

E-Rate Central's Guide to Preparing for and Surviving E-Rate Audits

Each year, a selected number of E-rate applicants — recently 100-150 annually — have been subjected to detailed audits, most commonly by a professional auditing firm — recently KPMG — operating under the auspices of USAC and/or the FCC. These are serious audits with potentially serious consequences. As a guide for applicants, here are ten tips for surviving a full E-rate audit.

In addition to full audits, USAC also sponsors briefer site visits — recently about 1,000 per year conducted by BearingPoint. Although USAC categorizes these site visits as “outreach,” applicants should treat them as mini-audits and treat them just as seriously. These tips are equally applicable to site visits.

1. Take the audit seriously and prepare well.

If your district is selected to be audited don't simply view it as a nuisance. An audit can result in a continuum of consequences including citations for failure to correctly follow procedures, requests for money back, delays in future FRN approvals, or even criminal charges in the case of fraud.

Audits are time consuming and require a considerable amount of work for both the auditors and the audited. Be prepared by realistically clearing calendars and drafting staff that can provide assistance. Remember, you may need the help of staff involved with district finance, technical support, data collection and statistics, as well as school based personnel. Just like preparing your income tax, audits always take more time than the hours suggested on the forms.

Prior to the actual audit you will receive a request for a variety of documents that may include technology plans, competitive bidding documents, E-rate applications, RALs, invoices, canceled checks, and even related e-mails and minutes of meetings. It is also likely that you will be asked to complete a questionnaire on E-rate procedures and practices in your district. Give this exercise careful consideration. Your responses will help guide auditors in their investigation. Some documentation may be required prior to the opening meeting while the remaining items must be presented at the start of the audit. It is good practice to only surrender copies of original documents.

Attached is a sample spreadsheet listing a number of the pre-audit documents requested in a recent KPMG audit. We recommend preparing such a spreadsheet, organized in the same manner as the auditor's request, to label and track each document as it is provided.

2. *Be cooperative and let auditors know you want to expedite the process.*

If you are selected for an audit and have no compelling reason to be excused, accept the fact and cooperate. The auditors are usually on a timeline and under pressure to complete their task. Demonstrating your willingness to expedite things will go a long way in getting auditors, where possible, to accommodate you on some issues and situations. Cooperating will also help to reduce the total amount of time you need to spend on this endeavor.

3. *Review with the auditors the questions that will be asked. Make sure that the language used will not result in misunderstandings that lead to false findings.*

Sometimes audit questions are framed in language that may be open to misinterpretation. If a teacher is asked "is your classroom telephone used for instructional purposes?" the answer may be NO. However, if the word "educational" replaces "instructional", the answer will be YES. Work with the auditors to determine what information is actually being sought and agree on the language used in questioning. It is also good practice to have someone from the district who is well versed in E-rate to be present when district and school staff are questioned. This will help prevent misinterpretations and if there are negative findings resulting from an interview, you will have first hand knowledge as to what was actual said.

4. *Focus all responses on the audit question; don't provide information that was not specifically requested.*

Auditors are not usually commissioned for a "fishing" expedition. They should be focused on asking unambiguous questions usually not open to interpretation. Be clear as to what specific information is being requested and provide it honestly but don't offer more information than what was asked. Even if it's something you're proud of, providing information that was not asked for can cause confusion, delay the process, and even extend the audit into new areas. All those being questioned should be provided this guidance.

5. *Know the source of the data being used by auditors to evaluate your compliance.*

Auditors will be reviewing your application (s) and purchases and comparing them to some authoritative sources. Knowing those sources will ensure that only "apples are being compared to apples". It may be that a school's eligibility for E-rate funding is being determined by referencing a state database that lags behind the actual condition. It's worth the effort to know the

source of comparisons and have an opportunity to challenge them when found to be inaccurate, delayed, or compromised in some other way.

6. *Request to be alerted to preliminary findings as they are made*

Auditors should alert you to their preliminary findings as they are made. This gives you some time to mitigate or possibly eliminate some of the negative findings by clarifying or providing additional information to the auditors. Putting an effort into this phase of the process will reduce or possibly eliminate negative findings in the final report and will make the exit conference more predictable and favorable.

7. *Review your previous audit findings for overlaps and possible contradictions.*

A typical large school district may have had several extensive audits that possibly covered some of the same areas as the current audit. Review all related previous audit findings carefully. It is not impossible to find that you were already cited for an issue being raised and were given time to correct the problem. Or, you may have been cleared of some alleged procedural violation that you are now again being cited. Don't assume that the auditors are familiar with these previous audits.

8. *The Exit Conference should be a review and summation.*

Make certain that the final report reflects all corrections and adjustments previously agreed upon. There should be no surprises at the Exit Conference. Negative findings should have been discussed and challenged prior to this phase. Pay attention to the language of the final report to make certain it clearly conveys the findings and your responses. District responses to findings are important because they will be reviewed by USAC when determining what follow-up actions will be taken.

9. *Keep good notes on the audit activities and maintain a file on the whole process.*

The consequences of the audit can affect the district for some time to come. It is important to maintain a detailed record of findings and responses. Also, it is likely that you will undergo an E-rate audit again some time in the future. Reviewing previous audits provides an historical perspective, is excellent preparation for pending audits, and can be a source of information when preparing responses.

10. *Use the audit as a process to review the efficiency and effectiveness of your E-rate process.*

If you are required to go through a full audit process you might as well get some benefit out of the effort. During the review a great deal of information will be presented from both central and school based staff on E-rate practices and procedures. Analyze and use this information along with the official audit findings to guide the district in making constructive changes that lead to a more efficient and effective E-rate process.

