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PROBLEMS WITH THE E-RATE PROGRAM: WASTE, FRAUD, AND ABUSE CONCERNS IN THE WIRING OF OUR NATION'S SCHOOLS TO THE INTERNET Part 1

HEARING

BEFORE THE

SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON ENERGY AND
COMMERCE
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

JUNE 17, 2004

Serial No. 108–92

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PROBLEMS WITH THE E-RATE PROGRAM: WASTE, FRAUD, AND ABUSE CONCERNS IN THEWIRING OF OUR NATION'S SCHOOLS TO THE INTERNET

THURSDAY, JUNE 17, 2004

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ENERGY AND COMMERCE,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2322, Rayburn House Office Building, James C. Greenwood (chairman) presiding.

Members present: Representatives Greenwood, Bass, Walden, Barton (ex officio), DeGette, and Markey.

Also present: Representatives Green and Rush.

Staff present: Mark Paoletta, majority counsel; Peter Spencer, majority professional staff; Tom Feddo, majority counsel; Jaylyn Jensen, legislative analyst; Michael Abraham, legislative clerk; Gregg Rothschild, minority counsel; and David Nelson, minority investigator and economist.

Mr. GREENWOOD. The hearing will come to order. The Chair recognizes himself for the purpose of making an opening statement. This morning we begin a series of oversight hearings regarding the so-called E-Rate Program. E-Rate, which was created by vague and little notice provision of the Telecommunications Act of 1996, provides poor schools and libraries with discounts for basic telephone services, Internet access, and much of the internal connection gear that comprises the telecommunications network.

Nearly 1½ years ago this subcommittee began a careful and methodical examination of the E-Rate Program. From the very beginning of that investigation, the subcommittee has found waste and abuse in the E-Rate Program and since then our E-Rate oversight has developed on several major fronts.

These hearings will illustrate several serious program flaws uncovered by that oversight. Unfortunately, these flaws have led to tragic stories of waste and misuse of E-Rate funds. We have found that the program's current structure and administration invite scams, both simple and sophisticated, and waste serious amount of money.

Whether it be bid rigging, poor planning, and lack of meaningful competition, or loopholes in the program's rules, a common and tragic theme recurs. Many children, perhaps hundreds of thousands, are deprived of the educational benefits that E-Rate funded

infrastructure offered them. While a well-intended idea, the E-Rate Program as it is currently structured is an invitation for disaster. Indeed, if one were to design a program to pour money out the window, this would be the way to do it.

E-Rate is financed through a mechanism called the Universal Service Fund which in turn is funded by mandatory contributions from interstate telecommunication service providers. Predictably, most telephone companies have chosen to pass the burden of these mandatory contributions onto consumers as a universal service fee on their phone bills. Each year the Universal Service Fund allocates $2.25 billion to the E-Rate Program. That number bears repeating, $2.25 billion.

Who controls this immense pot of money? Many Americans might be concerned to learn the answer. It is the Universal Service Administrative Company, a wholly owned subsidiary of the National Exchange Carrier Association which is an alliance of telecommunications service providers. This management structure is troublesome, and at the very minimum its "fox inside the henhouse" appearance is more than a little disconcerting.

What agency is responsible for the program's rules and regulations, and for supervising USAC? The Federal Communications Commission. The program's rules and the process by which the FCC creates them are, to say the least, complicated and cumbersome. What is more, we have found that the program's current rules do little to foster a competitive bidding environment that ensures the E-Rate Program pays the best price for equipment and services.

In addition, the Inspector General will testify that it took 22 months for the FCC to provide critical policy guidance to USAC about E-Rate Program administration. I am confident that the American people do not consider these circumstances to be the hallmarks of an efficient and effective program.

Yet, in a 1998 Report to Congress, the FCC asserted that the administration of the E-Rate Program was "efficient, innovative, and effective." That representation is disturbing in light of what our work has uncovered, what the FCC's Inspector General has found, and what the nation's press has unearthed.

For example, the subcommittee's scrutiny of E-rate work in Chicago public schools prompted SBC to pay $8.8 million back to the E-Rate Program for improperly stockpiled switches and equipment. Our investigation in Puerto Rico found $23 million worth of improperly stockpiled equipment and a $58 million computer network that remains virtually unused.

Just 2 weeks ago, the FCC IG and a Justice Department task force secured a plea agreement regarding a multi-million dollar bid-rigging scheme by NEC and others intended to defraud the E-Rate Program by preying on San Francisco Unified School District, as well as schools in Michigan, Arkansas, and South Carolina.

The Justice Department has pursued similar E-rate scams in Milwaukee and New York City. Meanwhile, the Atlanta Journal-Constitution recently reported on serious abuses of tens of millions of dollars of E-Rate Program money in Atlanta's public school system. These reports have now taken our investigation to Atlanta. I fear that we may be only seeing the tip of the iceberg.

These instances clearly demonstrate that the FCC's injudicious statement 6 years ago that E-rate was an efficient and effective program falls far short of the mark. The FCC and USAC have a lot to answer for, and much work to do. However, we should also acknowledge that Congress must shoulder some responsibility as well, perhaps more time, and certainly more debate and discussion, should have been spent in carefully crafting this program to achieve its admirable goal.

Today's hearing will focus in detail on Puerto Rico's use of E-rate funds, but these specifics will also provide an invaluable opportunity to consider the bigger picture of E-rate's flaws. In Puerto Rico, E-rate—that is, the American rate-payer—paid for more than $100 million of equipment and services. We have discovered that most of the equipment and services have never been, and will never be, put to effective use for Puerto Rico's children.

The subcommittee found $23 million in telecommunications equipment, wireless access cards and related gear, still shrink-wrapped and sitting on storage pallets in a government warehouse. While the equipment has sat there, E-rate funds were paid out for this equipment's purchase and its installation. E-rate paid Puerto Rico Telephone Company $31 million for high-speed service and Internet access, yet those services went virtually unused. This is outrageous.

Today, after over $101 million has been spent by the program to build Puerto Rico's schools a high speed network for Internet access, schoolchildren access the Internet by slow, dial-up modems on roughly two computers per school. That is, 50,000 students graduate each year from the largest school system in the Nation without having any of the Internet access and high-tech learning resources that the program is intended to support.

Puerto Rico's E-rate experience is a story of questionable technology planning; questionable billing for E-rate products and services by the vendors, Puerto Rico Telephone Company and Data Research Corporation; confused efforts to rebuild Puerto Rico's E-Rate Program after the current administration assumed office; and, a critical failure on the part of USAC, and ultimately the FCC, to recognize the severity of the situation and take charge when more than $100 million of E-rate investment was at risk.

The delay by FCC and USAC to intervene after the appearance of evidence of waste and abuse, coupled with contract disputes among vendors and the administration, have squandered precious time. Subcommittee staff found E-rate-funded equipment essentially sitting idle in Puerto Rico's schools, and serious questions exist regarding network functionality in many schools due to disuse, corrosion, and inadequate maintenance of essential equipment.

Delay may also be hampering legitimate remedial efforts by the current administration. The Puerto Rico Department of Education appears to be implementing a number of controls to manage future E-rate work, and to have a substantive plan to implement technology for educational use and for integrating curricula and teacher training to ensure the effective use of E-rate infrastructure.

However, the anticipated delay to resolve past funding issues seriously jeopardizes previously implemented E-rate work. Although the FCC was clearly preparing to work closely with Puerto Rico in

the Fall of 2002, the agency made a mid-course correction in the Spring of 2003, abandoned what it had termed a "workout plan," and undertook a much more arms-length approach to the school district. Late last year, the FCC ordered USAC to process Puerto Rico's E-rate applications after completing a series of audits. As a result, the E-rate quagmire in Puerto Rico may not be resolved until 2005 or later.

Puerto Rico demonstrates that the E-Rate Program's administration is anything but efficient, innovative, and effective. The program is overly complex and poorly managed. Robust competitive bidding procedures are virtually absent. There appears to be no oversight in a program where rigorous oversight should be paramount. And at the end of the day, while there is certainly blame to go around, the buck has to stop at the agency that is charged with running this program.

I look forward to discussing these circumstances with the witnesses this morning.

Finally, on a more personal note, I would like to acknowledge our first lead counsel on this investigation, Michael Geffroy. Mike has since left to work on the House Select Committee on Homeland Security, and today, as a Major in the United States Marine Corps, is on a leave of absence while serving as an attorney in Iraq. We sincerely appreciate his selfless dedication and service to our nation during this war, as well as all of his work for this subcommittee on the E-Rate Program.

I would also like to thank Tom Bennett, the Assistant Inspector General for USF Oversight, for the valuable assistance he has provided to our staff during this investigation. I thank all the witnesses for attending and now recognize the gentlelady from Colorado, Ms. DeGette, for her opening statement.

Ms. DEGETTE. Thank you, Mr. Chairman. I would also like to join in welcoming our colleague, The Delegate from Puerto Rico, Mr. Arcevedo-Vilá, who is with us today and I know is very, very concerned and involved in these issues as they relate to Puerto Rico. Thank you for joining us.

The E-Rate has done a lot of good but it also has some serious problems as the Chairman noted. I am committed to this program and I think we as Congress have a responsibility to determine how some of these glitches that we will be hearing about today will be fixed.

I think the problems are fixable but only if we increase oversight and crack down on some of the worst offenders and fraudulent practices. We need to stop wasting millions of dollars but, most importantly, we need to guarantee that the kids that this innovative program is intended to serve are not the ultimate victims.

In order for the E-Rate Program to be successful and to do what it is supposed to do, a pretty tight partnership has got to exist among the many entities who participate in the process. What we too often have found is a real breakdown of the partnerships due to many factors including intentional manipulation, indifference, or inexperience.

I look forward to exploring what I see as two of the most serious problems to be addressed in order to ensure that the E-Rate is accomplishing its mission. First, the bad apple vendors who take ad-

vantage of school districts and then essentially take the money and run and, second, the apparent lack of oversight that has allowed for large amounts of money to go to schools that have no ability to proceed with actually utilizing the funds and equipment that they receive.

We have seen numerous examples of unscrupulous vendors and so-called consultants who have taken advantage of schools with little experience or resources to compete for E-Rate dollars. These vendors help them successfully apply and in the process are able to manipulate the situation for their own benefit.

The end result is schools that are left with lots of equipment that they don't need or haven't the foggiest idea of how to use. People like me who have elementary and secondary-aged children see this every day. Schools which are just crammed with equipment that no one has a clue how to turn on. Sometimes it seems to be the over eagerness and perhaps the naivete of school districts that puts them in this vulnerable situation to begin with.

It doesn't take much to convince school districts, particularly poor ones with little resources to begin with, to try and get the latest and greatest equipment. Then they end up with all sorts of cutting edge technological paraphernalia which is useless to them in the end because they don't have the hardware or the personnel expertise to make the use of it. This, too, has been a factor in some of the failures we have seen.

As we all know, today we will be focusing primarily on what happened in Puerto Rico. I am very interested in hearing our witnesses discuss how they are both going to fix the mess that was created by the previous administration and move forward with a system that will actually serve the children.

In addition, I think the FCC needs to articulate their oversight process and explain to us how such large amounts of money have ended up going to schools that clearly have no ability to use the money effectively. If there isn't better oversight, these problems will not be fixed and, frankly, this is a problem that needs to be fixed right away. It is the kids who are paying for the ineptitude, fraud, and overall ineffectiveness that has been found so often in this innovative program that has the ability to give them a technological head start in life.

When you look at the really heartwarming E-Rate success stories and how some students have benefited from this program, how well the money was spent, and then you look at the millions of dollars that have been wasted, it really underscores the problem at hand. Think of what could have been accomplished and how many kids would have been touched if these millions of dollars that have literally been thrown away had accomplished what they were supposed to. This has to be fixed, it has to be fixed now. We owe our kids no less.

Mr. Chairman, I want to thank you for holding this hearing and I look forward to the testimony and I yield back the balance of my time.

Mr. GREENWOOD. The Chair thanks the gentlelady. Does the gentleman from Oregon have an opening statement?

Mr. WALDEN. Mr. Chairman, I am going to waive on the opening statement so we can hear from our witnesses and get into the questions.

Mr. GREENWOOD. Very well. The gentleman from Illinois, Mr. Rush. Do you have an opening statement, sir?

