



2nd Annual National E-rate Survey

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JUNE 2009

RESULTS ANALYSIS

For the second year, Funds For Learning has conducted a nationwide survey of E-rate applicants to garner impressions and opinions about the E-rate program. The survey took the form of a short questionnaire and a group discussion open to all survey participants.

To help capture an accurate year-over-year comparison of responses, we asked many of the same questions. These questions included topics such as:

- program administration,
- program outcomes, and
- learning/managing the E-rate process.

We also included a new section of questions dedicated to the Beneficiary Audit program, which has received a lot of attention from all E-rate stakeholders over the last year.

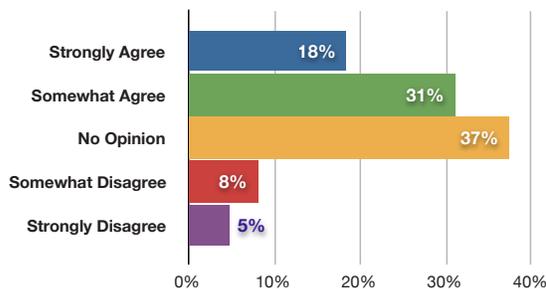
Survey participants had an opportunity to provide additional information about their responses in the form of comments and group discussion. Within this report, we'll provide some interesting comments from survey respondents.

Program Management

Opinions about the management of the E-rate program by program administrators have improved dramatically over the last year. Nearly 73% of people that expressed an opinion about the management of the E-rate program rated the job of the FCC, USAC, and SLD favorably. This is an increase from 65.5% in our report last year. Those that strongly agree that the E-rate program is well-managed increased from 14% to 20% in the same time period, while those that strongly disagreed with this statement dropped from 10% to 7%.

The organizations that are responsible for the administration of the E-rate program include the Federal Communications Commission (FCC), which is responsible for establishing the rules of the program, based on the authority granted under the Telecommunications Act of 1996; and the Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC), which is responsible for the day-to-day administration of the program.

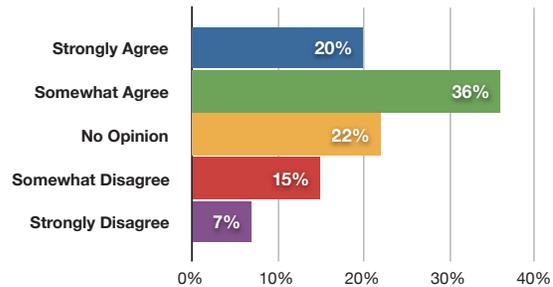
The SLD's outreach efforts have been helpful to those who have participated.



Along with querying applicants about their opinion of program management, we asked about SLD outreach efforts which include such activities as Helping Applicants To Succeed (HATS) visits, general site visits, and applicant training programs. In general, these are deemed to be helpful to those who have provided an opinion about them.

The HATS site visits are designed to assist those applicants who have experienced problems with the E-rate program that have resulted in funding reductions or denials. These visits

The E-rate program is well-managed by program administrators.



are an opportunity for USAC to share helpful information such as best practices with the applicant in an effort to ensure E-rate success in the future. The best practices that are shared in the HATS visits are gleaned from other applicants' site visits by program administrators.

Many of the comments or suggestions about the SLD's administration of the program offered by survey participants fell into two main areas; transparency within the process and streamlining the application/application review process.

Quotes About Program Administration

Why can't we renew approved services year to year instead of needing to re-apply every year?

Timeliness of process is a concern. We have met all requirements but still have requests awaiting final approval from 07 & 08. SLD Client Services Bureau has issued contrary answers to the same question on different days.

When a district is "in-review" and said district contacts the SLD to find [the reason,] they need to provide more information other than "in-review."

The people I have worked with at USAC have been helpful and pleasant.

AT A GLANCE: Program Management

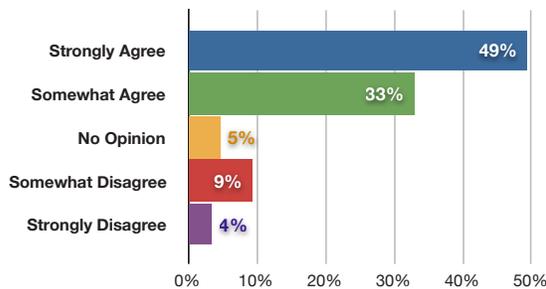
Perceptions of the SLD's administration of the E-rate program and outreach efforts have improved over the last year.

