit Findings
Program Area / Related Finding

Technology Budget — The beneficiary did not have proper approval for its budget or an adequate amount budgeted for its share of the non-discounted costs.

Equipment — Equipment missing, not installed, no asset lining maintained, etc.

Discount Calculation — Beneficiary incorrectly calculated its discount percentage, could not support the discount, or could not provide documentation to verify information on the FCC Form 471.

FCC Form 472/474 Items — Errors in amounts for reimbursement, inadequate support, etc.

Children's Internet Protection Act — Beneficiary did not comply with the Children's Internet Protection Act.

Service Provider Billing — Bills not properly prepared or inaccurate.

Document Retention — Beneficiary did not maintain the required documentation or documentation was non-existent.

Technology Plans — Beneficiary did not have an approved technology plan, technology plan was outdated, etc.

Ineligible Items — Beneficiary was reimbursed for ineligible products or services.

FCC Form 500 — Beneficiary did not submit a Form 500 to USAC when the commitment was not fully utilized."

"Audit Activities

Table II is a list of the 44 E-rate audit reports issued by this office between October 1, 2006 and March 31, 2007."

Table II: E-rate Audit Reports Issued
Beneficiary | City & State | Potential Improper Payment

Fontana Unified School District | Fontana, CA | \$0

Advance Education Services | Colton, CA | \$177,665

Los Angeles Unified Public Schools | Los Angeles, CA | \$15,778

Municipal Telephone Exchange | Baltimore, MD | \$668,581

Orange County School District | Orlando, FL | \$112,000

Yonkers Public School District | Yonkers, NY | \$0

Brownsville Independent School District | Brownsville, TX | \$24,030

Fresno Unified School District | Fresno, CA | \$0

Florida Information Resource Network | Tallahassee, FL | \$2,096

Kayenta Unified School District 27 | Kayenta, AZ | \$497,914

Miami-Dade County Public Schools | Miami, FL | \$9,105

United ISD | Laredo, TX | \$0

South San Antonio Independent School District | San Antonio, TX | \$16,195

Saginaw Public School District | Saginaw, MI | \$6,086

Detroit Public School District | Detroit, MI | \$16,144

Laredo Independent School District | Laredo, TX | \$0

Pharr - San Juan - Alamo Independent School District | San Juan, TX | \$3,135,350

Boston School District | Boston, MA | \$0

School Board of Broward County, Florida | Sunrise, FL | \$0

Boston, Dept of Neighbor Development | Boston, MA | \$0

Montgomery County School District | Montgomery, AL | \$1,110,077

Buffalo City School District | Buffalo, NY | \$58,647

South Carolina Division of the State CIO | Columbia, SC | \$0

Paramount Unified School District | Paramount, CA | \$0

Central ISLIP Union Free District | Central Islip, NY | \$445,543

Robstown Independent School District | Robstown, TX | \$128,252

Brooklyn Public Library | Brooklyn, NY | \$5,806

Camden City Public Schools | Camden, NJ | \$0

Teach Wisconsin | Madison, WI | \$0

Tucumcari | Tucumcari, NM | \$400,500

Trenton City School District | Trenton, NJ | \$1,405,419

Illinois State Board of Education | Springfield, IL | \$109,952

Boston Public Library/MBLN | Boston, MA | \$484,894

Milwaukee Public Schools | Milwaukee, WI | \$211,702

Georgia State Department of Education | Atlanta, GA | \$0

Jackson Public School District | Jackson, MS | \$343,315

Premont Independent School District | Premont, TX | \$201,259

St. Paul Public School District 625 | St. Paul, MN | \$73,012

Kansas City School District | Kansas City, MO | \$0

Bridgeport School District | Bridgeport, CT | \$136,313

St. Louis City School District | St. Louis, MO | \$191,595

Garvey Elementary School District | Rosemead, CA | \$181,634

New York City Department of Education | New York, NY | \$48,330,341

Brevard County School District | Viero, FL | \$978,447

Total Potential Improper Payments: \$59,478,152"

Nilsson, Kent R. (30 September 2007). FCC Office of Inspector General | Semi-Annual Report to Congress | April 1,2007 – September 2007. Federal Communications Commission Office of Inspector General. Retrieved from <https://apps.fcc.gov/edocs_public/attachmatch/DOC-278589A1.pdf> on 09 June 2015.

Summary: "Universal Service Fund Oversight

Earlier semiannual reports have included a section that covers the Office's efforts to oversee the Universal Service Fund ('USF'). In the last semiannual report, we stated that this Office was working on an unprecedented audit effort of USF Programs to include the Schools and Libraries, High Cost, Rural Health Care, and Low Income Programs as well as audits of contributors to the USF. In this section, we provide an update on our oversight activities and on audits being conducted by other Federal Offices of Inspector General on our behalf. We also summarize significant investigative activity related to these programs.

For the first time, all of these programs and sources of revenue, have been subject to random statistical sampling and attest audits to determine whether these programs comply with the Commission's rules and regulations. In addition, the sampling methodologies and attest audit protocols were also created to initiate an assessment program that is consistent with the Improper Payments Improvement Act of 2002, Public Law No. 107- 300.

As discussed more fully below, these audits have not lessened our concern about the possibilities for fraud, waste, and abuse in the Commission's USF Programs as administered by the Universal Service Administrative Corporation. As a consequence, we continue to remain committed to meeting our statutory responsibilities to provide effective, independent oversight of all aspects of the USF Program. Although we have made progress in achieving the goal of establishing a more effective oversight program, we need significant increases in audit, investigative, and legal resources to achieve the goal of having a truly effective

oversight program. Accordingly, we request that Congress approve the funding requests for this Office that are before it."

"Update on OIG Oversight Activities

The statistical sample of USF participants resulted in 459 attest audits of USF Program participants for beneficiaries in low income, schools and libraries, high cost, and rural health care as well as for contributors to the USF Program. These audits were performed by public accounting firms under contract to USAC and under the guidance of the OIG. The audits were completed in this reporting period and the OIG has completed its initial statistical analysis of the results of the audits.

OIG's statistical analysis shows that, in general, the audits indicated compliance with the Commission's rules, although erroneous payment rates exceeded 9% in most USF Program segments. The audits resulted in the following erroneous payments rates: Contributors' payments - 5.5% (statistically estimated to be approximately \$385, 000,000), Low Income - 9.5% (statistically estimated to be approximately \$75, 500,000); Schools and Libraries - 12.9% (statistically estimated to be approximately \$210,000,000); High Cost Fund - 16.6% (statistically estimated to be approximately \$618,000,000); and Rural Health Care - 20.6% (statistically estimated to be approximately \$4,450,000).

An 'erroneous payment' is defined by the Office of Management and Budget under the Improper Payments Information Act to be 'any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.' Incorrect amounts are overpayments and underpayments (including inappropriate denial of payment or service). An improper payment includes any payment that was made to an ineligible recipient or for an ineligible service, duplicate payments, payments for services not received, and payments that are for the incorrect amount. In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an error."

These statistical analyses will improve the application of investigative and audit resources and yield information to the Commission that will enable it to improve the administration of these programs and further reduce fraud, waste and abuse. Although this work was completed during this semiannual reporting period, the OIG reports on the statistical analyses of this audit effort were issued subsequent to this semiannual reporting period.

As the audit sampling project moved forward, the OIG and USAC continued to review and finalize KPMG's previous audits of the Schools and Libraries Program. To date, more than 100 audits have been conducted that have identified numerous compliance and control issues, as well as more than \$70 million of apparently improper payments that were made in the Schools and Libraries Program. The process of attempting to recover these funds is under way. Three reports were issued in final during the reporting period. An additional report addressing the audit of Orleans Parish School District in New Orleans, Louisiana was issued in draft. The auditors were unable to finalize the report because school officials did not provide

comments on the draft report. However, absent comments from school officials or any other indication that the draft report is inaccurate, we recommend that USAC attempt to recover the improper payments identified in the draft report. Details on the four reports issued during the reporting period are in Table I as follows:

Table I: E-rate Audits Issued
Beneficiary | Location | Potential Improper Payment

- 1.) Grant Joint Union High School District | Sacramento, CA | \$126,753
 - 2.) Rio Grande City Consolidated Independent School District | Rio Grande City, TX | \$0
 - 3.) NW-LINKS Inc. | Moorhead, MN | \$124,129
 - 4.) Orleans Parish School District | New Orleans, LA | \$570,458
- Total Potential Improper Payments -- \$821,360"

"By Other OIG's

On January 29, 2003, the Inspector General executed a Memorandum of Understanding ('MOU') with the Department of the Interior Inspector General ('DOI-IG'). This MOU was a three-way agreement among the Commission, DOI-IG, and USAC for audits of schools and libraries funded by the Bureau of Indian Affairs ('BIA') and other universal service support beneficiaries under the audit cognizance of DOI-OIG. Under the agreement, auditors from DOI-OIG performed audits for FCC-OIG and USAC. In addition to audits of schools and libraries, the agreement authorizes the DOI-OIG to consider requests for investigative support on a case-by-case basis. Since its inception, DOI-OIG has completed several reports under the MOU.

The final audit report on BIA's participation in the E-rate Program was issued on January 3, 2006. The audit disclosed that BIA generally complied with several key E-rate Program requirements for program funding years 1998 through 2001. There were notable shortcomings, however. For example, BIA did not have an approved technology plan for FY 2002 and beyond, BIA lacked documents to substantiate major procurement activities, and BIA installed eligible services in ineligible buildings. Because of the lack of required documentation, the auditors were not able to determine whether BIA complied with E-rate Program rules and regulations for the competitive procurement of satellite Internet access services in the amount of \$1,583,482 for funding year 2000 and \$1,382,244 for funding year 2001. The auditors were also not able to estimate the cost of the ineligible work performed because the firm-fixed price awards did not contain sufficiently detailed cost and pricing data to permit the auditors to calculate the costs of the services installed in the ineligible buildings.

We received USAC's comments on the BIA final report in September, 2006 and issued the report in May, 2007. With regard to the unsupported satellite Internet access services procured in funding year 2000, FCC rules preclude seeking recovery of funding year 2000 funds after June 30, 2006. Therefore, USAC has been

precluded from seeking recovery of any violations for funding year 2000. The limitations period for seeking recovery of funding year 2001 improper payments ended on June 30, 2007 with the consequence that USAC has been directed to initiate recovery of \$1,382,244 of unsupported costs for funding year 2001."

"Support to Investigations

In addition to the audit component of our oversight program, we have provided, and continue to provide, audit and investigative support to United States Department of Justice investigations of E-rate recipients and service providers. To implement the investigative component of this effort, we developed a working relationship with the Antitrust Division of the Department of Justice ('DOJ'). The Antitrust Division, in turn, has established a task force to conduct USF investigations that is comprised of attorneys in each of the Antitrust Division's seven field offices and the National Criminal Office. As of the end of this reporting period, we are directly supporting 28 investigations and monitoring an additional 5 investigations. Please refer to the Investigations section of this report for further information."

"Investigations

Investigations pursued by this Office are initiated as a result of allegations received from several sources. Examples include FCC managers and employees who contact the OIG directly, complaints provided by the OIG hotline, and complaints that are received through the U.S. Postal Service. Allegations can be, and frequently are, made anonymously. Investigations may also be predicated on audit or inspection findings of fraud, waste, abuse, corruption, or mismanagement in FCC programs or operational segments, by FCC employees, contractors, and/or sub- contractors, and through referrals from other governmental agencies.

The OIG works directly with Federal criminal authorities, either in supporting their investigations or in having those agencies support this office with resources unavailable within the FCC. Upon receiving an allegation of an administrative, civil, or criminal violation, the OIG usually conducts a preliminary inquiry to determine if an investigation, inspection, or further inquiry is warranted. Investigations may involve possible violations of Federal regulations regarding employee responsibilities and conduct, Federal criminal or civil law, and other regulations and statutes pertaining to the activities of the Commission and its regulatees. Investigative findings may lead to criminal or civil prosecution, or administrative action, or all of the foregoing.

The OIG also receives complaints from the general public, both private citizens and commercial enterprises, about the manner in which the FCC executes its programs and conducts its oversight responsibilities. All complaints are examined to determine whether there is any basis for OIG audit, inspection or investigative action. If the allegations are not within the jurisdiction of the Inspector General, the complaint is usually referred to the appropriate FCC bureau or office for response directly to the complainant. The OIG then continues to serve as a facilitator with respect to responses to complaints that are outside the jurisdiction of this office. Finally, matters may be referred to this office for investigative action from other governmental entities, such as the Government Accountability Office, the Office of Special Counsel, and various Congressional offices.

As reported in previous semiannual reports, this office has been working to address an upsurge in cyber crime investigations. This trend has continued, and is absorbing substantially more investigative resources because of the complex nature of the investigations and the need for higher-grade forensic tools as well as the concomitant expertise that is necessary to use them. This trend, as well as an increasing number of investigations and actions likely to result from the significant increase in USF audits recently conducted, highlights the budgetary needs for the \$20.4 million and additional staff positions referred to in this, and previous reports.

In addition to the foregoing, the OIG continues to coordinate and provide assistance to Federal civil and law enforcement entities, as well as to state and local authorities, with respect to investigations pertaining to fraud in the Universal Service Fund program of the Commission. These efforts led to the successful prosecution of another criminal E-Rate case in San Francisco, as described below, and follows the criminal trial reported in the preceding semi-annual report that detailed the conviction on E-Rate fraud in McAllen, Texas. Described below are summaries of significant cases investigated during the relevant period of this report. Many investigations, however, cannot be discussed because of confidentiality concerns, implications for other matters, or for security reasons.

Activity During this Period

Sixty-one (61) cases were pending from the prior period. Thirty-one (31) of those cases involve the Commission's Universal Service Fund (USF) Program and have been referred to the Federal Bureau of Investigation (FBI) and/or the Department of Justice. An additional nine (9) non-USF and three (3) USF related complaints were received during the current reporting period.

Over the last six months, six (6) cases, one (1) USF and five (5) non-USF related, have been closed. A total of sixty-seven (67) cases are pending, of which thirty-three (33) relate to the USF Program. The OIG continues to monitor, coordinate and/or support activities regarding those thirty-three (33) investigations. The investigations pertaining to the pending thirty-three (33) non-USF cases are on-going.

Significant Case Studies

On September 14, 2007, a Federal jury in San Francisco, California, convicted Judy Green, a former sales representative and school consultant, for her role in schemes to defraud the Federal E-Rate Program. Ms. Green was convicted on all felony charges in a 22-count indictment involving fraud, collusion, aiding and abetting, and conspiracy in connection with E-Rate projects at schools in seven states – Arkansas, California, Michigan, New York, Pennsylvania, South Carolina, and Wisconsin. This case was initiated on December 8, 2005, when six companies and six individuals (including Ms. Green) were charged with participating in criminal schemes. The Department of Justice alleged losses of between \$100 and \$200 million. Those charged were:

- Video Network Communications Inc. (VNCI) - Portsmouth, New Hampshire

- Howe Electric Inc. - Fresno, California • Sema4 Inc. - San Juan Capistrano, California
- Digital Connect Communications - San Juan Capistrano, California
- Expedition Networks, Ltd. - North Hills, California
- ADJ Consultants Inc. (ADJ) - Temecula, California
- Judy Green - Former Sales Representative for VNCI and Co-Owner of ADJ
- Allan Green - Co-Owner of ADJ
- George Marchelos - Former Sales Representative for VNCI
- Steven Newton - Former Vice President at Premio Computer Inc.
- Earl Nelson - Former Branch Manager for Inter-Tel Technologies Inc.
- William Holman - Former Vice President of Sales for NEC-BNS

Expedition Networks, Ltd. pled guilty and was sentenced to a fine of \$5 million. Allan Green, George Marchelos, Steven Newton, Earl Nelson, and William Holman have pled guilty and are awaiting sentencing. Charges against Howe Electric Inc. are pending. VNCI, Sema4, Digital Connect, and ADJ Communications are defunct; charges against them have been dropped.

In the E-Rate fraud case in McAllen, Texas, the sentencing hearing for Rafael G. Adame, who was convicted in February of this year on seven counts of wire fraud in a scheme to defraud the E-rate Program, is set for November 19, 2007. As stated in the preceding Semi-Annual Report, Mr. Adame was convicted of submitting false invoices for payment over a multi-year period – monies intended to benefit the Weslaco Independent School District.

In May 2007, the Kansas City, Missouri School District ('KCMSD') agreed to relinquish over \$13.6 million in claims for Federal funds and to pay the United States \$66,000 as a civil settlement relating to false claims and false statements in connections with the FCC's E-rate Program from 2002 to 2006. The U.S. Department of Justice contended that KCMSD pursued claims for payments for a contract that had been cancelled, did not comply with the mandatory competitive bidding process, and improperly extended contracts to avoid rebidding.

In May 2007, two former Dallas Independent School District ('DISD') officials were indicted for taking bribes from a computer vendor whose company was awarded \$39 million in technology contracts in 2002 and 2003. Indicted were Ruben Bohuchot, a former DISD associate superintendent of technology; William Coleman, a former DISD deputy superintendent who later became interim superintendent of Detroit Public Schools; and Frankie Wong, president of Micro System. They were charged with bribery, conspiracy, and money laundering. According to the indictment, they used shell companies and phony invoices to siphon off millions of dollars in technology funding for their personal use. The trial is set to begin in March

2008.

A Federal grand jury during August 2007 indicted R. Clay Harris on charges of allegedly paying more than \$230,000 in bribes to a former Atlanta Public School ('APS') official in exchange for favorable treatment on technology contracts. The indictment alleges that, starting in late 2001 and continuing until late 2002, Harris' technology company, Multimedia Communications Services Corp., made payments to M&S Consulting, a business partnership between Arthur Scott and his wife, Evelyn Myers Scott, that accounted for more than 70 percent of the money the couple solicited from technology vendors. The trial date has yet to be set by the court.

In September 2007, Arthur Scott, the former technology director at APS, was sentenced to serve 37 months in Federal prison after pleading guilty earlier in the year to bribery and fraud for taking \$323,000 from vendors seeking preferential treatment. Scott's wife, Evelyn Myers Scott, who worked for her husband in the school system's technology department, was sentenced to 24 months for her role in aiding the conspiracy. While at APS, Scott oversaw the district's E-Rate Program and accepted a series of bribes paid by vendors doing business with the Atlanta school district."

(No Author). (June 2008). Report to Congressional Committees | Telecommunications | FCC Needs to Improve Performance Management and Strengthen Oversight of the High-Cost Program | GAO-08-633. United States Government Accountability Office. Retrieved from <<http://www.gao.gov/new.items/d08633.pdf>> on 18 March 2015.

Summary: What the GAO Found:

"The High-Cost Program's structure has resulted in the inconsistent distribution of support and availability of services across rural America. The program provides support to carriers in all states. However, small carriers receive more support than large carriers. As a result, carriers serving similar rural areas can receive different levels of support. Currently, the High-Cost Program provides support for the provision of basic telephone service, which is widely available and subscribed to in the nation. But, the program also indirectly supports broadband service, including high-speed Internet, in some rural areas, particularly those areas served by small carriers. The program provides support to both incumbents and competitors; as a result, it creates an incentive for competition to exist where it might not otherwise occur.

There is a clearly established purpose for the High-Cost program, but FCC has not established performance goals or measures. GAO was unable to identify performance goals or measures for the program. While FCC has begun preliminary efforts to address these shortcomings, the efforts do not align with practices that GAO has identified as useful for developing successful performance goals and measures. For example, FCC has not created performance goals and measures for intermediate and multiyear periods. In the absence of performance goals and measures, the Congress and FCC are limited in their ability to make informed

decisions about the future of the high-cost program.

While some internal control mechanisms exist for the High-Cost Program, these mechanisms are limited and exhibit weaknesses that hinder FCC's ability to assess the risk of noncompliance with program rules and ensure cost-effective use of program funds. Internal control mechanisms for the program consist of (1) carrier certification that funds will be used consistent with program rules, (2) carrier audits, and (3) carrier data validation. Yet, each mechanism has weaknesses. The carrier certification process exhibits inconsistency across the states that certify carriers, carrier audits have been limited in number and reported findings, and carrier data validation focuses primarily on completeness and not accuracy. These weaknesses could contribute to excessive program expenditures."

(No Author). (12 December 2008). The Schools and Libraries Program Initial Statistical Analysis of Data from the 2007/2008 Compliances Attestation Examinations. Office of Inspector General | Federal Communications Commission. Retrieved from <https://apps.fcc.gov/edocs_public/attachmatch/DOC-287307A1.pdf> on 09 June 2015.

Summary: "Background and Introduction

This report contains a preliminary statistical analysis of data from the 2007/2008 audits of the Schools and Libraries ('S&L') Program of the Federal Communications Commission ('FCC' or "Commission") for the funding year ended June 30, 2007. The primary objective of the Inspector General ('IG') in auditing the S&L Program was to determine the extent to which the Schools & Libraries Program was being administered in accordance with the Commission's rules, orders and interpretative opinions. An additional objective was to provide audit results that would permit statistical estimates of the error rates under the Improper Payments Information Act of 2002 ('IPIA'). Under IPIA standards, a program is at risk if the erroneous payment rate exceeds 2.5 % and the amount of erroneous payments is greater than \$10 million. The term 'erroneous payment' and 'improper payment' have the same meaning in the OMB Guidance. To assess compliance and risk, a stratified simple random sample of 260 beneficiaries was drawn and compliance attestation audits were completed. Statistical results from the sample suggest that the program is at risk. The erroneous payment rate is estimated at 13.8 % with a margin of error ± 3.1 % at the 90 % confidence level and erroneous payments are estimated to be \$232.7 millions.

Schools and Libraries Program Description

The S&L Program of the Universal Service Fund ('USF'), commonly known as 'E-rate', is administered by the Universal Service Administrative Company ('USAC') under the direction of the FCC, and provides discounts to assist schools and libraries in the United States in obtaining affordable telecommunications and Internet access services.

The S&L Program supports 'connectivity' (i.e. the conduit or pipeline for communications that use telecommunications services as well as the Internet).

Applicants must provide additional resources including end-user equipment (e.g., computers, telephones), software, professional development, and the other elements that are necessary to utilize the connectivity funded by the Schools and Libraries Program. Funding is requested under four categories of service: telecommunications services, Internet access, internal connections, and basic maintenance of internal connections. Discounts for support depend on the level of poverty and the urban or rural status of the population served. Discounts range from 20 % to 90 % of the costs of eligible services. Eligible schools, school districts and libraries may apply individually or as part of a consortium."

Under the Overview of the Administrative Process section it says:

"Schools, school districts, and libraries that want to apply for S&L support, commonly referred to as 'E-rate', must first prepare a technology plan. An approved technology plan sets out how information technology and telecommunications infrastructure will be used to achieve educational goals, specific curriculum reforms, or library service improvements.

A technology plan designed to improve education or library services is required to cover the entire funding year (July 1 to June 30) but not more than three years. The plan must contain five elements: (1) goals and a realistic strategy for using telecommunications and information technology; (2) a professional development strategy; (3) an assessment of telecommunication services, hardware, software, and other services needed; (4) budget resources; and (5) an on- going evaluation process. The technology plan must be approved by a USAC certified technology plan approver before discounted services can begin. The state is the certified technology plan approver for libraries and public schools."

"Estimation Results

As noted for Round 1, the estimated erroneous payment rate was 12.9% with a margin of error of $\pm 4.5\%$, and the estimated amount of erroneous payment was \$210 million. For Round 2, the erroneous payment rate was estimated at 13.8 % with a margin of error of $\pm 3.1\%$ at the 90% confidence level. In other words, a 90% confidence interval for the error rate is 10.7% to 16.9%. Total estimated erroneous payments for the Schools and Libraries Program is \$232.7 million. The rate of improper over payments is also 13.8 %, and the margin of error for this estimate is 3.1%. Table 3 contains a summary of the results."

"Causes of Erroneous Payments

Whenever there was an erroneous payment, data were collected on causes of the error. If an auditor found multiple causes for an erroneous payment, all causes of the erroneous payment were identified. There were 21 possible causes of erroneous payments. An auditor could check any or all of the 21 causes and provide additional descriptive information associated with each cause. In addition, we required auditors to assign dollar amounts to each cause such that the sum of dollars across all causes plus any portion of erroneous payments that could not be assigned to a cause, would equal the total amount of erroneous payment. This meant that, if an auditor was not able to assign all or some portion of erroneous payments to a particular cause, then the unassigned dollars were assigned to a category/field called 'Could Not Assign'.

If an auditor encountered a situation in which some portion of total erroneous payments for a beneficiary (the same subset of dollars) could have been assigned to multiple causes, then the auditor was required to assign that portion of dollars to the single most important cause. For example, if there were \$3,000 of erroneous payments for a beneficiary and the auditor assigned \$1,700 to Cause 6 - Followed USAC Procedures (apparent conflict with FCC rule/s) and \$1,000 to Cause 7 - Inadequate Documentation Retention, then \$300 ($\$3,000 - \$1,700 - 1,000 = \$300$) could have been assigned to both causes 11 - Failure to Review/Monitor Work, Material or Data/Application and 12 - Applicant/Auditee Weak Internal Controls. Given the requirement of prioritization of cause, the auditor could decide to assign the \$300 to only cause 12 (as the most important) - Applicant/Auditee Weak Internal Controls. However, the auditor was required to check causes 6, 7, 11, and 12 in the binary data.

The causes of the improper payments that were identified are summarized below in Tables 4, 5, and 6."

"Discussion and Conclusions

The S&L Program of USF appears to be at risk because the estimated erroneous payment rate is 13.8%, and the erroneous payment for the Schools and Libraries Program is \$232.7 million. The margin of error for the estimated rate of improper payment is 3.1%. The rate of improper over payment is 13.8% with a margin of error of 3.1%. The proportion of improper over payments out of total improper payments is 99.5% (in other words, the erroneous payments from the sample showed that 99.5% of the erroneous payments were over payments and only 0.5% were underpayments). The principle causes of erroneous payments were: inadequate auditee process and/or policies and procedures (29.7% of beneficiaries); inadequate documentation (17.5% of beneficiaries); disregard for FCC rules (12.2% of beneficiaries); weak internal controls (6.7% of beneficiaries); and inadequate systems for collecting, reporting, and/or monitoring data (3.5% of beneficiaries).

These results are preliminary, however, as third-party quality checks and finalized audit reports have not yet been completed. After final third-party quality checks are completed, and after the final compliance database is populated and quality checked, USAC will provide finalized compliance data so that final estimates of erroneous payment rates, causes of non-compliance, and total erroneous payments can be computed in USAC states. That final report and data will be available not later than December 2008. After receiving that information, OIG will re-estimate the IPIA results. Because of auditors' internal standards and quality controls, the preliminary results are not expected to change substantially."

"Appendix 2

Chart 1 contains data from Round 2 audits of the Schools and Libraries Program. The data are disbursements and auditor estimated erroneous payments for beneficiaries in each stratum." Specific amounts of erroneous payments are provided on pages 32 - 35.

(No Author). (March 2009). Report to Congressional Requestors | Telecommunications | Long-Term Strategic Vision Would Help Ensure Targeting of E-rate Funds to Highest-Priority Uses | GAO-09-253. United States Government Accountability Office. Retrieved from <<http://www.gao.gov/assets/290/287867.pdf>> on 21 April 2015.

Summary: "What GAO Found

Requests for E-rate funding consistently exceeded the annual funding cap, and increased commitments for telecommunications and Internet services, combined with significant un-disbursed funds, limit funding for wiring and components needed for data transmission. Although still exceeding available funds, total amounts requested have generally declined since 2002, largely due to declining requests for wiring and components. Funding commitments in recent years reflect this trend, with the amount of funding for wiring and components outweighed by funding for telecommunication services and Internet access. In addition, a significant amount of committed funds are not disbursed to program participants; for commitments made in 1998 through 2006, about one-quarter of the funds have not been disbursed. Unused funds are reallocated for use in future years but are still problematic because they preclude other applicants from being funded.