Mr. RUSH. Mr. Chairman, I am not a member of the subcommittee but I want to thank you for allowing me to participate at this hearing. I am here today because I am concerned about recent revelations of fraud and abuse in certain communities or cities that have occurred with the E-Rate Program.

Because of this, some have called into question whether the program should exist at all. Mr. Chairman and members of the subcommittee, I am here to tell you that we should not let a few bad apples spoil the bushel. Again, I am aware of the fraud and misuse in Puerto Rico.

It is my understanding that the Puerto Rican government led by its Governor is making sure that all of those culpable are either in jail or being brought to justice. They are making every effort to retrieve the money that was stolen. I have absolute confidence in the Puerto Rican government. I have worked with them in the past and I want to continue to work with them in the future on the E-Rate Program and similar programs.

In addition, I would be remiss if I did not mention the problems that the Chicago public schools had with implementing its E-Rate Program. As you know, $5 million of equipment supplied by telecom carrier SBC to the Chicago school system sat in a warehouse for years. However, Mr. Chairman, I am confident that both the Chicago public schools and the Puerto Rican government have implemented safeguards to prevent this from happening again. I am certain and assured, particularly in this Chicago public school system, that this problem has been solved and will never, ever, ever happen again.

By in large, Mr. Chairman, the E-Rate Program is working and is fulfilling its mandate. It has now been over 7 years since the E-Rate Program was created as part of the Telecommunications Act of 1996. The program is now commencing its sixth year of providing discounts on telecommunication services, Internet access, and internal connections to libraries and public and private schools.

This program has transformed America's schools and libraries into 21 century institutions opening up opportunities for even the poorest and most remote rural areas to take advantage of the vast resources of the Internet and the power of distance learning.

In my district alone we have millions to wire our public schools and our libraries. It is clear that since the initiation of this program, the impact of providing universal connectivity to schools and libraries in my district have definitely contributed to bridging the gap between the haves and the have-nots.

Mr. Chairman, in adopting this program, the Congress acknowledged the importance of providing the nation's schools and libraries with telecommunications technology. It is clear that since the initiation of this program, the impact of providing universal connectivity to our schools and libraries have definitely contributed to bridging the gap between the haves and the have-nots.

Mr. Chairman, I yield back the balance of my time.

Mr. GREENWOOD. The Chair thanks the gentleman and, just for the record, would share with him that our investigation is intended neither as an indictment of certainly the current administration of the Puerto Rican Department of Education nor the Chicago school district or any other, is but a more necessary look at what is wrong with the safeguards and oversight in the program that would allow these problems to have occurred in the first place. Nor do we impugn the noble intention of the program.

The gentleman from Texas is welcome to join us as well and he is recognized for his opening statement.

Mr. GREEN. Thank you, Mr. Chairman. And, again, not being a member of the committee like my colleague from Illinois, I appreciate the opportunity to allow me to waive on. Particularly, I appreciate you and our ranking member calling this series of hearings on the E-Rate Program.

With our recent receipt of over $50 million last year the Houston school district has received approximately $200 million in Universal Service Funds through the E-Rate. Clearly, there are widespread problems with fraud and abuse under this program in many areas, including my own, but between 1998 and 2001 Internet access in minority classrooms in Houston jumped from 37 percent to 81 percent. 95 percent of all Houston public school classrooms are now connected with over 90 percent using high-speed connections.

Teachers are connected to school resources at their homes and soon students will be connected at home also. Smaller school districts also benefit. Another much smaller district, which is 80 percent economically disadvantaged, has received more than $1.5 million in E-Rate funding. This low-income district is now scoring over 90 percent on all state achievement tests and the school administrators say that could not have happened without the E-Rate.

These are real accomplishments and we are successfully bridging the digital divide because of the Universal Service Fund and E-Rate, investments that are paid back many time over when these children fully enter our society and our work force. We need a massive reform to stop the E-Rate from acting as a cash cow for outlaws who would waste money intended for school children, often poor and minority school children. I am glad to see the Department of Justice is now involved. These important hearings will uncover the extent of the problem and after that we will begin to examine the legislative solutions for the Universal Service Fund and the E-Rate Program.

One of the stories we will hear today is about the multi-million dollar Internet backbone built in Puerto Rico but not utilized because schools do not have the machines for the children to use. We drafted legislation, the Children's Access Technology Act, H.R. 94, to direct unused E-Rate funds for hardware purchases for low-income school districts. Wiring the schools is one thing but we need computers in the classrooms as well.

In addition to wiring and installing hardware, the other critical ingredient is teacher training for this equipment. This, too, is an ineligible use of E-Rate funding, a limitation which is counterproductive. By making E-Rate available but severely limited to uses, an incentive to install gold-plated server networks have de-

veloped. We must develop serious time and energy in rebuilding the program by eliminating the waste, fraud, and abuse that is equal to stealing from our school children. I believe the important element of reform is to revisit what we use E-Rate funds for and strongly consider making training and hardware purchases eligible.

Again, Mr. Chairman, I thank you for allowing me to waive on the subcommittee and I appreciate you allowing me to participate.

Mr. GREENWOOD. The Chair thanks the gentleman and welcomes him to participate in this hearing.

Before we call the witnesses, I want to share with the members of the committee and all those present some visual aids to give you a picture of what we found in our investigation of the Puerto Rican system.

In February of this year committee staff members went down to Puerto Rico for a site visit accompanied by Tom Bennett from the FCC's Office of Inspector General. While in Puerto Rico they were shown this warehouse in Bayamon just outside of San Juan. Actually, that is not the picture at all. That is the video tape. I will queue it up momentarily. There we are. That is the warehouse in Bayamon. In this warehouse our staff found more than $23 million worth of computer equipment which has been sitting in storage for close to 4 years.

Photo two, please. This is a photo from inside the warehouse that shows boxes of wireless computer cards still shrink wrapped and stacked floor to ceiling. There were 73,000 cards purchased in 1999 and 2000 that were never installed.

Photo three shows boxes of cabling and wireless card adapters that cost half a million dollars and also were never installed.

Photo four, more wireless card adapters. These were intended to be used with the 73,000 wireless cards in computers that never were purchased.

Photo five, last, a picture of still more wireless cards, all told $23 million worth. At the time each card cost more than $300 to purchase so that is $300 times 73,000 of them. Obviously they were never installed. Row upon row of computer equipment paid for by American telephone rate payers going to waste and becoming more obsolete each day.

Now, we can go to the video. My staff also took video footage during their visit to Puerto Rico in February. The corner of this warehouse is packed floor to ceiling with computer equipment for Puerto Rican schools. These are the 73,000 wireless computer cards that I mentioned. $23 million worth bought and paid for with E-Rate dollars. This video is only about a minute long but it will give the committee and the public a better understanding of the breadth and the extent of the equipment improperly stored in this warehouse.

[Additional statements submitted for the record follow:]

PREPARED STATEMENT OF HON. JOE BARTON, CHAIRMAN, COMMITTEE ON ENERGY AND COMMERCE

Thank you Chairman Greenwood. This morning we begin a public review of the E-rate program, a program that offers schools and libraries financial assistance so they can more ably afford Internet access and other telecom services necessary for their educational missions.

We all recognize that E-rate is a popular program with many success stories—a program we want to ensure works cost-effectively to achieve the goals Congress intended it to achieve. We also recognize that, when it comes to popular programs, stakeholders may resist close scrutiny, for fear the apple cart will be upset.

Mr. Chairman, I agree with you that this program deserves the close bipartisan scrutiny you have led this past year. Let me assure you, as we go forward, we will not shy from rocking some apple carts to make sure proper oversight of this program is performed—and the E-rate funds are expended properly.

There are serious questions about the setup and implementation of this program. There are powerful incentives in the program for waste, fraud, and abuse. Those applying for funds are asking E-rate to spend other people's money—money consumers pay every month on their phone bills.

Substantial sums of money are involved here. Since it began funding services in 1998, E-rate's administrator has approved some $12.9 billion for distribution on behalf of schools and libraries around the nation. The service providers, the phone companies, equipment makers, network installers have received some $8 billion of these funds so far for the products and services they sold to the schools. Has it been well spent? That's what we intend to determine.

There have been success stories, but, again, at what cost?

We found, and we have read about, equipment worth tens of millions of dollars laying around in warehouses, and extravagant purchases of equipment that far surpass a school district's needs. For example, why would it be necessary to install three network switches, at a cost of up to $100 thousand each, in a single school when just one of these high-tech switches could run a small school system?!

For the past two years the Inspector General of the Federal Communications Commission (FCC) has been telling us his office cannot ensure the program is sufficiently protected from waste, fraud, and abuse. Indeed, his concerns, in part, prompted this Committee to initiate its review almost a year and half ago.

We know the program is not sufficiently protected from waste, fraud, and abuse from example upon example:

This past December, when Committee staff were about to perform a site visit of Chicago Public Schools, SBC alerted staff on the eve of their visit to $5 million of warehoused equipment—paid for by E-rate but never installed by the company.

In Atlanta just a few weeks ago a newspaper investigation reported more than $4 million of equipment purchased but gathering dust in warehouses, along with evidence of inappropriate and wasteful purchases—powerful network gear capable of running whole school districts had been purchased for a single elementary school.

In my own state of Texas, an El Paso school district purchased one year of IBM network maintenance services that amounted to about $270,000 per every school—including elementary schools—just to insure a brand-new network was running properly.

Recently, NEC pleaded guilty to federal charges of bid-rigging and wire fraud scheme involving San Francisco schools, among other districts across the country. And there are a number of active law enforcement investigations into activities like this around the nation.

And, of course, today we are reviewing the case of the Puerto Rico Department of Education, which is truly a story of lost opportunity for tens of thousands of students who have never had access to a network and broadband services purchased with more than $100 million in E-rate funds.

I look forward to learning more about Puerto Rico's experience today. I'd like to understand the scale and nature of any wasted funding and what has been done to resolve the situation. I'd also like to understand what this case demonstrates about broader problems in the E-rate program.

I'm pleased to see that we will hear from the FCC's Inspector General today, who can outline and discuss with us his broad concerns with the E-rate program. Let me also welcome our witnesses, who have come to explain their roles and perspective in Puerto Rico, and on the E-rate program generally.

Finally, let me extend a special welcome to Dr. Cesar Rey, Puerto Rico's Secretary of Education. I understand his administration has been working to resolve problems within his department's program and I am especially interested in his perspective.

You all should know this Committee will work hard to get to the bottom of the problems in the program and see that changes are made where necessary. This work begins with a solid foundation of bipartisan oversight—and I'm optimistic that the review beginning today will lead to much fruitful work ahead.

Thank you, Mr. Chairman. I yield back the remainder of my time.

PREPARED STATEMENT OF HON. JOHN D. DINGELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Chairman, thank you for initiating this investigation and holding this hearing. The waste, fraud, and abuse uncovered in the E-rate program is an outrage. And the Federal Communications Commission's (FCC) mishandling of this program is inexcusable.

We now know significant sums have been wasted, and that the allocation process is rife with abuse. Some of the corporate scofflaws are being called to account, but that process has not as yet effectively deterred the rampant fraud associated with this program. USAC, the private corporation that the FCC established to administer the E-rate program, has failed to protect the ratepayers' dollars, thereby short-changing our children. Critical questions such as the true ability of schools to follow reasonable technology plans are simply ignored. Schools may apply for funds without any serious showing that the electrical systems in often very old buildings can support modern telecommunications equipment. Nor do schools need to assure that the vital hardware, the computers themselves that must be provided locally, is available for the students. There is not the slightest attempt to determine prior to the funding whether the school district has both the local funds and the ability to train teachers in the use of the technology.

Functionally, the FCC has turned this program over to the vendors by refusing to establish adequate oversight of the 28,000 proposals funded each year. Even worse, the FCC proposes to check compliance with only a handful of audits, some 128 to date. The FCC Inspector General is only permitted three positions to oversee the program and those individuals are largely assigned to grand juries around the country.

Gold-plated equipment paid for by the telephone ratepayers, often at prices that exceed any charged elsewhere, lies unused and growing obsolete in classrooms where no teachers have been trained in its potential applications. Worse we have found millions of dollars worth of these very expensive components aging in warehouses despite vendor and school district "certifications" that they have been installed and are operating as intended.

Today we will hear the tragic story of Puerto Rico, the school district with the largest number of campuses in the country. We will hear how $100 million was wasted without a single child benefitting from a single connection to the Internet. We will hear a story of vendor greed, phone company charges for access despite a lack of connections, misconduct by previous local officials, and bureaucratic incompetence.