Program Outcomes

The purpose of the E-rate program is to provide discounts to schools and libraries on essential communications services, making telecommunications and Internet services more affordable. Applicants agree that the E-rate program is meeting its goal.

In 1996, when the E-rate program was created 14% of K-12 classrooms had Internet access. According to the latest information available from National Center for Education Statistics shows that over 95% of classrooms in the country are connected to the Internet.

The E-rate program is meeting its goal of connecting schools and libraries to the Internet.



In a related item, the majority of survey respondents also feel that their organization has more classrooms connected to the Internet than they would if the E-rate program had not existed. In last year’s survey, 59% of applicants responded favorably to this item, this year the favorable responses swelled to 71%.

The ongoing need for E-rate funding is evident in the opinions of applicants. More than half of applicants believe that their organization would not be able to maintain their current level of Internet connectivity bandwidth to classrooms without E-rate funding.

While assessing the program’s operation and if the program is meeting its goals, we also asked applicants about the impact of some changes to the program that have been implemented in recent years. These include the Two-in-Five rule for the Internal Connections service category, the FCC’s

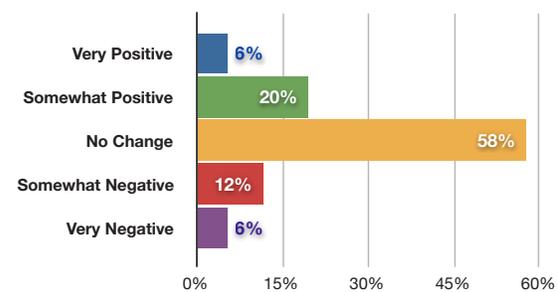
Bishop Perry ruling, and recent changes to the Eligible Services List that is updated each year.

Two-in-Five Rule

The Two-in-Five rule was created by the FCC in the Third Report and Order and went into effect beginning with Funding Year 2005. The Two-in-Five rule limits an eligible site’s receipt of Internal Connections funding commitments to two in a rolling five year period.

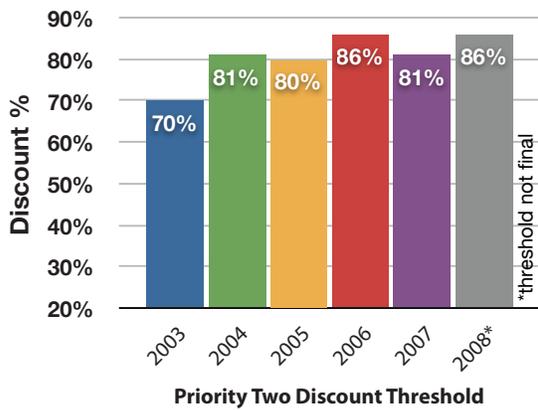
Last year, we reported that 26% of applicants feel this new rule has positively impacted the E-rate program. In this year’s survey, we found that applicants’ opinions of the Two-in-Five rule are essentially unchanged, with just a minor shift away from a “very positive” impact to a “somewhat positive” impact on the program. Almost 60% of applicants continue to feel that this rule has not had any change on the availability of Internal Connections and Basic Maintenance funding for applicants with lower discounts rates. As expected, those applicants that do not receive Internal Connections funding were less likely to have a positive impression of the Two-in-Five rule.

Rate the impact of the Two-in-Five Rule on your Organization.



A more empirical way to evaluate the effectiveness of the Two-in-Five rule is to examine the placement of the Priority Two discount percentage threshold for the funding years since the rule went into effect. The following chart shows the Priority Two funding threshold from Funding Year 2003 to present. For Funding Year 2008, the current discount funding threshold is

86%; the threshold may increase to 87%, if USAC is able to determine that it has adequate funds to commit to these requests.