Participation rates and participants' views on program requirements indicate difficulties in the E-rate application process, which FCC and the Universal Service Administrative Company (USAC) - the program's administrator- are taking steps to address. The participation rate among more than 150,000 eligible schools and libraries is about 63 percent, but participation rates among groups vary, from 83 percent among public schools to 13 percent among private schools. According to non-participants, a key circumstance influencing non participation is the complexity of the program requirements, even though participants reported that participation is becoming easier. Still, E-rate Program data show that some funding is denied because applicants do not correctly carry out application procedures. In recent years, FCC and USAC have made changes intended to ease the process of participation for schools and libraries, such as giving applicants an opportunity to correct clerical errors in their applications. FCC officials said they will consider further changes to facilitate participation, but their primary interest is in protecting funds from improper use.

FCC does not have performance goals for the E-rate Program, and its performance measures are inadequate. In 1998, GAO first recommended that FCC develop specific performance goals and measures for the E-rate Program in accordance with the Government Performance and Results Act of 1993. FCC set forth specific goals and measures for some of the intervening years, but it does not currently have performance goals in place. Further, the performance measures it adopted in 2007 lack key characteristics of successful performance measures, such as being tied to performance goals. Performance goals and measures are particularly important for the E-rate program, as they could help FCC make well-informed decisions about how to address trends in request for and use of funds. Without them, FCC is limited in its ability to efficiently identify and address problems with the E-rate program and better target funding to the highest priority uses. FCC's piecemeal approach to

performance goals and measures indicates a lack of strategic vision for the program."

"Why GAO Did This Study

The Federal Communications Commission (FCC) Schools and Libraries Universal Service Support Mechanism - also known as the E-rate Program - is a significant source of funding for information technology for schools and libraries, providing about \$2 billion a year. As requested, GAO assessed issues related to the E-rate program's long-term goals, including (1) key trends in the demand for and use of E-rate funding and the implications of these trends; (2) the rate of program participation, participants' views on requirements, and FCC's actions to facilitate participation; and (3) FCC's performance goals and measures for the program and how they compare to key characteristics of successful goals and measures. To perform this work, GAO analyzed data going back to the first year of the program, surveyed a sample of participating schools and libraries, reviewed agency documents, and interviewed agency officials and program stakeholders.

What the GAO Recommends

To ensure targeted and efficient use of program funds, FCC should (1) report to Congress on its strategic vision for the E-rate Program, including long-term goals, and (2) report annually in its performance plan on un-disbursed funding associated with expired funding commitments. FCC took no position on GAO's recommendations, and USAC noted it stood ready to work with FCC to develop and report performance goals and measures."

(No Author). (27 April 2009). Long-Term Strategic Vision Would Help Ensure Targeting of E-rate Funds to Highest Priority Uses | GAO-09-253. United States Government Accountability Office. Retrieved from <<http://www.gao.gov/products/GAO-09-253>> on 01 May 2015.

Summary: This GAO webpage provides the highlights and recommendations for the GAO-09-253 report listed previously.

"The Federal Communications Commission's (FCC) Schools and Libraries Universal Service Support Mechanism--also known as the E-rate Program--is a significant source of federal funding for information technology for schools and libraries, providing about \$2 billion a year. As requested, GAO assessed issues related to the E-rate Program's long-term goals, including:

- Key trends in the demand for and use of E-rate funding and the implications of these trends;
- The rate of program participation, participants' views on requirements, and FCC's actions to facilitate participation; and

- FCC's performance goals and measures for the program and how they compare to key characteristics of successful goals and measures. To perform this work, GAO analyzed data going back to the first year of the program, surveyed a sample of participating schools and libraries, reviewed agency documents, and interviewed agency officials and program stakeholders.

Requests for E-rate funding consistently exceed the annual funding cap, and increased commitments for telecommunications and Internet services, combined with significant un-disbursed funds, limit funding for wiring and components needed for data transmission. Although still exceeding available funds, total amounts requested have generally declined since 2002, largely due to declining requests for wiring and components. Funding commitments in recent years reflect this trend, with the amount of funding for wiring and components outweighed by funding for telecommunications services and Internet access. In addition, a significant amount of committed funds are not disbursed to program participants; for commitments made in 1998 through 2006, about one-quarter of the funds have not been disbursed. Unused funds are reallocated for use in future years but are still problematic because they preclude other applicants from being funded. Participation rates and participants' views on program requirements indicate difficulties in the E-rate application process, which FCC and the Universal Service Administrative Company (USAC)--the program's administrator--are taking steps to address. The participation rate among the more than 150,000 eligible schools and libraries is about 63 percent, but participation rates among groups vary, from 83 percent among public schools to 13 percent among private schools. According to nonparticipants, a key circumstance influencing non-participation is the complexity of program requirements, even though participants reported that participation is becoming easier. Still, E-rate Program data show that some funding is denied because applicants do not correctly carry out application procedures. In recent years, FCC and USAC have made changes intended to ease the process of participation for schools and libraries, such as giving applicants an opportunity to correct clerical errors in their applications. FCC officials said they will consider further changes to facilitate participation, but their primary interest is in protecting funds from improper use. FCC does not have performance goals for the E-rate Program, and its performance measures are inadequate. In 1998, GAO first recommended that FCC develop specific performance goals and measures for the E-rate Program in accordance with the Government Performance and Results Act of 1993. FCC set forth specific goals and measures for some of the intervening years, but it does not currently have performance goals in place. Further, the performance measures it adopted in 2007 lack key characteristics of successful performance measures, such as being tied to program goals. Performance goals and measures are particularly important for the E-rate Program, as they could help FCC make well-informed decisions about how to address trends in request for and use of funds. Without them, FCC is limited in its ability to efficiently identify and address problems with the E-rate program and better target funding to highest-priority uses. FCC's piecemeal approach to performance goals and measures indicates a lack of a strategic vision for the program."

the E-rate Program (GAO-09-254SP, March 2009), an e-supplement to GAO-09-253. United States Government Accountability Office. Retrieved from <<http://www.gao.gov/products/GAO-09-254SP>> on 02 May 2015.

Summary: This e-supplement provides information on participation in the Federal Communications Commission's (FCC) Schools and Libraries Program Universal Service Support Mechanism--commonly known as the E-rate Program--which makes funding available to schools and libraries for telecommunications services, Internet access, and internal wiring and components needed for data transmission. The e-supplement includes (1) our analysis of the rates at which eligible schools and libraries participate in the E-rate Program and characteristics of participants and nonparticipants and (2) the questions asked and a summary of the answers given in a survey we conducted of participating schools and libraries. We compared 2005 data on school and library applicants provided by the Universal Service Administrative Company (USAC), which administers the E-rate Program for FCC, with the most recent complete listings of schools and libraries from the Department of Education's National Center for Education Statistics, which were from the 2005-2006 school year for schools and 2005 for libraries. We used this comparison as a basis to determine the rates at which eligible entities participated in the E-rate Program in 2005 and characteristics of participants and nonparticipants. The percentage estimates based upon matching of entity records have an overall error rate of 3.4 percentage points or less at the 95 percent level of confidence. The e-supplement presents participation rates for public schools, private schools, library branches, and library systems, as well as selected characteristics of participants and nonparticipants. We conducted a Web-based survey of schools and libraries that participate in the E-rate Program to obtain information on how well participants navigate the program's requirements and procedures, the extent to which they use funds committed to them, and their views on how to improve the program. Our sample was drawn from about 31,000 applications submitted for funding year 2006, and based on this sample we sent questionnaires to a total of 697 individuals. We received a response rate of 78 percent. The results from our sample are weighted to reflect the population of beneficiaries that use the E-rate Program. This e-supplement lists questions from the survey and the results, both in the aggregate and for each subgroup sampled--including schools, school districts, and libraries; urban entities and rural entities; and participants that received funding for internal connections and those that did not. We conducted our work in accordance with generally accepted government auditing standards. A more detailed discussion of our scope and methodology and agency comments on the draft report are contained in our report Telecommunications: Long-Term Strategic Vision Would Help Ensure Targeting of E-Rate Funds to Highest-Priority Uses, GAO-09-253 (Washington, D.C.: Mar 27, 2009).

(No Author). (September 2010). Report to Congressional Requesters | Telecommunications | FCC Should Assess the Design of the E-rate Program's Internal Control Structure | GAO-10-908. United States Government Accountability Office. Retrieved from <<http://www.gao.gov/assets/320/310686.pdf>> on 01 May 2015.

Summary: (60 page report)

"What GAO Found

FCC and USAC have established many internal controls for the E-rate Program's core processes: (1) processing applications and making funding commitment decisions, (2) processing invoices requesting reimbursement, and (3) monitoring the effectiveness of internal controls through audits of schools and libraries that receive E-rate funding (beneficiaries). E-rate's internal control structure centers around USAC's complex, multilayered application review process. USAC has expanded the program's internal control structure over time to address the program's complexity and to address risks as they became apparent. In addition, USAC has contracted with independent public accountants to audit beneficiaries to identify and report beneficiary noncompliance with program rules.

The design of E-rate's internal control structure may not appropriately consider program risks. GAO found, for example, that USAC's application review process incorporates a number of different types and levels of reviews, but that it was not clear whether this design was effectively and efficiently targeting resources to risks. Similarly, GAO found no controls in place to periodically check the accuracy of USAC's automated invoice review process, again making it unclear whether resources are appropriately aligned with risks. While USAC has expanded and adjusted its internal control procedures, it has never conducted a robust risk assessment of the E-rate Program's core processes, although it has conducted risk assessments for other purposes, such as financial reporting. A risk assessment involving a critical examination of the entire E-rate Program could help determine whether modifications to business practices and the internal control structure are needed to appropriately address the risks identified and better align program resources to risks. The internal control structure—once assessed and possibly adjusted on the basis of the results of a robust risk assessment—should then be periodically monitored to ensure that the control structure does not evolve in a way that fails to appropriately align resources to risks.

The results of beneficiary audits are used to identify and report on E-rate compliance issues, but GAO found that the information gathered from the audits has not been effectively used to assess and modify the E-rate Program's internal controls. As a result, the same rule violations have been repeated each year for which beneficiary audits have been completed. For example, of 64 beneficiaries that had been audited more than once over a 3-year period, GAO found that 36 had repeat audit findings of the same rule violation. GAO found that the current beneficiary audit process lacks documented and approved policies and procedures. Without such policies and procedures, management may not have the assurance that control activities are appropriate and properly applied. Documented and approved policies and procedures could contribute positively to a systematic process for considering beneficiary audit findings when assessing the E-rate Program's internal controls and in identifying opportunities to modify existing controls."

"Why GAO Did This Study

Since 1998, the Federal Communications Commission's (FCC) Schools and Libraries Universal Service Support Mechanism—commonly known as the 'E-rate' Program—

has been a significant federal source of technology funding for schools and libraries. FCC designated the Universal Service Administrative Company (USAC) to administer the program. As requested, GAO examined the system of internal controls in place to safeguard E-rate Program resources. This report discusses (1) the internal controls FCC and USAC have established and (2) whether the design of E-rate's internal control structure appropriately considers program risks. GAO reviewed the program's key internal controls, risk assessments, and policies and procedures; assessed the design of the internal control structure against federal standards for internal control; and interviewed FCC and USAC officials.

What GAO Recommends

GAO recommends that FCC conduct a robust risk assessment of the E-rate Program, conduct a thorough examination of the overall design of E-rate's internal control structure, implement a systematic process to assess internal controls that appropriately considers beneficiary audit findings, and establish procedures to periodically monitor controls. FCC agreed with GAO's recommendations."

(No Author). (29 October 2010). Telecommunications: FCC Should Assess the Design of the E-rate Program's Internal Control Structure | GAO-10-908. United States Government Accountability Office. Retrieved from <<http://www.gao.gov/products/GAO-10-908>> on 02 May 2015.

Summary: This GAO webpage provides the highlights and recommendations for the GAO-10-908 report listed previously.

"Since 1998, the Federal Communications Commission's (FCC) Schools and Libraries Universal Service Support Mechanism--commonly known as the 'E-rate' Program--has been a significant federal source of technology funding for schools and libraries. FCC designated the Universal Service Administrative Company (USAC) to administer the program. As requested, GAO examined the system of internal controls in place to safeguard E-rate Program resources. This report discusses (1) the internal controls FCC and USAC have established and (2) whether the design of E-rate's internal control structure appropriately considers program risks. GAO reviewed the program's key internal controls, risk assessments, and policies and procedures; assessed the design of the internal control structure against federal standards for internal control; and interviewed FCC and USAC officials.

FCC and USAC have established many internal controls for the E-rate Program's core processes: (1) processing applications and making funding commitment decisions, (2) processing invoices requesting reimbursement, and (3) monitoring the effectiveness of internal controls through audits of schools and libraries that receive E-rate funding (beneficiaries). E-rate's internal control structure centers around USAC's complex, multilayered application review process. USAC has expanded the program's internal control structure over time to address the program's complexity and to address risks as they became apparent. In addition, USAC has contracted with independent public accountants to audit beneficiaries to identify and report

beneficiary noncompliance with program rules. The design of E-rate's internal control structure may not appropriately consider program risks. GAO found, for example, that USAC's application review process incorporates a number of different types and levels of reviews, but that it was not clear whether this design was effectively and efficiently targeting resources to risks. Similarly, GAO found no controls in place to periodically check the accuracy of USAC's automated invoice review process, again making it unclear whether resources are appropriately aligned with risks. While USAC has expanded and adjusted its internal control procedures, it has never conducted a robust risk assessment of the E-rate Program's core processes, although it has conducted risk assessments for other purposes, such as financial reporting. A risk assessment involving a critical examination of the entire E-rate Program could help determine whether modifications to business practices and the internal control structure are needed to appropriately address the risks identified and better align program resources to risks. The internal control structure--once assessed and possibly adjusted on the basis of the results of a robust risk assessment--should then be periodically monitored to ensure that the control structure does not evolve in a way that fails to appropriately align resources to risks. The results of beneficiary audits are used to identify and report on E-rate compliance issues, but GAO found that the information gathered from the audits has not been effectively used to assess and modify the E-rate Program's internal controls. As a result, the same rule violations have been repeated each year for which beneficiary audits have been completed. For example, of 64 beneficiaries that had been audited more than once over a 3-year period, GAO found that 36 had repeat audit findings of the same rule violation. GAO found that the current beneficiary audit process lacks documented and approved policies and procedures. Without such policies and procedures, management may not have the assurance that control activities are appropriate and properly applied. Documented and approved policies and procedures could contribute positively to a systematic process for considering beneficiary audit findings when assessing the E-rate Program's internal controls and in identifying opportunities to modify existing controls. GAO recommends that FCC conduct a robust risk assessment of the E-rate Program, conduct a thorough examination of the overall design of E-rate's internal control structure, implement a systematic process to assess internal controls that appropriately considers beneficiary audit findings, and establish procedures to periodically monitor controls. FCC agreed with GAO's recommendations."

See the recommendations section. Most of the recommendations listed are still open and have a status update of 2014. For example:

"Recommendation: To improve internal controls over the E-rate Program, the Federal Communications Commission should, based on the findings of the risk assessment, conduct a thorough examination of the overall design of E-rate's internal control structure to ensure that the procedures and administrative resources related to internal controls are aligned to provide reasonable assurance that program risks are appropriately targeted and addressed.
Agency Affected: Federal Communications Commission"

"Status: Open

Comments: In April 2014, FCC approved USAC's hiring of a contractor to conduct a risk assessment of the E-rate Program. FCC plans to implement this

recommendation after the risk assessment is completed and the results of the risk assessment can be used to inform the examination of the internal control structure."

(No Author). (July 2014). Report to Congressional Requesters | Telecommunications | FCC Should Improve the Accountability and Transparency of High Cost Program Funding | GAO-14-587. United States Government Accountability Office. Retrieved from <<http://www.gao.gov/assets/670/664939.pdf>> on 18 March 2015.

Summary: "What GAO Found

The Federal Communications Commission (FCC) has implemented four industry-wide reforms and the initial phases of two carrier-specific reforms for the Universal Service Fund's (USF) High-Cost Program. However, FCC has encountered delays implementing the subsequent phases and more complex carrier-specific funding reforms that require extensive cost modeling and stakeholder input. For example, although FCC planned to fully implement the reform specific to large carriers by January 2013, FCC officials said it will not be implemented until the end of 2014. FCC officials cited their efforts to gather stakeholder input as the primary cause of delays. Some stakeholders told GAO that the delays did not affect them while small, rural carriers said the resulting uncertainty had decreased their investment. Overall, the stakeholder groups GAO contacted generally supported FCC's reform efforts, but had concerns with aspects of the different reforms. For example, representatives of small, rural carriers stated that uncertainty about implementation of the reform affecting them has resulted in their decreased investment in broadband infrastructure.

While FCC collects and reports a range of data and information on High-Cost Program funding, GAO identified gaps in FCC's data analysis and reporting that limit FCC's ability to evaluate the program, demonstrate its effectiveness, and help ensure that the data collected will inform current and future reforms. These gaps include (1) a lack of transparency and accountability of high-cost spending and (2) poor accessibility and usability of data and information. Specifically, FCC has not traditionally demonstrated how High-Cost funds were spent and the results of that funding because FCC had not collected data to do so. Representatives of competitive carriers and consumers told us FCC should increase all carriers' accountability for their use of High-Cost funds by providing information on the results of the funding. Furthermore, FCC has not traditionally presented the High-Cost Program data and information it has collected in a manner that is easy and accessible for interested parties to use. Although FCC made improvements to its data collection and presentation that could help it address some of these gaps, FCC has not indicated what information it will make publicly available on a regular basis in the future. As a result, it is difficult for interested parties to use the information in meaningful ways, such as by making connections between the different sources of data, drawing conclusions about the program, and using the data to inform policy decision making. By improving the transparency and accountability of USF's High-Cost spending, FCC and interested parties could better understand the effects of the reforms; determine those most successful in efficiently enhancing broadband

availability, service quality, and capacity; and identify areas for improvement. GAO's survey of state utility commissions in all 50 states and the District of Columbia showed that as of February 2014, few states reported making changes to their states' high-cost service programs because of FCC's 2011 reforms. Of the 24 states that reported having a state program, only 4 reported making changes to that program either wholly or in part because of FCC's reforms. Seven states reported that they were considering making changes as a result of the reforms; these changes ranged from reconsidering the amount of funds that their state program should provide to carriers to transitioning to a fund that supports advanced services, like broadband."

"Why GAO Did This Study

The USF High-Cost Program targets financial support to rural areas where the cost to provide telecommunications service can be more than three-times greater than the cost in urban areas. High-Cost Program support offsets telecommunications carriers' costs and allows them to charge rural customers lower rates. In 2011, FCC issued the USF Transformation Order, whereby it adopted funding reforms so that the program could support both telephone and broadband service, and capped the program at \$4.5 billion annually.

GAO was asked to provide information on FCC's reform efforts for the High- Cost Program. This report examines (1) the extent to which FCC implemented the funding reforms adopted in the USF Transformation Order and stakeholders' views on FCC's efforts, (2) the extent to which FCC is collecting data to determine the effectiveness of these reforms, and (3) what changes, if any, states have made to their universal service funds since FCC adopted the reforms. GAO reviewed FCC orders, data collection forms, and other relevant documents; interviewed FCC officials and representatives of nine stakeholder associations; and surveyed utility commissions in all 50 states and the District of Columbia.

What GAO Recommends

FCC should demonstrate how High-Cost funds were used to improve broadband availability, service quality, and capacity, such as by conducting analyses of carrier data and reporting the information in an accessible manner. In response, FCC concurred with GAO's recommendation and intends to take action to address it."

Academic (Non-Government) Reports

Jayakar, Krishna P. (2004). The E-Rate Program: A School Menu of Choices. Department of Telecommunications | College of Communications | Pennsylvania State University. Retrieved from http://www.personal.psu.edu/faculty/k/p/kpj1/Erate_paper_TPRC.htm on 21 July 2015.

Summary: This paper was submitted to the Telecommunications Policy Research

Conference in 2004. The author is a supporter of the E-rate Program but he goes into detail about the controversies surrounding the program. The report is 33 pages.

"Abstract

Over the past five years, the E-Rate Program has been instrumental in reducing the digital divide in America's schools: 98 percent of schools in the nation were connected to the Internet by the year 2000. However, right from its inception, a number of controversies have surrounded the program including the right of the FCC to impose a 'tax' on the telecommunications industry, the status of the Universal Service Administration Company, allegations of fraud in the allocation of funds to schools and libraries, and questions whether internet access to schools was furthering the cause of educational equity. A number of these questions have been settled through court cases and administrative reform, but doubts about the future of the program still persist so much so that the U.S. Congress is currently considering proposals to terminate or reform the E-Rate Program. Keeping in mind these controversies and the achievements to date of the program, this paper compares a number of policy proposals that have been put forward recently. It recommends among other things that the future effectiveness of the E-Rate Program may be best served by enabling a shift of funding from telecommunications access to software and content development."

The Center for Public Integrity Report mentioned in the paragraph below, (also referenced in other resources that have been collected), is not accessible on the Internet:

" In early January 2003, the Center for Public Integrity, a Washington, D.C. based public advocacy group, released a report alleging widespread fraud in the E-rate Program that supports telecommunications and Internet access for schools and libraries (Williams, 2003). Based on an investigation by the Office of the Inspector-General at the Federal Communications Commission (FCC), the report alleged that the program overseen by the Universal Service Administration Company (USAC) was 'honeycombed with fraud and financial shenanigans' and that it was 'virtually out of control.' The report received significant coverage in media outlets such as the New York Times and Wired magazine (Mayfield, 2003; Schwartz, 2003). As the report rippled through the system, Congress got involved with a member introducing legislation to abolish the E-Rate program and the House Energy and Commerce Committee announcing hearings on it, which continue at this time. The FCC too was impelled to act, announcing new actions to tighten rules for the program in April 2003 (Shiver, 2003; Trotter, 2003)."

"Proposals for reform

Over time a number of proposals for the reform of the E-Rate Program have been put forward by legislators, academics, think tanks and foundations. The most extreme of these reform proposals call for the termination of the program. A good example of this perspective is a recent Cato Institute report that labeled the E-Rate Program an example of high-tech pork-barrel spending and 'a federally mandated hidden tax on telephone bills' (p. 6) and recommended that: 'The optimal solution would be to end all federal involvement and allow the states to determine how best

to fund technology programs for the classroom' (p. 7) (Thierer, Crews Jr., & Pearson, 2002).

This point of view has also found support on Capitol Hill. On March 12, 2003, Representative Thomas Tancredo introduced HR 1252, the E-Rate Termination Act, calling on the legislature to delete the provisions in Section 254 of the Telecommunications Act extending discounts to schools and libraries. This is not the first time that Congress has considered bills calling for the elimination of the E-Rate. Representative Tancredo himself had introduced a bill (HR 692) in the 106th Congress with language almost identical to the one currently pending before Congress, but it failed to advance beyond the subcommittee stage. Though there is great concern in the media and in policy-circles about fraud in the E-Rate Program, termination does not seem likely at this stage. We also saw earlier in the paper that much still remains to be done in terms of classroom access, types of connectivity and computer to student ratios, making it premature to terminate the program. However, it remains a possibility for the future lending urgency to reform efforts."

"An alternative to termination is the FCC's current model of incremental action..."

"If the FCC's main impediment to E-Rate reform is the absence of legislative authority, a recent Bush administration proposal to reform the E-Rate confronts no such drawback. As part of a broad educational initiative labeled *No Child Left Behind (NCLB)*, the Bush administration proposed set of school technology initiatives that included E-Rate reform (White House, 2003). The administration proposed to combine the E-Rate and other school technology funding plans into a consolidated grant program that will allocate money to states and school districts based on a formula, with a preference given to high-need schools, rural schools and schools serving poor students. Schools would no longer have to apply for funds, but would be awarded technology funds as a block grant according to formula that will also account for need. The Bush administration also proposed that schools should have greater flexibility to utilize the funds for a variety of purposes including software acquisition, internal wiring and teacher training, some of which are not currently funded by the E-Rate Program. Other proposals included support for internet filters in schools to screen out obscene and adult material, encouragement for state-level assessments of technology integration and student performance, and matching grants for community technology centers. Administratively, the E-Rate Program will be removed from the purview of the FCC and placed under the oversight of the Department of Education, where it would be combined with existing school technology funding programs under Title III of the Elementary and Secondary School Education Act (ESEA).

Soon after its release, the 'block grant' proposal met with criticism from several quarters, including public advocacy organizations such as the Benton Foundation, and education groups such as the Consortium on School Networking (CoSN) and the International Society for Technology in Education (ISTE). The greatest concern was that making the E-Rate a block grant program would eliminate the security of an assured source of funding (from the telecommunications industry) and subject it to the normal budget-making pulls and pressures (Dickard, 2002) (see pp. 10-13). Another concern was that private and parochial schools that are currently able to

apply for funding under the USAC-administered E-Rate Program may not be able to do so once the E-Rate became a part of the Department of Education because of concerns about using tax dollars in support of religious institutions. In the face of criticism regarding the proposals, the Bush administration decided not to proceed with its E-Rate reforms.

In light of their criticism of the Bush administration's block grants proposal, the Benton Foundation along with like-minded organizations such as the Consortium on School Networking (CoSN) and the International Society for Technology in Education (ISTE) have been active in defining their own alternative vision of the future of the E-Rate Program. While they are generally supportive of the USAC/FCC administered E-Rate Program, they are unlike the FCC in favor of strengthening and extending it. The Benton Foundation recommends lifting the current spending cap of \$2.25 million; reducing the paperwork burden on applicants to enable more small and poor schools to apply; conducting outreach to low income communities, investigating alternative administrative structures for the E-Rate including possible devolution of some funding decisions to the state level; rethinking discount levels and eligibility ranges to serve the most needy schools; and expanding the list of products and services supported by the program to keep up with new technologies (Dickard, 2002). CoSN and ITSE echo many of these proposals, but add some of their own, including an increased focus on professional development, the use of technologies in assessment and expansion of the federal research agenda on educational technologies (Dickard, 2002). While most of these proposals are commonsensical and unexceptional, they differ from the FCC model of gradualism in advocating increased funding commitments, the extension of funding support to content areas such as professional development and research, and the expansion of the list of products and services covered.

In summary, policy makers are currently confronted with a number of proposals regarding the future of the E-Rate Program, ranging from summary termination to an expansion of its scope and funding commitments. In the next section, we compare these various proposals in the light of the concerns about the E-Rate Program identified earlier, and put forward some recommendations for policy-makers."

Meer, Jonathan. (2006). Highway Robbery Online: Is E-Rate Worth the Fraud? B.Y.U. Education and Law Journal. Retrieved from <http://digitalcommons.law.byu.edu/cgi/viewcontent.cgi?article=1215&context=elj> on 21 July 2015.

Summary: This 33 page article is written in favor of preserving the E-rate Program although it discusses in great detail the issues of waste, fraud and abuse facing the program and also proposals for reform.

"I. INTRODUCTION

In today's **digital age**, there is an increasing societal pressure to be connected to the Internet and those who are not are being left behind. The **digital divide** is separating

many groups of Americans from mainstream society, particularly low-income Americans. Public access to the Internet, found primarily in libraries and schools, is very important in connecting low-income Americans to the World Wide Web. The Schools and Libraries Universal Service Support Mechanism, commonly known as E-Rate, is a means by which schools and libraries can gain financial support for Internet access from the federal government.

Since 1997, the Universal Services Administrative Company (USAC) has disbursed over \$30.3 billion in funding to schools and libraries. The \$2.25 billion a year, funded by taxes on telephone bills that USAC disburses, places the Internet in classrooms 'from Indian reservations and the inner city to the most rural areas.' Unfortunately, the fund has had its share of financial abuse.