Thanks to local money, each school now has two computers hooked up to the Internet by dial-up modems. But we have lost valuable time for the children of Puerto Rico. The administrators of the E-rate program and the administrators of the Puerto Rico Department of Education must work together to assure that another year does not go by while this generation of children waits for the opportunity that the E-rate program is supposed to provide.

We have shining examples of what the E-rate program can provide and I hope that some of the success stories from schools where it has worked will be exhibited at future hearings. In those places where local officials have a good plan and the wherewithal to carry it out, and where vendors do not have effective control of the fund procuring process, the E-rate funds have been a godsend, opening vistas of learning and opportunity to students that would not have ever been possible for most of their parents or even older siblings.

E-rate funds, used properly, can truly improve the future for millions of Americans. I look forward to working with my colleagues on whatever changes are necessary to make that promise a reality.

Mr. GREENWOOD. With that, I call forward our first witnesses and they are Mr. H. Walker Feaster III, Inspector General for the Federal Communications Commission. Good morning, sir, and welcome. Have a seat. The Honorable Manuel Diaz Saldana, Comptroller of the Commonwealth of Puerto Rico. Good morning to you, sir, and welcome.

As you may have been advised, it is the custom of this subcommittee to take testimony under oath. I will have to ask if either of you object to giving your testimony under oath. Okay. I also need to advise you that pursuant to the rules of this committee and of the House, you are entitled to be represented by counsel. Do either

of you wish to be represented by counsel? Okay. In that case, if you would stand and raise your right hands. Do you swear that the testimony you are about to give is the truth, the whole truth, and nothing but the truth?

[Witnesses sworn.]

Mr. GREENWOOD. Very well. You are under oath and, Mr. Feaster, we will begin with you. You are recognized for 5 minutes for your opening statement. Make sure your microphone is on.

TESTIMONY OF H. WALKER FEASTER III, INSPECTOR GENERAL, FEDERAL COMMUNICATIONS COMMISSION; AND HON. MANUEL DIAZ SALDANA, COMPTROLLER, COMMONWEALTH OF PUERTO RICO

Mr. FEASTER. Good morning again. Mr. Chairman and members of the subcommittee, I am Walker Feaster, Inspector General of the Federal Communications Commission. 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 Puerto Rican Department of Education, our involvement in the E-Rate Program, and describe in more general terms the concerns that my office has with the E-Rate Program.

At this point I originally planned to introduce Thomas Bennett, my Assistant Inspector general for USF Oversight who is responsible for the oversight of the E-Rate Program. However, Mr. Bennett has taken ill today and is unable to be with us.

I believe it is particularly timely that we now discuss waste, fraud, and abuse of 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 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 for goods and services that were not provided to schools.

Last month, as the Chairman mentioned, NEC was fined $20.6 million for criminal fines in a civil settlement and restitution relating to charges of collusion and wire fraud in the E-Rate Program. Also, last month the Atlanta Journal-Constitution ran a series of articles reported wasteful spending of E-Rate funding by the Atlanta public school system. The Atlanta Journal-Constitution reported that the public school system had bought more equipment than was needed, routinely overpaid for goods and services, and stored unused network equipment worth about $4.5 million in the warehouses.

My office first looked at the USF as part of the audit of the Commission's fiscal year 1999 financial statement. Since that time our 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 as been a lack of adequate resources to conduct audit and provide audit support to investigations. We have requested appropriated funding to obtain contract support for USF oversight activities but those funding requests have yet to be approved.

I am presently able to devote three full-time auditors 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 Office of Inspector General under reimbursable agreements, a review of audit work conducted by USAC, and active participation in Federal investigations of E-Rate fraud. In addition to other audits of compliance, I believe it would be appropriate to conduct a broad-based review of the program.

Puerto Rican Department of Education. I would like briefly to 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 allegation 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 schools necessary to make effective use of goods and services being provided.

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

The Puerto Rican matter highlights several concerns that my office has had with the program. These concerns are lack of timely and effective resolution for audit findings from the 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 competitive process is followed. In addition, weak record keeping requirements to support the procurement process as well as other aspects of E-Rate application offer little protection to the program.

Site visits to PRDOE facilities have verified that 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 the E-Rate funding are yet to be installed in Puerto Rican schools. These conditions exist despite PRDOE's certifications that they were prepared to make effective use of the goods and services purchased with the 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 the result of audits and investigations.

USAC has implemented numerous procedures to administer to 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 differentiation between program rules and USAC procedures is illustrated in the technology planning area. Program rules require the applicant's to prepare a technology plan and that the technology plan be approved. USAC implementing procedures contain detailed requirements for the contents of technology plans which significantly add to the value and validity of the plan. We have observed many instances of noncompliance with program rules and USAC procedures related to the technology and planning process.

The E-Rate Program allows eligible schools and libraries to receive goods and services based on discount rates with the fund picking up the portion not paid by the applicant. A number of audits have identified that applicants have not filed program requirements for discount rate calculation or were unable to support the discount rate calculated.

Applicants are required to pay their portion of the cost for E-Rate goods and services to their service providers and are required to bill the applicants for these costs. We have found examples of applicants not paying their portion or not paying their portion in a timely manner and service providers not billing for these costs.

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

Thank you. I will be happy to try to answer any of your questions.

[The prepared statement of H. Walker Feaster III follows:]

PREPARED STATEMENT OF H. WALKER FEASTER III, INSPECTOR GENERAL, FEDERAL COMMUNICATIONS COMMISSION

INTRODUCTION

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to appear before the subcommittee today to discuss concerns regarding waste, fraud, and abuse in the E-rate program. In my comments and written testimony, I will provide a brief summary of my office's involvement in USF oversight, discuss our specific actions with respect to the Puerto Rico Department of Education's (PRDOE) involvement in the E-rate program, and describe in more general terms the concerns that my office has with the E-rate program. I would also like to introduce Thomas Bennett, the Assistant Inspector General for USF Oversight in the FCC Office of Inspector General. Mr. Bennett is responsible for USF oversight including oversight of the E-rate program and is available to answer specific questions you may have about my office's oversight of E-rate.

HISTORY OF INDEPENDENT OVERSIGHT OF THE UNIVERSAL SERVICE FUND (USF)

My office first looked at the USF in 1999 as part of our audit of the Commission's FY 1999 financial statement when the USF was determined to be part of the FCC's reporting entity for financial statement reporting. During that audit, we questioned the Commission regarding the nature of the USF and, specifically, whether it was subject to the statutory and regulatory requirements for federal funds. Starting with that inquiry, the Office of Inspector General has continued to devote considerable resources to oversight of the USF.

Due to materiality and our assessment of audit risk, we have focused much of our attention 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. Applications for program funding have increased from 30,675 in funding year 1998 to 43,050 for the current funding year. Applications were received from schools and libraries in each of the 50 states, the District of Columbia, and most territories and included 15,255 different service providers. Requested funding has increased from $2,402,291,079 in funding year 1998 to $4,538,275,093 for the current funding year.

OIG Oversight

During FY 2001, we worked with Commission representatives as well as with the Defense Contract Audit Agency (DCAA) and the Universal Service Administrative Company (USAC), to design an audit program that would provide the Commission with programmatic insight into compliance with rules and requirements on the part of E-rate program beneficiaries and service providers. Our program was designed around two corollary and complementary efforts. First, we would conduct reviews on a statistical sample of beneficiaries large enough to allow us to derive inferences regarding beneficiary compliance at the program level. Second, we would establish a process for vigorously investigating allegations of fraud, waste, and abuse in the program.

Unfortunately, several obstacles have impeded our ability to implement effective, independent oversight of the program. The primary obstacle has been a lack of adequate resources to conduct audits and provide audit support to investigations. Since our initial involvement in independent oversight of the USF as part of our conduct of the FY 1999 financial statement audit, we have demonstrated our commitment to independent oversight of the USF by adding two (2) staff auditor positions and by organizing USF oversight activities under an Assistant Inspector General for USF Oversight. This represents dedication of three (3) of the eight (8) auditors on the staff of the FCC OIG to USF oversight. In addition to the OIG staff dedicated to USF oversight, two (2) audit staff members responsible for financial audit are also involved in USF oversight as part of the financial statement audit process.

We have also requested appropriated funding to obtain contract support for our USF oversight activities. In our FY 2004 budget submission, we requested $2 million for USF oversight. That request was increased to $3 million in the President's budget submission for FY 2004. Unfortunately, this funding was not included in the Commission's final budget for FY 2004. We are currently considering alternatives for obtaining access to contract audit support to implement the USF oversight portions of our FY 2004 audit plan.

Despite limited resources, my office has implemented an aggressive independent oversight program. My oversight program includes: (1) audits conducted using internal resources; (2) audits conducted by other federal Offices of Inspector General under reimbursable agreements; (3) review of audit work conducted by USAC; and (4) active participation in federal investigations of E-rate fraud.

OIG Audits Using Internal Resources

We have completed eleven (11) audits that we initiated during fiscal year 2002 using auditors detailed from the Commission's Common Carrier Bureau (since reorganized as the Wireline Competition Bureau) and audit reports are being finalized for the two (2) remaining audits. For the eleven (11) audits that have been completed, we concluded that applicants were compliant with program rules in five (5) of the audits, that applicants were generally compliant in two (2) of the audits, and that the applicants were not compliant with program rules in four (4) of the audits. We have recommended recovery of $731,494 as shown below:

Report Date	Applicant	Conclusion	Potential Fund Recovery
09/11/02	Enoch Pratt Free Library	Compliant	$0

Report Date	Applicant	Conclusion	Potential Fund Recovery
02/03/03	Robeson County Public Schools	Compliant	0
02/05/03	Wake County Public Schools	Compliant	0
08/27/03	Albemarle Regional Library	Compliant	0
12/22/03	St. Matthews Lutheran School	Not Compliant	136,593
12/22/03	Prince William County Schools	Generally Compliant	5,452
12/22/03	Arlington Public School District	Generally Compliant	7,556
03/24/04	Immaculate Conception School	Not Compliant	68,846
04/06/04	Children's Store Front School	Not Compliant	491,447
05/19/04	St. Augustine School	Not Compliant	21,600
05/25/04	Southern Westchester BOCES	Compliant	0
			$731,494

Audits Conducted by Other Federal Offices of Inspector General

On January 29, 2003, we executed a Memorandum of Understanding (MOU) with the Department of the Interior (DOI) OIG. The MOU is a three-way agreement among the Commission, DOI OIG, and USAC for reviews of schools and libraries funded by the Bureau of Indian Affairs and other universal service support beneficiaries under the audit cognizance of DOI OIG. Under the agreement, auditors from the Department of the Interior perform audits for USAC and the FCC OIG. In addition to audits of schools and libraries, the agreement allows for the DOI OIG to consider requests for investigative support on a case-by-case basis. We have issued two (2) audit reports under this MOU and have completed fieldwork on three (3) additional audits. For the audit where we determined that the applicant was not compliant, we have recommended recovery of $2,084,399. A summary of completed audits is as follows:

Report Date	Applicant	Conclusion	Potential Fund Recovery
11/06/03	Santa Fe Indian School	Compliant	$0
01/07/04	Navajo Preparatory Academy	Not Compliant	2,084,399

We have also established a working relationship with the Office of Inspector General at the Education Department (Education OIG). In April 2003, Education OIG initiated an audit of the use of federal education funding to purchase equipment to make effective use of internal connections and internet connectivity funding by E-rate at a large recipient. My office has been providing support to this audit.

In January 2004, Education OIG presented a plan for an audit of telecommunication services at a large E-rate recipient. Because of the significant amount of E-rate funding for telecommunication services at this recipient, Education OIG has proposed that they be reimbursed for this audit under a three-way MOU similar to the existing MOU with DOI OIG. In April 2004, the Universal Service Board of Directors approved the MOU. We are in the process of finalizing the MOU for execution and initiating the audit.

Review of USAC Audits

We have reviewed work performed by USAC's Internal Audit Division and performed the procedures necessary under our audit standards to rely on that work. 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 the two previous large-scale E-rate beneficiary audits conducted by USAC, the agreed-upon procedures being performed under this contract would 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 (GAGAS). In March 2003, we signed a contract with a public accounting firm to provide audit support services for USF oversight to the OIG. The first task order that we established under this contract was for the performance of those procedures necessary to determine the degree to which we can rely on the results of that work (i.e., to verify that the work was performed in accordance with the AICPA and GAGAS standards). The OIG review team is currently completing this work. Many of the audit findings

raised by this body of work are reflected in the section addressing concerns with the E-rate program.