The results support applicants’ opinions related to the Two-in-Five rule. In the period since the rule went into effect, the Priority Two discount threshold has not dropped to a level that provides more applicants access to this funding. The comment of one public school district applicant from Arkansas conveys the general feeling of applicants that commented about the Two-in-Five rule:

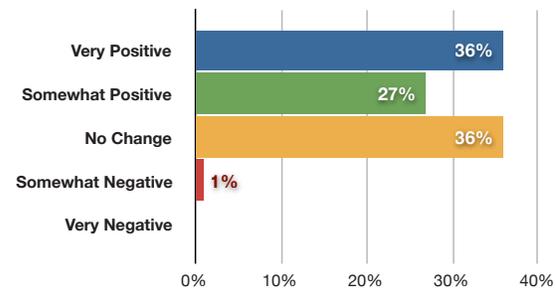
The 2 in 5 rule is not helping to bring down the level of Internal Connections to a level that addresses all schools in need. We are at 80% discount with 12 year old core switch and edge switches and we have not been able to get funding to upgrade these aging switches through E-rate because the funding level is still not dropping low enough to cover our needs. The digital divide affects our poor students, (68% of our total student body) just as much as it does for poor students in schools with 90% poverty status but we are unable to obtain funding for an old infrastructure that we are supporting through the purchase of used components from eBay.

Bishop Perry Order

Many people cite the Bishop Perry Order as the beginning of a “kinder, gentler” E-rate program. The order, which was issued by the FCC on May 19, 2006, directs USAC to permit applicants to make corrections and changes to specific items on their applications, if ministerial or clerical errors are discovered.

In last year’s survey, the Bishop Perry Order was regarded as the most positive change to the E-rate program in recent years, according to applicants that took part in our survey. This year, positive opinion related to the Bishop Perry Order slipped slightly. The percentage of respondents who felt that Bishop Perry would bring no change to the E-rate program was 25%, in our most recent survey, that number rose to 36%.

What kind of impact do you think the Bishop Perry decision has had on your organization?



One applicant noted that even though the Bishop Perry Order allows applicants to correct clerical errors, there is still a “steep price” to pay in terms of the amount of time it takes to see the mistakes rectified.

AT A GLANCE: Program Outcomes

The E-rate program is meeting its goal of connecting schools and libraries to the Internet.

The Two-in-Five rule has been ineffective at lowering the Priority Two discount threshold.

The “reality” of the Bishop Perry Order may be setting in, making applicants realize that it can’t solve every mistake or error in the E-rate process.

Audits

Audits have been a major focus in the dialog about the E-rate program for the last few years. Funds For Learning asked applicants a series of questions based on their audit experiences.

As is the case with the majority of federally subsidized government programs, waste, fraud, and abuse are of major concern to federal regulators. This of course is no different for the E-rate program. However, unlike many government programs, E-rate is one of the most highly regulated and highly audited. A tremendous amount of scrutiny is applied to the entire process, from initial funding applications to funding disbursements. According to figures released by the FCC in the November 2008 NOI Comments, the FCC has approved over 650 audits covering all the USAC programs including the Schools and Libraries Program, noting that the Commission intends “to build upon the comprehensive audit oversight conducted by the Commission’s Inspector General.”

The purpose of the audit program is not only to uncover waste, fraud, and abuse but also assess the level of compliance within the program. During the first round of FCC OIG USF audits the Inspector General commented that, collectively the audits uncovered a very high degree of compliance with program rules. In fact, while the FCC recommended stricter document retention requirements for the other USF programs, USAC indicated that it did not believe additional document retention requirements were necessary for the Schools and Libraries Program. So, the good news is, applicants are seemingly complying with the FCC rules regulating the E-rate program.

The comments concerning audits revealed that most applicants find the audit process arduous and taxing on the applicant’s tangible resources as well as on staff. Many applicants view the amount of time spent by auditors versus the number of findings, if any, to be inequitable. While audits may be a necessary evil, most applicants surveyed commented that the process could be streamlined.

According to the survey responses, applicants that received more than \$100,000 or more in E-rate funding were three times as likely to be

audited than applicants that received less funding.

Survey Participant Audit Statistics	
Percentage of respondents audited	15%
Of those audited, percentage that had no findings	73%

We must note that on a national level, a much smaller percentage of applicants have actually been audited. Therefore, our results in this section represent the thoughts, opinions, and experiences of those people that took the survey; and may not be representative of all applicants nationwide.