The abuse of E-Rate has led to a controversy over whether it is worth continuing. As of the summer of 2004, there were at least forty nationwide criminal investigations into E-Rate fraud. As one editorial explained, 'it is easy for sly computer and telecom companies to persuade poor and technologically un-savvy school districts to buy equipment and services that they don't need, and to overcharge the districts, knowing that most of the tab will be picked up by E-rate.' USAC, which controls the E-Rate fund, along with the FCC and Congress, have all made attempts to fix E-Rate. Nevertheless, some people have openly argued that E-Rate is not worth saving. With so much federal funding in jeopardy, it is time to take a long, hard look and determine whether the system is worth saving.

This article generally provides an overview of the E-Rate Program and demonstrates the overall success of the program. Part II begins with a background section of E-Rate's history, funding, and accomplishments. Specifically, this section details specific examples of its failures and the temporary fixes the federal government put in place. Part III of this article offers the basic criteria used in determining whether the E-Rate Program should be maintained and further proposes recommendations to sustain it. Finally, the conclusion in Part IV considers E-Rate's place in American Society, tying together its past, present, and future role in preparing our children for the technological future."

Regarding instances of fraud in the program:

"Even with the many fraud investigations, government officials acknowledge that E-Rate funding is still not being audited enough to determine whether the funds are being effectively allocated by the school systems. An auditing process was not even in place until the third year of E-Rate funding. In 2004, the FCC 'completed 110 audits, almost three times as many as in the program's first four years,' which was a small fraction compared to the 35,000 applications that were granted.

Despite the small number of audits that were conducted, the results revealed that only about one in three school districts and library systems audited had compliance problems. The bottom line is that as of October 2004, the E-Rate Program has cost the American public thirteen billion dollars, however, with less than one percent of E-Rate recipients being audited, 'these cases may be just the tip of the iceberg.' "

Included in this article are examples of waste, fraud and abuse from Puerto Rico,

New York, San Francisco, Wisconsin/Chicago, El Paso, and Atlanta.

"IV. CONCLUSION

Overall, those involved in the E-Rate Program, from teachers to administrators to members of Congress, view it as a successful government program and the few problems that it has experienced has not caused the program to end.

The **Twenty-First Century** is a **digital age** and it is imperative that students have access to the tools of technology in order to succeed. Congress and the FCC continue to make changes to the E-Rate Program and should continue to do so. The proposed plan of decreasing the total funds allotted to E-Rate and increasing auditing does not signify the end of the program but is rather a means to extend its life. However, fraud in the system cannot be ignored. Enacting and enforcing stricter guidelines and making less funding available will effectively increase the efficiency of the E-Rate Program, allowing schools to continue to use E-Rate in preparing our nation's children for the technological future of tomorrow. E-Rate has been a success and will continue to thrive as it helps to improve the educational system in the United States. Enacting and enforcing stricter guidelines and making less funding available will effectively increase the efficiency of the E-Rate Program, allowing schools to continue to use E-Rate in preparing our nation's children for the technological future of tomorrow."

Hazlett, Thomas. & Wallsten, Scott. June 2013. Unrepentant Policy Failure | Universal Service Subsidies in Voice & Broadband. Arlington Economics. Retrieved from <<https://app.box.com/s/snp377aehtxicqy4q6ym>> on 18 March 2015.

Summary: (Abstract) "In the first half of 2013, the Universal Service Fund levied a nearly 16 percent tax on users of fixed, mobile, and VoIP communications, spending nearly \$9 billion to extend networks. Yet USF expenditures - about \$110 billion (in 2013 dollars) since 1998, of which \$64 billion went for telephone carrier subsidies - extend voice services to, at most, one-half of one percent of U.S. households. This generous estimate of about 600,000 residences implies a cost-per-home of \$106,000, just counting the federal carrier subsidies. Entrenched interests make the program exceedingly difficult to change. These interests include hundreds of rural telephone companies, inefficiently small and opportunistically expensive because funds are paid out according to cost-plus criteria. Some carriers receive more than \$10,000 per line per year to support voice services. Yet, FCC data show that mobile voice service is available to 99.9 percent of households and wireless broadband service to over 99.5% of the U.S. population including 97.8 percent of rural residences. In addition, satellite systems supply voice and data services to households virtually everywhere people live in the United States, using networks build without subsidies. Even with subsidized lines, subscribers typically pay \$400 a year or more just for voice service. While some USF dollars help low-income subscribers pay their bills, 80% of poor households receive no subsidies and yet pay the USF tax. Studies including several by the Government Accountability Office (GAO), have repeatedly revealed USF waste, fraud and abuse. The Federal Communications Commission (FCC) issued a 751-page Order in late 2011 purporting

to deal with part of the situation, but rather than fixing fundamental problems the FCC Order extends subsidies from voice to broadband and mandates increases in payments to carriers. Even when attempting to reign in costs, the Order applies Band-Aids where tourniquets are needed. Emblematic of the new rules is a measure to limit subsidies to rural carriers to \$3,000 per line per year. This laughably spacious ceiling - in a day when satellite voice-and-broadband service is offered to virtually every U.S. household for \$600 a year — will fail to remedy the endemic waste in the USF. Instead, it targets the - headline risk policy makers now face when grotesquely profligate industry payments are made public. Most critically, the FCC provides a new rationale for subsidies - substituting - broadband for voice - breathing renewed political life into a failed government initiative that taxes urban phone users, most heavily poor households who use wireless phones and make long-distance (including international) calls, in order subsidize phone companies and property owners in rural markets. Indeed, the reform's first effects were to increase the High Cost Fund by about \$400 million. Upon examination, the fig leaf of - public interest for this transfer wilts. Any plausible cost-benefit test reveals that economic welfare would increase were the entire \$9 billion per year USF Program eliminated."

Additional excerpts / notes from this report:

" 'Fannie Mae routinely claimed that it passed along every penny of its cost savings to homebuyers in the form of lower mortgage rates. This allowed the company to argue that any change in its status would result in higher housing costs for everyday Americans.

It wore the claim like a coat of armor, protecting itself from critics' slings and arrows. Only later would it emerge that the company kept billions of dollars - at least one third of the government subsidy - for itself each year. the money it dispensed to its executives, shareholders, and friends in Congress.' ~ RECKLESS ENDANGERMENT (2011) (4)"

"More than half of the total (USF) is earmarked to extend telephone service to those sparsely populated places where, for economic reasons, networks would presumably not otherwise extend. The remainder of the fund - intended for low income-support and for schools and libraries - is available to rural and urban areas. Yet, implementation of the USF, launched by the 1996 Telecommunications Act, has been abysmal. A consensus among expert economists is that instead of improving network coverage or benefiting telecommunications users, the subsidies have been wasted, padding the costs of rural phone companies and delivering only pennies on the dollar, if that, in social value.

And the premises of the two largest components of the USF - the High Cost Fund (HCF, about \$4.0 to \$4.5 billion per year) and the Schools and Libraries Program (E-rate, capped at \$2.25 billion per year) —have vanished. In essence, these programs have run out of things to subsidize.

The HCF was supposed to ensure that voice telephone service was available at reasonably comparable prices nationwide. Today, competitive mobile carriers provide voice coverage to 99.9% of the U.S. population and at least 95% of U.S. homes have the choice of at least two local network providers for fixed line voice.

The idea that 'plain old telephone service' (POTS) is (a) a necessity, and (b) often unavailable, and thus (c) worthy of generous public subsidy has been swept aside by simple market evolution.

Since 1998, an average of well over \$2 billion per year has been devoted to connecting all U.S. schools and libraries to the Internet via high-speed connections through the Schools and Libraries, or E-rate Program. That task was long achieved; indeed, as of 2003, the National Center for Education Statistics reported that 100% of U.S. schools enjoyed Internet access, 95% of which were via broadband connections. Nonetheless, the subsidies continue to flow, large expenditures producing no observed change in the opportunity or educational outcomes for school children. In its repeated reports on E-rate, the Government Accountability Office has pleaded for clearer goals, greater transparency, and effective assessments. Policy makers have largely ignored GAO. The program, lacking effective oversight, has been plagued with widespread abuse and even criminal fraud in the disbursement of funds to politically connected contractors."

"No matter how the FCC tweaks the program, the USF's High Cost Fund (HCF) will fail in the future - as it has until now - to benefit the consumers it is supposed to help. The system, as designed, awards subsidies to networks supplying approved services. These networks, in return, agree to price such services at rates comparable to those available in average markets (urban and suburban). The idea is that residents in far-off rural locales enjoy lower voice or broadband rates than an unregulated market would offer. Yet these benefits, amenities attached to all residents living in these particular precincts, raise local land prices and housing rents. Just as agricultural subsidies pass through the farmer to the owner of the cropland she farms, a rural build-out subsidy scheme that did manage to deliver, say \$480 a year in benefits to each household, would raise monthly rents by about the same \$40 or home prices by, depending on the interest rates, about \$9,600. The parties reaping the benefits, then, include (a) the owners of the high-cost rural telephone companies, encouraged to operate with excessive cost structures — too many private jets, overpaid managers, gold-plated offices, etc. — and (b) landowners in areas where service is available due to the subsidies."

"On the other side of the ledger, consumers - rich and poor - are left to pay for all this. The Universal Service Fund is financed not by general U.S. Government revenues but by special tolls levied on 'long distance' phone calls and wireless voice service. Between 1998 - 2012, the USF dispersed about \$94 billion (\$110 billion in 2013 dollars) to support its programs; High Cost Fund (HCF), Schools and Libraries (E-rate), Low Income, and Rural Health Care. The tax rate necessary to support this spending more than quadrupled during the life of the USF, from an annual average of 3.6% in 1998 to 17.1% in 2012."

"The definition of what gets taxed is complicated..."

"The taxes represent more than a simple transfer. Each dollar raised by the government deprives private parties of that dollar and, in addition, reduces some transactions that would otherwise take place. In other words, the taxes distort economic activity and thereby create efficiency losses. These distortions are larger the more price sensitive consumers are to the taxed good or service."

"A longstanding criticism of the U.S. approach to Universal Service in telephony is that the system subsidizes the provision of telephone *access* which tends to be *inelastic* (very few households would disconnect if the monthly rate were to increase by, say, 15 percent) and the demand for long-distance and international usage is much more *elastic* (many users will talk less when per minute fees rise by 15 percent). For instance, when wireless services are taxed, as they are now for USF support, each dollar collected produces additional losses to the economy of an estimated \$0.72 to \$1.14."

"No evidence suggests that the cost of USF taxes are offset by social benefits. Rural phone carriers, the largest beneficiaries of the program, reap returns in the form of extravagant subsidies. But they incur extravagant costs to qualify for the subsidy payments. The \$2.25 billion annual E-rate Program has similar problems. As shown in section 7, no visible increase in broadband penetration (among schools and libraries) has occurred due to these subsidies, and none will occur going forward. More essentially, the E-rate subsidies have generated no measured improvement in student performance."

"Low-income recipients do receive economic benefit from the programs in the form of transfer payments. In programs described in Section III, welfare-eligible households receive assistance in paying for local phone connections. Yet, because even low-income users pay the taxes that support universal service and 80 percent of low-income users pay the tax but receive no benefits, the bulk of low-income families are, on net, worse off because of USF. Even low-income families that receive assistance may be harmed relative to a world without USF programs, depending on the magnitudes of the rival income transfers. And low-income families who do benefit, on net, would gain even more were they simply to receive equivalent cash payments instead."

"In short, USF is ill designed and poorly implemented. It has not been usefully deployed in telecommunications networks and has not delivered what it promises: lower cost access to households needing it most. But it has produced some striking examples of government transfer programs gone haywire, as seen when examining where the High Cost Fund subsidies go.

A 2006 study of how the High Cost Fund (HCF) actually distributed its subsidies revealed startling statistics. As the table below shows, two companies were receiving more than \$12,000 per line annually, with eight others receiving more than \$3,000 per line annually.

Five years later, the Federal Communications Commission itself reviewed the situation. Remarkably, the Commission found that the problem had worsened; by then some 10 companies were getting more than \$5,000 per line per year in federal tax subsidies - double the number in 2005. One company received \$23,000 per line per year in federal payments, or 75% more than the top recipient in the previous study.

In fairness, these examples - egregious as they are - are outliers. The average rural telephone company receives far less; mean and median payments, per line per year,

as shown in Table 4. Subsidy payments that exceed the price of available unsubsidized service by an order of magnitude, however, vividly demonstrate the irrationality of the methodology used to determine the subsidies. And taxpayers are truly hurt by the *average* case, where billions of dollars in costs are reimbursed for hundreds of carriers under a system that possesses no ability to determine whether payments are worthwhile, how to best allocate scarce resources, or to introduce efficient substitutes."

"The primary change to the HCF is to redirect funding from voice to broadband services."

"Even ignoring such innovation (referring to non-subsidized satellite voice and broadband services that are cheaper and faster), subsidies sent to rural telephone carriers of more than twice the retail price of service cannot plausibly benefit society. "Beneficiaries" are hit both with USF taxes, funding the subsidies, and then must pay monthly service charges, which could easily exceed another \$400 per household per year. Moreover, the subsidy scheme clearly undermines the development of unsubsidized competition from advanced technologies that are far more efficient in serving remote regions than the tiny wireline carriers subsidized by the USF."

"Funding for Schools and Libraries (E-rate) and for Rural Health Care support was initiated by the Telecommunications Act of 1996, which also designated a Joint Federal-State Universal Service Board to determine the structure of the system.

In theory, subsidies have two underlying justifications:
Improving economic efficiency associated with network externalities, and
Advancing social equity by ensuring widespread access to a basis set of services."

"Where Does Universal Service Money Come From?"

Funds are collected through taxes on long-distance (interstate and international) and VoIP services nationwide. The administrator of the USF, the Universal Service Administrative Company (USAC), sets the tax rate, or 'contribution factor', quarterly to ensure the fund is large enough to meet the demands of the USF programs.

Figure 3 shows increase in the tax rate — from 5.7 percent in 2000 to 15.8 percent in the first two quarters of 2013 — and decrease in the base. The increase in the tax rate is not surprising. USF expenditures are increasing while consumer spending on long distance services decline.

In 2005, the Congressional Budget Office noticed these trends and expressed concern that 'rapid changes in the telecommunications marketplace have rendered the current financing system increasingly impractical and unfair.' To date, the FCC's primary response to this growing problem has been to *expand* the base to include VoIP and increase the share of wireless revenues subject to universal service taxes."

"The HCF has largely operated without a budget constraint. With limited exceptions, High-Cost Fund recipients report how much money they 'need' and regulators provide it by adjusting tax rates. As a result, neither the recipients nor the administrators of the fund face any inherent incentives other than angry legislators or

net payers into the fund to improve efficiency."

"The HCF has spawned a cottage industry of rural telephone carriers keen on operating at very high cost. Despite the subsidies, POTS has dramatically declined in recent years as customers abandon traditional networks for new technological options. The diminishing scale of subsidy targets has therefore led regulators to refocus: the declining fixed line voice sector will now be brushed aside so as to make way for subsidy flows in broadband." pg. 27

"The Government Accountability Office and the Office of Management and Budget have repeatedly berated the USF for its lack of any measurable goals, making it difficult to determine whether the program is effective." pg. 41

VI. E-rate Gets an "F"

"E-Rate Basics

By the mid 1990's, a consensus was developing that all of the nation's schools and libraries should have access to advanced telecommunications services. Starting in 1994, the National Center for Education Statistics (NCES), part of the U.S. Department of Education, began surveying public schools to measure what proportion were connected to the Internet. When the Telecommunications Act of 1996 was passed, its Universal Service Fund included provisions for assistance to schools and libraries for the acquisition of telecommunications and Internet services as well as internal network connections.

The Schools and Libraries Universal Service Support Mechanism — commonly known as the E-rate Program — was created in 1997. Any non-profit elementary or secondary institution (with an endowment less than \$50 million) and any library with an independent budget can apply annually for support and, if approved, receive discounts for eligible services actually deployed. The discount rates, varying between 20-90%, are based upon income levels in the local community and whether the location is urban or rural. Total program funding was capped at \$2.25 billion per year and the FCC designated the Universal Service Administrative Company (USAC) to manage the program. From 1998 — the first funding year of the program — to 2011, \$26.4 billion in funding commitments have been made to schools and libraries across the country. (See figure 1 for the annual flows.) But social benefits from this E-rate spending have proven elusive.

Indeed, for a decade and a half the E-rate has been a case study of how not to run a social program. Lacking clear goals, lax in effective oversight, and riddled with dubious and even outright criminal conduct, the ostensible aim of the billions in public spending — improved student learning — has been entirely lost. Instead, an 'E-rate Industrial Complex' has sprung up to claim the lavish awards, sprinkle policy makers with clichés about supporting 'computers in the classroom', and yet leave the public with nothing but higher taxes." pgs 42 - 43

"In 2005, the U.S. Office of Management and the Budget did an assessment of E-rate in which it concluded that: In 2003, nearly 100 percent of public schools now have internet access, including 93 percent of classrooms. 95 percent of these schools

reported that they use broadband...There is no data that isolates the impact of E-rate funding on this growth.

The OMB assessment went on to give the E-rate Program a grade of 'Not performing — Results Not Demonstrated.' " pg 43

"The funds that keep pouring out of E-rate at more than \$2 billion per year need to find new spending targets. That the program switched from connecting schools to broadband networks, to then connecting classrooms, suggests that the availability of 'free money' had resulted in mission creep. This led the program to subsidize new items when the old items - due to total saturation — provided few outlets for spending. Than classroom connectivity became the next frontier was logical in terms of the structure of the subsidy scheme, but economically irrational: local wireless networks (WiFi), combined with the increasingly dominant use of portable computers (notebooks, netbooks, and tablets), render classroom connectivity virtually irrelevant in the contemporary elementary, middle, or high school.

Even assuming, far beyond the evidence, that E-rate funding has materially contributed to broadband connectivity in America's schools, it would appear that the 1996 Telecom Act's stated objective has been met...Hence the E-rate Program has run its course. While the mission may have been accomplished, the spending continues." pg 45

"From July 2007 to March 2009 the Government Accountability Office conducted an exhaustive assessment of the E-rate Program, focusing on three key areas:

Trends in demand;
Levels of, and impediments to, program participation;
Performance measures and goals;

The GAO's evaluation of performance measures is particularly informative. The agency summarizes how, over many years, the FCC has persistently ignored, delayed or weakly and inadequately implemented the recommendations made in previous GAO studies. See Figure 17. History of GAO E-rate Findings and FCC's Response"

The GAO report numbers, years and findings taken directly from GAO's Table 2: Summary of Past GAO Finding and Recommendations on E-rate Performance Goals and Measures and FCC's Response (Fig 17):

1998 / GAO / T-RCED-98-243 FCC did not provide specific strategic goals, performance measures, or target levels of performance for the E-rate program, as GPRA requires. (See p. 15)

1999 / GAO / RCED-99-51 FCC still failed to provide well-defined goals, performance targets, and measures for the E-rate program. (See p. 13)

2000 / GAO-01-105 After false starts, FCC developed performance goals and measures for the E-rate program. (See pp. 33-34)

2005 / GAO-05-151 The goals and measures that FCC set for fiscal year 2000 through 2002, which measured connectivity in public schools, were not useful in assessing the impact of E-rate program funding. In addition, FCC did not consistently set annual goals for the two other major E-rate beneficiary groups - libraries and private schools. (See pp. 20-22)

"In report after report, the GAO has deeply criticized the operation of E-rate by the Federal Communications Commission. The Commission has done little of substance to improve matters, spending billions of dollars annually without proper accounting to determine if anything has been accomplished. GAO's insights relay the basic story." pg 47

"Rather than establishing goals, evaluating performance, and providing transparent accounting for voters and taxpayers, the executors of the E-rate Program have been busy making the funding application process as complicated as possible. Now, great expertise is needed to understand the forms, and a cottage industry of consultants has sprung to life to assist schools and libraries to score E-rate awards. One would have thought the Internet connected computers at the schools and libraries would have allowed local officials to access such knowledge without hiring expensive consultants. Yet there appears to be enough business for multiple competitors in the consulting niche, and for group expenditures on lobbying." pg 48

"Complex rules, shadowy goals, and fabulous amounts of funding. It leads directly to what government auditors politely call 'noncompliance.' " pg 48

"Many cases of outright fraud have come to light. A report in WIRED noted, as early as 2003, that 'the [E-rate] program has also grown so much that deceitful contractors have squandered funds while other beneficiaries have made egregious accounting errors.' In November 2010, Hewlett-Packard agreed to pay \$16.25 million to settle an investigation by the FCC and the U.S. Department of Justice. The case, like many in the past, involved inappropriate gifts to public officials. The allegations were that HP and other had provided Dallas and Houston school personnel with Super Bowl tickets, yacht excursions and meals to skirt a competitive bidding process to secure E-rate contracts. In 2011, school officials in Pennsylvania and Iowa pleaded guilty to outright E-rate fraud." pg 48

"Providing telecommunications and Internet access to the school buildings is one thing. Paying for endless technology upgrades is another. And simply squandering billions of taxpayer dollars under the guise of helping school children is yet another." pg 49

"There exists a lively debate about the appropriate role of technology in the classroom. School boards receiving E-rate subsidies and companies selling computers or network access tend to favor the view that connected-classrooms make students smarter. But many technologists and education experts disagree.

Paul Thomas, a former teacher and an associate professor of education at Furman University, who has written 12 books about public education methods [says] that 'a sparse approach to technology in the classroom will always benefit learning.' 'Teaching is a human experience,' he said. 'Technology is a distraction when we

need literacy, numeracy and critical thinking.' " pg 50

"The most important E-rate question has to be: *does spending more money on computers and connectivity increase student learning?* No high-level evidence suggests a positive connection between the two." pg 50

"Los Angeles Times columnist Michael Hiltzik notes that there's little evidence that fancy technology helps children do better in school. 'The media you use makes no difference to learning,' [said] Richard E. Clark, director of the Center for Cognitive Technology at the University of Southern California... 'Not one dang bit. And the evidence has been around for more than 50 years.' "

"Hiltzik cited a 1996 paper by Gabriel Solomon of the University of Haifa and David Perkins of Harvard that said that 'computers in and of themselves, do very little to aid learning' and that putting computers in the classroom 'does not automatically inspire teachers to rethink their teaching or students to adopt new modes of learning.' He warned that recent efforts by Education Secretary Arne Duncan and FCC Chairman Julius Genachowski to demand that every American public school student have his own laptop 'distracts from and sucks money away from the most important goal, which is maintaining good teaching practices and employing good teachers in the classroom.' Duncan and Genachowski, he argued, 'have bought snake oil' through their efforts to massively subsidize technology in the classroom. 'They're simply trying to rebottle it for us as the elixir of the gods.' "

"A growing body of research indicates that Internet connectivity can actually impede learning. In his book, *The Shallows: What the Internet is Doing to Our Brains*, New York Times correspondent Nicholas Carr discusses relevant discoveries in neuroscience including the work of Michael Merzenich, Eric Kandel and developmental scientist Maryanne Wolf. Carr discusses the human capacity for, and the importance of, 'deep reading', which has always required 'sustained, unbroken attention to a single, static object.' The Internet, he laments, does not foster or reward deep reading: 'Dozens of studies by psychologists, neurobiologists, educators and Web designers point to the same conclusion: when we go online we enter an environment that promotes cursory reading, hurried and distracted thinking, and superficial learning.' "

"The 2 billion-plus spent annually on E-rate produces, likewise, little positive evidence. Virtually all U.S. schools have been Internet-connected, at broadband speeds, for a decade. No evidence suggests that this build-out project has improved educational outcomes, and no evidence is needed to understand that continuing to spend at the same level even after the project has reached completion will help our children learn to read, write, or take the square root of 204. Stacking more and more computers in classrooms, which seems to be the current enterprise of the E-rate Program, would make no sense even if notebooks, tablets and smartphones had not overtaken desktops, or if the market was now headed to cloud computing — where computing is done without the computers taxpayers are now buying and stacking. It is plain, even without reading the myriad government watchdog reports castigating E-rate for its absence of coherence, oversight, or results that while vendors and lobbyists are 'well-connected' in this program, America's elementary and secondary students are not.

Faced with the stark reality that the USF is failing to produce benefits, the FCC seeks to rein it in. The most important initiative, perhaps, is to cap total spending. The E-rate is already capped at \$2.25 billion per year by the FCC, but it relies wholly on mission creep to continue cranking out such subsidies year after year. The market long ago achieved what the E-rate was designed to achieve. Meanwhile, supplying carriers' subsidies via the High Cost Fund, consumes about twice as much. While the Commission proposes cost-saving measures, and aims to limit future spending to \$4.5 billion, it actually designs this budget to be a floor as well as a ceiling. Hence the curious exercise whereby the FCC 'price controls' itself appears to result in an immediate spending increase of close to \$500 million." pg 54

"The FCC, which is too politically constrained and vested within the current system of taxes and subsidies to conduct true evaluation, should not be responsible for determining whether the program is effective. Instead, the analysis should be conducted by an independent agency, such as the Government Accountability Office, the Congressional Budget Office, or the Office of Management and Budget.

Were objective third party audits to establish the dramatic expense and regressive consequences of the USF tax, perhaps a new political coalition might seize the moment presented by the hollow but expensive shell of the Universal Service Fund. If so, great social gains could well be produced, at a social cost near zero." pg 54

Alster, Norm. (30 June 2015). Captured Agency: How the Federal Communications Commission is Dominated by the Industries It Presumably Regulates. Edmond J. Safra Center for Ethics | Harvard University. Retrieved from http://ethics.harvard.edu/files/center-for-ethics/files/capturedagency_alster.pdf on 22 July 2015.

Summary: Captured Agency is a recently published report explaining the corruption of government agencies by the telecommunications industry and the dynamics that are in place, rendering our (federal, state, local) government(s) ineffective at protecting the public interest. Tactics of the industry are explained in detail.

The scientific studies that have been done on health impact of wireless radiation are included in the discussion and there is a section dedicated to the issue of E-rate and Wi-Fi in schools.

The "Gore Tax"

Clausing, Jeri. (27 February 1998). Gore Defends Program to Wire Schools. Technology | Cybertimes | The New York Times. Retrieved from

<<http://partners.nytimes.com/library/tech/98/02/cyber/articles/27education.html>
> on 16 April 2015.

Summary: "WASHINGTON — Vice President Al Gore on Thursday warned that Congressional members floating proposals to cut financing for a new program to help poor and rural schools connect to the Internet are in for a tough fight.

'There are those who would pick the money from the pockets of our poorest schools,' Gore said. 'I would like to say to them loudly and clearly: Your efforts to block the E-rate is an effort to ration information and ration education and it would darken the future of some of our brightest students. We will not let you do it.'

Gore made the remarks in a speech to the Connecting All Americans Conference, where fears were high that Senator Ted Stevens, an Alaskan Republican, is drafting legislation to cut back to so-called 'E-rate' Program that was added to the Universal Service Program in the 1996 Telecommunications Act.

An aide to Stevens, Mitch Rose, said that no bill had yet been drafted, but that there are conversations and proposals being floated in both houses of Congress and by both parties to make alterations to the program.

The discussions are fueled by a recent report questioning the FCC's decision to put administration of the program under a non-profit organization and concerns that the program, which is financed largely by local and long-distance phone companies, will result in higher telephone rates."

"The new program, part of the Universal Service Program that was established to ensure rural customers could get telecommunication services at rates comparable to urban residents, is being administered for the FCC by a new non-profit group, the Schools and Libraries Corp. It formally opened in January. So far, 19,000 applications for aid have been filed."

"The Senate plans hearings on a report from the General Accounting Office that is critical of the non-profit corporations' administration of the program. And Stevens has asked for an FCC report on implementation of Universal Service provisions of the 1996 Telecommunications Act. The report is due April 10.