Support to Investigations

In addition to conducting audits, we are providing audit support to a number of investigations of E-rate recipients and service providers. To implement the investigative component of our plan, we established a working relationship with the Antitrust Division of the Department of Justice (DOJ). The Antitrust Division has established a task force to conduct USF investigations comprised of attorneys in each of the Antitrust Division's seven (7) field offices and the National Criminal Office. We are also supporting several investigations being conducted by Assistant United States Attorneys.

We are currently supporting twenty-two (22) investigations and monitoring an additional eighteen (18) investigations. Unfortunately, the increased interest in these cases has resulted in an increased demand for OIG audit support. In fact, the amount of audit support has exacerbated our previously stated concern about the availability of resources and our ability to implement other components of our USF oversight plan. Allegations being investigated in these cases include the following:

- Procurement irregularities—including lack of a competitive process and bid rigging;
- False Claims—Service Providers billing for goods and services not provided;
- Ineligible items being funded; and
- Beneficiaries are not paying the local portion of the costs resulting in inflated costs for goods and services to the program and potential kickback issues.

PUERTO RICO DEPARTMENT OF EDUCATION (PRDOE)

In this section of my testimony, I will briefly discuss allegations that my office received regarding wrongdoing related to PRDOE's involvement in the E-rate program, describe the preliminary investigation that we conducted of this matter, and discuss our on-going monitoring of PRDOE's involvement in the E-rate program as a result of these allegations. In addition, I will discuss programmatic concerns that my office has developed as a result of our involvement in audits and investigations that are highlighted by PRDOE's participation in the E-rate program.

Allegations from the Office of the Comptroller of Puerto Rico (OCPR)

In April 2001, my office was contacted by an auditor from the Office of the Comptroller of Puerto Rico (OCPR) and advised of allegations of wrongdoing by PRDOE related to the receipt of E-rate funding. We were advised that PRDOE did not comply with state and local procurement regulations during the vendor selection process for funding years 1998 and 1999 of the schools and libraries program. In addition, the auditor stated that two of the bidders argued against the selection decision and that the appellate process was not followed as required by the regulations governing PRDOE procurement actions. The auditor explained that the appellate process would have prevented PRDOE from signing a contract until an administrative review was conducted. Further, the auditor stated that PRDOE may have violated program rules that require applicants to certify that they have secured access to all the resources necessary to make effective use of the goods and services being provided. The auditor explained that, as part of the audit process, representatives from OCPR visited schools and that "the majority of the schools" did not have electrical connections and secure areas for the equipment. Further, the auditor stated that the PRDOE has not obtained computers and had not provided training to teachers.

Preliminary Investigation

Based on the allegations, my office conducted a preliminary investigation to determine if the matter should be referred to federal law enforcement for investigation. After receiving the allegation from the Office of the Comptroller, we contacted the Universal Service Administrative Company (USAC) and requested documents relevant to this matter. On May 17, 2001, we received the requested documents from USAC. In their narrative summary, USAC stated that PRDOE has applied for universal service support for schools and libraries in each funding year of the program.

A summary of E-rate commitments and disbursements for funding years 1998, 1999, and 2000 is as follows:

Funding Year	Service Provider	Commitments	Disbursements
1998	Data Research Corporation (DRC)	$11,796,599	$11,796,160
	Puerto Rico Telephone Company, Inc. (PRTC)	34,426,082	9,933,963

Funding Year	Service Provider	Commitments	Disbursements
		$46,222,681	$21,730,123
1999	Data Research Corporation (DRC)	$42,124,085	$25,204,157
	Puerto Rico Telephone Company, Inc. (PRTC)	14,755,694	8,331,894
		$56,879,779	$33,536,051
2000	Data Research Corporation (DRC)	$37,674,521	$32,565,581
	Puerto Rico Telephone Company, Inc. (PRTC)	17,930,567	13,391,113
		$55,605,088	$45,956,694
Total	Data Research Corporation (DRC)	$91,595,205	$69,565,897
	Puerto Rico Telephone Company, Inc. (PRTC)	67,112,343	31,656,971
		$158,707,548	$101,222,868

On May 29, 2001, we held a teleconference with the auditor from OCPR who had contacted my office regarding this matter. The objective of the teleconference was to further discuss the allegations set forth in the referral and to determine if any additional information was available relevant to this matter. During the teleconference, we discussed the scope of the audit performed by the Office of the Comptroller and the extent of testing performed during the review. In addition, we made arrangements to obtain additional information including a copy of the regulations governing the PRDOE procurement process. During the teleconference, the auditor stated that fieldwork on the audit was performed from March 2000 through April 2001. The auditor stated that a draft report had been prepared summarizing the results of the audit but that the draft report was still going through the review process and would not be available for approximately two months. During the teleconference, the auditor provided a detailed description of the work performed to support the allegations contained in referral. With respect to the procurement, the auditor stated that they reviewed proposals and other documents documenting the evaluation process, interviewed PRDOE personnel involved in the process, and interviewed a service provider. To determine whether the PRDOE had the resources available to make effective use of the eligible services, OCPR auditors visited thirty (30) schools and examined the level of implementation.

Included in the documents provided by USAC was a Draft Agreed-Upon Procedures Report Prepared by Arthur Andersen summarizing the results of an agreed-upon procedures review they conducted for E-rate recipients in Funding Year 1998. Arthur Andersen selected the Puerto Rico Department of Education as one of the recipients where procedures were performed. Arthur Andersen examined the procurement process during Funding Year 1998 as part of that review. In addition, Arthur Andersen visited two schools and a data center as part of the examination to determine whether the PRDOE had the resources available to make effective use of the eligible services. In their draft report, Arthur Andersen stated that they had ascertained "through discussion with PRDOE management that they had established appropriate (sic) to evaluate and select the most cost-effective bidder based on the responses to their 470 posting." Arthur Andersen further stated that "PRDOE management also indicated that all bids received were appropriately evaluated in accordance with state and local requirements." With respect to the availability of resources, Arthur Andersen stated that "we noted that there were no (desktop) computers in any of the classrooms visited" and that, as a result, "PRDOE was not able (as of the date of our site visit) to fully meet the educational objectives (and training requirements) for which E-Rate funding had been provided." We obtained additional information from USAC regarding the scope of the Arthur Andersen review including working papers documenting the procedures performed to evaluate the procurement process followed by PRDOE.

Based upon our assessment of this information and our discussion with the auditor from the OCPR, we determined that the audit performed by OCPR was more comprehensive in nature and included a more detailed examination of both the procurement process and the availability of resources. Further, we determined that OCPR, given their role in the government of Puerto Rico and their knowledge of the operations of PRDOE, was better positioned to evaluate the schools and libraries program in Puerto Rico. Based on the results of our 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.

On-going Monitoring of PRDOE

In addition to supporting an on-going Federal investigation related to this matter, my office has continued to monitor efforts by PRDOE to address issues related to funding years 1998, 1999, and 2000, and to continue to participate in the E-rate program. An auditor from my staff participated as an observer in three (3) meetings between USAC and PRDOE during 2002. In a meeting in January 2001, representatives from PRDOE presented a plan to address concerns from funding years 1998, 1999, and 2000. In a meeting in April 2002, representatives from PRDOE provided a status report on activities that they had taken to implement their corrective action plan. In a meeting in October 2002, representatives from PRDOE, including the Secretary of PRDOE, provided a status on implementation of corrective action and made an argument for approval of FY 2001 and 2002 funding. In February 2004, a representative from my office traveled to Puerto Rico to assist professional staff from the Energy and Commerce Committee during their investigation of PRDOE participation in the E-rate program.

PROGRAMMATIC CONCERNS HIGHLIGHTED BY PRDOE'S PARTICIPATION IN E-RATE

The Puerto Rico matter highlights several concerns that my office has with the E-rate program as a result of our involvement in audits and investigations.

Resolution of Audit Findings and Fund Recoveries—Since our involvement in this program, I have become increasingly concerned about efforts to resolve audit findings and to recover funds resulting from E-rate beneficiary audits. It has been our observation that audit findings are not being resolved in a timely manner and that, as a result, actions to recover inappropriately disbursed funds are not being taken in a timely manner. In some cases, it appears that audit findings are not being resolved because USAC is not taking action in a timely manner. In other cases, findings are not being resolved because USAC is not receiving guidance from the Commission that is necessary to resolve findings. USAC is prohibited under program rules from making policy, interpreting unclear provisions of the statute or rules, or interpreting the intent of Congress. As a result of this prohibition, USAC must seek guidance from the Commission when audit findings are not clearly violations of Commission rules.

In the case of PRDOE, we have concerns about the manner in which audit findings identified by Arthur Anderson during their audit of PRDOE's participation in the E-rate program in funding year 1998 were resolved. Although we were not involved in this audit, we obtained and reviewed the report as part of our preliminary investigation of the allegations raised by OCPR. In addition, we have continued to obtain information on the resolution of USAC audits as part of our program oversight activities. In their report, Arthur Anderson identified three (3) findings during their audit of PRDOE. Two of the audit findings related to services being delivered after the last date to receive services. The third finding related to inadequate detail being provided on customer bills. The three findings and resolution of those findings as identified in the final audit report are as follows:

Finding	Finding Detail	Resolution
Services delivered after the last date to receive services.	6 of 38 cabling projects could not be verified as complete as testing was not completed.	No Action Required. Received FCC waiver of rule violation consistent with the other 1998 (FY1) rule violations waived in the 10/8/99 order.
Inadequate detail provided on customer bills.	The contract payment was reduced due to the contractor failing to install in some schools by the due date. However, there was insufficient documentation to verify the accuracy of the reduction.	No Action Required. This observation has been classified as a non-material finding, as there is not evidence of any request for reimbursement for ineligible equipment.

Finding	Finding Detail	Resolution
Services delivered after the last date to receive services.	Non e-rate equipment (100,000 workstations) was not installed due to a legal dispute with a potential bidder.	Action Pending. SLD wrote to the Puerto Rico Department of Education (PRDOE) about this observation. PRDOE then asked for a meeting with the FCC and SLD at which time they disclosed that there were significant irregularities concerning the application and installation of approved services. PRDOE has been responsive to the issues raised and has conducted their own investigation. Commitments and disbursements are on hold pending final resolution with the FCC.

With respect to the first finding, USAC determined that no action was required because of a Commission rule waiver for funding year 1998. We examined the finding and the rule waiver and questioned the applicability of the waiver to this finding. The finding relates to the delivery of goods and services by the required delivery date. The section of the rule waiver referenced by USAC in response to our inquiries addresses competitive bidding and form 471 filing. USAC explained that they received confirmation from Commission staff that an installation after the September 30 deadline would qualify under the order. We obtained and examined a copy of this confirmation and questioned the authority of the staff attorney who provided this confirmation to waive rules that are "similar" to the rules waived in the rule waiver for funding year 1998. We requested an explanation from the Commission staff and were advised that the interpretation by the staff attorney in this matter was "overly broad" and that waiver order "did not waive the requirement that services be installed by a specific date."

With respect to the second finding, USAC determined that no action was required and classified this as a non-material finding at the same time stating in the report that the "Audit report did not contain sufficient detail to determine the exposure amount." We requested additional explanation from USAC and were advised that "because of a lack of detail within the contract and customer bills the auditors were unable to verify the accuracy of this reduction" and that "the auditor did not make a determination as to the potential risk." USAC went on to state that "(t)he lack of detail in the contract or the customer bill is not considered a rule violation and we have not sought recovery in these instances." The issue of violating program rules versus non-compliance with USAC procedures is a matter of serious concern that is addressed later in this testimony. The issue of required documentation under program rules is also an area of concern that I address in more detail later in this testimony.

The third finding, computers not being installed as a result of a bidder dispute, is the issue that started the discussion between USAC and PRDOE in which other irregularities were raised. In response to a letter from USAC regarding this finding, PRDOE met with USAC in January 2002 and presented the results of an assessment they performed on the status of the school network funded by E-rate. We refer to this assessment in our discussion of concerns related to applicant certifications and delivery of goods and services.