A full 15% of our survey respondents indicated that they have undergone an audit within the last two years. Of these audited applicants, 72.5% had no findings as a result of their audit. For the remaining group of applicants that were issued audit findings, here is a breakdown of the major issues:

Audit Findings of Survey Participants	
Lack of documentation	38%
Eligibility issues	18%
Invoice/Billing issues	9%
Lack of written policies	8%
Competitive bidding process issues	5%
Discount rate issues	5%
Contract issues	3%
Technology Plan	3%

Evaluating Audits

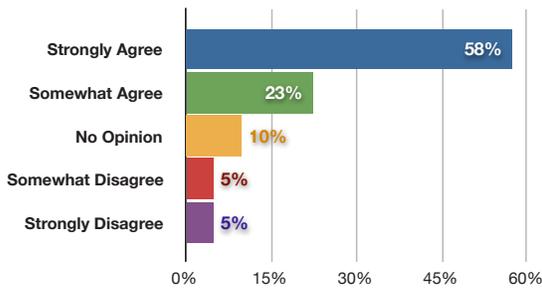
We asked applicants to provide their thoughts and opinions about the audit process, the auditors, and their experiences during the audit. The feedback we received shows that only a few applicants came away with a positive opinion of their audit.

Applicants overwhelmingly agree that the staff conducting the audits did so in a professional manner. As part of their professional

demeanor, the auditors also kept the channels of communication open with the applicants during their audit.

In a related item, approximately 60% of applicants felt that the auditing staff was

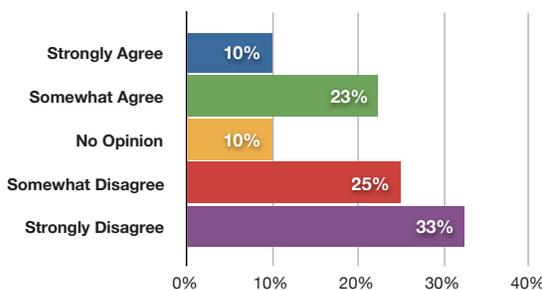
The auditing staff conducted themselves in a professional manner.



knowledgeable about the applicable rules and regulations of the E-rate program. A few commenters noted, however, that the auditors lacked the historical perspective of the E-rate program to understand the rules as they applied in the earlier years of the program.

Most applicants disagreed that the amount of work required to respond to an audit is reasonable, considering the amount of E-rate funding they received.

The work required to respond to an audit is reasonable, considering the amount of E-rate funding received.



One often-cited criticism of the audit process is the amount of time that auditors spend ‘on site’. Auditors can spend up to four weeks, and sometimes longer at an applicant’s location to perform the field work portion of the review. Two commenters indicated that the on site portion of the audit could have been completed within a few days; noting that the only activities that required the physical presence of an auditor were the site-level walkthroughs to verify service/equipment installation and internal controls interviews with district administrative staff. According to these commenters, all other activities--such as document review and requests for additional information--could have been completed with the auditors at their offices.

Comments from survey participants about the audit program were uniformly negative. Some commenters were critical of the cost of an audit, compared to the amount of funding received. Others questioned the need for such an extensive audit when every aspect of the E-rate process is already closely reviewed. For example, applications are reviewed before funding commitments are issued; and invoices are oftentimes reviewed when payment paperwork forms are filed.

Perhaps the most common complaint from applicants is the lack of closure after the auditors issue their findings. Some applicants have been waiting over a year to learn that their audit review is final.

AT A GLANCE: Audits

Auditing staff conducts themselves professionally and communicates well with applicants.

Applicants feel that the amount of effort required to respond to an audit is out of proportion with the E-rate funding received.

Failure to properly retain E-rate-related documentation is the most-often cited audit finding.

Learning & Managing the E-rate Process

Familiarity with the Process

We asked applicants to rank their familiarity with various aspects of the E-rate process. The applicants ranked themselves on a scale from 1 (No Familiarity) to 5 (High Familiarity). The areas of the E-rate process that ranked the highest (both at 4.1) include two of the stages at the beginning of the process--Technology Planning and Procurement (Form 470). On the low end of the rankings were Payment Paperwork (3.7) and Service Substitutions and Deadline Extension requests (2.9).

Since our last survey, the most and least familiar categories are basically unchanged, though we note that the rankings for all categories are slightly higher than last year.

In addition to the increase in E-rate knowledge that comes with years of experience, applicants that have undergone an audit, a site visit, or a selective review reported a higher level of E-rate knowledge.