Telephone companies, which finance the bulk of the program, have also complained about the program and the fact that Internet service providers are not required to help fund it.

But Gore, (FCC Commissioner) Kennard and others at the conference emphasized the need for maximum financing to make sure that inner-city and rural schools and libraries have the same tools as suburban schools.

Gore said that since the Clinton Administration took office in 1994, the share of schools connected to the Internet has nearly doubled to 80 percent, while the number of classrooms wired has increased nine times."

" 'We have made great progress, but it's not even close to what we need,' Gore said.

The new Education Department study he cited shows schools with 50 percent or more minority students and 71 percent of low-income students still lag behind.

"It is critical that we connect all our children to the Internet to give them the tools that will help shape their future," Gore said. We must bridge the '**digital divide**' and provide a direct link to all classrooms so low-income and rural students don't get left behind. All of us must stand together to oppose those who would take the future from our kids by destroying this program.' "

Simons, John. (11 May 1998). Stung by Criticism, FCC Plans to Alter Web-Connection Plan. The Wall Street Journal. Retrieved from <<http://www.wsj.com/articles/SB89464949998083000>> on 16 April 2015.

Summary: "In a report Friday to Congress, the FCC said it will combine the Schools and Libraries Corp. with the Rural Health Care Corp., folding the two into the Universal Service Administration Co., an existing quasi governmental group that subsidizes telephone service in low-income urban areas and rural regions.

Capitol Hill lawmakers recently ordered the FCC to rethink its wiring effort after an investigation found that the agency violated a decades-old law that prevents federal agencies from creating independent corporations without congressional oversight. Congressional critics, prodded by the telephone companies, also labeled Schools and Libraries Corp. a bloated bureaucracy.

The wiring program, funded with government fees charged to telephone companies and usually passed on to consumers, is designed to provide schools, libraries and rural health-care centers with discounts of between 20% and 90% for Internet wiring and equipment. Congress approved the program in its sweeping 1996 telecommunications reform law, but provided the FCC little guidance in setting it up, agency officials said."

"The FCC also said it doesn't have enough money to fund the program at its current levels. It plans to seek public comment on whether the funding 'should be limited to an amount that does not cause long-distance rates to increase.' "

(No Author). (04 June 1998). Debate Over 'Gore Tax' Heats Up. Tech Law Journal. Retrieved from <<http://www.techlawjournal.com/telecom/80604.htm#WASTE>> on 18 March 2015.

Summary: This resource explores the debate in 1998 over the 'Gore Tax'. At the time this article was written, the issue being discussed was if the public should be informed they were being taxed, not the fact there was a tax to begin with for the purpose of subsidizing technology in schools.

Two major telecommunications carriers, MCI and AT&T announced they were going to notify their customers of the additional tax but the FCC Chairman at the time, William Kennard wanted to stop phone companies from revealing such information. "Kennard, one of the main architects of the Schools and Libraries Program, 'sharply criticized' AT&T and MCI for their decision to notify their customers and he planned to take action against them. He termed AT&T's actions 'premature, unwarranted.' After MCI's filings he stated that phone companies 'should not take advantage of consumers by over billing their customers and then blaming it on the government.' "

"Vice President Al Gore has been frequently touting the Schools and Libraries Program as the Clinton/Gore administration's plan to connect every classroom in America to the Internet by the year 2000. In these election campaign style events, Gore does not mention the \$2.2 billion per year 'tax' which is ultimately being paid by phone users to fund the government subsidies, which constitute the program. It is these speeches which have lead others to label the charges on phone users the 'Gore Tax'."

"The FCC created the Schools and Libraries Corporation to administer FCC defined subsidies for telecommunications, Internet access, and computer networking hardware, software and installation. The basis for doing so is Section 254 (h) of the Telecommunications Act of 1996, which instructed the FCC to extend universal support to 'telecommunications' for schools, libraries, and rural health care providers. (The Government Accounting Office has issued a report that the Schools and Libraries Corporation is illegal.)"

"In reaction to the phone company announcements, the Commission scheduled a meeting for Tuesday, June 9 to 'consider proposals to ensure the accuracy and completeness of billing disclosures made by telecommunications carriers.' "

"At the same time, FCC Commissioner Harold Furchtgott-Roth has long dissented that the FCC was never given authority from Congress to provide schools and libraries with anything more than 'telecommunications' services. Moreover, rather than supporting Chairman Kennard, he released a statement over the weekend praising AT&T for its plans to inform consumers in its monthly bills."

In Furchtgott-Roth's view: "Six months ago, the Federal Communications Commission imposed American consumers a new tax on telecommunications services. It is a tax that is paid by the consumer either through higher rates or through rates that would have been lower without the tax. Surely, American consumers must know they are paying this tax. No, the sad fact is that most American consumers do not even know that they are paying this tax. It does not appear on most bills. The ignorance of most American consumers about this tax is not an accident. It is planned ignorance. If American consumers knew about the tax, they might not want to pay it."

Commissioner Michael Powell also wrote a dissenting statement regarding the USF tax:

"I am increasingly troubled by the suggestion, evidenced in the report, that carriers should conceal their Universal Service contributions or not allow carriers to recover such contributions from consumers. Section 254(e) of the Act expressly mandates

that Universal Service support be 'explicit' 47 U.S.C.254(e) Further, as the report recognizes, carriers have the flexibility to decide how they will recover their Universal Service contributions, and I doubt the Commission has the authority to prevent carriers from recovering from their customers. My fear is that, rather than accept our apparent lack of authority to prevent carriers from passing their contributions on to their customers, the Commission will continue down the road, as evidenced in the report, of suggesting that politically-unpopular methods of recovering such contributions (i.e., line items on consumer telephone bills) somehow amount to fraud or misrepresentation."

Sen. John McCain (R-AZ), Chairman of the Senate Commerce Committee which has jurisdiction over the FCC, expressed his displeasure at the FCC and Commissioner Kennard's decision to discourage telecoms from informing their customers of the USF charge.

"Regarding the E-rate Program, Senator McCain criticized the FCC's handling of the schools and libraries subsidies. He wrote that the program is already too large. '[T]he Commission created a subsidy so large that it cannot be funded without levying added charges...on consumers. In retrospect, the Commission may not have made a wise choice. Since available statistics show that about eighty percent of all schools are already wired for Internet service, the Commission could have devised a much more modest subsidy program...' "

Senator Burns who represents Montana said, "Nothing in the Telecommunications Act suggests that the Universal Service Fund should become a cash cow for Internet access or a vehicle for political campaigns. The law explicitly states that this goal should only be accomplished in a way that is economically reasonable. "I would argue that excessive line-item charges on consumers' phone bills which put the goals of Universal Service at risk fail this test miserably."

" 'Also, the para-Congressional way this whole process has gone on is another problem,' said Matt Raymond, a member of Sen. Burns' staff. 'Trying to remove Congress from the process is what concerns us, and the GAO report underscores that.' "

Clausing, Jeri. (17 July 1998). U.S. Plan to Wire Schools Faces Another Critical Report. Technology | Cybertimes | The New York Times. Retrieved from <<http://partners.nytimes.com/library/tech/98/07/cyber/articles/17erate.html#1>> on 16 April 2015.

Summary: "WASHINGTON — Schools and libraries will not receive discounted Internet hookups until at least this fall because a controversial new federal subsidy program still lacks crucial safeguards to ensure money flows only to eligible applicants, the head of the corporation administering the program told Congress on Thursday.

"McCain, however, pressed repeatedly for an answer, because, he said, 'already

\$18.8 million dollars has been spent and not one penny yet has gone out to a single school or library.' He added, 'The expectations were that this program would be on the road a long time ago.' "

"The Schools and Libraries Corporation was established by the Federal Communications Commission last year to carry out a provision of the 1996 Telecommunications Act that called for subsidies to give schools and libraries discounted Internet hookups. It is financed by fees on telecommunications companies.

But the program has been a political hot-potato ever since, with Republican leaders like McCain blaming the size of the program for new fees that have been added to phone bills. Those new fees have been dubbed the 'Gore Tax', because of Vice President Al Gore's stated goal to have all of the nation's classrooms wired to the Internet by the year 2000.

In response to the political pressure, the FCC recently cut the amount of the money to pay for the subsidized hookups by nearly half - to \$1.275 billion of 1998. It has also trimmed salaries at the corporation and announced plans to fold the corporation into another existing group overseen by the commission."

" 'As we debate this issue, it is very important to keep several things in mind. First the E-rate Program is fundamentally strong and sound,' said Senator Jay Rockefeller, a Democrat from West Virginia. 'While concerns have been aired, not one issue has been raised that has not or cannot be fixed.' "

(No Author). (20 July 1998). Senate Committee Holds Hearing on Schools and Libraries Corporation. Tech Law Journal. Retrieved from <<http://www.techlawjournal.com/telecom/80720slc.htm>> on 16 April 2015.

Summary: "The Senate Commerce Committee held a hearing into waste, fraud, and mismanagement, and other problems, at the Schools and Libraries Corporation (SLC) on Thursday, July 16. The SLC administers a program for funding subsidies to schools and libraries for computer networking, Internet access, and phone service. The Committee heard testimony from SLC President Ira Fishman, and GAO representative Judy Joseph.

The July 16 hearing included contentious and adversarial episodes rarely seen in the Senate Commerce Committee room. Committee Chairman John McCain (R-AZ) was both critical of the way the Schools and Libraries Program is being administered, and aggressive in trying to obtain answers from the evasive SLC President Ira Fishman. Sen. Jay Rockefeller (D-WV) staunchly defended the FCC and SLC."

"Senator McCain stated at the opening of the hearing that:

'This hearing is not about killing the Schools and Libraries Program. It is not about preventing schools and libraries from obtaining access to advanced

telecommunications. It is however, about finding a way to get the benefits of access to advanced telecommunication services to schools and libraries in a way that is sustainable and supportable in the future. It is about making sure that the people who ultimately pay this tax, that is every user of telecommunications services in the country, gets value for their money they are forced to contribute to higher rates on all telecommunication services. I do support the goal of making advanced telecommunication services to our nations' schools and libraries. I do not, however, support the program concocted by the FCC and implemented by the Schools and Libraries Corporation.' "

"McCain also stated that the hearing was not about the policies behind the Schools and Libraries Program, but merely about its administration. McCain stated that on May 22 he requested, 'that the Government Accounting Office initiate a formal investigation and audit of the operations of the Schools and Libraries Program and particularly its program integrity assurance program.' He also asked the GAO to recommend 'any changes to the administrative structure' and to 'give consideration to whether administration of the schools and libraries program might be better assigned to other federal agencies.' "

"Judy Joseph of the Government Accounting Office testified regarding the results of this GAO investigation. The GAO testimony consisted mostly of a review of Universal Service, the 1996 statute, the history of FCC implementation, and the SLC procedures in place affecting program integrity."

"The SLC did not give GAO access to any of the applications submitted to the SLC by schools or libraries. And hence, the GAO did not audit the applications from schools and libraries. Nevertheless, Ira Fishman defended the integrity of the process by pointing out that the GAO found no instances of schools or libraries having applied for uncovered items.

Also, while the GAO had been requested to make recommendations on the restructuring of the SLC, it deferred making any such recommendations."

"Judy Joseph testified that there are many problems with the SLC process for reviewing applications. The 'program relies heavily on self-certification.' That is, the SLC trusts the schools and libraries to submit honest and accurate applications. The SLC basic screening tests are not sufficient. A 'detailed review of applications not planned until after funds are committed.' That is 'in addition to these computer assisted tests, the Corporation plans to conduct more detailed manual reviews of applications that it considers to be 'high risk'. However, according to current plans, these reviews will not be performed until after funds are committed to applicants and vendors.' "

Joseph also testified that "key program procedures have not been finalized; verification of soundness in internal controls not planned to be completed before funds are committed; and the program lacks clear and specific performance goals and measure."

"Questions by Sen. McCain

Senator McCain questioned Fishman about his qualifications and salary. Fishman stated that he had no experience as a corporate executive before his appointment to head the SLC. His salary was originally set at \$200,000 a year but it was reduced to \$151,000. McCain questioned why Fishman made more than his supervisor, the Chairman of the FCC."

"Fishman refused to answer Sen. McCain's question regarding whether the SLC was illegally formed. An earlier GAO report, and many members of Congress, have stated that it was illegally formed in violation of the Government Corporations Act."

"In response to questions from Sen. Rockefeller, he concurred that there is no waste, fraud or abuse because SLC has not spent one cent. Sen. McCain sternly took issue with this assertion, later, citing other testimony by Fishman that \$18.8 million had been spent."

"Sen. Burns

Sen. Conrad Burns (R-MT) is one of the leading critics of the 'E-rate', which he has often called the 'Gore Tax'. He is also working on legislation, along with Rep. Billy Tauzin (R-LA), that would transfer the program to the Department of Education, terminate the SLC, give money to the states in the form of block grants, and fund it out of an existing excise tax on telephone rather than Universal service.

Sen. Burns was in attendance for most of the hearing but played a minor role in the hearing. He did issue a press release, which "criticized the use of universal service funds for wiring schools and libraries to the Internet," and reiterated his proposal for "cutting the outdated 3 percent excise tax on telephones in half and using the remaining half to connect schools and libraries to the Internet."

"Sen. Burns questioned Fishman regarding what he thinks his mission is, and when the costs of the program will go down. Burns asked, 'do you see that cost, the need for that much money, in the out years?' Fisherman responded by saying, 'Senator, that is a very interesting question,' and discussed giving notice to schools and libraries.

Burns pursued the point: 'I am coming from the standpoint that wiring and infrastructure is a one time shot.' Fishman responded, 'Now I understand the question a little better. Senator, yes, to the extent that internal connections are dealt with those are largely are non-recurring costs.'

'In other words, you think the cost of this program should go down in the out years after we get through.' Fishman answered: 'Senator, I cannot reach that judgment, until we see the level of participation for the first couple of years. But as a logical matter that is correct.' "

"Rockefeller argued in a June 5 press conference that the 1996 statute contained a deal in perpetuity between the Congress and the phone companies. 'Part of the premise of which was, we will give you the deregulation that you want...but in return you are going to spend several billion dollars plus every year in perpetuity to wire every classroom...' "

"Burns concluded that the most important thrust of the program is providing 'broadband access for distance learning,' and the cost of this will decline, as schools become connected."

"Sen. Snowe

Sen. Olympia Snowe (R-Me), a staunch supporter of the SLC, stated that the SLC has done a 'remarkable job.' "

"Sen. Dorgan

Sen. Bryan Dorgan (D-ND) discussed his views on the history of the statute and its implementation. He stated that he supports the 'schools and libraries fund' and that 'the FCC made some definitional judgments that dramatically expanded the program, and that gives me heartbreak.'

'Let us be careful that we have not created an over expanding system and program and bureaucracy that allows us later, or requires us much later, to lament that we didn't get the definitional phase straight.' "

"He also expressed concern that the operating budget was \$18.8 million."

"Sen. Dorgan concluded: 'I still support this. I admire the, lots of work that was done to create it. So the question is, how do we control this so that we are really doing what we intended to do and not create an open ended entitlement that seems to have no limits.' "

Sen. Sam Brownback (R-KS), Sen. Richard Bryan (D-NV), Sen. John Kerry (D-MA) were also mentioned as contributing comments. Other senators were not in attendance due to concurrent meetings.

McPeak, Sara. (October 1998). The Gore Tax — Taxation Without Representation 90s-Style. Right Girl. Retrieved from <<http://www.rightgrrl.com/algorithm/gore3.html>> on 16 April 2015.

Summary: "Today, thanks to Al Gore and the Federal Communications Commission, you and I are being besieged by yet another federal government program called E-rate. America's schools and rural health care institutions will supposedly be the beneficiaries of this one, which offers them Internet access. Well, I have a grandson about to enter school and a mother in a nursing home, so I have no axe to grind — I could only benefit from this if there were really a benefit to be had. But I am as negative in regard to this one as Al Gore is positive. In fact, he is so in favor of the E-rate program, that he refers to it as the Gore Tax.

It's not surprising, considering this administration's credibility gap, that the first and foremost dispute concerning the E-rate is its illegitimate conception. It is seen as an

Internet commerce tax secondarily levied on individuals' long distance service and yet it was born in the Federal Communications Commission, which does not have the authority to tax.

According to Steve Forbes in an editorial dated August 10, 1998, as Americans we ought to be disturbed and distraught with this concept of taxation without representation. Even worse, it is really the long distance carriers who are secondarily levying this tax on their customers — due to the fact that the FCC levied the telephone companies in order to create the E-rate Fund. For decades the FCC has administered the Universal Service Fund, ensuring phone service for all members of the public. With the arrival of Clinton and Gore, Washington resounded with the call for less government intervention and less welfare dependence and yet, lo and behold, the administration is backing a new federal program to be funded by the already overtaxed middle class. This month's Algorithm = "the exception proves the rule was made to be broken."

As if the fact that the very existence of these corporations violates a government act were not enough (referring to the Government Corporation Control Act of 1945), the Chief Executive of the Schools and Libraries Corporation, Ira Fishman (who has since resigned his post amid the controversy surrounding the legitimacy of E-rate) was a former fund-raiser for Al Gore, and as Chief Executive of the SLC, Fishman earned \$200,000, more than any federal employee other than the President. And now, realizing all the concerns surrounding the mere existence of this E-rate Fund, add to this the outstretched hands of 32,000 institutions, which have applied for this funding. are we to penalize the middle class taxpayer yet again and filter a few Internet ties to our children and elderly while lining the pockets of chief executives who happened to be in the right place at the right time?"

"Gore's lofty idealism is undermined by his even more obvious duplicity."

Nehring, Ron. (21 May 1999). Repeal the Gore Tax. Americans for Tax Reform. Retrieved from <<https://www.atr.org/repeal-gore-tax-a1050>> on 18 March 2015.

Summary: "The Federal Communications Commission exceeded its authority when it levied a new tax on telecommunications services. Congress should terminate what has become known as the multi-billion dollar 'Gore Tax.' "

"The FCC decided that instead of merely setting a discount rate for service as the Act required, it would levy a new tax on telecommunications companies, and use the revenue to fund a new bureaucracy to connect schools and libraries to the Internet, funded with a special tax."

"History of 'E-rate'

In January 1998, the FCC levied the new tax on telephone carriers, calling the new tax the 'E-rate'. The rate is determined on a company-by-company basis as a function of gross revenues from telecommunications services provided by each

company. The Commission did this without any direct authorization from Congress: the Commission merely decided on its own that creating this new tax was necessary to comply with the law.

To disperse the funds, the Commission invented the Schools and Libraries Corporation and named Ira Fishman as its head. (Fishman is an old political ally of Vice President Al Gore.) The Government Accountability Office, the investigative arm of Congress, concluded that the creation of SLC was in violation of the Government Corporation Control Act. In response to the GAO finding, the FCC folded the illegal SLC into the pre-existing Universal Service Administrative Company (USAC)."

Thierer, Adam D. (04 April 2001). Commentary | The "Gore Tax" Finds a Friend: George W. Bush. Cato Institute. Retrieved from <http://www.cato.org/publications/commentary/gore-tax-finds-friend-george-w-bush> on 18 March 2015.

Summary: The author says that he would expect President Bush to want to kill the "Gore Tax", named after his opponent in the last election. "Yet not only do Bush administration officials not want to kill this program - which imposes hidden taxes on phone bills to help wire schools to the Internet - they won't even support proposals to limit it."

"At a March 7 hearing of the House Education and Workforce Committee, Education Secretary Roderick Paige announced that the administration was backing away from a plan to consolidate the off-budget 'E-rate' Program, into other federal education programs. That's too bad. The E-rate Program is a classic example of an unnecessary and unconstitutional federal program that demands immediate attention before it balloons into a perpetual federal entitlement."

Championed by former Vice President Al Gore, the program was part of the 1996 Telecommunications Act."

"Initially, the E-rate Program was administered by a quasi-government entity, the Schools and Libraries Corporation, formed by the Federal Communications Commission in May 1997 without the consent of Congress. After questions arose regarding the constitutionality of the FCC's creation, the agency shifted responsibility to a non-profit organization known as the Universal Service Administration Company (USAC).

While the FCC's sleight of hand lessened constitutional concerns by seemingly shifting management to a non-profit group, in reality it was business as usual because the USAC takes its orders from the FCC. Consequently, the FCC has continued to demand that the E-rate Program be funded through a complex system of industry mandates and hidden taxes to help lower the costs of installing communications and computer technologies in classrooms and libraries. The FCC has also continued to dictate the amount of annual funding for the program, currently \$2.3 billion per year.

President Bush's original proposal to reform E-rate was modest. The president wanted to make the program marginally more accountable by shifting administration to the Department of Education and requiring a formal appropriation for the E-rate in the federal budget each year.

That got it half right. To the extent that schools and libraries receive public funding for their technology needs, those funds should be incorporated into a formal budget subject to open debate and a vote by elected legislators. Unfortunately, the administration was proposing that these reforms take place at the federal level instead of the state and local level, where education spending decisions should occur.

The optimal solution would be to end federal involvement altogether and allow the states to operate the E-rate Program on their own, if they so choose. While the jury is still out regarding the sensibility of increased reliance on technology in the classroom, those educational institutions desiring funds for communications and computing services should petition their state or local leaders for such funding, the same way they would for any other educational tool or technology. There is nothing unique about communications or computing technologies that justifies a federal entitlement program while other tools of learning are paid for through state and local budgets.

For example, consider textbooks. Everyone would agree that textbooks are an indispensable teaching aid. Policy makers have never suggested, however, the inclusion of a hidden tax in the cost of new novels to help lower the cost of textbooks in the classroom. Such an absurd cross-subsidy would be considered inefficient and unfair. Yet that is how the E-rate Program operates. Hidden taxes on the phone bills of average Americans cross-subsidize school wiring efforts."

"And with time, the burgeoning E-rate lobby will pressure the FCC to expand the grab bag of high-tech goodies that should be subsidized."

Harper, Jim. (13 July 2010). Time to End the "Gore Tax". CATO AT LIBERTY. Retrieved from <<http://www.cato.org/blog/time-end-gore-tax>> on 18 March 2015.

Summary: "When the Telecommunications Act of 1996 passed, section 254 was dubbed the 'Gore Tax' by detractors of the policy and the then-Vice President whose project it was."

"Universal phone service had been subsidized since the beginning of the 21st century. With the passage of the Telecommunications Act of 1996, Universal Service was expanded to include other interests. Under the program, subsidies go in four directions: to high-cost telecom users, such as those in remote locations; to low-income telecom users; to schools and libraries; and to rural health care efforts. ... The program has grown over the years, and it has been plagued by allegations of corruption and misuse."

"A system of cross-subsidy that was implicit in the old AT&T was made explicit as a tax on interstate telecom services - euphemistically referred to as a 'contribution' - and expanded to reach to a small universe of sympathetic interests - more accurately, the telecommunications providers serving those interests.

The amount of the 'contribution' would be set by the Federal Communications Commission. That is, the agency would set the level of taxes on telecommunications, then hand out the money it produced by taxing. I wrote previously about the Taxpayers Defense Act (House -105th Congress, House - 106th, Senate - 106th), introduced in recognition that this is taxation without representation)."

"The House Energy and Commerce Committee has been doing some oversight, and it recently sent a letter asking the FCC to provide some data on the program. The FCC has responded, and the results are striking.

The FCC's list of the top ten recipients and the subsidies they received in 2007, 2008, and 2009 show hundreds of millions of dollars going to large telecom firms, more than a billion each to AT&T and Verizon.

A state-by-state list of subsidies under each of the four Universal Service Programs also shows each state's 'contribution' and whether it was a net winner or loser. The total 'dollar flow' is negative by some \$187 million in 2009. That's the money that went to administrative expenses - essentially Washington D.C.'s take.

Then there's the shocking list of the largest per line subsidies. Westgate Communications in Washington state received \$301,966 in 2009 to support 17 subscribers to their services - a subsidy of \$17,763 per line. Adam Eagle Enterprises in Hawaii received \$23,945,376 for 2,192 customers, a subsidy of \$10,926 per customer. Subscription news service Tech Law Journal notes that the top five per line subsidies are all in states with representation on the Senate Commerce Committee."

While the goals of Universal Service seem noble, at closer examination it is apparent that "these subsidies do at enormous cost what might be done better and cheaper with competition and innovation. Utterly top-class communications can be delivered anywhere in the United States - pretty much anywhere in the world - for far less than \$10,000 per customer per year. Equally important, people who live in remote areas have no just claim that others should pay for their communications, just as people in areas with expensive housing have no just claim that rural folks should pay their rent."

"Section 254 was a bad policy at the outset, and these data manifest that. Expensive government 'Universal Service' Programs should be eliminated so that unhampered competition in the private telecommunications market can deliver cost-effective telecom services everywhere they are supposed to be. That would satisfy both the hearts and the brains among us, and it would do so justly."

Other Articles / Commentary

Sarkar, Dibya. (09 January 2003). E-Rate in 'financial disarray'. FCW | The Business of Federal Technology. Retrieved from <<http://fcw.com/articles/2003/01/09/erate-in-financial-disarray.aspx>> on 21 August 2015.

Summary: "A \$2.25 billion federal program created six years ago to help connect schools and libraries to the Internet is 'honeycombed with fraud and financial shenanigans,' according to a report the Center for Public Integrity released Jan. 9.

The center based its conclusions on two reports by the Federal Communications Commission Inspector General's office last year and subsequent interviews. The nonprofit, nonpartisan group said that the E-Rate Program is in 'financial disarray,' with problems ranging from 'simple paperwork and reporting errors to false billing and other fraud potentially involving hundreds of millions of dollars.'

E-Rate, created as part of the Telecommunications Act of 1996, provides schools and libraries with discounts of 20 percent to 90 percent for Internet access and telecommunications infrastructure and for internal connections. The program, which is overseen by the FCC but administered contractually by a nonprofit group called the Universal Service Administrative Company (USAC), is funded by the telecommunications industry through taxes on individual telephone bills.

About 86 percent of public schools, 21 percent of private schools and 65 percent of libraries have received discounted services since the program's inception.

According to the report's author, Bob Williams, the FCC Inspector General's Office and USAC are 'also concerned about the whole competitive bidding process. They're not sure...it's going on as competitive bidding.' The report said program officials began 'denying or delaying applications' involving IBM Corp., the top recipient of E-Rate funding to the tune of \$350 million, because 'schools, libraries and/or IBM had not followed proper competitive bidding procedures.'

But the report said USAC doesn't believe the financial mismanagement is as widespread as the Inspector General suspects. Williams said he was surprised to see an Inspector General's report to be 'so frank and open about potential problems within an agency.' He also said the FCC wants USAC to provide more money to hire auditors, but USAC doesn't want to.

Williams said it's likely that Congress will examine the issue further — particularly Sen. John McCain (R-Ariz.), who is expected to be chairman of the Commerce Committee and who has 'never been a huge fan' of the E-Rate Program."

Schwartz, John. (10 January 2003). Schools' Internet Subsidies Are Called Fraud-

Riddled. The New York Times. Retrieved from
<<http://www.nytimes.com/2003/01/10/education/10FRAU.html?pagewanted=print>
> on 28 July 2015.

Summary: This article is about the release of the Center for Public Integrity's 2003 report on E-rate fraud, including other perspectives that downplay the issue.

"The \$2.25 billion E-Rate Program has helped connect thousands of schools and libraries to the Internet, but it may also be enriching unscrupulous contractors, according to a report released yesterday.

The program is 'honeycombed with fraud and financial shenanigans,' said the report from the Center for Public Integrity in Washington.

The report is in large part based on investigations by the Federal Communications Commission. 'They found problems everywhere they've looked, and they haven't looked very hard at this point,' said Bob Williams, the author of the report."