Competitive Procurement—Program rules require that applicants use a competitive procurement process to select vendors. In establishing this requirement, the Commission recognized that "(c)ompetitive bidding is the most efficient means for ensuring that eligible schools and libraries are informed about all of the choices available to them" and that "(a)bsent competitive bidding, prices charged to schools and libraries may be needlessly high, with the result that fewer eligible schools and libraries would be able to participate in the program or the demand on universal service support mechanisms would be needlessly great."

Applicants are required to submit a form 470 identifying the products and services needed to implement the technology plan. The form 470 is posted to the USAC web page to notify service providers that the applicant is seeking the products and services identified. Applicants must wait at least 28 days after the form 470 is posted to the web site and consider all bids they receive before selecting the service provider to provide the services desired. In addition, applicants must comply with all applicable state and local procurement rules and regulations and competitive bidding requirements. The form 470 cannot be completed by a service provider who will participate in the competitive process as a bidder and the applicant is responsible for ensuring an open, fair competitive process and selecting the most cost-effective provider of the desired services. Further, although no program rule establishes this requirement, applicants are encouraged by USAC to save all competing bids for

services to be able to demonstrate that the bid chosen is the most cost-effective, with price being the primary consideration.

Although the programs competitive bidding requirements were intended to ensure that schools and libraries are informed about all of the choices available to them, we have observed numerous instances in which beneficiaries are not following the program's competitive bidding requirements or are not able to demonstrate that competitive bidding requirements are being followed. In the case of PRDOE, we have several concerns about whether or not a competitive procurement process was followed during the selection of service providers.

- OCPR highlighted numerous concerns regarding the competitive process in their allegations provided in April 2001 and previously discussed in this testimony.
- OCPR reported numerous examples of PRDOE non-compliance with procurement regulations in Audit Report TI-03-09 summarizing the results of their audit of the acquisition of equipment and services related to the EDUNET network (i.e., PRDOE's involvement in the E-rate program).
- The United States Department of Education Office of Inspector General (ED OIG) has issued numerous reports over the last several years highlighting contract administration issues with PRDOE.

Program rules require that applicants follow a competitive process and that applicants keep the kinds of procurement records that they keep for other purchases. However, Commission staff have provided guidance stating that "the mere failure of the beneficiary to produce documentation relating to the competitive bidding process cannot form the basis for finding a rule violation or seeking recovery of funds. A rule violation could be established if the audit process secured the beneficiary's record retention plan and determined that the beneficiary had failed to comply with that policy." Commission staff have stated that a rule violation "could be established if the audit process secured the beneficiary's record retention plan and determined that the beneficiary had failed to comply with that policy." In effect, Commission staff have taken the position that if no record retention plan exists, there is no requirement for the applicant to maintain records.

Delivery of Goods and Services—Site visits are conducted during most E-rate beneficiary audits. Site visits are conducted for several reasons including to evaluate the eligibility of facilities where equipment is installed, verify that equipment is installed and operational, and to verify that equipment is being used for its intended purpose. In the case of PRDOE, we have several concerns about the delivery of goods and services.

- In their January 2002 presentation to USAC, PRDE reported that:
  - the status of each school regarding internal cabling, communication lines, servers, physical facilities and electricity was unknown because no reliable documentation was available;
  - communication lines from a sample of 100 schools were not installed, were not activated, or were out of service; and that
  - many of the schools have electrical deficiencies and security problems.
- During their audit, Arthur Anderson reported that six (6) of thirty (38) cabling projects could not be verified as complete as testing was not completed. As I indicated previously, USAC closed this audit finding because of guidance received from Commission staff regarding the Commission's rule waiver regarding funding year 1998. Commission staff have subsequently advised us that the rule waiver order for funding year 1998 did not address the rule governing delivery of equipment by the required due date.
- In February 2004, a representative from my office accompanied professional staff from the Energy and Commerce Committee during a visit to Puerto Rico. During that visit, the OIG representative and House staff were advised that a large number of wireless cards (approximately 74,000) that were purchased with E-rate funding remained on a loading dock in a PRDE warehouse. We visited the warehouse and confirmed that the wireless cards were in their original packaging on pallets. The E-rate program purchased 74,224 wireless cards during funding year 1999 at a total cost to the program of approximately $24,123,592, including installation.

Reliance on Applicant Certifications—The E-rate program is heavily reliant on applicant certifications. On the form 470, applicants certify that the support received is conditional upon the ability of an applicant to secure access to all of the resources, including computers, training, software, maintenance, and electrical connections, necessary to use effectively the services that will be purchased under this mechanism. Other certifications are required on various program forms. In the case of PRDOE, we have several concerns about whether or not PRDOE was prepared to make effective use of the goods and services purchased.

- In their January 2002 presentation to USAC, PRDOE reported that:
  - The server and communications infrastructure required at the central offices was inappropriate to properly utilize the network;
  - no network management process had been defined; and
  - many of the schools had electrical and security problems.
- In their April 2003 Audit Report (TI-03-09) summarizing the results of their audit of the acquisition of equipment and services related to the EDUNET network, OCPR reported that:
  - The communications network infrastructure installed in the school was not being used;
  - the Department had not acquired computers for the students;
  - the teachers had limited knowledge of computer use; and
  - the physical and electrical conditions in the schools did not have the capacity required to use the communications equipment and computers. With respect to this issue, OCPR reported that:
    - Fifteen of the thirty schools visited did not have adequate electrical installations for connecting the computers they expected to acquire for students;
    - twelve of the thirty schools visited did not have grills for the protection of the installed communications equipment;
    - eleven of the thirty schools did not have locked cabinets for the equipment; and
    - four of the thirty schools did not have adequate locks on the doors of the rooms where the communications equipment was located.

OTHER PROGRAMMATIC CONCERNS

In addition to concerns that are highlighted by the PRDOE's participation in the E-rate program, my office has identified other concerns as a result of our participation in E-rate audits and investigations. A brief summary of those concerns is as follows:

Program Design and Beneficiary Compliance—Under Commission staff oversight, USAC has implemented numerous policies and procedures to administer the E-rate program. In some cases, the Commission has adopted these USAC operating procedures, in other cases however, USAC procedures have not been formally adopted by the FCC. In those cases where USAC implementing procedures have not been formally adopted by the Commission, it is the position of Commission staff that there is no legal basis for recovery of funds when applicants fail to comply with these procedures.

We are concerned about the distinction that Commission staff makes between program rules and USAC implementing procedures for a number of reasons.

- First, we believe that this distinction represents a weakness in program design. Within their authority under program rules, USAC has established implementing procedures to ensure that program beneficiaries comply with program rules and that the objectives of the program are met. In those cases where USAC has established implementing procedures that are not supported by program rules, USAC and the Commission have no mechanism for enforcing beneficiary compliance.
- Second, we believe that it is critical that participants in the E-rate program have a clear understanding of the rules governing the program and the consequences that exist if they fail to comply with those rules. We are concerned that the Commission has not determined the consequences of beneficiary non-compliance in many cases and that, in those instances where the Commission has addressed the issue of consequences for non-compliance, the consequences associated with clear violations of program rules do not appear to be consistent.
- Third, a clear understanding of the distinction between program rules and USAC implementing procedures is necessary for the design and implementation of effective oversight. It is necessary for the timely completion of audits and the timely resolution of audit findings and implementation of corrective action resulting from audits.

Applicant Technology Planning—As I have discussed above, program rules require that applicants prepare a technology plan and that the technology plan be approved. The approved technology plan is supposed to include a sufficient level of information to justify and validate the purpose of a request for E-rate funding. USAC implementing procedures state that approved technology plans must establish the connections between the information technology and the professional development strategies, curriculum initiatives, and library objectives that will lead to improved education and library services. Although the technology plan is intended to serve as the basis for an application, we have observed many instances of non-compliance with

program rules and USAC procedures related to the technology planning process. Examples of technology planning concerns identified during audits and investigations are as follows:

- Technology plans are not being reviewed and approved in accordance with program rules. Commission staff have provided guidance failure to prepare a technology plan and have that plan approved in a timely manner is basis for full recovery of disbursements.
- Technology plans do not address all required plan elements in accordance with USAC implementing procedures for technology planning. As I have discussed above, Commission staff have provided guidance that failure to comply with USAC implementing procedures for technology plans is not a rule violation and does not warrant recovery of funds.
- Applicants not being able to provide documentation to support the review and approval of technology plan.

USAC guidance on technology planning states that "(i)n the event of an audit, you may be required to produce a certification similar to the SLD sample 'Technology Plan Certification Form,' in order to document approval of your technology plan." Numerous audits have included findings beneficiaries were unable to provide documentation to demonstrate the review and approval of technology plans. Although program rules require that applicants have a technology plan and that the plan be approved, the rules do not require that the applicant maintain specific documentation regarding the approval process.

Discount Calculation—The E-rate program allows eligible schools and libraries to receive telecommunications services, Internet access, and internal connections at discounted rates. Discounts range from 20% to 90% of the costs of eligible services, depending on the level of poverty and the urban/rural status of the population served, and are based on the percentage of students eligible for free and reduced lunches under the National School Lunch Program (NSLP) and other approved alternative methods. A number of audits have identified audit findings that applicants have not followed program requirements for discount rate calculation or were unable to support the discount rate calculated.

Payment of the Non-Discount Portion—Applicants are required to pay the non-discount portion of the cost of the goods and services to their service providers and service providers are required to bill applicants for the non-discount portion. The discount rate calculation and program requirement for payment of the non-discount portion are intended to ensure that recipients avoid unnecessary and wasteful expenditures and encourage schools to seek the best pre-discount rate. Examples of concerns identified during audits and investigations are as follows:

- Applicant not paying the non-discount portion;
- Applicant not paying the non-discount portion in a timely manner; and
- Service providers not billing recipients for the non-discount portion.

CONCLUSION

The Office of Inspector General remains committed to meeting our responsibility for providing effective independent oversight of the Universal Service Fund program. As I have described in this testimony, we continue to have numerous concerns about this program. The results of audits that have been performed and the allegations under investigation lead us to believe the program may be subject to unacceptably high risk of fraud, waste and abuse through noncompliance and program weaknesses. We are concerned with efforts to resolve audit findings and to recover funds resulting from E-rate beneficiary audits and we are concerned with aspects of program design and beneficiary compliance with program rules. In view of these concerns, I believe that it would be appropriate to conduct a broad based review of the program.

We believe we have made significant progress toward our goal of designing and implementing an effective, independent oversight program. However, primarily because of a lack of adequate resources, we have been unable to implement our oversight program. As I have stated previously, until resources and funding are available to provide adequate independent 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.

Thank you, Mr. Bennett and I will be happy to answer any of your questions.

Mr. GREENWOOD. Thank you, Mr. Feaster.

TESTIMONY OF MANUEL DÍAZ SALDAÑA

Mr. SALDAÑA. Mr. Chairman and members of the Subcommittee on Oversight and Investigations of the U.S. House of Representatives, good morning. My name is Manuel Díaz Saldaña. I come before this committee in my official capacity as Comptroller of the Commonwealth of Puerto Rico in response to your invitation of June 1, 2004. Accompanying me today are Attorney Alfonso Cristian, Assistant Comptroller, and Ms. Olga Ortez, auditor.

I am pleased to be able to participate in these hearings and share with you the information obtained during the audit conducted on the E-Rate Program implemented in the Puerto Rico Department of Education regarding the acquisition of equipment and services for the EDUNET network. In more detail a statement on this subject has been submitted to this subcommittee. The role of the Comptroller is to audit all the programs, accounts, and expenditures of the Commonwealth of its agencies and instrumentalities and of its municipalities in order to determine if they have been made in accordance with the law. The findings with recommendations to the Government entities are published by me of all these reports on the Internet also.

The funds assigned to subsidize government programs are treated as if they were, for all intent and purposes, revenues, accounts, and expenditures of the Commonwealth of Puerto Rico. Violations of law are referred to the appropriate state, local, or Federal agencies. Complying with the recommendations, this money is covered by means of a program called the Corrective Action Plan, CAP. The audit report that we made is TI-03-09 of April 14, 2003. This report covers the period from March 24, 2000, to April 27, 2001, and focuses on five findings.

Finding 1: Aggressive acquisition of equipment and services for the EDUNET network without the use of a formal bidding process and other deficiencies. The first phase consisted of establishing the infrastructures for the communications network including internal connections and telecommunications and Internet access for 760 schools. This phase was to be completed by September 30, 1999.

In October 1998 the Education Department awarded three contracts to two companies, Puerto Rico Telephone Company and DRC Corporation at a cost of $51.3 million for the acquisition of telecommunication equipment and contracting the Internet access services.