Learning the E-rate Process

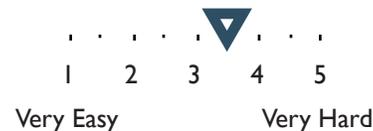
Applicants generally feel that the E-rate program's rules and processes are somewhat difficult to learn. We asked applicants to rank their opinion of the difficulty for someone who is not familiar with E-rate to learn various aspects of the E-rate process. These included:

- Technology Planning
- Procurement
- Eligibility
- Form 471 Application
- Program Integrity Assurance
- Form 486 / Receiving Services
- Payment Paperwork
- Service Substitutions and Deadline Extensions
- Document Retention Standards

While applicants could rate each aspect of

the E-rate process individually, the responses were relatively consistent for each category.

Overall Opinion on Learning E-rate Rules and Processes



According to the survey, the hardest part of the process to learn is Service Substitutions and SPIN Changes. The easiest part of the process to learn is document retention requirements.

This shows that despite the outreach efforts of the SLD, learning all of the E-rate program's rules and processes can be difficult for those that are new to the program. This can be especially critical for those organizations that experience a change in personnel.

Managing the Process

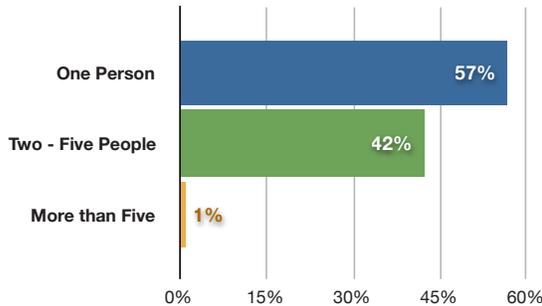
As those with many years of E-rate experience will recognize, the E-rate process involves many different departments within an applicant's organization. Administrators, curriculum advisors, instructional technology, procurement, accounting, information technology, and other personnel are involved at various times during the process. Each of these departments perform a function that is critical to an organization's success with the E-rate program.

Within many organizations, there is a single person that is considered to be the E-rate manager. This person is responsible for understanding E-rate requirements and coordinating the E-rate related activities of the organization to ensure that all pertinent E-rate rules and procedures are followed.

By far, most applicant organizations have just one person managing the E-rate process. The size of an applicant (measured by both the number of students and amount of funding requested) is the

main factor affecting the number of personnel that are involved in managing the E-rate process. Also, the majority of people who are the only E-rate manager for their organization are typically in the Administration or Information Technology departments.

Staff Managing E-rate



Applicants often enlist outside resources to help them manage the E-rate process. Sixteen percent of all applicants use a consultant to provide assistance and expert advice with the E-rate process. This number jumps to near 46% when the applicant requests more than \$100,000 in E-rate discounts each year.

Time Spent on E-rate

The number of hours per month spent on activities surrounding the management of the E-rate program is proportional to the amount of funding requested each year. On average, applicants are spending more time per month managing the E-rate process than a year ago.

Requested Annually	Monthly Hours
> \$10,000	6
\$10,000 - \$100,000	9
\$100,000 - \$500,000	21
\$500,000 - \$1,000,000	24
\$1,000,000 +	68

AT A GLANCE: Learning & Managing the E-rate Process

Applicants agree that all phases of the E-rate process are equally cumbersome to learn.

The familiarity with the E-rate process increases in those applicants with a lot of E-rate experience, or with those who have been through an audit.

Applicants are spending more time managing the E-rate process than they did a year ago.

About Funds For Learning

Funds For Learning, LLC, is an E-rate compliance firm specializing in guiding E-rate applicants and service providers through the complex and ever-changing E-rate regulatory process. With more than a decade of experience in providing professional advice and assistance relating to the E-rate program, Funds For Learning exists to provide high-quality solutions for the needs of E-rate stakeholders. The company was established in 1997 and is headquartered in Edmond, Okla.

Funds For Learning is the creator of E-rate Manager for Applicants, an award-winning solution that assists schools and libraries in navigating the E-rate process. Annual subscriptions to E-rate Manager for Applicants are based on student population and start at just \$249 per user account.

For additional details about the information contained in this report, or to learn about our E-rate solutions and services, visit Funds For Learning online at www.FundsForLearning.com or phone 405-341-4140.