"Under the program, paid from fees on telephone bills, the highest rates go to the poorest schools. The Universal Service Administrative Company in Washington runs program for the F.C.C. The company also administers programs to develop phone service in rural areas and impoverished communities.

The Center for Public Integrity issued its report after the announcement of the first criminal case related to E-Rate. Last month, federal prosecutors in New York accused an Internet service on Staten Island and three employees with conspiring to steal millions of dollars. Prosecutors said the defendants, who worked for Connect2 Internet Networks Inc., offered free service and equipment to many poor schools by lying, saying the schools had paid their share of the costs when they had not.

'In this way,' the complaint said, 'the defendants were able to sell almost limitless quantities of E-Rate eligible goods and services to schools across the New York City area, with little or no control on the price they charged, and impose the entire cost on the government.'

The prosecutors added that from 1998 to 2001, Connect2 received more than \$9 million under E-Rate.

A report released last fall by the inspector general of the F.C.C. found that E-Rate was 'subject to unacceptably high risk of malfeasance through noncompliance and program weakness' and called for more money for auditing and oversight.

The Inspector General's office assigns two full-time auditors to the program, the report stated, and although other auditors move in and out of assignments, 'this staffing is hard pressed to support our current workload.'

Previous efforts to audit E-Rate have uncovered problems, but those efforts were limited in scope. A review of 22 schools by the Arthur Andersen accounting firm in 2001 found several million dollars in 'inappropriate' payments and unsupported costs. Efforts to formulate a more thorough review were hampered by the collapse

of Andersen after the Enron scandal."

" 'Most people are honest,' Mr. Blackwell said. If someone is dishonest, he said, 'do we look the other way? No.' From the beginning, E-Rate has been unpopular with many Republican lawmakers, who called it the 'Gore tax', and phone companies. Supporters of the program said scandals should be seen in the broader context.

'Any waste or abuse should be thoroughly investigated and prosecuted to the fullest extent possible,' said Lynne Bradley, director of government relations for the American Library Association.

The program, Ms. Bradley added, has faced such exacting scrutiny from its critics that its rates of fraud and abuse would probably turn out to be less widespread than the Center for Public Integrity suggested.

'The full picture isn't going to look like this sampling,' she predicted. A commissioner of the Federal Communications Commission, Michael J. Copps, said: 'If there is fraud and abuse, root it out. But let's not ignore the benefits that this program has brought to our children, our communities and our nation.' "

Mayfield, Kendra. (13 January 2003). E-Rate Fund Hit by Rampant Fraud. Wired. Retrieved from <<http://archive.wired.com/culture/education/news/2003/01/57172?currentPage=all>> on 28 July 2015.

Summary: "The \$2.25 billion E-rate fund, which has helped thousands of schools and libraries get connected to the Internet, is riddled with fraud and financial abuse, according to a new report.

The report, released on Thursday by The Center for Public Integrity, is based largely on investigations by the Federal Communications Commission.

The E-rate, which is part of the Telecommunications Act of 1996, provides discounts as high as 90 percent on telecommunications and Internet services to schools and libraries.

The E-rate fund is paid for by imposed 'Universal Service fees,' which are essentially a tax on consumer telephone bills. Customers pay around 10 percent of their monthly phone bill to help support the program. Some companies charge higher rates, which go to the poorest schools."

"Although the FCC oversees the E-rate, a nonprofit, the Universal Service Administrative Company, runs the program for the FCC. But critics say that USAC, which is dominated by telecommunications companies that collect the fees, process applications and distribute the discounts, has allowed financial abuse to go unchecked.

'It seems that (USAC) hasn't done a great job of policing themselves,' Williams said.

The extent of E-rate fraud and financial abuse is unknown, since the FCC has only two auditors to monitor the program.

'(The FCC) doesn't know how much fraud abuse is out there because they don't have the power and the people to find out,' Williams said.

An October report (PDF) by the FCC Inspector General's office to Congress uncovered everything from bookkeeping errors to financial mismanagement for contracts worth hundreds of millions of dollars.

At least 26 cases of suspected E-rate abuse are currently under investigation by the FCC, according to eSchool News.

When the Inspector General's report was released 'it was completely ignored,' Williams said.

The FCC's investigation began when many of the E-rate's top beneficiaries, such as IBM (which received nearly \$352 million in 2001), weren't following proper competitive bidding procedures. There is currently no evidence that IBM officials have engaged in any criminal misconduct.

Federal prosecutors filed the first criminal case involving the e-rate fund last month in New York, charging the owner and three employees of Connect2 Internet Networks with conspiring to defraud the E-rate Program of millions of dollars. The defendants allegedly offered free equipment and services to poor schools without charging schools the 10 percent cost of new equipment required by the program. Prosecutors say that the defendants convinced schools to install much more expensive equipment and services than they would have if they had to foot a portion of the bill.

'In this way, the defendants were able to sell almost limitless quantities of E-rate eligible goods and services to schools across the New York City area, with little or no control on the price they charged, and impose the entire cost on the government,' the complaint states.

In another scheme, a piece of computer networking equipment with a purchase price of \$20,000 was allegedly leased to an E-rate applicant for \$20,000 per year. Consumers who pay a portion of their monthly bill to help support the E-rate may be dismayed to find out where their fees are going."

"Currently, there is no formal system for debarring unscrupulous service providers from the E-rate Program. The FCC is studying new rules that would bar service providers and beneficiaries that are found to have committed fraud or financial mismanagement against the E-rate Program.

Observers say that the FCC needs to hire more auditors to improve the E-rate Program. The FCC Inspector General's report estimates that it would need an additional 15 auditors to provide adequate supervision."

Williams, Bob. (14 January 2003). Phone Fund for Schools, Libraries Riddled with Fraud. Government Technology. Retrieved from <<http://www.govtech.com/e-government/Phone-Fund-for-Schools-Libraries-Riddled.html?page=1>> on 21 July 2015.

Summary: "The FCC's Office of Inspector General said the E-Rate Program is out of control."

"WASHINGTON, D.C. -- A \$2.25 billion federal program that helps schools and libraries connect to the Internet is honeycombed with fraud and financial shenanigans, but the government officials in charge said they don't have the resources to fix it.

A Center for Public Integrity investigation reveals the huge program, funded by everyone who pays a phone bill, is in financial disarray. A new report to Congress on the fund by the FCC Inspector General's office said the program, known as the E-Rate fund, is virtually out of control.

'It's not unfair to say we have found something wrong everywhere we have looked,' said Tom Cline, an auditor in the FCC Inspector General's Office. 'It appears to be both intentional and unintentional.'

The Universal Service Fund was originally created to help rural areas get phone service at affordable prices. In 1996, the fund's mission was expanded to help schools and libraries connect to the Internet. The fund comes from a fee added to the phone bills of millions of Americans and controlled by a telecom industry-dominated, nonprofit corporation sanctioned by the FCC.

Program officials last month began denying or delaying applications involving IBM Corp. -- by far the largest recipient of the fund's largesse. Program officials said they were taking the action because the schools, libraries and/or IBM had not followed proper competitive bidding procedures, rules that usually act as the first line of defense against fraud and financial mismanagement in such government programs."

"A list of the top service providers to the E-Rate Program reads like a who's who of America's telecom and technology companies. At the top is IBM, which received payments of nearly \$352 million in 2001. Also high on the list with payments of more than \$100 million are telecom giants SBC, Verizon, BellSouth and Qwest.

The FCC's report to Congress said other wrongdoing uncovered so far within the program range from simple paperwork and reporting errors to false billing and other fraud potentially involving hundreds of millions of dollars.

At a recent conference, an E-Rate official talked about one case under investigation.

In that scheme, a piece of computer networking equipment with a purchase price of \$20,000 was allegedly being leased to an E-Rate applicant for \$20,000 per year. The

applicant also had a maintenance agreement on the equipment of \$96,000 per year.

Several other cases are currently under investigation by the FBI, the Justice Department and other federal agencies for possible civil or criminal prosecution, according to the report.

The report stresses that FCC auditors have barely scratched the surface of potential fraud and other financial abuse within the E-Rate Program. Only two FCC auditors are assigned to oversee the program, which subsidizes an average of 30,000 Internet connection projects each year.

'Until such time as resources and funding are available to provide adequate oversight [for the schools and libraries program], we are unable to give the [FCC] chairman, Congress and the public any level of assurance that the program is protected from fraud, waste and abuse," said the report.'

"Program not Run by FCC

Although the FCC is ultimately responsible for the E-Rate Program, the agency contracts with a nonprofit group dominated by telecommunications companies to collect the fees, process applications and distribute the discounts.

That nonprofit group, called the Universal Service Administration Company (USAC), also oversees the day-to-day operations of three other FCC programs funded by telephone customer charges. Those programs subsidize phone service for low-income communities, rural areas and rural health-care facilities.

All told, the four programs run by USAC handed out more than \$6 billion in 2002.

USAC is run by a board of directors, which in turn, is run by an executive committee. Four of the seven members of the executive committee are telecommunication company executives. The FCC says most of the cursory oversight of the E-Rate Program to date has been conducted by USAC.

In early 2001, USAC contracted with the Arthur Andersen accounting firm to conduct audits at 22 schools or libraries that received funding from the E-Rate Program. A draft report on those audits indicated findings of fraud and mismanagement at nearly all the locations examined, including several million dollars in inappropriate disbursements and unsupported costs. A final report on those audits is due out any day, according to the FCC.

USAC was in the process of putting together a more comprehensive audit program for the E-Rate fund with Arthur Andersen when the accounting firm got caught up in the Enron scandal last year.

'We got sideswiped by the problems at Arthur Andersen, just like an awful lot of other people did,' says Frank Gumper, chairman of the USAC board of directors, who is also a longtime lobbyist for telecom giant Verizon Corp. 'When Arthur Andersen went down, it put us back at square one.'

USAC doesn't believe the fraud and financial mismanagement are as widespread in the E-Rate Program as is suspected by the FCC Inspector General's office, according to Gumper."

"FCC Wants to Do its Own Audits

The FCC said USAC's audits have been helpful, but are not an acceptable substitute for a comprehensive audit program for the E-Rate fund conducted directly by the agency.

But such an effort would require an unprecedented expansion of the Inspector General's (IG) office, according to the report to Congress.

The IG office estimates it would need to add 15 auditors to the two that are currently working on the E-Rate fund to provide proper oversight of that program alone.

That doesn't take into account any problems that might exist at the other three funds overseen by USAC, which subsidize phone service in low income communities, rural areas and at rural health facilities. There is no FCC-backed auditing program at any of those programs."

(No Author). (30 January 2003). Congressmen call for probe of fraud-plagued phone fund for schools, libraries. The Center for Public Integrity. Retrieved from <<http://www.publicintegrity.org/2003/01/30/6580/congressmen-call-probe-fraud-plagued-phone-fund-schools-libraries>> on 22 April 2015.

Summary: "Rep. W.J. Tauzin and Sen. Conrad Burns, who oversee telecommunications issues, begin investigations into the E-Rate fund"

The Center for Public Integrity Report discussed in this article is not accessible online.

"Two of the most powerful members of Congress who oversee telecommunications issues have started investigating financial shenanigans within the government's controversial E-Rate fund.

The probes were announced following the release of a Center for Public Integrity report chronicling fraud and a lack of proper government oversight of the \$2.25 billion program, which provides hefty discounts to help connect schools and libraries to the Internet.

House Energy and Commerce Committee Chairman W.J. (Billy) Tauzin, R-La., has started a preliminary investigation into charges the program lacks adequate oversight to prevent fraud.

'Schools are hooked up to the Internet for free and the federal government is robbed blind,' Tauzin spokesman Ken Johnson told *TRDaily*, a telecommunications industry newsletter. The Louisiana congressman has been a longtime critic of the E-Rate

Program.

On the Senate side, the incoming chairman of the Senate Communications subcommittee said one of his top priorities during this session will be reform of the program.

Sen. Conrad Burns, R-Mont., said he will lead the way on reforming the program. 'We obviously have a big stake in this because of the large number of rural schools in Montana,' Burns told Medill News Service.

The chief congressional architect of the E-Rate fund, Sen. Jay Rockefeller, D-W.V., said the problems were overstated and that he would stand behind the program. Rockefeller told the *Charleston Daily Mail* he is much more worried the Bush administration and the new Republican Congress will seek to kill the program."

(No Author). (23 April 2003). FCC makes new rules to reform troubled program. The Center for Public Integrity. Retrieved from
<<http://www.publicintegrity.org/2003/04/24/6037/fcc-makes-new-rules-reform-troubled-program>> on 09 June 2015.

Summary: "The Federal Communications Commission has adopted new rules aimed at cleaning up financial fraud and abuse within a multi-billion-dollar program that helps wire schools and libraries to the Internet."

"Two of the most powerful members of Congress who oversee telecommunications issues—Rep. W.J. Tauzin, R-La, and Sen. Conrad Burns, R-Mont.—announced investigations and hearings on the \$2.25 billion a year program soon after the Center report was released. The program is funded by universal service fees, which are paid by virtually anyone who uses a telephone.

Top among the reforms adopted by the FCC were new rules allowing the suspension of contractors convicted of criminal or civil fraud against the program."

Trotter, Andrew. (30 April 2003). FCC Moves to Purge Corruption From E-Rate. Education Week. Retrieved from
<<http://www.edweek.org/ew/articles/2003/04/30/33erate.h22.html>> on 21 July 2015.

Summary: "Moving against 'waste, fraud, and abuse' in the E-rate, the Federal Communications Commission decided last week that the \$2.25 billion federal program would start 'debaring,' for three years or more, 'persons convicted of criminal violations or held civilly liable for misconduct arising from participation in the program.' "

" 'We were disappointed that the FCC didn't move quicker in this area, and we think some of the controversy could have been averted if it had taken action faster,' said Keith R. Krueger, the executive director of the Consortium for School Networking, a national, Washington-based group of school technology officials."

"Questions have centered around whether the commission and the Universal Services Administrative Co., or USAC, the small, nonprofit company that the FCC appointed to run the program, have enough resources to monitor the more than 40,000 applications annually for E-rate funds."

Misdeeds identified by USAC include instances in which school districts have worked too closely with particular vendors on their E-rate applications, cribbed technology plans wholesale from other applicants, and purposely requested duplicative services."

"In a joint statement, Mr. Krueger and Don Knezek, the chief executive officer of the International Society for Technology in Education, based in Portland, Ore., called last week's order 'a credible, incremental step today to address the E-rate's Program integrity issues.'

But Mr. Krueger said the commission should apply even stronger measures to protect the E-rate's reputation, which he and other supporters believe is vital to continued political support in Congress. Lawmakers first authorized the program under the Telecommunications Act of 1996."

Davidson, Paul, Toppo, Greg & O'Donnell, Jayne. 09 June 2004. Fraud, waste mar plan to wire schools to Net. USA Today. Retrieved from <http://usatoday30.usatoday.com/money/industries/technology/2004-06-08-schools-net_x.htm#> on 21 July 2015.

Summary: (This article also mentions the USF being called the "Gore Tax" although this is not what the article is primarily about.)

"BAYAMON, Puerto Rico — In a far corner of a long, cement-block warehouse near San Juan, row upon row of new Internet gear sits in shrink-wrapped purgatory.

The pallets of cables, wireless adaptors and video cards have languished for three years, remnants of an aborted scheme to wire the island's more than 1,500 public schools to the Internet. In fact, its school district spent \$101 million in E-rate grants — a federal program designed to hook up schools and libraries to the Internet — but that money paid for connecting just nine schools.

The problem: The school district applied for and spent the money, even though it lacked some of the basics, such as PCs or upgraded electrical systems, to make use of the Internet gear and had no budget to buy them. Such general-purpose equipment is not covered by the E-rate Program, which is funded by a fee paid every month by everyone in the USA with a phone bill.

Puerto Rico is just one example of E-rate's good intentions run amok. While the \$2.25 billion-a-year program has helped bring the Internet to many schoolchildren who might have been left out — more than 90% of the nation's classrooms now are linked — lawmakers and investigators say it also is riddled with waste, mismanagement and fraud.

E-rate, run by the Federal Communications Commission through a non-profit company, has drawn criticism since it got up and running in 1998. But cries for reform are growing louder.

"A series of House hearings on E-rate will kick off on June 17 with an examination of the Puerto Rico debacle, as well as flaws in the management of E-rate. Future hearings will spotlight the role of large vendors, such as IBM, NEC and SBC Communications.

Consultants and public-interest advocates say blame is shared by everyone involved in the program: public officials so eager, they say, to get the much-hyped program going that they imposed few safeguards; school administrators who welcome the federal largesse but who often have little expertise in setting up high-tech systems; vendors who prey on wide-eyed school officials in hopes of feeding at the trough of taxpayers' money.

Last month, the first criminal involvement of a big vendor came when a unit of tech giant NEC agreed to plead guilty and pay a \$20.6 million fine for rigging bids at six school districts. About 40 other criminal probes are underway.

Puerto Rico is emblematic of a chink in the system. E-rate pays 20% to 90% of the cost of Internet services, routers, servers and cable for eligible schools and libraries. The poorest applicants get the highest percentage.

The program does not award grants for basic infrastructure the district needs to supply. Yet, Puerto Rico sought, and got, \$101 million anyway."

"Puerto Rico 'is a bad case but one of a very large number of bad cases,' says Rep. James Greenwood, R-Pa., chairman of House Energy and Commerce Committee's oversight subcommittee, which holds next week's hearing.

Among other cases:

- In 2002, prosecutors charged Connect2 Internet Networks with persuading poor New York City schools to install pricier gear than needed, in some cases illegally agreeing to cover the schools' 10% share of the cost. Connect2 also asked school officials to prepare fake invoices to cover up improper billing, the complaint says. Connect2's owner, John Angelides, pleaded guilty to conspiracy.
- Last year, five people were charged with billing E-rate \$1.2 million for products and services that were never delivered to two schools in Milwaukee and one in Chicago. Half the money was wired to Pakistan to buy a house and several cars, the indictment says.

- SBC Communications sold Chicago public schools equipment worth \$8.8 million, most of which sat in warehouses unused. SBC ultimately refunded the cash.
- IBM was denied \$250 million in E-rate funding after the FCC found it and eight school districts short-circuited competitive bidding. IBM won contracts without making specific price proposals. And by apparently helping the districts write the bid requests, it 'may have unduly influenced the selection process in IBM's favor,' according to the FCC.
- Schools in Prince William County, Va., used E-rate money to buy 85 cell phones, and Arlington, Va., schools bought 195 pagers, FCC audits show. E-rate doesn't cover such gadgets.

Firms being investigated by federal antitrust enforcers include IBM, the No. 1 E-rate supplier, as well as other companies involved in the NEC case, say people familiar with the probes. A focus is possible kickbacks to E-rate consultants in return for steering contracts to certain vendors, they say."

"Rep. Tom Tancredo, R-Colo., says he might re-introduce bills he spearheaded last year to either kill E-rate or give Congress more say about how much it costs. 'We can do with a lot less than \$2.25 billion,' he says, noting that nearly all schools now are wired to the Web."

"E-rate's management says critics overstate the fraud and waste.

'I don't think you can extrapolate from some people who've violated the rules to the 35,000 applications we get a year,' says Mel Blackwell, vice president of communications for the Universal Services Administrative Co. (USAC), the non-profit that runs E-rate under FCC oversight.

The FCC's Inspector General's office has questioned \$2.8 million, or 13.5%, of the \$20.9 million in E-rate funds it has audited, an unusually high percentage, says Tom Bennett, Assistant Inspector General.

Outside audits ordered in 2001 by USAC showed improper payments to 14 of 25 E-rate recipients, but audits by USAC of \$1 billion in grants questioned just 1.5%. Bennett questions whether USAC can properly audit itself but says the Inspector General's office has just three auditors to monitor the huge program. A request for \$3 million this year to hire outside auditors was denied by Congress."

" 'Fox Guarding the henhouse'

One problem with rules compliance is E-rate's complex application process. Schools must submit detailed plans and get bids before applying. As a result, districts – especially small or poor ones with little technical support – often rely on vendors to fill out requests for bids. FCC officials say that can let vendors steer proposals to their own offerings."

" 'Most of the schools don't have the experience. A particular vendor goes in and

says, 'We can get you money, you don't have to do anything,' says Lanelle Prettyman of Prettyman & Associates, an E-rate consultant for school districts. 'They don't know what the school district needs. They just know there's X amount of money there for the taking. It's like the fox guarding the henhouse.' "

"Bob Williams of the Center for Public Integrity believes USAC scrutiny is limited because half its board are telecom, cable and Internet executives — industries that gain from E-rate. 'You basically have an industry group handing out and watching the money.' "

Balморis strongly disputes that: 'USAC's board is made up of a diverse group, including consumer advocates and state regulators.' "

Mark, Roy. (17 March 2005). Tales of Fraud, Abuse in School E-Rate Program. Internet News. Retrieved from <<http://www.internetnews.com/bus-news/print.php/3490806>> on 18 March 2015.

Summary: This is another article discussing the 2005 GAO report on the E-rate Program and the report from the Energy and Commerce Committee, which go hand in hand - the 2005 GAO report was submitted to the Energy and Commerce Committee and their report includes the findings from the GAO report and was released the same year in November.

" 'The mismanagement of the E-rate Program knows no bounds,' U.S. Rep. Joe Barton (R-TX), chairman of the Energy and Commerce Committee, said in a statement."

"The FCC oversees the program, but outsources administration to the private, non-profit Universal Service Administrative Company (USAC). Nearly 90 percent of U.S. schools and libraries receive subsidies from the fund."

"The GAO report concludes that despite the collection and expenditure of billions of dollars since 1998, the FCC has not developed any measure to track the program's effectiveness and that a weak oversight structure limits the FCC's 'management of the program and its ability to understand the scope of any fraud, waste, and abuse within the program.' "

"In one of the most infamous cases, the USAC disbursed \$101.2 million from 1998 to 2001 in equip Puerto Rican schools with high-speed Internet access but a later review found a warehouse full of unopened boxes of equipment and that very few computers at its 1,540 schools actually connected to the Internet."

" 'Now, seven years and billions of dollars later, those in charge can't tell us how rampant the fraud is or how they intend to stop it. Enough is enough. This committee has no choice but to develop legislation to scrap the status quo and apply some common sense to the E-rate Program,' Barton said."

"The E-rate subsidy was added to the telephone bills in 1997 under the Clinton administration and has been dubbed the 'Gore tax' for former Vice President Al Gore's enthusiastic support."

"Under the program, telecom companies or contractors provide eligible equipment and services to schools and libraries at a discount, and the federal government covers the difference through the E-rate fund. The report recommends the FCC 'comprehensively determine which federal accountability requirements apply to E-rate; establish meaningful E-rate performance goals and measures; and takes steps to reduce it's backlog of appeals.' "

"The Energy and Commerce Committee began investigating the E-rate Program following a January 2003 report by the Center for Public Integrity, a non-profit 'public service journalism' organization, that claimed the E-rate Program was 'honeycombed with fraud.' "

(No Author). (18 March 2005). GAO Report Slams FCC Oversight of E-Rate Program. American Libraries Magazine. Retrieved from <http://americanlibrariesmagazine.org/gao-report-slams-fcc-oversight-of-e-rate-program/> on 18 March 2015.

Summary: "A report by the Government Accountability Office has found fundamental flaws in both the E-rate Program, which funds discounted telecommunications services to libraries and schools, and in the program's oversight by the Federal Communications Commission.

The GAO, which is Congress' investigative arm, found that the FCC lacks performance goals to measure the program's success, that the commission has been slow to respond to the findings of audits of E-rate beneficiaries, and that there is a large backlog of appeals from applicants. The report also criticizes the FCC for delegating too much responsibility to the Universal Service Administrative Company, the independent body that administers the program.

The report said these problems 'create barriers to enforcement, uncertainty about what the program's requirements really are, and questions about the soundness of the program's structure and accountability amid recent cases of fraud, waste, and abuse.' The auditors called for the FCC to determine which federal accountability requirements apply to the E-rate, establish meaningful performance goals and measures, and take steps to reduce its backlog of appeals.

The GAO presented the findings March 16 to the House Energy and Commerce Committee, which as been investigating the program. 'The mismanagement of the E-rate Program seems to know few bounds,' said the committee's chairman, Rep. Joe Barton (R-TX), who plans to introduce legislation to overhaul the program."

"In a written response, the FCC acknowledged that the E-rate Program 'continues to experience operational and management challenges,' but said it has taken steps

during the past year to improve oversight, with other measures planned, the Associated Press reported March 16."

Bolch, Matt. (August 2005). E-Rate Fraud: How do you navigate the maze of tightened funding process? Very carefully. Scholastic \ Source: Administrator Magazine. Retrieved from <http://www.scholastic.com/browse/article.jsp?id=10002&print=1> on 28 July 2015.

Summary: This article was written for school administrators and downplays the issues of waste, fraud and abuse.

"Headlines about E-Rate shenanigans are enough to make any administrator cringe: the former secretary of education in Puerto Rico convicted of mismanaging \$100 million in E-Rate funds and sentenced to three years in prison; the Atlanta Public Schools accused of mismanaging more than \$70 million in E-Rate dollars; a subsidiary of tech giant NEC pleading guilty to fraud charges last year.

The federally funded program gave \$2.1 billion in E-Rate funds to 32,000 applicants during funding year 2004, for an average award of \$68,000, according to the Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC), which runs the program for the Federal Communications Commission. 'While some high-profile cases get all the ink, that doesn't reflect what the vast majority are doing,' says Mel Blackwell, vice president of external communications at USAC. 'It's a good program that does a lot of good for the schools and libraries that get funds.'

In the 18 months since a task force on the prevention of fraud, waste, and abuse issued recommendations, SLD has tightened up requirements, set up programs to help educators apply for funds, and started an audit program that will conduct 1,000 site visits this year."

"Bob Williams, project director at the Center for Public Integrity, says that audits are welcome but wonders what good so few will do. Williams wrote a scathing report in 2003 detailing widespread fraud and a lack of government oversight into the program that brought calls for legislative reform and helped bring SLD's task force together."

"How to Make the Rate

Win Himsworth is executive director at E-Rate Central, a private consulting company that also operates the E-Rate Central web site, which serves as an independent clearinghouse for information about E-Rate news, program changes, and application guidelines. Himsworth was one of the 14 members of the SLD's task force, and he says the application process has swung too far in the direction of excessive regulation.

Himsworth believes the current negative headlines reflect the program's early days and points to the 'on-the-fly' method by which the initial program was established.

'For very small school districts and libraries, it takes more effort than it's worth,' Himsworth says of the application process.

E-Rate Central provides full E-Rate application services for more than 100 large- and medium-size applicants and serves as the E-Rate coordinator for the New York State Education Department. 'For most school districts, the E-Rate job is not full time but full year,' he says. 'It's difficult for an administrator with 50 or 100 other priorities to keep up with E-Rate, but it's important.'

Himsworth advises administrators to keep abreast of rule changes and be mindful of the many deadlines that cover the application, procurement, and appeals processes. Applying online helps safeguard against irregularities in the application or inadvertently leaving portions of the application blank. Record keeping also is critical as audits stretch back several years, but Himsworth says many districts do a poor job of that. Finally, the district must develop a strong technical planning process that supports the reasoning for the technology project and that will stand up to a potential audit."

"Take It Up a Level

Helping school districts and libraries negotiate the labyrinth of guidelines and deadlines in Mississippi is the job of Gary Rawson, who has been the state's E-Rate coordinator from the program's inception. He served on the SLD task force and is the cochair of the State E-Rate Coordinators' Alliance.

One hundred percent of the state's school districts participate in the E-Rate Program and 98 percent of libraries do, says Rawson, who adds that the nonparticipating libraries are open only on Saturday, so it makes little sense for those facilities to participate. 'E-Rate has to balance ease of application with having enough control and guidelines to keep people from ripping off the program,' Rawson says. 'Nobody in Congress is talking about the people who are dropping out because the rules are onerous.'