The second phase of the Internet project consisted of establishing the infrastructure for the communication network including internal connections and telecommunications with wireless technology and providing Internet access for 780 addition schools. This phase was to be completed by September 30, 2000. On April 5, 1999, the Education Department awarded a contract to DRC in the amount of $51.4 million for work on the second phase of the EDUNET network.

Finding two addresses deficiencies detected in implementation and use of the telecommunication infrastructure installed for the EDUNET network in schools. These were detected during a physical inspection of the schools. The telecommunication infrastructure network installed in schools was not being used. The Education De-

partment has not acquired computers for the students. The teacher does not have the knowledge in computer use.

Physical and electrical conditions in the schools do not have the capacity required for using the communication and computer equipment. In fifteen schools 50 percent of those lack adequate electrical installation to connect the computers that were to be acquired for the students. We believe these deficiencies resulted from the poor planning and inadequate supervision of the contractors by the Education Department.

Finding three addresses the improper use of Federal funds from a Federal program for expenses incurred by the Education Department on the EDUNET network.

Finding four addresses the absence of important clauses in the contract that would have been protecting the best interest of the Education Department. Two of these contracts did not contain clauses requiring the contractor to supply certain documents required by the Commonwealth regulations regarding compliance with local tax regulations and filing tax returns.

Finding five addresses the fact that two contracts related to the EDUNET network were not raised to the Office of the Comptroller and others were raised late as required by law.

Status of the Findings: All findings were referred to the Secretary of Justice of the Commonwealth. To this day the findings are still under advisement. The findings were also referred to the Education Department which has notified us that they have taken steps to remedy these equations.

Conclusion: Mr. Chairman, the improper use of Commonwealth and Federal funds, especially in PRDOE programs that are directly related to the proper education of children is of serious and vital concern to our office. I thank you for the interest in this important issue and I would be happy to answer any questions that any member of this committee might have. Thank you.

[The prepared statement of Manuel Díaz Saldaña follows:]

PREPARED STATEMENT OF MANUEL DÍAZ SALDAÑA, COMPTROLLER, COMMONWELTH OF PUERTO RICO

In my capacity as Comptroller of the Commonwealth of Puerto Rico (Comptroller), and as requested by you, I am pleased to offer information regarding the E-rate program in the Puerto Rico Department of Education (PRDOE). This is a federal program designed to subsidize the deployment of telecommunication services to eligible schools and libraries.

Before going into the Audit Report, I will briefly describe our oversight role regarding the expenditure of public funds within the Commonwealth of Puerto Rico. This background information may help the Subcommittee understand the nature of our audits, the reports we issue and our jurisdiction.

Article III, Section 22, of the Constitution of the Commonwealth of Puerto Rico, created the position of Comptroller in 1952. The Comptroller is appointed by the Governor with the advice and consent of the majority of the total number of members of the Puerto Rico Legislature. In my case, I was sworn in, on October 2, 1997, for a period of 10 years, which term is established also by the Constitution. The role of the Comptroller is set forth in the Constitution: to . . . *audit all the revenues, accounts and expenditures of the Commonwealth, of its agencies and instrumentalities and of its municipalities, in order to determine if they have been made in accordance with the law.* Because of this constitutional mandate, the audits are conducted with full independence from the three branches of government.

The findings on every audit are published by means of audit reports prepared upon completion of the investigation. Before publishing, each report is first sent to the Governor, the President of the Senate and the Speaker of the House of Representatives. In the reports, we provide recommendations to the audited entities.

Concurrently with the adoption of the Constitution of Puerto Rico, our legislature enacted Law No. 9 on July 24, 1952, which set the framework and further defined the purpose and scope of the Office of the Comptroller. Among other things, said law grants authority to the Comptroller to: (a) adopt auditing standards, (b) determine when to publish and whom to notify our reports, (c) delegate any function, except rulemaking, (d)—require other agencies to comply with our requests for financial and other information necessary for a complete understanding of the matter under investigation, (e) issue *subpoenas,* and (f) require any public official, except the Governor of Puerto Rico, to comply with a subpoena issued by the Office of the Comptroller.

The Office of the Comptroller treats federal funds that are assigned to subsidize local government programs as if they were, for all intent and purposes, revenues, accounts and expenditures of the Commonwealth of Puerto Rico. As such, we generally audit them as part of the audit of the local fund allocated to the government entities'. However, these audits are not done to comply with any federal government purpose or requirement. They are strictly a local initiative to ascertain the appropriate use of such funds. Nevertheless, it should be pointed out that government agencies that receive federal funds usually are required to make a commitment to the federal government to audit the use of such funds, using external auditors, as part of the qualification process to receive them. Therefore, our audit of federal funds is an additional control measure that we have voluntarily adopted.

Ours is a *post-audit* function, generally limited to compliance, not financial auditing. In other words, we audit transactions that have already occurred to make sure they have been carried out in compliance with applicable laws and regulations. Furthermore, the audit work we carry out is governed by generally accepted auditing standards adopted by the Comptroller. *Pre-audits* are beyond our jurisdiction.

Our Mission's statement conforms to the constitutional mandate: to oversee the transactions of public funds and property, with independence and objectivity, in order to ascertain that they have been carried out in accordance with the law, and to promote the effective and efficient use of government resources for the benefit of our people. The **Vision** is to be a world-class model for public office, distinguished by: the excellence of its highly qualified human resources, dedicated to continuous improvement, a sophisticated infrastructure and optimum quality services. Included in our **Vision** is our obligation to serve Puerto Rico as a true agent of change, integrating the efforts of the public and private sectors, in order to promote the honest use of the resources entrusted to the government by the People.

We have adopted many personal and professional **Values**, which are comprehended in the followings Core Values:

Commitment—We are dedicated to our work
Integrity—We work in a responsible manner
Sensibility—We respect the dignity of all human beings
Justice—We watch for the strictest compliance with the law
Excellence—We are constantly improving ourselves

The **Mission**, **Vision** and **Values** define not only what we are as a highly regarded public institution, but also **who** we are as public servants.

Our Office is not a law-enforcement agency, nor do we have judicial or administrative adjudicating powers. Findings arising out of the audit reports are referred to the appropriate law enforcement agencies, such as the local Justice Department, the Office of Government Ethics of Puerto Rico and the Office of the Special Independent Prosecutor's Panel of Puerto Rico. Our findings can also be referred to the United States District

Attorney's Office for the District of Puerto Rico, and other federal agencies that use our findings to further their investigations, particularly if the audit reveals the improper use of federal funds.

Once an audit report is published we monitor the agency's compliance with the recommendations by means of a follow-up program called the Corrective Action Plan (CAP). This plan provides all government entities 90 days to submit an initial CAP. This period begins on the first day of the month following the publication of the audit report. Complementary reports must be submitted within 90 days from the initial report or a preceding complementary report.

I will now directly address Audit Report TI-03-09, published by our Office on April 14, 2003. This report was the result of an audit conducted by our Information Technology Audit Division on the Office of Information Systems and School Technology of PRDOE regarding the acquisition of equipment and services for the EDUNET network and the contracting and implementation of the network.

The Audit Report covers from March 24, 2000 through April 27, 2001, and focuses on five major findings. A mayor finding is defined in our report as a deviation from

norms regarding the operations of the audited unit that have a material effect, either in quantitative or qualitative terms.

FINDINGS AND RECOMMENDATIONS

Finding 1—Acquisition of equipment and services for the EDUNET network without the use of a formal bidding process and other deficiencies related to the contracts awarded

In 1997 the PRDOE embarked on a telecommunications project called EDUNET. It consisted of a communications network between all schools and administration offices. The purpose of the project was to integrate technology with education. The project encompassed videoconferencing and Internet access. The program would involve a total of 1,540 schools.

In March 1998 PRDOE submitted a request for federal E-rate funds to begin implementation of the first phase of EDUNET. This phase consisted of establishing the infrastructures for the communications network, including internal connections and telecommunications, and providing Internet access for—760 schools. It was estimated the phase would be completed by September—30,—1999.

In October 1998 PRDOE awarded the contracts listed below to two companies at a cost of $51,353,490 for acquiring the telecommunications equipment and contracting the Internet access services:

CONTRACTS

NUMBER	DATE	SERVICE	COST
1. 081-99-0161	October 26, 1998	Telecommunications	$31,122,910
2. 081-99-0162	October 26, 1998	Transport & Internet	7,123,248
3. 081-99-0164	October 15, 1998	Internal Connections	13,107,332
			$ 51,353,490

The first two contracts were awarded to Puerto Rico Telephone Company (PRTC) and the third to DRC Corporation. The first contract was later amended by Contract 081-99-0161A to change the telecommunications equipment. The amendment reduced the contract's cost to $10,863,557. The contract included recurring costs for the rent of telecommunication lines.

The second contract was also amended by Contract 081-99-0162A to change the transport services. This had the effect of increasing the costs to $17,374,754. The contract included recurring costs for Internet access services.

As of April 27, 2001, the cutoff date of the audit, both companies had submitted invoices for $40,059,626. Of this amount, $35,854,964 had been paid from Erate funds and $3,114,638 from Commonwealth funds. Unpaid invoices totaled—$1,090,024.

Our audit revealed that:

1. Contrary to federal and Commonwealth regulations, formal bid procurement procedures were not followed to award the three contracts. PRDOE only considered the proposals submitted by the two companies that were contracted. The first two contracts were awarded to PRTC and the third one to DRC Corporation.

2. The Director of PRDOE's Budget Department certified the availability of funds to pay for the services rendered under the contracts on February 22, 1999. That is, 119 days after the contracts were awarded.

3. Contrary to established rules, there was no evidence that the contracts were approved by the Commonwealth's Office of Management and Budget, either before or after they were awarded.

In March 1999 PRDOE submitted a new request for E-rate funds to the federal government. These additional funds were considered necessary for the second phase of the EDUNET network. This phase consisted of establishing the infrastructure for the communications network, including internal connections and telecommunications, with wireless technology and providing Internet access for 780 schools. Federal funds in the amount of $56,879,778 were approved for this second phase. PRDOE had to match that assignment with Commonwealth funds in the amount of $6,373,499. It was estimated the phase would be completed by September 30, 2000.

On April 5, 1999, PRDOE awarded contract 081-99-0423 to DRC, in the amount of $51,478.221 to work on the second phase. As of April 27, 2001, the cutoff date of our audit, the company had submitted invoices for $33,849,881. Of this amount

$26,834,997 had been paid from E-rate funds and PRDOE had paid $6,885,731 from Commonwealth funds. Unpaid invoices amounted to $129,153.

The audit also revealed that:

1. Contrary to federal and Commonwealth regulations formal bid procurement procedures were not followed to award the contract. Instead, PRDOE requested and evaluated proposals. PRDOE named an Evaluations Committee to evaluate proposals for the E-rate funds. An examination of the request for proposals and the procedure followed by PRDOE in awarding this contract to DRC revealed, furthermore, the following irregularities:

a. The request for proposals did not specify a final date for their submission. Neither did it specify a date for opening the same.

b. Of the six proposals received only two complied with the requested specifications. The director of PRDOE's Office of Information Systems and School Technology (OISST) evaluated them. There was no evidence indicating that the PRDOE's Evaluations Committee considered the proposals. OISST prepared two memos to the Secretary of Education regarding the proposals but neither contained any recommendation for awarding the contract or reasons for not considering the other five proposals.

4. The Director of OISST requested from the Director of PRDOE's Budget Office a certification on the availability of funds to pay for the services rendered under the contract on October 19, 1999. That is, 197 days after the contract was awarded.

5. Contrary to established rules, there was no evidence the contract was approved by the Commonwealth's Office of Management and Budget, either before or after it was awarded.

RECOMMENDATIONS

Four recommendations were made on this finding. The first was directed to the Secretary of Justice of the Commonwealth requesting her to consider the finding and take any action that may be deemed appropriate (Recommendation 1). The other three recommendations were directed to PRDOE's Secretary: the first was to comply, in the future, with the regulations on awarding contracts that require a formal bid process (Recommendation 2); the second was to make sure that they obtain, before awarding any contract, a certification from PRDOE's Budget Office on the availability of funds to pay for the services required (Recommendation 3); and the third was to make sure that they submit to the Commonwealth's Office of Management and Budget any contract regarding computer related products or services before awarding them (Recommendation 4).

Finding 2—Deficiencies in the implementation and the use of the telecommunications infrastructure installed for the EDUNET network

In a physical inspection of 30 schools which took place from October 11 to November 21, 2000 (18 schools corresponding to the first phase, whose work was supposed to have been completed by September 30, 1999, and 12 schools corresponding to the second phase, whose work was supposed to have been completed by September 30, 2000) we discovered various deficiencies in the implementation of the EDUNET network as follows:

a. The telecommunications infrastructure network installed in the schools was not used.

b. PRDOE had not acquired the computers for the students.

c. The teachers had limited knowledge on computer use.

d. Physical and electrical conditions in the schools didn't have the capacity required for using the communication and computer equipment, as follows:

1. Fifteen schools (50%) lacked adequate electrical installations to connect the computers that were to be bought for the students.
2. Twelve of the schools (40%) lacked bars to protect the communication equipment installed.
3. Eleven of the schools (37%) didn't have their communication equipment cabinets under lock and key.
4. Four of the schools (13%) didn't have adequate locks in the doors of the rooms where the communication equipment was installed.
5. Two of the schools (7%) had broken connection ports.
6. One of the schools (3%) maintained open the security covers on the antennas.
7. One of the schools under reconstruction maintained the antennas exposed to water and dust.
8. The person in charge of maintenance in one of the schools had to patch some holes in a wall because the contractors omitted to do it.

9. One of the schools maintained two connection boxes without covers and with the cables exposed.
10. One of the schools had the communication cable tubing broken and separated from the wall.

In our opinion poor planning and the absence of adequate continuous supervision of the work done by the contractors caused these deficiencies. Because of our findings, up to April 27, 2001, we believe PRDOE did not obtain any benefit from the investment of $73,614,511 in internal connections and telecommunications, and $294,996 in services from lines connected to the Internet of the EDUNET network that correspond to the amounts billed by the contractors.

RECOMMENDATIONS

On this second finding we made two recommendations. The first, once again, directed to the Secretary of Justice of the Commonwealth requesting her to consider the finding and take any action that may be deemed appropriate (Recommendation 1). The other to PRDOE's Secretary requesting that for any project similar to the one discussed in this second finding the following have to be done: before acquiring computer related equipment and awarding contracts for such services, make a study to determine what else is necessary (Recommendation 5.a.); an efficient working plan must be established to improve the infrastructure of all the schools and to complete the implementation of the EDUNET network (Recommendation 5.b.); and PRDOE must supervise all contractors adequately in order to attain the project's objectives (Recommendation 5. c.).

Finding 3—The improper use of funds from a federal program for expenses incurred by the Department [of Education] on the EDUNET network, and the absence of participation of the Office of External Resources [of the Department] in the evaluation and assignment of funds for said project

On December 15, 1998 and August 25 1999 PRDOE awarded to a company contracts amounting to $142,850. These were contracts 081-99-0286 ($44,850) and ORE-081-00-070 ($98,000). The contracted services consisted of assessing the work done by PRTC and DRC in the implementation of the EDUNET network. Part of the money that was earmarked to pay for the services rendered, amounting to $92,850 came from another federal program known as Title III Funds and $50,000 from the Goals 2000 Program, which were granted by the federal government for other educational purposes not compatible with this contract.

As of April 10, 2001 PRDOE had improperly paid $44,850 using Title III Funds for costs related to the first contract for work done between May and September 1999.

The process of assessing and assigning funds to pay for the contracts was done in an irregular manner. PRDOE's Director of the Office of External Resources approved the use of said federal funds without first determining if the contracts complied with the conditions of the federal programs that supplied the funds.

RECOMMENDATIONS

On the third finding we made three recommendations. The first, once again, was directed to the Secretary of Justice of the Commonwealth requesting her to consider the finding and take any action that may be deemed appropriate (Recommendation 1). The other two were directed to PRDOE's Secretary requesting that he take steps to ensure that Title III Funds are only used for the purposes for which they were authorized by law (Recommendation 6), to make sure all proposals for using federal funds be processed in PRDOE's Office of Federal Affairs and that the transactions involved comply with all applicable laws and regulations (Recommendation 7).

Finding 4—Absence of important clauses and certifications by the contractors in the contracts for services related to the EDUNET network

An evaluation of contracts 081-99-0161, 081-99-0162, 081-99-0164, and 081-99-0423 and their respective amendments revealed the following mistakes:

1. Omission of important clauses and information that would have protected the best interests of PRDOE:

a. Regarding conflicts of interest by the contracting companies' personnel.
b. A stipulation to the effect that any changes in the services provided had to be approved by PRDOE.
c. A stipulation to the effect that subcontractors had to be approved by PRDOE.
d. On contract 081-99-0423 the account from which the services rendered would be paid was not identified.

e. Contracts 081-99-0164 and 081-99-0423 did not include the employers' social security number and the incorporation registration number.
f. Contract 081-99-0164 did not include an enclosure with a list of the schools, which would be receiving services under the contract. The auditors obtained the list from PRDOE's Request of Funds Form prepared on March 11, 1998.
g. In the amendments to the contracts (Nos. 081-99-0161A and 081-99-0162A), the exhibits were not included as part of the contracts. They were also not available for examination.

2. Contracts 081-99-0164 and 081-99-0423 did not contain clauses requiring the contractors to supply certain documents required by Commonwealth regulations. The following documents were not included in the contract files, nor were they available for examination:

a. Tax Debt Certifications and Income Tax Return Filing Certifications from the Commonwealth Treasury Department
b. Personal and Real Estate Property Debt Certifications
c. Unemployment, disability and social security for drivers (as applicable) Debt Certifications

RECOMMENDATIONS

On this fourth finding we made three recommendations. The first one once again directed to the Secretary of Justice of the Commonwealth requesting her to consider the finding and take any actions that might be deemed appropriate (Recommendation 1). The other two were directed to PRDOE's Secretary requesting that he take steps to ensure that all contracts contain the appropriate clauses to protect the interests of PRDOE (Recommendation 8) and to make sure the contractors provide the certifications required by laws or regulations (Recommendation 9).

Finding 5—Absence of registration or late registration of the contracts related to the EDUNET network in the Office of the Comptroller of Puerto—Rico

According to Commonwealth Law No. 18, approved on October 30, 1975, as amended, all government entities must maintain a register of all the contracts they award, and their amendments. Additionally, they must submit a copy of the contracts and amendments to the Office of the Comptroller within 15 days after the contracts are signed.

As of March 12, 2001, PRDOE had not submitted contracts 081-99-0161, 081-99-0162, and 081-99-0423, awarded in October 1998 and August 1999, or their respective amendments in the amount of $76,149,672.

There were also other contracts, identified in the Audit Report that were submitted late to our Office. The tardiness fluctuated between 175 and 397 days.

RECOMMENDATIONS

On this fifth finding we made two recommendations. The first one once again directed to the Secretary of Justice of the Commonwealth requesting her to consider the finding and take any actions that may be deemed appropriate (Recommendation 1) and the second to PRDOE's Secretary requesting compliance with Law No. 18 (Recommendation 10).

As of the date of this letter, according to our evaluation of the CAP, and a complementary report submitted by PRDOE, the status of the nine audit recommendations directed at them is as follows:

1. Recommendation 2, regarding PRDOE's compliance with regulations on awarding contracts that require a formal bid process, is considered as having been complied with. PRDOE has informed us that formal bidding procedures are being followed.
2. Recommendation 3, regarding obtaining a certification from PRDOE's Budget Office on the availability of funds to pay for the services required before awarding any contract, is considered as having been complied with. PRDOE has informed us that they are obtaining the certifications at the appropriate time.
3. Recommendation 4, regarding submission for approval to the Commonwealth's Office of Management and Budget any contract regarding computer related products or services before awarding the same, will be followed-up on our next audit of PRDOE.
4. Recommendation 5.a, regarding that a study must be made to determine what is necessary before acquiring computer related equipment and awarding contracts for such services similar to those discussed in Finding 2, will be followed-up on our next audit of PRDOE.
5. Recommendation 5.b, regarding that in any project similar to the one discussed in Finding 2, an efficient working plan must be established to improve the in-

frastructure of all the schools and to complete the implementation of the EDUNET network, is considered partially completed. PRDOE was asked to submit a working plan contemplating the status of every school and the completion date for the EDUNET network by school. PRDOE has indicated that they plan to have the EDUNET operating by December 2004.

6. Recommendation 5.c, regarding that in any project similar to the one discussed in Finding 2, PRDOE must supervise all contractors adequately in order to attain the project's objectives, is considered as having been complied with. PRDOE has informed us that the projects are being supervised adequately.
7. Recommendation 6, regarding using Title III federal funds only for the purposes for which they were authorized by law, will be followed-up on our next audit of PRDOE.
8. Recommendation 7, regarding processing in PRDOE's Office of Federal Affairs all proposals requesting federal funds and that the transactions involved comply with all applicable laws and regulations, is considered as complied with. PRDOE has informed us that the required processing is being done.
9. Recommendation 8, regarding the inclusion in all contracts of the appropriate clauses to protect the interests of PRDOE, is considered as complied with. PRDOE has informed us that the appropriate clauses are being included.
10. Recommendation 9, regarding contractors providing all the certifications required by laws or regulations, is considered as having been complied with. PRDOE has informed us the certifications are being supplied.
11. Recommendation 10, regarding compliance with Law 18 which requires copies of all contracts to be filed in the Office of the Comptroller, is considered as having been complied with. PRDOE has informed us they are in compliance with said—law.

As of today, the recommendations made to the Secretary of Justice of the Commonwealth regarding each of the five findings are under advisement by said Secretary.

As a normal working procedure we have accepted PRDOE's allegations of compliance with our recommendations based on the allegations they have included in their CAP. In the next audit of the unit we will verify said compliance.

The proper use of Commonwealth and federal funds, especially in PRDOE programs that are directly related to the proper education of children, is matter of serious and vital concern to our Office. Mr. Chairman and all the other members of this Committee, I thank you for your interest in this critical issue. If you, or your staff, have any questions regarding this presentation, please call me at (787) 250-3300 or call Mr. Alfonso M. Christian, Esq., Assistant Comptroller, at (787) 250-3305, or Mrs. Lourdes Díaz at (787) 294-0286.

Mr. GREENWOOD. Three seconds to spare, Mr. Saldaña. Well done.

The Chair recognizes himself for 10 minutes for questions.

Let me start with you, Mr. Feaster, and let me just ask you the most basic question. In your opinion, who is at fault for the E-Rate funding that wasted money in Puerto Rico?

Mr. FEASTER. Well, obviously, I think, we have to point to the PRDOE, Puerto Rican Department of Education, as the primary problem here. Their failure to plan for effective use of the equipment at one stage.

Mr. GREENWOOD. Is this a case of malfeasance or mis-feasance or non-feasance?

Mr. FEASTER. I would sort of have to wait until the investigation is completed to come to that conclusion but, certainly from the standpoint of failure to plan for effective use of the equipment and having the facilities and the equipment ready to use, the telecommunication aspects need to be a major concern.

Mr. GREENWOOD. In your view, what drove the nature and the magnitude of this program? This program that was clearly overly ambitious providing equipment to hook up computers to the Internet when they didn't have the computers to do it, the lack of training, the lack of preparedness, the lack of planning. In your view, was this overly ambitious program, did it result from vendors' mo-

tivation to sell more goods and services than the school could use? Was that a motivating factor or do you think the size and scope of their program was driven by the Department of Education?

Mr. FEASTER. I am sure a little bit of each of those. In other areas we found the vendors are trying to stimulate business and make money off these things. It is hard for us to say since we haven't done any work there and we are waiting for the outcome of the investigations.

Mr. GREENWOOD. Okay. You talked about the auditing function and you talked specifically about your auditing function. As we look at this program and try to figure out what sort of structural reforms may be necessary, one of the questions that I have is where is the best place or best places for the auditing to occur? That is a clear common theme as we look at all of these school districts there just seems to be a lack of auditing going on. Should that be the function?

Should there be a more strenuous requirement that the school district receiving these funds should hire, independent accounts to audit the program and report both to the school district and to USAC? Is that where part of it should lie? Should USAC itself have more personnel dedicated to auditing or should that be an FCC function that has more vigorous auditing, or should it be your shop, the IG, or some combination?

Mr. FEASTER. Several years ago I was asked the question of how many audits should we do and my answer was more. I think the answer is a combination of all those people. Somebody is going to have to provide the money to do these.