Mississippi takes applying for E-Rate funds seriously, holding application workshops throughout the year that bring E-Rate coordinators together with service providers and state officials to hold open discussions on eligibility, potential uses for technology, and funding challenges.

Technology plans are submitted to the state, and Rawson sits on the external review team that evaluates the plans and helps districts and libraries hone their applications to fit their technology requirements.

The state maintains an E-Rate-specific listserv with reminders about filing deadlines and other issues, and a state Department of Education official monitors district E-Rate filings with the SLD, staying in contact with those who have not filed.

While the carrot for districts and libraries in the poor, mostly rural state is the chance to improve technology, the stick is the threat of bad publicity for not applying for funds. 'I just got a call from a guy ready to quit,' Rawson relates. 'If he quit, his name would be in the paper. For schools in our state not to utilize the E-Rate Program

would be a travesty.' While every federal funding mechanism has its pluses and minuses, those involved in E-Rate remain committed to its success."

(No Author). (March 2006). E-Rate Fraud: Connectivity at What Cost? Education Reporter. Retrieved from <<http://www.eagleforum.org/educate/2006/mar06/e-rate.html>> on 18 March 2015.

Summary: "USF is funded by fees levied by the FCC on all local, long distance, wireless, and paging companies, as well as payphone providers. The fees are generally added to phone bills for all consumers. When USF fees were increased to pay for schools and libraries, the extra phone charges were dubbed the 'Gore tax' because of then-Vice President Al Gore's role in establishing the E-rate Program.

The Universal Service Administrative Company (USAC), a private, non-profit corporation was created as a subsidiary of the National Exchange Carrier Association (NECA), whose membership consists of approximately 900 U.S. telephone companies. The FCC outsourced responsibility for the Universal Service Fund to USAC in 1998. The year before (1997), the USF was managed by the Schools and Libraries Corporation (SLC), under the leadership of Ira Fishman, who was the very well paid first president and also a Gore fundraiser."

"According to Bob Williams of the Center for Public Integrity, the very structure and the corporations involved constitute 'almost a formula for fraud and abuse.' As former Rep. Jim Greenwood (R-PA) told the New York Times (06-17-04), 'You couldn't invent a way to throw money down the drain that would work any better than this.' "

"The FCC's Inspector General, in an October 31, 2002 semi-annual report to Congress, described numerous concerns and noted that the Department of Justice had created a special E-rate task force. The Government Accountability Office (GAO), after a year's study, concluded in December 2004 'the FCC long ago sowed the seeds for gross mismanagement of the program.' "

"After the GAO report was issued, U.S. Rep. Joe Barton (R-TX), Chairman of the Committee on Energy and Commerce, said, 'The government mismanagement of the E-rate Program seems to know few bounds,' and added: 'Unscrupulous vendors also fleeced the program while underserved communities and telephone customers pay the price. The Federal Communications Commission, these merchants and certain schools all must share in the blame for this disgrace.' "

"A bipartisan report, 'Waste, Fraud, and Abuse Concerns in the E-rate Program,' was adopted unanimously by the Subcommittee on Oversight and Investigations on October 18, 2005, and transmitted to the Energy and Commerce Committee on November 2. Referring to the GAO study, the subcommittee states, 'The report finds an astounding degree of managerial neglect of the E-rate Program.'

The subcommittee report cites numerous problems, details case studies, and makes

recommendations. It questions (a) whether the FCC is the proper agency to manage and oversee the E-rate Program; (b) whether the largely arbitrary \$2.25 billion annual price tag is appropriately set; (c) whether control and management of this large sum is appropriately delegated to a non-governmental entity.

Greater accountability is urged for all program participants, including consultants, vendors, schools, USAC, and the FCC Wireline Competition Bureau. The report states: 'The FCC must acquire and promptly provide to Congress, some tangible measure of the extent and scope of program waste, fraud, and abuse, i.e. statistically significant auditing must be undertaken immediately...'

Examples of waste, fraud and abuse are exhibited in the case studies included in the report from Chicago Public Schools, San Francisco Unified School District and Puerto Rico Department of Education.

In sum, the Subcommittee's investigative work reveals a well-intentioned program that nonetheless is extremely vulnerable to waste, fraud, and abuse, is poorly managed by the FCC, and completely lacks tangible measures of either effectiveness or impact."

Allibone, Tom & Kushnick, Bruce. (circa 2008). 20 Reasons Why the Universal Service Fund is an Out of Control Slush Fund: And What we Should Do About it. TeleTruth. Retrieved from <<http://www.teletruth.org/USFReport.htm>> on 23 December 2014.

Summary: The authors explain in detail the reasons why they believe the Universal Service Fund (USF) should be reformed and suggest actions that could be taken to reform the program. They write about "massive increases" in taxes (which are not called taxes but really are) and corporate subsidies through the annual growth of the USF. For example in 1999, the tax rate was 3.9% and in 2008, the amount had reached 11.4%.

"Wealthy corporations without audits or need get the USF money. The largest part of the fees, 62% goes to what is known as the 'High Cost Fund', which is supposed to subsidize 'high cost areas', but there are very few high cost areas since almost all 50 states 'average' local service costs throughout the entire state. Urban areas actually pay more to support rural areas. The FCC's High Cost Fund literally gives thousands of dollars in subsidies per single line to some telephone companies and that does not include the money the company gets from the subscriber for local service and other fees."

"There's no independent regulator examining the cost to provide service and corporate profits. The actual cost of the service is NOT correlated with the price consumers pay and the profit margin continues to go up each year. The notion of 'high costs' is misleading. How can there be high costs if no one is monitoring the cost to provide service and the corporate profits?"

"In many states, it is clear that the 'high cost' funding from the USF is not going to pay for local service provisioning but other activities."

"Telephone companies are the largest recipients of the Schools and Libraries portion of the USF. They get reimbursed full business rates for any discounts schools and libraries get."

Laser, Matthew. (14 July 2008). GAO: nobody's minding store at the Universal Service Fund. ars technica. Retrieved from <http://arstechnica.com/uncategorized/2008/07/gao-nobodys-minding-store-at-the-universal-service-fund/> on 18 March 2015.

Summary: This article discusses the July 2008 GAO report on the Universal Service Fund's High-Cost Program, which is designed to lower phone prices for rural and some urban consumers.

"The GAO report concluded HC's structure results in inconsistent distribution of support to carriers in all states. The HC program reimburses rural telephone and broadband providers at different levels even though they offer the same services, and the USF can't keep track of the discrepancies.

The FCC has not established benchmarks for its recipients for 'intermediate and multi-year periods' which means there are no meaningful expectations of the recipients of the High-Cost Fund.

The GAO report finds that the FCC audits of carriers are not really audits since they do not check for accuracy. 'Carrier data validation focuses primarily on completion, and not accuracy' the report states.

'These weaknesses,' the report states, 'could contribute to excessive program expenditures.' (The High-Cost Fund cost over \$4 billion per year at the time this report was published in 2008.)

Another issue critics say is that smaller competitive phone carriers get reimbursed based not on their actual expenses, but on the level of support that the big incumbent telecoms receive.

The government doesn't lay out specific things it expects providers to deliver as stated in the GAO's report:

'12 years after the passage of the 1996 Telecommunications Act and after distributing over \$30 billion in High Cost Program support, FCC has yet to develop specific performance goals and measures for the program.' "

"The most important conclusion of the GAO's report is that nobody really audits the cost records of these telecoms for, well, the truth. FCC and USF data collection efforts only audit a small percentage of telecoms, and 'generally focus on

completeness and consistency of carriers' data submissions, but not the accuracy of the data.' In many instances the cost and line count data isn't verified. 'Inaccuracies in cost and line count data, which are not uncovered through review, could facilitate excessive program expenditures,' GAO concludes."

Kushnick, Bruce & Goldman, Alex. (2010). The Universal Service Slush Fund: Or How Out of Control is the Government Phone Tax? Retrieved from <<http://www.newnetworks.com/universalslushfund.htm>> on 23 December 2014.

Summary: This article gives many reasons why the Universal Service Fund should be reformed. The USF has "lofty public goals" but as this article reveals, billions of dollars earmarked for these programs are actually being diverted to corporate profits and dividends and the situation is out of control.

"The USF is NOT audited for basics like the companies' total revenue and profits or the monies collected from services that are being subsidized. No audits are done of whether the companies are paying the right amount back to the USF, and very few audits are done for fraud, waste and other related items. The FCC can't know whether the companies actually need the money or even how they use the funds."

"In 2010, Congress asked the FCC to answer basic questions about the USF. From the data provided by the FCC, it shows Verizon and AT&T were the biggest recipients of USF monies."

At the time this article was written, \$8 billion was collected and the majority went to the High - Cost Fund (currently known as Connect America). The other programs funded through the USF include E-Rate (Schools and Libraries), Lifeline (subsidizes low-income) and Rural Health Care.

"Much of the 'high - cost' money goes to Verizon and AT&T and they are also the largest recipients of E-Rate funds."

"Telecom companies are collecting more USF funds than they spend; about \$170 million each year."

"The FCC and the USAC are misleading the public by saying the corporations are paying into the fund when it is really the customers who are being taxed. The companies collect the tax dollars and actually make money by 'floating' it for a while."

"The USF funding is going to wealthy companies who pay dividends to shareholders, pay millions in salaries to key executives and pay hundreds of thousands to retirees who return as consultants."

"The USF does not promote competition. The FCC admitted that even in areas where it funds the largest number of phone companies, price rises are significant year after year."

"The FCC's Office of Inspector General's semi-annual report in 2008 claimed that there was a '100% erroneous payment level in the Federal Universal Low Income Support Program' which means too much was paid out, not too little."

"Meanwhile, the December 2008 audit report for the Schools and Libraries Fund found an error rate of 13.8%; representing overpayments of \$232 million dollars. An agency program is considered at risk if the 'erroneous payment rate exceeds 2.5% or \$10 million.' "

"In 2000, the USF was funded by a 3.9% tax on all interstate calls and services. That had risen to 15.3% by the second quarter of 2010 (rate can vary from quarter to quarter)."

The article cites an FCC report listing the high-cost per line recipients "whose per line subsidies reach over \$10,000 per year." According to an earlier version of this essay, the USF's High Cost Fund is not needed "since virtually all 50 states average local service costs throughout the state." So there really are no high cost areas as a result. "In many states it is clear that the 'high cost' funding from the USF is not going to pay for local service provisioning but other activities."

The authors want to see the USF be 'needs' based, not 'greed' based. They want an investigation into the actual cost of the lines - all revenues, all expenses and all profits for the services over the subsidized line.

"Once each line is installed, does it really cost \$10,000 per year to provide service, or is pure profit taken from the taxpayer? Does the long distance, DSL/broadband, Internet and every other service get paid for at our expense? Companies' expenses are lowered in this way and this means greater profit margins."

"Having a 'needs' based USF is not a radical idea. When a customer calls to order 'Lifeline' services which is partially funded through USF, the customer must prove they are at or below the poverty line...and that's only for a few bucks a month. We're giving these companies billions with no proof of actual need."

"The USAC and USF should be held accountable. Taxation without representation is wrong. There should be a serious investigation."

Livingston, Latoya. (16 October 2013). Top Economists Decry 'Waste, Fraud, Mismanagement' of the Universal Service Fund's High Cost Fund. Broadband & Social Justice. Retrieved from <<http://broadbandandsocialjustice.org/2013/10/top-economists-decry-waste-fraud-and-mismanagement-of-the-universal-service-funds-high-cost-fund/>> on 18 March 2015.

Summary: This article summarizes the report by top economists, Thomas W. Hazlett of George Mason University and Scott J. Wallsten of the Technology Policy Institute, Georgetown Center for Business and Public Policy.

"Many organizations believe in the value of the Universal Service Fund to provide assistance for millions of low-income and rural Americans in need of phone and Internet service. But according to the recently released paper titled 'Unrepentant Policy Failure: Universal Service Subsidies Invoice and Broadband', the Universal Service Fund and in particular, the High Cost Fund is mentioned as being wrought with waste, fraud, and mismanagement."

"Since 1998, there have been \$110 billion in USF expenditures, of which \$64 billion went to telephone carrier subsidies to extend services out to 1/2 of 1% of U.S. households (that's .5%!). In federal carrier subsidies alone, about 600,000 homes received service at a cost of \$106,000 per home. In fact, some carriers receive more than \$10,000 per line per year to support voice services. The USF paper pointed out that:

FCC data show[s] that mobile voice service is available to 99.9% of households and wireless broadband service to over 99.5% of the U.S. population, including 97.8 percent of rural residences. In addition, satellite systems supply voice and data services to households virtually everywhere people live in the United States, using networks built without subsidies. Even with subsidized lines, subscribers typically pay \$400 a year or more just for voice services. While some USF dollars help low-income subscribers pay their bills, 80% of poor households receive no subsidies and yet pay the USF tax.

The USF paper also pointed out that despite the Government Accountability Office's (GAO) acknowledgement that there was rampant fraud, waste, and abuse within the High Cost Fund, the FCC only ordered a \$3000 per line cap on subsidies in its 2011 Order - in spite of the fact that 'satellite voice-and-broadband is offered to virtually every U.S. household for \$600 a year.' Regardless of this, the FCC reform's initial effects were to increase the High Cost Fund by about \$400 million.

Although the FCC's 2011 Order was supposed to address many of the problems set forth by the GAO, the paper points out several flaws. According to the authors, the Order:

Largely retains the cost-plus accounting framework, adopts a per-line 'cap' that will have virtually no effect on the size of the fund, sets a 'budget' whose binding constraint appears to be a floor on spending rather than a ceiling, includes no mechanism that will allow regulators to determine whether the subsidies have any effect in increasing rural broadband access, and reduces the effectiveness of some of the FCC's otherwise positive reforms.

New justifications for old regulations, i.e. switching from funding narrowband (voice) to subsidize broadband (data) is a perfect example of what is fundamentally wrong with the USF.

The authors questioned 'why broadband carriers required massive subsidies as unsubsidized markets have already made mobile broadband service available to 99.5% of U.S. households, cable T.V. systems (virtually all of which provide broadband connections) pass more than 99.3% of households, and phone companies offer digital subscriber line (DSL) service in 97% of rural areas.' The authors explained

that for those rural areas not covered, households had access to multiple satellite systems, which blanket the entire nation without the use of subsidies."

"So, as the authors contend, the parties actually reaping the benefits of the High Cost Fund are: '(a) the owners of the high-cost rural telephone companies, encouraged to operate with excessive cost structures - too many private jets, overpaid managers, gold-plated offices, etc. - and (b) landowners in areas where service is available due to the subsidies,' which is paid for by customers - rich and poor alike. In fact, the authors point out that low-income consumers face an inequitable burden since they spend a relatively large proportion of their income on international calls and are disconnected from the network for non-payment of heavily-taxed long-distance services."

"While the FCC is reforming how carriers' costs are defined, how subsidies are awarded, and how progress is monitored, the authors purport that there is little chance that, when actual results are registered and regulatory measures are implemented, there will be positive change. When all is said and done, the authors contend that the over \$88.5 billion in subsidies paid through USF have a weak impact at best on extending voice services; in addition, the marginal positive impact has been offset by the tax burden placed on domestic and international long-distance phone calls and wireless voice services.

Put concisely, the paper states that 'the FCC provides a new rationale for subsidies - substituting 'broadband' for 'voice' - breathing renewed political life into a failed government initiative that taxes urban phone users, most heavily poor households who use wireless phones and make long-distance (including international) calls, in order to subsidize phone companies and property owners in rural markets.' It goes on to state, 'Administrative failure, market competition, and technological evolution have rendered the USF system obsolete.' "

Longino, Carlo. (15 January 2007). USF: Still There, Still Looking Like a Big Waste. Techdirt. Retrieved from
<<https://www.techdirt.com/articles/20070115/085034.shtml>> on 18 March 2015.

Summary:

"From the money-pit dept

The good old Universal Service Fund is back in the news again. Phone customers pay a fee into the USF with every bill, and state and federal governments then distribute that money as subsidies to phone companies, supposedly to defray the cost of providing service in hard-to-reach and rural areas. But it's been repeatedly illustrated that USF money is distributed in curious circumstances, and dubious quantities, doing little to dispel the idea that all it really does is provide another revenue stream for telcos. The AP has done some nosing around USF records and highlighted a few different angles. They lead with the idea that cellular subscribers pay an inordinate amount of fees, but they bury the real point: that there's little to no oversight of how USF money is spent once it's paid out to phone companies. For

instance, in Texas, the formula used to calculate subsidies hasn't changed since 1997, and neither has the list of areas considered rural. Clearly technology has changed in the past ten years -- and it's absolutely certain that development has transformed many previously rural areas. In California, areas that are eligible for subsidies were determined in 1996, using 1990 census data -- and includes such downtrodden, out-of-the-way areas as Malibu, the Sacramento suburbs, and parts of the San Francisco Bay area. Phone companies say the USF delivers significant benefits, not just to rural customers, but even to those who pay into the fund, because it expands the number of people they can call on the phone. That's a pretty weak argument, and if it's one in which the phone companies absolutely believe in, they should have no problem with steps to increase the transparency and accountability of the USF, with a view to reducing the amount consumers have to pay in -- since, after all, they're just subsidies that should reflect the actual cost of providing service in areas that truly need it. But given the way they hoard USF payouts, and the shady actions of some telcos to replace USF fees they were no longer required to charge with made-up fees, we won't be holding our breath."

Gerome, Sara. (23 February 2011). Study: Half of telecom subsidy goes to phone company overhead. The Hill. Retrieved from http://thehill.com/policy/technology/145693-study-half-of-high-costq-fund-goes-to-general-operations-of-phone-companies?utm_campaign=HilliconValley&utm_source=twitterfeed&utm_medium=twitter on 18 March 2015.

Summary: "Half of the subsidies allotted to phone companies through the Federal Communications Commission's (FCC) "High-Cost" Universal Service Fund (USF) go to the general operations of phone companies, rather than to paying for phone lines, according to a study released on Wednesday.

Fifty-nine cents of every dollar paid out through the fund go to general phone company operations, according to Scott Wallsten, vice president for research at the Technology Policy Institute, a think tank.

In the author's words, the money is going to 'inflated overhead expenses.'

No matter the size of the firm, 'more than half of all high-cost funds end up paying for goods and services that are unrelated to the goals of the program,' Wallsten said. Wallsten advocates for aggressive USF reforms, a project the FCC has undertaken this year. He wants the FCC to focus more on low-income assistance instead of high-cost areas.

'The current universal service system is broken,' Wallsten said. 'The widespread belief among policymakers that it should evolve from subsidizing voice to subsidizing broadband presents an unprecedented opportunity for reform. We should not let this opportunity pass us by.' "

Section 708 — The National Education Technology Funding Corporation

S. 792

(No Author). (04 April 1995). GAO Report and the National Education Technology Funding Corporation | Congressional Record Volume 141, Number 62 | Senate Pages S5125 - S5138. Government Printing Office. Retrieved from <http://www.gpo.gov/fdsys/pkg/CREC-1995-04-04/html/CREC-1995-04-04-pt1-PgS5125.htm> on 16 May 2015.

Summary: This document is a record of the hearing and testimony given by Ms. Moseley-Braun in regards to the newly established National Education Technology Funding Corporation (NETFC).

She presents the results of the second of five GAO reports on the condition of America's schools and announces the creation of NETFC.

Senator Moseley-Braun, along with Senators Kennedy, Pell, Simon and Wellstone, requested the Government Accounting Office (GAO) perform a comprehensive, nationwide study on the condition of our Nation's public school facilities. The GAO produced five reports, the second of which was released on 04 April 1995 and was discussed in detail. Also of interest - The first report mentioned briefly, was released 01 February 1995 and focused "on the basic facility infrastructure needs and reached the conclusion that \$112 billion was needed just to get public schools up to code, removed of health and safety violations and threats to students."

"The second GAO report, which was released today, focuses on our Nation's education technology infrastructure needs. Once again, this report concludes that our Nation's public schools are not designed or sufficiently equipped to prepare our children for the **21st century**. And that is actually the name of it: 'School Facilities: America's Schools Not Designed or Equipped for the **21st Century**.' It is a pretty devastating title for the report itself, and this was a serious study that was done by the GAO."

"More specifically, the GAO report found that more than half of our Nation's public schools lack six or more of the technology elements necessary to reform the way teachers teach and students learn including: computers; printers; modems; cable TV; laser disc players; VCR's; and TV's."

"In fact, the GAO report found that even more of our Nation's schools do not have the education technology infrastructure necessary to support these important audio, video, and data systems. For example, this report concludes that: 34.6% of schools lack sufficient electrical power for computers; 46.1% lack sufficient electrical wiring; 51.8% lack sufficient phone lines for instructional use; and 55.5 percent lack sufficient

phone lines for computer modems..."

"It (the report) also found that the educational technology needs in our nation's schools increase in every category as the percentages of minority students and students receiving free or reduced lunches increase.

Mr. President, these results are simply unacceptable. There is absolutely no reason why, in 1995, all of our Nation's children should not have access to the best education technology resources in the world."

"As you know, we are in a new era in economic competition. All over the world, barriers to trade between nations are falling. We are witnessing the development of a truly **global marketplace**. I believe that America can lead the way in this marketplace. But if we are to succeed, if we are to retain our competitiveness into the **21st century**, there must be a renewed commitment to education in this country."

"It is vital to the interest of our Nation that we maintain quality public education for everyone. Education is not just a private benefit but a public good as well. It is the cornerstone of a healthy democracy and, as a society, we all benefit from a well-educated citizenry. It is the means by which we prepare our children to succeed — to make a living, to participate in the community, to enjoy the arts, and to understand the technology that has reshaped our workplace and, indeed, to compete in this **global economy**.

Without a strong education system in this country, our young people will not be prepared and will not be able to hold their own in competition with other communities in the world, which devote a greater proportion of their resources to the education of their children and the preparedness of their **workforce**.

Nonetheless, it will be difficult if not impossible for us to prepare our children to compete in the **emerging global economy** through the current educational system. In order to prepare American students to compete with their foreign counterparts, systemic school reform must occur."

"Mr. President, the increased competition created by the **emerging global economy** requires teachers and students to **transform** their traditional roles in many ways. It requires teachers to act as facilitators in the classroom, guiding students learning rather than prescribing it. It also requires students to construct their own knowledge, based on information and data they manipulate themselves."

Senator Moseley-Braun says that relying on local property taxes to fund schools is outdated and local school boards are not able to fund schools adequately. The second GAO report also found that, "on average, only 8% of local school bonds was spent on computers and telecommunications equipment. This is, for the average \$6.5 million bond, only \$155,000 or 2% was provided for the purchase of computers and only \$381,000 or 6% for the purchase of telecommunications equipment."

Goals 2000: Educate America Act was signed into law on 31 March 1994. Moseley-Braun argues that it is unfair to expect students to meet those goals if students are not provided with adequate tools and facilities.

"John Danforth — I know the Presiding Officer was familiar with former Senator Danforth from Missouri — Jim Murray, past President of Fannie Mae, and Dr. Mary Hatwood Futrell, past president of the National Education Association, joined forces today to address the problem highlighted in the second GAO report.

These three leaders in the area of education and finance came together today to establish the National Education Technology Funding Corporation, as a private, nonprofit organization, dedicated to improving our Nation's education technology infrastructure.

The National Education Association, the National School Board Association, the American Library Association, and I strongly support this effort to link public schools and public libraries to the information superhighway. As outlined in its articles of incorporation — incorporated today — the District of Columbia — the National Education Technology Funding Corp. is specifically designed to, first, leverage resources and stimulate private investment in education technology infrastructure;"

"Mr. President, former Senator Danforth, Mr. Murray, and Mrs. Hatwood Futrell created the National Education Funding Technology Corporation because they recognized that States and local school districts need help financing education technology equipment and infrastructure improvements.

They also recognize the need for both **public and private investments** in our Nation's education technology infrastructure. That is why their corporation will be operated by a board of directors which will include five members representative of public schools and public libraries; five representatives of the State education agencies; and five members representative of the private sector."

"...the results of the second GAO report suggest to me that the Federal Government must do more to build the education portion of the national information structure. Federal support for the acquisition and use of technology in elementary and secondary schools is currently fragmented, coming from a diverse group of programs and initiatives."

"Mr. President, I will soon introduce legislation designed to help States and local school districts meet these costs by authorizing Federal departments and agencies to make grants to the National Education Funding Technology Corp.

Rather than creating another bureaucratic Federal program, this legislation would provide Federal support for education technology through NETFC — an innovative, bipartisan, **public-private partnership**.

The seed money will help the NETFC provide low-interest loans, loan guarantees, grants and other forms of assistance to States in order to help them improve their education technology infrastructures.

This legislation will not infringe upon local control over public education in any way. Rather, it will supplement, augment, and assist local efforts to support education technology in the least intrusive way possible, by helping local school boards and

States improve their own facilities."

Regarding the study that was requested by Senator Moseley-Braun and other key senators:

"...You asked us to document the extent to which America's 90,000 schools are designed and equipped to meet the needs of today's students and tomorrow's workers. Specifically, can America's schools provide the key facility requirements and environmental conditions for education reform and improvement? Do America's schools have the appropriate technologies, such as computers, and the facility infrastructure to support the new technologies? In short, do America's schools have the physical capacity to support learning into the **21st century**?"

"Moreover, not all students have equal access to facilities that can support education into the **21st century**, even those attending school in the same district."

"Schools prepared to support **21st century** education would have..." This paragraph goes on to describe the features of new schools, the multitude of items needed and how schools would have the capacity to operate year round, 24 hours a day. (Community Schools)

"...to prepare the nation's children and teenagers to be **competitive workers** in the **21st century**, experts and business leaders say modern communication technologies should be a part of America's elementary and secondary education, not just the sole province of a few schools."

"Recent federal legislative initiatives supporting education reform and technology include (1) Improving America's Schools Act of 1994, which authorized \$200 million for technology education for 1995 and an additional \$200 million for the new education infrastructure improvement grants; and (2) Goals 2000: Educate America Act, passes in 1994, which establishes an Office of Education Technology in the Department of Education. Goals 2000 requires states that wish to receive funding under the statute to develop a state improvement plan for elementary and secondary education. This plan should include a systematic statewide plan to increase the use of state-of-the-art technologies that enhance elementary and secondary student learning and staff development to support the National Education Goals and state content standards."

"Although most schools report having enough computers and other basic technology elements, they do not have the technology infrastructure to fully use them."

"In short, most of America's schools do not yet have key technologies or the facilities required to support learning into the **21st century**. They cannot provide key facilities requirements and environmental conditions for education reform and improvement. In particular, older, un-renovated schools need infrastructure renovation to support technology. These renovations include fundamental changes to building structure, wiring and electrical capacity, air conditioning and ventilation, and security."

(No Author). (April 1995). Report to Congressional Requesters | School Facilities | America's Schools Not Designed or Equipped for 21st Century. United States General Accounting Office. Retrieve from <<http://www.gao.gov/assets/230/221084.pdf>> on 01 June 2015.

Summary: This 67 page document is the report Senator Moseley-Braun reviewed during her testimony on 04 April 1995. The report is stamped, "RESTRICTED — Not to be released outside the General Accounting Office unless specifically approved by the Office of Congressional Relations." "RELEASED" is stamped over the top.

"In short, do America's schools have the physical capacity to support learning into the **21st century**?"

"Results in Brief

School officials in a national sample of schools reported that although most schools meet many key facilities requirements and environmental conditions for education reform and improvement, most are unprepared for the 21st century in critical areas:

Most schools do not fully use modern technology. Although at least three quarters of schools report having sufficient computers and televisions (TV), they do not have the system or building infrastructure to fully use them. Moreover, because computers and other equipment are often not networked or connected to any other computers in the school or the outside world, they cannot access the information super highway.

Over 14 million students attend about 40 percent of schools that reported that their facilities cannot meet the functional requirements of laboratory science or large-group instruction even moderately well.

Over half the schools reported unsatisfactory flexibility of instructional space necessary to implement many effective teaching strategies.

Although education reform requires facilities to meet the functional requirements of key support services-such as private areas for counseling and testing, parent support activities, social/health care, day care and before- and after-school care-about two-thirds of schools reported that they cannot meet the functional requirements of before- or after-school care or day care.

Moreover, not all students have equal access to facilities that can support education into the **21st century**, even those attending school in the same district. Overall, schools in central cities and schools with a 50-percent or more minority population were more likely to have more insufficient technology elements and a greater number of unsatisfactory environmental conditions-particularly lighting and physical security-than other schools."

"Background | Education Reform

Education reform is a national movement to raise standards for all students at all schools. It focuses on changes designed to improve student outcomes by (1) determining what students should know and be able to do and (2) ensuring that the key components of the educational system are directed to achieving those outcomes. To accomplish these objectives, education reform efforts are introducing new teaching methods, assessments, curricula, instructional materials, and technology into school buildings."

"Rather than uniform-sized classrooms with rows of desks, a chalkboard, and minimal resources such as textbooks and encyclopedias, schools prepared to support **21st century** education would have

- flexible space, including space for small and large group instruction;
- space to store and display alternative student assessment materials;
- facilities for teaching laboratory science, including demonstration and student laboratory stations, safety equipment, and appropriate storage space for chemicals and other supplies;
- a media center/library with multiple, networked computers to access information to outside libraries and information sources."

"Communications Technology in Schools

Although technology is changing constantly and quickly becoming defined by complex interactive and multimedia technologies and standards are only beginning to emerge, it is helpful to regard school communications technology as comprising four basic electronic systems: technology infrastructure, data, voice, and video. These systems transmit data-by computer networks, voice-by phone lines, and video-by TV, within the school, among different school buildings, to the outside world, and even to outer space."

(No Author). (04 April 1995). School Facilities: America's Schools Not Designed or Equipped for 21st Century. United States General Accounting Office. Retrieved from <<http://www.gao.gov/products/HEHS-95-95>> on 18 May 2015.

Summary. This is the overview of the findings from the GAO Report HEHS-95-95 listed above.

"Pursuant to a congressional request, GAO reviewed whether America's schools: (1) provide the key facilities requirements and environmental conditions for education reform and improvement; (2) have appropriate technologies and the facility infrastructure to support new technologies; and (3) have the physical capacity to support learning into the **21st century**.

GAO found that: (1) most schools are unprepared for the **21st century**; (2) at least three-quarters of schools have sufficient computers and televisions, although they do not have the infrastructure to fully use these technologies; (3) one-third of schools

with sufficient computers are not networked, limiting their access to available electronic information; (4) about 40 percent of schools cannot adequately meet the functional requirements for laboratory science or large-group instruction; (5) about 54 percent of schools have unsatisfactory instructional space to implement effective teaching strategies; (6) schools in the same district often differ because the construction of new facilities takes precedent over maintaining and renovating existing facilities; (7) air-conditioning is necessary for schools to operate effectively in hot weather or use computers; (8) the majority of schools with air-conditioning are satisfied with its quality, although only about 50 percent of schools have air-conditioning in classrooms; and (9) schools in central cities or schools with minority populations of over 50 percent are more likely than others to have insufficient technology elements and unsatisfactory environmental conditions."

Moseley-Braun, Carol. (04 April 1995). Senate Session 04 April 1995 C-Span Video / Transcript. C-SPAN. Retrieve from <www.c-span.org/video/?64368-1/senate-session> on 21 July 2015.

Summary: Watch the video and review the transcript from Senator Moseley-Braun discussing the GAO report on the condition of our nation's public schools and her announcement of the newly established National Education Technology Funding Corporation. Her testimony begins at 4:10:00.

Lindsay, Drew. (12 April 1995). Nonprofit Group To Target Technology Infrastructure. Education Week. Retrieved from <<http://www.edweek.org/ew/articles/1995/04/12/29braun.h14.html>> on 05 June 2015.

Summary: "Tapping public and private funds to bolster the technology infrastructure in the nation's public schools will be the goal of a nonprofit organization launched last week.

The National Education Technology Funding Corporation will aim to stimulate private investment in school technology and encourage states to sponsor information networks for public schools and libraries, said James E. Murray, a member of the group's board and a former president of the Federal National Mortgage Association.

The other board members are former U.S. Sen. John C. Danforth of Missouri and Mary Hatwood Futrell, a former president of the National Education Association. The board eventually will have 15 members.

'Public agencies and private companies that have demonstrated interest in the corporation include the Federal Communications Commission, the International Business Machines Corporation, and several other businesses involved in

communications technology,' Mr. Murray said.

The group's formation was announced at a Washington news conference held last week by U.S. Sen. Carol Moseley-Braun, D-Ill., to release federal findings showing that schools are not sufficiently equipped to handle modern technology.

The report, issued by the U.S. General Accounting Office, noted that more than half of the nearly 80,000 schools surveyed reported that while they have computers and other technology, they do not have the advanced wiring or basic infrastructure to support the devices."

Moseley-Braun, Carol. (11 May 1995). S. 792 (104th): National Funding Technology Corporation Act of 1995. U.S. Government Publishing Office. Retrieved from <<http://www.gpo.gov/fdsys/pkg/BILLS-104s792is/pdf/BILLS-104s792is.pdf>> on 03 June 2015.

Summary: This is the original S.792 document. The text is identical to what became Section 708 of the Telecommunications Act of 1996.

The co-sponsors of the bill were Conrad Burns (R-MT), Robb Charles (D-VA) and John Kerry (D-MA).

The purpose of the bill is:

"To recognize the National Education Technology Funding Corporation as a nonprofit corporation operating under the laws of the District of Columbia, to provide authority for Federal departments and agencies to provide assistance to such corporation, and for other purposes."

Moseley-Braun, Carol. (11 May 1995). S. 792 (104th): National Education Technology Funding Corporation Act of 1995. GovTrack. Retrieved from <<https://www.govtrack.us/congress/bills/104/s792>> on 03 June 2015.

Summary: The GovTrack webpage provides additional information about, and access to S.792 introduced by Senator Carol Moseley-Braun.

Eddie Tech

Melley, Kenneth & Kahn, Michael. (Spring 1995). Eddie Tech — Educational Technology Loan Authority | A Model for Financing School Reconstruction and

Bringing Technology and the Information Superhighway to America's Schools. University of Illinois Press | Journal of Education Finance. Retrieved from <http://www.jstor.org/stable/40703940?seq=1#page_scan_tab_contents> and <<http://www.aasa.org/uploadedFiles/Resources/files/AASAToolkitSchoolConstructionComplete.pdf>> on 01 June 2015.

Summary: There is very likely a connection between the discussion in this article and the National Education Technology Funding Corporation but the association is not certain. This article came out the same time as the 2nd GAO report announced by Senator Moseley-Braun but "Eddie Tech" is being referred to here as the Educational Technology Loan Authority. There is nothing on the Internet about the Educational Technology Loan Authority to be found except in this article. This is the only resource using the name Eddie Tech written during this timeframe (1995) and it is discussed as speculation. This article was published one year prior to the signing of the Telecommunications Act of 1996.

"This nation has entered an era of fiscal constraint in providing funding for refurbishing, upgrading and constructing schools capable of accommodating the equipment needed to assure that the our future **labor force** has the capacity to compete in an increasingly **global economy**. Advocacy organizations usually develop and seek to implement their programs with internal resources and legislative channels. In this instance, however, the need for the widespread interest and ideas on how to cope with the problem prompts this discussion in the Journal.

The nation's schools are deficient in many ways. Access to technology in wealthy and poor school systems is unequal. The current state of affairs shows that the massive amount of funds needed for infrastructure development and for bringing telecommunications services and technology to schools cannot be raised at state and local levels through the usual ways, such as issuance of local bonds. For budgetary and other reasons, school districts continuously tend to defer capital improvement projects. The longer the deferral, the more the improvements cost. The proposed Eddie Tech model offers a unique way to address this urgent problem by seeking to utilize one federal dollar to attract between \$10 and \$20 investment from public and private pension funds through credit enhancement. It would also establish a Federal-State partnership to address the problem in innovative ways."

"Lack of Technology in Schools

As the nation enters the **21st century**, the American economy will be competing with other major industrial nations on the basis of high skill, high wage jobs. Critical in that competition is mastery of the tools and technologies of the information age. The U.S. has taken a 'hit or miss' approach in introducing these tools and technologies to our schools."

"What Is Eddie Tech?

Eddie Tech is an acronym for the Educational Technology Loan Authority, an idea that authors have pursued since 1992 as a result of their involvement in Strategic Work Team on Education Finance. Because state and local resources are limited and needs are enormous, the Eddie Tech idea is to develop a mechanism at the national

level by which one public dollar can attract ten or more investment dollars. Eddie Tech would establish, through an act of Congress, an organization that would allow investment in education through credit enhancement and re-insurance and serve as a secondary bond market."

"Mechanics of Eddie Tech

The mechanics of Eddie Tech are depicted in Figure 1. At the center is the Eddie Tech organization, which would be run by an independent board of directors consisting of stakeholders ~ educators, community leaders, and government appointees. The organization would receive funds from appropriations, the U.S. Department of Education Technology Fund, and user fees and spectrum allocation fees. It would generate additional funds by establishing a secondary bond market that would allow investors to trade their bond holdings. The funds would be used to provide re-insurance and competitive returns to investors such as pension funds. Eddie Tech would distribute the investment dollars to states as they float bonds. It would provide credit enhancement, bond rating services, and flexible debt instruments to fit the needs of individual states. The governments would then use the funds to reconstruct and retool their local schools.

The Eddie Tech board could play a pivotal role in setting policies encouraging education reform and the reform of state revenue systems, especially through its bond rating and credit enhancement activities."

"Eddie Tech would be a modified form of Connie Lee that would allow school districts and states to float bonds focused on the pre-K through grade 12 education sector. Eddie Tech would serve as an insurer and a secondary bond market for public and private pension funds and other investors."

"How Much Money is Needed and Where Would it Come From?

According to a 1989 study, at least \$234 billion are needed to rebuild schools. The current estimates may be as high as \$300 billion. The longer the rebuilding is deferred the more it will cost. A \$25 billion cost estimate to repair schools in 1983, for example, increased to \$100 billion by 1991. While cost estimates to bring technology and the information highway to schools are yet to be derived, they are likely to be in the range of \$50 to \$100 billion. Thus, a massive infusion of funds, perhaps \$300 or 400 billion, is needed to rebuild and retool schools.

Where would this money come from? Given the deficit and entitlement programs, the federal government is unable to provide this total sum. Cash-strapped states with their outdated revenue systems are also unlikely to raise the amount needed to address this urgent problem in foreseeable future. Pension funds, on the other hand, are the largest pool of money in the United States with assets approaching \$4.0 trillion. Unfortunately, pension funds are currently prevented from investing in school reconstruction because of the tax-exempt nature of state and local bonds used to finance capital development projects. Pension funds are tax exempt entities. They do not, therefore, have any incentive to invest in school bonds.

Eddie Tech would offer a taxable instrument that will allow pension funds to invest in

education. Given the fact that Connie Lee (the College Construction Loan Insurance Association) started with \$11 million about seven years ago and today has a portfolio of more than \$5 billion; it is reasonable to expect that Eddie Tech with a revenue stream from the universal service fund could attract between 5 to 10 percent of pension fund assets over the next five years, especially if the bond is designed in such a way that it has a re-insurance feature and offers 50 - 100 basis points above the market rate. This amount would be sufficient to rebuild and retool schools for the 21st century.

This bond design would be feasible because the revenue stream, i.e., Universal Service Fund, on which the bond will be based is likely to grow. Recall that the Universal Service Fund comprises of contributions made by telecommunications companies to assure access of these services to hard to reach high cost areas, such as rural communities. With expanding cellular phone market, advent of high definition television, and expansion of video services through phone lines, the stream of revenue has a tremendous potential to grow. Depending on how it is defined, approximately \$20 billion flows through the Universal Service Fund currently. AIO percent contribution for Eddie Tech to the Universal Service Fund would raise \$2.0 billion. This amount will rise as the telecommunications market expands. It is possible, therefore, to attract the private sector revenue needed to transform the infrastructure of our schools for the **21st century** within a short period of time."

"State Role in Eddie Tech

Since fiscal conditions at state and local levels are unlikely to improve substantially in the near term, no reason exists to believe that state and local funds will overtake the increasing need to remediate the deplorable conditions and the limited state of technology available in the nation's schools. Almost one-fourth of the districts already have reached their debt limit and a majority of districts already have less than 50 percent of their limit remaining. Furthermore, school districts continually face tax limitations and failed bond elections due in part to the changing demographics of the nation. The massive infusion of funds needed to upgrade school facilities is unlikely to come from the traditional ways of funding capital improvement projects, i.e., floating tax free school bonds. The traditional way also creates inequities. High wealth school districts are more able to finance capital improvements and the purchase of equipment than low wealth districts.

Eddie Tech, in partnership with states, would offer a vehicle that states could use to attract private sector funds to rebuild and retool schools for the **21st century**. States could then distribute funds to local governments based on their ability to share the cost of the rebuilding and retooling. The Eddie Tech approach would allow states flexibility to use innovative techniques, such as establishing multi-purpose revolving funds, to address the critical problem of organizing and financing the improvement of the nation's school buildings. Revolving funds are created by a one time grant. Participants in this type of fund, e.g., school districts, can borrow money for a specific purpose and repay later. A revolving fund, therefore, takes on a life of its own and could become a source of ready revenue to meet special needs such as training and professional development."

"The Eddie Tech idea is receiving a favorable response in the United States

Congress. Legislation, HR 5013, incorporating the Eddie Tech concept has already been introduced and efforts to amend S 1822 to include the idea are underway. Unfortunately no legislation was passed this year due to congressional focus on health care reforms. Congressional leaders have reported that Eddie Tech legislation will be pursued in the 104th Congress.

While the legislation will address the technology infrastructure aspect of the problem, the larger problem of school building conditions must be addressed. A new multi-media computer will not be of much use when the pipes or the roof of the school are leaking. School construction may become feasible through the intervention of a government entity similar to the Reconstruction Finance Corporation, which operated in the years before and after World War II.

As the idea moves from legislative arena to implementation arena over the next year or so, several questions, especially with respect to distribution of funds at state and local levels loom. These questions need the education finance community's attention.

Time is of essence. The poor condition of the infrastructure of our nation's schools is a time bomb waiting to explode. Occasional news about a collapsing gym or a falling side wall are early warning signals of tragedies that could happen with increasing frequency if the problem is deferred further."

(The legislation mentioned in this article, HR 5013 and S 1822 have not been located for review.)

(No Author). (February 2001). Creating an Environment That Supports Excellence | Modernizing America's Public Schools. [mindfully.org](http://www.mindfully.org/Reform/Environment-Excellence-NEA.htm). Retrieved from <<http://www.mindfully.org/Reform/Environment-Excellence-NEA.htm>> on 16 May 2015.

Summary: The information found on the mindfully.org website was excerpted from The Opportunity to Excel by the National Education Association.

"Would America expect the executives and employees of its great corporations to work in overcrowded buildings where the roof leaks, the ceiling is crumbling, mold and mildew abound, the indoor air quality makes people sick, the heating does not work properly in winter, there is no air conditioning for hot days and the rooms are not even wired for Internet connections? Of course not."

"No one should expect children or teachers to attend schools in substandard condition either. Studies have been done confirming that the condition of school buildings impacts student performance."

"...school modernization, renovation and construction must be a compelling national priority."

"There are several components to the problem facing schools:

1.) Crumbling schools and deferred maintenance affecting a majority of America's public schools.

'At a minimum, the dilapidated conditions of many of these buildings can cause children to suffer needlessly from asthma, allergies, airborne diseases such as influenza, injuries and sick building syndrome. At their worst, crumbling school buildings can even be life-threatening.'

2.) The Enrollment Boom

'The funds needed for school modernization, an estimated \$73 billion is required to build new schools to meet the 'baby boom echo' enrollment surge that is expected to continue for at least the next eight to ten years.'

3.) Class Size Reduction

4.) Lagging Technology

'The average school building in America is 50 years old. It was designed and built for a bygone era. Beyond lights on the ceiling, a blackboard for writing, and electrical outlets for overhead projectors and the occasional television set, classrooms were not developed with any additional capacity for technology.

As a consequence, only 27 percent of classrooms and other instructional rooms were wired to the internet as of 1997. In fact, 46 percent of today's school buildings have no adequate wiring to support the full-scale use of technology. So it is not just a matter of buying equipment and plugging it in. Nor is the highly beneficial E-rate Program sufficient by itself, though it should be expanded. Modernization requires major renovation projects in a majority of the Nation's schools.

If America is to be truly committed to educational excellence for all, modernization must commence with all deliberate speed. No student should be denied the world of information available through the Internet, the insights available from the newest educational technologies and the essential computer skills which are prerequisites for the jobs of today and tomorrow.'

5.) State Finances Insufficient

'As with all aspects of the public schools, state and local government must be the primary sources of funding for school modernization. However, to rely on state and local resources alone will condemn millions of school children to substandard or overcrowded school buildings that lack the latest technologies. State governments and school district taxing authorities simply do not have the resources to do it alone.'

If all the state surpluses were combined for fiscal year 1999, it would total \$31 billion. If hypothetically speaking, every surplus dollar was spent on school modernization, it would only cover 10 % of the total cost of modernization.

Furthermore, there are so many variations in state and local taxation methods and the revenue that is generated. There are too many variables so that most states do not have the fiscal stability to meet the enormity of the school modernization challenge year after year on their own."

"The Solution to the challenges facing the modernization of our schools is a unique Federal / State / Local partnership.

The Federal government is poised to help states and localities with their school modernization needs. Ideally, the Federal government simply provides the funding resources and allows the decisions about specific needs to the states and localities. Three recommendations are explained, each one incorporating this philosophy:

- 1.) Funding direct, zero-interest loans or grants for emergency repairs
- 2.) Paying the interest costs on state or local school modernization bonds
- 3.) Turn the National Education Technology Funding Corporation ('Eddie Tech') into a pooling mechanism for the issuance of school modernization bonds, similar to the role Fannie Mae plays in the home mortgage market."

"Creating a 'Fannie Mae' for School Modernization

Even with the passage of federal tax credit bonds, states and localities would face significant hurdles financing capital improvements because the pool of potential investors would remain limited. For example, whether they are federal tax credit bonds, tax-exempt bonds or short term tax anticipation annuities, school-backed securities are usually not an attractive investment option for institutional investors. Funding a mechanism that would facilitate the pooling of school securities could enable school districts to reach the necessary market of investors.

National Education Technology Funding Corporation ('Eddie Tech'), authorized in the Telecommunications Act of 1996, offers a creative and timely solution. Eddie Tech was established as a private, non-profit entity authorized to provide financial assistance to elementary and secondary schools for the acquisition of high-capacity Internet and other technology-related capital improvements. To date, however, Eddie Tech remains unfunded and non-operational.

Funded, Eddie Tech could provide school districts the full range of financing tools available in other financial markets. Essentially, Eddie Tech could offer taxable securities for institutional investors and create a second market for its portfolio, similar to Fannie Mae's role in mortgage-backed securities. Through credit enhancement and leveraging, Eddie Tech could make school-backed securities a more attractive option for institutional investors. It would also lower transaction costs for school districts.

With an action by the Administration and Congress, Eddie Tech could provide an effective structure for issuing school modernization bonds."

"The American public overwhelmingly supports a significant federal investment in public school repair, renovation, and modernization. It transcends partisanship and geography, recognizing the need to invest in education now in order to ensure America's place in the **global economy** of tomorrow."

"In every state in America, more than three of every five public schools needs repairs or upgrades to reach good condition. Eleven million children attend public schools that are in less than adequate condition; 3.5 million children attend school in poor condition.

To modernize every public school so that every child learns in a classroom that maximizes the opportunity for excellence requires an investment of \$321.9 billion over the next 10 years."

"National Education Association recommends creation of a federal/state/local partnership to leverage the modernization of every public school. Building on existing federal initiatives and frameworks, NEA urges the Administration and Congress to:

- Invest \$2 billion annually in emergency grants and loans for the most urgent school repairs;
- Pay the interest costs on state or local school modernization bonds, either through expansion of federal tax credit bond initiatives or direct interest subsidies; and
- Turn the National Education Technology Funding Corporation ("Eddie Tech") into a pooling mechanism for the issuance of school modernization bonds, similar to the role Fannie Mae plays in the home mortgage market."

(No Author). (23 February 2010). School Advocates Endorse Eddie Tech "SIPS" Bond-Pooling Program. The School Superintendents Association. Retrieved from <<http://www.aasa.org/content.aspx?id=12402>> on 16 May 2015.

Summary: "WASHINGTON, DC — The National Education Technology Funding Corporation ('Eddie Tech') today announced that the nation's leading education-advocacy organizations — the American Association of School Administrators, the National Education Association, and the National School Boards Association — have joined together to endorse and help market Eddie Tech's work to fund the future of schools.

Recognizing that many school districts have been unable to take full advantage of the benefits of the expansion of federal tax-credit bonds, Eddie Tech is working with local public school districts across the nation to assemble bond portfolios that can be packaged and sold into the national capital markets. Eddie Tech's School Investment Pooled-Securities ("SIPS") Program will package bonds into pooled offerings to reduce financing costs for school districts and simplify the process by which school districts can issue and investors can invest in these new financing tools.

'Eddie Tech's SIPS Program can offer efficient 'pre-packaged' issuance mechanisms, reduced transaction costs, and more-efficient pricing for school districts,' said Eddie

Tech Executive Director Brett Mandel. 'Through the work of Eddie Tech, public school districts can access low-cost financing to invest in America's schools and create an environment that supports excellence in our classrooms.'

Stepping forward to endorse the effort and ensure that school districts across the nation are aware of Eddie Tech's efforts and informed of their potential benefits, the American Association of School Administrators, the National Education Association, and the National School Boards Association have partnered to make the bond-pooling program a success.

'The National Education Association has estimated that modernizing the nation's schools will cost billions so we are very excited to promote Eddie Tech's program to help school districts finance construction and renovation,' said National Education Association Executive Director John Wilson.

'While we were very pleased to see the dramatic expansion of the tax-credit-bond programs, we were disappointed to hear that many school districts have not been able to take full advantage of cost savings,' said Anne Bryant, Executive Director of the National School Boards Association. 'We fully support Eddie Tech's efforts and believe they will reduce borrowing costs and help our school boards meet their ongoing challenge to invest in schools.'

"Our school administrators are confronted with the task of preparing the leaders of tomorrow in buildings built for yesterday in the middle of a recession' added Daniel Domenech, Executive Director, American Association of School Administrators. 'We endorse Eddie Tech's program and think that it can help us all meet the challenge of improving our educational infrastructure in the most efficient manner.'

Eddie Tech is currently working with the American Association of School Administrators, the National Education Association, and the National School Boards Association to finalize program details and anticipates issuing its first bond pool in the first quarter of 2010."

(No Author). (22 March 2010). Eddie Tech helps districts access construction funds. American School Board Journal. Retrieved from <<http://www.asbj.com/MainMenuCategory/Archive/2010/April/April-2010-Up-Front.html>> on 16 May 2015.

Summary: "In February's issue of ASBJ, our news analysis looked at how school districts are struggling to access federal money to repair and replace crumbling facilities. Now three organizations -- NSBA, the American Association of School Administrators, and the National Education Association -- have joined forces to support the work of the National Education Technology Funding Corp.

The corporation, also known as Eddie Tech, works with districts across the nation to assemble bond portfolios that can be sold into the national capital markets. The School Investment Pooled-Securities (SIPS) Program will package bonds into pooled

offerings, which will reduce financing costs and simplify the process for school districts.

The American Recovery and Reinvestment Act created and expanded Qualified School Construction Bonds (QSCBs) and Qualified Zone Academy Bonds (QZABs). School districts were expected to receive a significant financial subsidy because the U.S. Treasury can now pay 'interest' to investors in the form of annual tax credits. However, because no mature and established market exists yet for these bonds, many districts are having to pay lenders an additional premium of as much as 3 percent more per year, deeply cutting into the potential savings."

"Brett Mandel, Eddie Tech's executive director, said the SIPS program will "offer efficient 'pre-packaged' issuance mechanisms, reduced transaction costs, and more-efficient pricing for school districts.' "

" 'While we were very pleased to see the dramatic expansion of the tax-credit-bond programs, we were disappointed to hear that many school districts have not been able to take full advantage of cost savings,' said Anne Bryant, NSBA's executive director. 'We fully support Eddie Tech's efforts and believe they will reduce borrowing costs and help our school boards meet their ongoing challenge to invest in schools.' "

Domenech, Daniel. (March 2010). AASA Toolkit: Cost-Effective Financing for School Construction and Renovation. American Association of School Administrators & Eddie Tech. Retrieved from <http://www.aasa.org/uploadedFiles/Resources/files/AASAToolkitSchoolConstructionComplete.pdf> on 01 June 2015.

Summary: This resource document is designed to help "school districts access tax-credit bonds to finance the construction and repair of public schools." There are seven sections included in this document.

Part I. Letter from AASA Executive Director Daniel Domenech

"Dear AASA Member:

If you are like most school system leaders during these tough economic times, your district is facing severe budget shortfalls, with little or no funding to pay for school construction or repair.

The purpose of this toolkit is to connect your school district to cost-effective financing for school construction and renovation.

States and local governments typically finance public projects by selling tax-exempt bonds, which offer interest payments that are lower than conventional rates because the interest is tax-free. This toolkit will bring you up-to-speed on two tax-credit bonds created and expanded by the 2009 American Recovery and Reinvestment Act:

- Qualified School Construction Bonds, which can be used for constructing, rehabilitating or repairing a public school facility, or acquiring land for a public school.
- Qualified Zone Academy Bonds, which can be used for school modernization, equipment and developing curriculum/training.

While these bond programs offer billions of dollars for school facilities, some districts are facing increased costs and greater difficulty in successfully placing these bonds. The good news for school districts is that AASA has partnered with the nonprofit National Education Technology Funding Corporation ("Eddie Tech"), to help reduce the costs to school districts of investing in the nation's education infrastructure.

By working with Eddie Tech, you can take full advantage of these tax-credit bonds, which will allow you to build more for less and improve your facilities for students and teachers.

We encourage you to read the materials included in this toolkit and contact Brett Mandel, executive director of Eddie Tech, at bmandel@eddiotech.org or 202.330.1438, with any questions."

Part II. "Top 5 Questions and Answers About School Investment Pooled Securities

1. What is the School Investment Pooled-Securities ('SIPS') Program?

The SIPS Program is an effort to help local school districts to take full advantage of federally subsidized financing through Qualified School Construction Bonds (QSCBs) and Qualified Zone Academy Bonds (QZABs). By packaging many, smaller bond issuances into a larger, geographically diverse pool of tax-credit bonds, Eddie Tech expects to offer public school districts lower financing costs and simpler "pre-packaged" issuance mechanics.

2. Who created the program?

The National Education Technology Funding Corporation ('Eddie Tech') is a non-profit organization, recognized legislatively by Congress in 1996 to improve education-technology infrastructure. In 2010, the American Association of School Administrators, the National School Boards Association and the National Education Association joined together to establish the SIPS Program to enable school districts access tax-credit bonding more efficiently and effectively.

3. Why was the program created?

As you may know, while QSCBs provide a significant financial subsidy for school districts, because there is not yet a mature and established market for these bonds, many districts have found it necessary to pay lenders an additional premium of as much as 3.0 percent or more per year to issue the bonds. Additionally, many districts have been frustrated by the complexity of marketing these bonds and have had to invest scarce district resources in outside professionals to facilitate transactions. Eddie Tech expects the SIPS Program to provide school districts with an efficient "pre-packaged" issuance process, reduced financing costs, and more-efficient

pricing on the underlying debt.

4. How does the program benefit schools?

As a non-profit organization, Eddie Tech seeks to maximize the benefits offered by tax- credit bonds to school districts for financing the construction and repair of public schools, as well as the development and modernization of the technology infrastructure in the schools. By packaging QSCBs and QZABs into pooled securities in its SIPS Program, Eddie Tech makes them more attractive to investors, thereby broadening the array of potential buyers. Eddie Tech's SIPS Program is designed to reduce financing costs for school districts by achieving economies of scale through volume and simplify the process by which school districts can issue and investors can invest in these new financing tools.

5. How can my district take advantage of this program?

If your school district is interested in exploring the potential cost savings and other benefits of the SIPS Program, please contact Eddie Tech Executive Director Brett Mandel at 202.330.1438 or bmandel@eddiotech.org. Eddie Tech looks forward to working with you to fund the future of your schools."

Part III. "Fact Sheet: Federal Tax-Credit Bonds Available to Schools

Fact: School districts are able to use Qualified School Constructions Bonds (QSCBs) and Qualified Zone Academy Bonds (QZABs) to realize a significant financial subsidy for capital projects.

Fact: QSCBs and QZABs are federal tax-credit bonds, which allow bondholders to claim an annual tax credit equal to a specified credit rate as determined by the secretary of the treasury, for as long as the bond remains outstanding.

Fact: School districts are able to use these bonds to realize a significant financial subsidy for capital projects. This is illustrated in the chart below. (Located on page 5)

Fact: Tax-Credit Rate

The federal legislation relating to QSCBs and QZABs directs that the secretary of the treasury establish a tax-credit rate such that issuers need not pay interest cost or sell the bonds at a price less than the face value. In recent months, however, investors generally have required supplemental interest payments of 1-3 percent.

The Treasury on a monthly basis also establishes the maximum permitted maturity for the QSCBs and QZABs (recently in the 15- to 17-year range) and the "permitted sinking-fund yield" (the maximum rate at which borrowers can reinvest annual deposits to provide for principal repayment).

For the current tax-credit rate, maximum maturity, and sinking-fund yield from TreasuryDirect, go to <https://www.treasurydirect.gov/GA-SL/SLGS/selectQTCDDate.htm>. (Link does not work currently.)

Fact: Tax Credits

Issuing government entities must only repay the bond principal, using local revenue

sources such as property taxes. The federal government provides a return to the bondholder in the form of the tax credits. They are taxable for the bondholder, like interest income, and only have value to the extent a bondholder has current income tax liability.

Fact: Bond Payment

The value to school districts of QSCBs and QZABs is maximized if the bonds are structured as "balloon maturities," with all the principal remaining outstanding until the year of final maturity. Many states have legal requirements that school districts make annual level debt service payments to provide for the orderly retirement of debt. Eddie Tech envisions that most participants will make equal annual contributions to a central escrow account (the Sinking Fund). Districts would be credited with net earnings on sinking fund balances to reduce their contribution the following year."

Part IV. "Fact Sheet: Qualified School Construction Bonds

Qualified School Construction Bonds (QSCBs) were introduced in the American Recovery and Reinvestment Act of 2009 (P.L. 111-5) and have a national limit of \$11 billion in each of 2009 and 2010. As tax-credit bonds, they offer investors an annual federal tax credit covering most, if not all, of the annual return required by investors. This much deeper federal subsidy conserves local tax dollars for other purposes. The bonds are allocated:

- 40 percent to the 100 largest local education agencies (LEAs) based on the number of children living below the poverty level; and
- 60 percent to states and territories based on the state's share of Title 1 Basic Grants, which the States then sub-allocate to school districts or issue themselves. Each state's share of the 60 percent is reduced by the LEA allocations.

Bond proceeds must be used for constructing, rehabilitating or repairing a public school facility, or acquiring land for a public school. Proceeds must be spent within three years, un-issued allocations may be carried forward by the State for one year, and Davis-Bacon rules requiring the payment of prevailing wages apply."

Part V. "Fact Sheet: Qualified Zone Academy Bonds

Qualified Zone Academy Bonds (QZABs) were introduced in the Taxpayer Relief Act of 1997 (P.L. 105-34) and had a limit of \$400 million from 1998 through 2008. This limit was expanded by Congress to \$1.4 billion for 2009 and 2010. The bonds are allocated to states and territories based on their portion of the U.S. population living below the poverty line. Each state then sub-allocates issuance volume to school districts. QZABs generally have the same features as QSCBs, with the following exceptions:

- 'Qualified Zone' schools must be located in an Empowerment Zone,

Enterprise Community, or at a school where at least 35 percent of the students are eligible for free or reduced-lunch costs;

- Bond proceeds are limited to school modernization, equipment, or developing curriculum/training; and
- School districts must partner with private entities that contribute property or services with a value of 10 percent of the bond proceeds."

Part VI. "Press Release Template Announcing Participation in SIPS Program

You may tailor this press release to fit your district and distribute it to your local media contact list to increase awareness of your participation in the School Investment Pooled-Securities Program.

FOR IMMEDIATE RELEASE

[Date]

Contact: [Name, phone number, e-mail]

[NAME OF DISTRICT] SAVES [\$____] BY PARTICIPATING IN SCHOOL INVESTMENT POOLED-SECURITIES PROGRAM

[City, State] -- [Name of District] today announced that the district was able to issue bonds to fund the construction of [_____] at a cost of [\$_____], saving the district and taxpayers [\$_____] over the life of the bonds, by participating in the School Investment Pooled-Securities (SIPS) Program.

The SIPS Program is administered by the National Education Technology Funding Corporation — 'Eddie Tech' — to help local school districts utilize federal mechanisms for interest-free financing of school construction and renovation.

Eddie Tech is a non-profit organization recognized legislatively by Congress in 1996 principally to improve education-technology infrastructure. Eddie Tech is working to be the preferred vehicle by which local school districts access capital to issue two forms of tax-credit bonds created and expanded by the 2009 American Recovery and Reinvestment Act: Qualified School Construction Bonds (QSCBs) and Qualified Zone Academy Bonds (QZABs).

The federal tax-credit bonds created and expanded by the 2009 American Recovery and Reinvestment Act provide a significant financial subsidy for school districts by authorizing the U.S. Treasury to pay "interest" to investors in the form of annual tax credits. However, because there is not yet a mature and established market for these bonds, many school districts across America have found it necessary to pay lenders an additional premium of as much as 3.0% or more per year. This raises the cost of much-needed investment in school safety, acquisition of modern technology, and enhancement of the learning environment.

'Eddie Tech's SIPS Program can offer efficient 'pre-packaged' issuance mechanisms,

reduced transaction costs and more-efficient pricing for school districts,' said Eddie Tech Executive Director Brett Mandel. 'Through the work of Eddie Tech, public school districts can access low-cost financing to invest in America's schools and create an environment that supports excellence in our classrooms.'

[Name, Title] commented, 'By working with Eddie Tech, we were able to take full advantage of the tax- credit bonds, which allowed us to build more for less, improving our facilities for students and teachers without unnecessarily burdening our taxpayers.'

The nation's leading education-advocacy organizations — the American Association of School Administrators, the National Education Association, and the National School Boards Association — have joined together to endorse and help market Eddie Tech's SIPS Program to reduce the costs to school districts of investing in the nation's education infrastructure."

Part VII. Full Size Color Eddie Tech Brochure

Herbert, Marion. (April 2010). Bond-Pooling Program Provides Low-Cost Financing. District Administration. Retrieved from <http://www.districtadministration.com/article/bond-pooling-program-provides-low-cost-financing> on 16 May 2015.

Summary: This article also discusses the announcement of the partnership between Eddie Tech and AASA, NSBA and NEA.

"For those districts seeking to construct, renovate, rehabilitate or acquire land, the National Education Technology Funding Corporation, or 'Eddie Tech,' has made an innovative program to simplify the process of accessing low-cost financing. Eddie Tech's School Investment Pooled-Securities (SIPS) Program is bringing together tax-credit Qualified School Construction Bonds (QSCBs) and creating larger and more marketable collections that are more desirable for investors. Eddie Tech is a nonprofit organization that was recognized legislatively by Congress in 1996 principally to improve education-technology infrastructure.

QSCBs were introduced in February 2009 as part of the American Recovery and Reinvestment Act (ARRA). These bonds offer a tax-credit and therefore require an investor who isn't interested in a cash return. Throughout 2009, it became apparent there was a small market for such investments. Districts often had to pay lenders supplemental interest, which raised the cost and complicated the process.

'It's the law of supply and demand,' says Brett Mandel, executive director of Eddie Tech. 'People interested in tax-credit bonds are interested in lots of them. Now we can get their attention because we'll have pools of millions of dollars.'

QSCBs have a national limit of \$11 billion in each of 2009 and 2010. Forty percent are given to the top 100 largest local education agencies based on the number of

children below poverty level, and the remaining 60 percent are given to the states to be allocated to districts. They must be spent on construction, repairs or land for public school property.

'These things are complicated financial instruments,' says Mandel. 'We've made it a plug-and-play product. Now districts, especially smaller districts, can just plug into the deal and get their money cheaper and easier.'

Eddie Tech is finalizing program details and anticipates issuing the first bond pool in the first quarter of 2010. For more details on Eddie Tech's SIPS program, visit www.eddiotech.org." (The Eddie Tech link does not work currently.)

Musso, John. (September 2010). Strategic Relationships: Key to Economic Challenges. Association of School Business Officials International. Retrieved from <<http://asbointl.org/asbo/media/documents/news-publications/sba-archive/2010/sep.pdf>> on 01 June 2015.

Summary: Article found on page 7. "ASBO International has forged strategic relationships with federal agencies and public education stakeholder groups to help members weather the economic storm."

"Since the onset of the economic crisis, ASBO International has forged strategic relationships with federal agencies and public education stakeholder groups to help members weather the economic storm. The most recent alliance is Eddie Tech, a nonprofit organization founded to improve education technology infrastructure.

Eddie Tech is working to help school districts that have received authority to issue two types of federally subsidized bonds—Qualified School Construction Bonds (QSCBs) and Qualified Zone Academy Bonds (QZABs)—to sell them more simply, more efficiently, and more expeditiously than under alternative marketing approaches.

As a nonprofit organization, Eddie Tech seeks to maximize the benefits offered by QSCBs and QZABs to school districts for financing the construction and repair of public schools, as well as the development and modernization of the technology infrastructure in the schools.

By packaging QSCBs and QZABs into pooled securities in its School Investment Pooled-Securities (SIPSTM) Program, Eddie Tech makes them more attractive to investors, thereby broadening the array of potential buyers. Eddie Tech's SIPS Program is designed to reduce financing costs for school districts by achieving economies of scale through volume and to simplify the process by which school districts can issue and investors can invest in these new financing tools.

If Eddie Tech's SIPS Program can reduce borrowing costs by 20 basis points as gross savings over a 17-year term, the savings for a school district can be substantial.

Those savings grow with the bond deal.

For a \$5 million bond deal, annual savings of \$10,000 or \$170,000 over the term.
For a \$10 million bond deal, annual savings of \$20,000 or \$340,000 over the term.
For a \$20 million bond deal, annual savings of \$40,000 or \$680,000 over the term.
For a \$30 million bond deal, annual savings of \$60,000 or more than \$1,000,000 over the term.

The School Investment Pooled-Securities Program is intended to offer the following benefits:

- Lower financing costs and simpler "pre-packaged" issuance mechanics for local school districts.
- Improved access to investors, especially for smaller or lesser-rated school districts, which will benefit from inclusion in a diversified pool.
- More efficient pricing on bonds, due to better diversification, broader distribution, and enhanced liquidity.

Eddie Tech can help school districts achieve more efficient pricing on tax-credit bonds due to better diversification, broader distribution, enhanced liquidity, and easier decoupling of principal from tax credits, opening up demand for the bonds by new categories of investors.

ASBO International continues to help school business officials with the challenges before us by partnering with like-minded organizations that put schools and their students at the top of their priority list. Eddie Tech may be a solution for you. For more information, please visit www.eddiotech.com"

The link to Eddie Tech does not work and goes to a website unrelated to the Eddie Tech discussed in this report.

Other NETFC Activity

(No Author). (12 October 2010). Eddie Tech Funding the Future of Schools. Trademarks411. Retrieved from <<http://www.trademarks411.com/marks/77944118-eddie-tech-funding-the-future-of-schools>> on 16 May 2015.

Summary: This information is regarding the Eddie Tech trademark which is active and in good standing:

Serial Number: 77944118

Registration Number: 3859897

Registration Date: October 12, 2010

Filing Date: February 24, 2010

"Goods and Services: 036. Facilitating and arranging for the financing of school districts; financial clearing house services for school districts interested in utilizing federal tax-credit bonds; financial consultation services relating to the sale of tax-credit bonds; financial investment services, namely, administering the issuance, underwriting and distribution of tax-credit bonds."

International Class: 036

Logo Description: The mark consists of a white column and mortar board of a graduation hat surrounded by a black box, the words "EDDIE TECH" in large letters and the words "FUNDING THE FUTURE OF SCHOOLS" below.

Owner: The National Education Technology Funding Corporation
Suite 610 1201 16th Street, N.W.
Washington, DC 20036-3290

Correspondent / Attorney: Lisa A. Dunner
Dunner Law PLLC
3243 P ST NW
Washington, DC 20007-2756

(No Author). (2015). Our Story. Harmon, Curran, Spielberg + Eisenberg, LLP. Retrieved from <<http://www.harmoncurran.com/?page=story>> on 03 June 2015.

Summary: This webpage provides information on the law firm of Gail Harmon and her associates. Gail is listed as the agent for the National Education Technology Corporation. The address provided on the firm's website is – 1726 M Street NW, Suite 600 – Washington D.C. 20036. Their telephone number is 202-328-3500.

"Our firm was founded by lawyers committed to serving – and being an integral part of – the public interest movement in the United States and globally. For more than forty years, we have continued in that tradition. We work as partners with organizations and individuals working on issues of social, economic, health, and environmental justice and advise them on ways in which the law can advance their goals of social change.

Our firm was founded in 1969 as Berlin, Roisman, and Kessler and was one of the first **private public**-interest law firms in the United States. The firm helped establish many of the nonprofit peace, environmental and women's rights groups that are now major institutions. Our firm won a national reputation for its strong and innovative expertise in the fields of nonprofit tax and election law, as well as environmental, employment, and affordable housing law. While our reputation was built on our ability to help clients find inventive legal solutions in these areas, we have also

always met our clients' needs for legal assistance with the day-to-day 'business' of running a nonprofit organization, providing help with corporate compliance, governance, leases, vendor contracts, grant agreements, and similar matters.

Our unique expertise at the intersection of the tax and election laws governing lobbying and political advocacy by nonprofit organizations provided leading nonprofit advocacy groups with critical guidance and continues to be a core aspect of our firm's practice today. In the early 1970s, with the passage of the Federal Election Campaign Act and the creation of the Federal Election Commission, we helped nonprofit organizations create their first PACs. We advised 501(c)(3)s about the lobbying rules when Congress amended those rules in 1976 and worked closely with our clients in the long process before the IRS that led to the final regulations that implemented those rules issued at last in 1990. We helped to pioneer the use of so-called 'MCFL organizations' to allow nonprofits to speak plainly about candidates for elected office. We shared our expertise in this area by writing plain-language legal guides on the lobbying rules for 501(c)(3)s; the law governing the creation, use, and transfer of mailing lists by nonprofit organizations; and the seminal work on the law governing lobbying and electoral activity on the Internet.

Over the years, we have also volunteered a significant amount of our time working for changes in public policy to reduce the regulatory burden on advocacy groups and expand the scope of their permissible activities. We have worked with Congress, the IRS, the Federal Election Commission, and state regulators, to this end and collaborated in efforts led by organizations including the American Bar Association, the Alliance for Justice, and OMB Watch to improve the law and enforcement in this area.

Our environmental and nuclear safety work likewise dates from the early days of the firm. During the 1970s and 1980s, the firm was a leader in the emerging field of environmental law, setting the standard for federal agency compliance with the 1969 National Environmental Policy Act in *Calvert Cliffs Coordinating Committee v. Atomic Energy Commission*, 449 F.2d 1109 (D.C.Cir. 1971). We represented national and regional environmental groups in ground-breaking nuclear safety cases such as the Three Mile Island restart proceeding, the construction permit and operating license hearings for the Seabrook nuclear power plant, and the U.S. Nuclear Regulatory Commission's rulemaking on the environmental impacts of spent fuel disposal. We won significant penalties against strip miners under the federal Surface Mining Act, and against waterway polluters under the Clean Water Act. More recently we have advised clients opposing the Yucca Mountain nuclear waste facility and won a court ruling to require the Nuclear Regulatory Commission to take the threat of terrorist attacks into account in the nuclear facility licensing process (*San Luis Obispo Mothers for Peace v. NRC*, 449 F.3d 1016 (9th Cir., 2006), cert. denied, 559 U.S. 1166 (2007)).

From its earliest years, the firm has also had an active employment practice. Members of the firm have helped individuals vindicate their rights to be treated fairly in the work place, free from discrimination, harassment, and retaliation. Over the years, the firm has also worked with its clients to help them understand and comply with new employment statutes and new developments in the employment law field, such as the federal and D.C. Family and Medical Leave

Acts, the Americans with Disabilities Act, the D.C. Sick and Safe Leave Act, and recent enforcement trends in the wage and hour area.

We look forward to continuing this legacy of practicing law with a commitment to public service in the decades to come."

(No Author). (2015). Gail M. Harmon, Attorney. Harmon, Curran, Spielberg + Eisenberg, LLP. Retrieved from <http://www.harmoncurran.com/?page=gail_harmon> on 03 June 2015.

Summary: This webpage offers a brief introduction to Gail Harmon, the agent for NETFC.

"Gail is a nationally recognized authority on exempt organization law, having advised in this field for 20 years. She provides strategic advice to a wide range of progressive foundations, charitable and lobbying organizations, associations, and political action committees on federal tax law, federal election law, and other legal issues.

Gail is a frequent speaker, writer and commentator on issues affecting the nonprofit sector and an active participant with the legal and nonprofit community in developing the law in this area. She is Chair of the Board of Trustees of St. Mary's College of Maryland and a member of the Executive Committee and Board of Directors of both Population Services International and DC Public Library Foundation. She has been selected to be featured in the American Bar Association's special project on 'Women Trailblazers in the Law.' "

(No Author). (2015). About | At a Glance. Population Services International. Retrieved from <<http://www.psi.org/about/at-a-glance/>>on 03 June 2015.

Summary: This website provides information on Population Services International. Gail Harmon is on the executive committee for PSI.

"PSI is a global health organization dedicated to improving the health of people in the developing world by focusing on serious challenges like a lack of family planning, HIV and AIDS, barriers to maternal health, and the greatest threats to children under five, including malaria, diarrhea, pneumonia and malnutrition.

A hallmark of PSI is a commitment to the principle that health services and products are most effective when they are accompanied by robust communications and distribution efforts that help ensure wide acceptance and proper use. PSI works in partnership with local governments, ministries of health and local organizations to create health solutions that are built to last."

"REVENUE

\$608,545,960 million (2013)

DONORS

Major donors include the governments of the United States, United Kingdom, Germany and the Netherlands; the Global Fund to Fight AIDS, Tuberculosis and Malaria; United Nations agencies; private foundations; corporations and individuals.

DONATIONS

Population Services International (PSI) is a 501(c)(3) registered nonprofit organization, which means your contributions are tax-deductible to the limits of applicable laws. PSI's tax ID number is 56-0942853."

(No Author). (2015). Key Development Partners. Population Services International. Retrieved from <<http://www.psi.org/partnership/key-development-partners/>> on 03 June 2015.

Summary: This webpage lists the 9 governments, international organizations and foundations that are considered key development partners. The Bill and Melinda Gates Foundation is listed as one of the key partners.

(No Author). (No Date). (No Title). Bizapedia. Retrieved from <<http://www.bizapedia.com/addresses/1726-M-STREET-NW-WASHINGTON-DISTRICT-OF-COLUMBIA-20036.html>> on 03 June 2015.

Summary: This webpage lists 20 companies that have the address matching 1726 M Street NW Suite 1100, Washington, D.C. 20036.

The National Education Technology Funding Corporation is listed with this address which is also the same as Gail Harmon's law firm address.

The filing date for the corporation is 04 April 1995, the same date as the Senate meeting where Senator Moseley-Braun announced the creating of NETFC.

Miscellaneous

Racster, Jane L. (December 1985). The National Exchange Carrier Association, Inc.: Structure and Operation. The National Regulatory Research Institute. Retrieved from <<http://www.ipu.msu.edu/library/pdfs/nrri/Racster-National-Exchange-Carrier-Dec-85.pdf>> on 03 June 2015.

Summary: This report examines the structure and operation of The National Exchange Carrier Association (NECA) as well as the establishment of the organization.

"The National Exchange Carrier Association (NECA) was formed by telephone industry representatives as a result of the Federal Communications Commission's (FCC) Third Report and Order, FCC CC Docket 78-72,1 which mandated the creation of an exchange carrier association. The organization was established for the purpose of filing common access charge tariffs, administering access charge revenue pools, and distributing the pool revenues.

All exchange telephone companies are members of NECA. NECA is governed by a Board of Directors composed of representatives of the exchange carrier members. There are five major functional divisions within NECA. They are the Comptrollers Operations; Tariff, Cost, and Regulatory Matters; Industry Relations; Legal; and Administration."

Walker, David M. (19 July 2004). GAO Answers the Question: What's in a Name? United States Government Accountability Office. Retrieved from <<http://www.gao.gov/about/namechange.html>> on 03 June 2015.

Summary: This article explains the reason for the Government Accountability Office's name change and also talks about the organization in detail.

"After 83 years, the General Accounting Office has changed its name to the Government Accountability Office. Some might wonder why GAO felt the need to tinker with an institutional identity so strongly associated with government economy, efficiency, and effectiveness. But our old name, as familiar and reassuring as it was, had not kept pace with GAO's evolving role in government. The truth is that "accounting" has never been our chief mission."

"In fairness, GAO did primarily scrutinize government vouchers and receipts in its early years. The days of accountants in green eyeshades, however, are long gone. Although GAO does serve as the lead auditor of the U.S. Government's consolidated financial statements, financial audits are only about 15 percent of GAO's current workload. Most of the agency's work involves program evaluations, policy analyses, and legal opinions and decisions on a broad range of government programs and activities both at home and abroad."

"Today, most GAO blue-cover reports go beyond the question of whether federal funds are being spent appropriately to ask whether federal programs and policies are meeting their objectives and needs of society. GAO looks at the results that departments and agencies are getting with the taxpayer dollars they receive. As a strong advocate for truth and transparency in government operations, GAO is committed to ensuring that recent accountability failures, such as Enron and Worldcom, are not repeated in the public sector. To that end, public reporting of our

work is vital; virtually every GAO report and congressional testimony is posted on the Internet on the day that it is issued."

"The modern GAO believes it is important to provide the public with an accurate, fair, and balanced picture of government today. Beyond simply pointing out what is wrong with government, GAO also reports on federal programs and policies that are working well and acknowledges progress and improvements. GAO regularly consults with lawmakers and agency heads on ways to make government work better, from adopting best practices to consolidating or eliminating redundant federal programs."

"In a city full of interest groups with competing agendas, GAO's strength is its ability to provide Congress with professional, objective, fact-based, non-partisan, and non-ideological information when it is needed. At GAO, our independence and integrity is crucial. To begin with, our location in the legislative branch gives us some distance from the executive branch agencies we audit and oversee. Moreover, the head of GAO serves a fifteen-year term, which gives the agency a continuity of leadership that is rare in the federal government. As a result, GAO and its chief, the Comptroller General, can afford to take a long-term view and address a range of complex and sometimes controversial issues. GAO's independence is further safeguarded by the fact that its workforce consists of career civil servants hired on the basis of their knowledge, skill, and ability."

"Although much of our work reviews the effectiveness of day-to-day government operations, GAO also alerts policymakers and the public to emerging problems with serious national implications – before they reach crisis proportions. GAO is now keeping a close eye on several long-term challenges whose impact has yet to be fully felt, including the government's worsening financial situation and the mounting challenges from Social Security, health care, and the war on terrorism. GAO takes seriously its responsibility to speak out on these issues."

Ireh, Maduakolam, Ph.D. (September 2010). Budgeting and Funding School Technology: Essential Considerations. School Business Affairs | Association of School Business Officials International. Retrieved from <http://asbointl.org/asbo/media/documents/news-publications/sba-archive/2010/sep.pdf> on 20 September 2015.

Summary: This article begins on page 18 and discusses how to divert school funds to pay for the cost of education technology.

"Are you challenged to find innovative ways to fund new and existing technology programs or redirect existing funds to new endeavors?"

School districts need adequate financial resources to purchase hardware and software, wire their buildings to network computers and other information and communication devices, and connect to the Internet to provide students, teachers, and other school personnel with adequate access to technology. Computers and

other peripherals, particularly, require large expenditures every three to five years, a requirement not usually considered in education planning and budgeting.

School leaders should be able to estimate the total cost of purchasing and maintaining an adequate technology network in classrooms and throughout the district, including costs related to support, professional development, hardware, software, replacement, connectivity, and retrofitting. Calculating and assessing this total cost of ownership (TCO) help organizations make intelligent purchasing decisions that factor in expenses required beyond the cost of the hardware.

TCO and Technology

Total cost of ownership of effective technology and technology systems considers several factors beyond hardware.

Support costs. One of the thorniest issues schools face is how to provide adequate support for their networks. This generally comes in two forms: the staff and tools to keep computers and networks operating and additional dedicated staff to help teachers learn how to integrate technology into the classroom.

Professional development costs. The budget item that is arguably most critical to a school district's ability to achieve its technology goals is staff development. If teachers and other staff members do not understand how to use new technologies and incorporate them into the classroom, a district's technological investment will not achieve its desired results. Inadequate staff training will lead to underuse of computers and a loss of return on a district's investment in technology.

The district must budget an adequate dollar amount for staff training, including the cost of trainers, materials, and substitutes if training is conducted during school hours.

Software costs. Many calculations of the costs of networking schools provide for basic application software but not for the costs of software that could be considered purely instructional or part of the budget for curriculum materials.

The shift to **digital learning** requires schools to commit themselves to true integration and to creating new learning models to improve academic performance. Requisite for that shift is an inventory of digital content clearly linked to specific performance standards and a well-managed deployment of software across a district.

Replacement costs. When a school district has just installed dozens of new multimedia computers or a **robust network**, it's easy to forget that the day will come when hardware will need to be replaced. Computers, servers, networking equipment, and peripherals have a life cycle of three to five years, depending on the equipment and how it is used. Planning for these life cycles should begin with the initial purchase and installation.

Connectivity costs. School districts may decide they can afford to purchase only a certain level of connectivity. However, there will be a trade-off in terms of the speed with which students and staff can communicate, connect to the Internet, and

download graphic and video-intensive files. This, in turn, could affect how staff members and students spend their available time.

Retrofitting costs. When the district is ready to build a network, it must budget adequately to upgrade electrical capacity; improve heating, cooling, and ventilation systems; beef up security systems; and remove asbestos and lead found in older buildings.

It is hard to calculate a formula to help determine the cost of wiring existing buildings. The best time to wire a school is obviously when it is under construction, or in the case of an existing building, when it is being renovated or expanded. Retrofitting is not traditionally part of TCO analysis, but it is a cost that schools frequently face and sometimes fail to anticipate."