Mr. GREENWOOD. Excuse me for interrupting you but you can ask for more Federal resources for your shop.

Mr. FEASTER. Yes, sir.

Mr. GREENWOOD. We can ask for more Federal resources for the FCC but the program is bringing in $2.25 billion a year. It seems to me there ought to be a way to use those funds for the auditing function and to do it as part of the contract with the schools. If you are going to give a school district $100 million or $50 million, that seems like plenty of money to have a requirement that they hire, the school district does, an outside auditor to monitor this in ways perhaps the school district isn't prepared or equipped to do.

Mr. FEASTER. I would agree with that. I think that all the parties in there should be doing audits. The school district under a single audit concept. USAC, we work closely with their internal auditing staff. We do believe that our independent oversight, the FCC IG's independent oversight, is probably the best way of doing it. As I said before, we invite all types of audits.

Mr. GREENWOOD. This isn't the first time that the Federal Government has overseen the giving away of grant money to localities. It happens hundreds of different ways in the Federal Government every day. Why are we reinventing the wheel here? Isn't there a stand operating—aren't there standard operating procedures? Isn't there a state-of-the-art if you are going to move money through the Federal Government?

I know this is unique in that the money never really lands in the hands of the Federal Government per se but, nonetheless, it seems to me that the FCC rules that govern how you audit a program like

this ought to be modeled on some state-of-the-art. We have been doing this for a couple of hundred years.

Mr. FEASTER. There is a grant model in existence and we would recommend at least evaluating the program against those standards.

Mr. GREENWOOD. And what is that grant money?

Mr. FEASTER. It basically calls for a single audit of these facilities financed by the beneficiary or state or local government doing the audit. It provides for better record keeping than the current program.

Mr. GREENWOOD. How could this program exist for this number of years without somebody at the FCC or somebody at USAC figuring that out? You go to a standard model and to have the grantees do the single audit.

Mr. FEASTER. I don't have the answer to that question but we had a lot of telecommunications attorneys trying to do grant work and I think——

Mr. GREENWOOD. There is your problem. Elaborate if you would on this business with the USAC procedures and the FCC rules. Do I understand that one of the problems here is that if USAC, or anyone else, discovers something that is consistently not going well and USAC wants to change its procedures to tighten up the accountability that they then have to go to FCC and go through a formal rulemaking procedure before they can do that?

Mr. FEASTER. That is the approach to it. Now, what USAC has done to fill in the gaps is come up with their own what we call implementing procedures. Their status is really less than full-blown rules and the primary difference between those is that we can make recoveries based on violations of USAC procedures but cannot make recoveries, financial recoveries, based on rules passed by the Commission. That was a determination made by our General Counsel's Office.

Mr. GREENWOOD. Is there a phenomena here where the program can be seen to be potentially hemorrhaging money because of some frailty in the way the program is organized and you can't stop that hemorrhaging until you go through the USAC procedure, the FCC procedure.

Mr. FEASTER. Yes. A very timely process. Our office would advocate a codification of the implementing procedures by USAC to make one set of rules for the public to deal with. The implementing procedures really put meat on the FCC rules and we think there are very valuable things in those procedures to improve the program.

Mr. GREENWOOD. Do you think you know how much money has been wasted in Puerto Rico?

Mr. FEASTER. No, sir. Well, I would start with $101 million from what I have heard.

Mr. GREENWOOD. That is probably about the right number.

Mr. FEASTER. I am not sure.

Mr. GREENWOOD. What is your sense of USAC's progress in fixing its programmatic weaknesses?

Mr. FEASTER. They are moving in the right direction. I think we would have to include USAC and the Wireline Competition Bureau. They are moving in the right direction. We think they are moving

too slowly. We have in the past made suggestions that haven't been fully implemented yet. We will be making additional suggestions after this hearing to improve the structure of the program to make it more difficult to take advantage of it. But they are heading in the right direction, just slowly.

Mr. GREENWOOD. Do you have a personal opinion as to whether this whole USAC concept makes any sense of whether the notion that we have is nonprofit, nonFederal entity responsible for a charge that goes to all the rate payers is essentially a tax imposed by the Congress indirectly on phone service and, yet, dispensed by nonFederal and, in many ways, nonaccountable organizations?

Mr. FEASTER. We would like to see a more contract-oriented relationship between USAC and the Commission. That is my personal opinion.

Mr. GREENWOOD. What do you mean by that?

Mr. FEASTER. A formalized contract just like we do with any other contractor.

Mr. GREENWOOD. And what advantage would we gain by that model?

Mr. FEASTER. I think better control.

Mr. GREENWOOD. Are there limits to the degree to which the FCC can tell USAC what to do?

Mr. FEASTER. The Bureau can tell USAC what to do. I don't think there are any limits. We turn over new turf on almost a daily basis.

Mr. GREENWOOD. My time has expired. The gentlelady from Colorado.

Ms. DEGETTE. Thank you, Mr. Chairman. Mr. Feaster, you told the chairman that you believe that the primary fault of the failure in Puerto Rico was the fault of the PRDOE for failure to plan for the use of the equipment. Correct?

Mr. FEASTER. Yes.

Ms. DEGETTE. Do you think the vendors bear any burden to educate the schools and the educators in the Department have to use the equipment? Do you think that is part of the blame?

Mr. FEASTER. I think that they are certainly capable of doing that and I would think as a way to treat a good customer to help them plan the program where possible.

Ms. DEGETTE. That they should educate them how to use it?

Mr. FEASTER. I don't think an organization the size of PRDOE should rely upon a vendor to do that. I think they are large enough to have their own experts, CIO or something like that to plan this operation.

Ms. DEGETTE. Certainly they are large enough and sophisticated enough to contract with the vendors to educate them to make that part of the——

Mr. FEASTER. Certainly, yes, if they are not like a little school with a very small population or a very limited technical staff.

Ms. DEGETTE. In your opening statement you testified that you have requested funding for additional resources since you only have three IGs for the whole country of that funding. Right?

Mr. FEASTER. It was in our 2004 budget.

Ms. DEGETTE. And how much did you request?

Mr. FEASTER. $3 million.

Ms. DEGETTE. And was that for additional inspectors?

Mr. FEASTER. No, it is for contract, resources to hire contractors.

Ms. DEGETTE. And do you expect that will be funded?

Mr. FEASTER. It has been rejected by the Congress of the United States.

Ms. DEGETTE. So you are just left with what you have got.

Mr. FEASTER. Right.

Ms. DEGETTE. Let me ask you this. The chairman was asking you, or he was opining about all the money that we have in the fund and wondering why we couldn't use that for oversight. My question is under the current statutory scheme, do you believe that we could use money from the fund for your program for outside auditing?

Mr. FEASTER. The FCC does not have, I am told by General Counsel's Office, the direct authority to use the fund.

Ms. DEGETTE. Would that require statutory change, if you know?

Mr. FEASTER. I believe so.

Ms. DEGETTE. Thank you. Now, you testified and in your written testimony you talked about instances of bid rigging, lack of competitive process, service providers billing for goods and services not provided, ineligible items being funded, and beneficiaries not paying the local portion of their cost. How prevalent, in your view, are these types of abuses and similar instances of malfeasance within the overall administration of the E-Rate Program?

Mr. FEASTER. In the past year through a combination of audits by USAC, the FCC IG's office, done 122 audits and 32 percent of those audits were found to be noncompliant with program rules. The remaining portions of the 122, or 83 of them, were found to have some findings related to USAC implementing procedures. At least one-third of the audits that we conducted in the past year have been found noncompliant.

Ms. DEGETTE. So that is a pretty substantial number I would say. Wouldn't you agree?

Mr. FEASTER. Yes, ma'am.

Ms. DEGETTE. Now, your testimony touches upon recovery of lost or misused E-Rate money. Are there any institutional guidelines whereby the FCC can recover lost money?

Mr. FEASTER. Yes, they can do that.

Ms. DEGETTE. How do they do that?

Mr. FEASTER. By basically notifying the applicant. They have been in violation and they recover the money.

Ms. DEGETTE. And how often has that been done?

Mr. FEASTER. I don't know specifically. It has occurred.

Ms. DEGETTE. Has it occurred often, do you know? I mean, I am just wondering.

Mr. FEASTER. I don't have the details. They have recovered $20.8 million.

Ms. DEGETTE. Over what period of time?

Mr. FEASTER. Maybe a better USAC question.

Ms. DEGETTE. Okay. If you could just state your name. Thank you. Since the inception of the program that is the total?

Mr. FEASTER. Yes.

Ms. DEGETTE. Who in the FCC is charted trying to recover the lost money? Is it the Wireline Competition Bureau, WCB?

Mr. FEASTER. WCB and our Chief Financial Officer.

Ms. DEGETTE. Okay. Do they go after service providers?

Mr. FEASTER. They now currently are able to go after service providers.

Ms. DEGETTE. Do they go after them, do you know?

Mr. FEASTER. Yes, I think they do.

Ms. DEGETTE. Okay. What happens when the FCC goes after a service provider?

Mr. FEASTER. I am not sure.

Ms. DEGETTE. Oh, you don't understand?

Mr. FEASTER. No, I am sorry.

Ms. DEGETTE. Okay. I mean, are they able to effectively recover the money? Did they sue them or what did they do?

Mr. FEASTER. I think they contacted them directly. I am not sure of that, whether they were sued or not.

Ms. DEGETTE. Okay. That is not your purview? Do you have an opinion as to whether we need programmatic or statutory changes to ensure the efficient and complete recovery of funds?

Mr. FEASTER. I think we have enough rules to do that and I think there is some work going on to expand who we can get the money from Ms. DEGETTE. Okay. Now, in your written testimony you talked about the fact that in addition to conducting audits the FCC Inspector General's Office is providing audit support to a number of investigations of E-Rate recipients and service providers. You state that the IG is currently supporting 22 investigations and monitoring an additional 18 investigations. Can you explain to me the difference between supporting and monitoring E-Rate investigations?

Mr. FEASTER. Yes, ma'am. We are just monitoring. We are just keeping in touch with them and not providing any resource support like doing additional audit work. We are just keeping track of the investigation, how it is going, what they are doing. We are talking about the FBI and the U.S. Attorney's Office. When we provide direct support, we are sending our auditors out to do audits in support of the investigative activities.

Ms. DEGETTE. In your opinion, would additional resources for your office assist you in better monitoring those investigations?

Mr. FEASTER. Yes, ma'am.

Ms. DEGETTE. Why?

Mr. FEASTER. We just don't have enough staff here. These two people right here are two-thirds of my staff.

Ms. DEGETTE. And the other one is sick, right?

Mr. FEASTER. And the other one is sick. They are constantly on the road and these investigations are spread throughout the country and we need either additional resources to hire contractors or additional staff. We prefer to do it through contractors if at all possible.

Ms. DEGETTE. And why is that?

Mr. FEASTER. It is more efficient. Right now we have a high workload. If that workload would drop, we would have excess people and we don't like to be in that position.

Ms. DEGETTE. That is very efficient, Mr. Chairman. I am going to yield back the balance of my time. If we have a second round, I have some questions specific to Puerto Rico.

Mr. GREENWOOD. The Chair thanks the gentlelady and welcomes the chairman of the full committee, the gentleman from Texas, Mr. Barton, and recognizes him for 10 minutes.

Chairman BARTON. Thank you, Mr. Chairman. I want to complement you and the Oversight Investigation staff for holding this hearing and starting this process. This is not the only hearing that we are going to do on this. It is important that we start the process correctly.

I am at a little bit of a loss, Mr. Inspector General, on how to question you because it appears to me that you want to do the right thing but you just don't simply have the resources. I guess my first question, what do you view your role to be given that you only have a handful of people and are expected to be the Inspector General for a vast Federal agency that literally touches all aspects of the American economy?

Mr. FEASTER. We keep pushing. I think right now we are in the process of trying to develop a three-way memorandum of understanding between USAC and a contractor and our office to use the Universal Service Fund to obtain contract resources.

Chairman BARTON. You are appointed by the President. Is that not correct?

Mr. FEASTER. No, sir. I am appointed by the agency head.

Chairman BARTON. By the agency.

Mr. FEASTER. Yes, sir.

Chairman BARTON. Do you ever meet with other Inspector Generals of the Federal agencies? Is there a monthly meeting?

Mr. FEASTER. Yes, sir.

Chairman BARTON. Is it allowed to discuss pending cases when you have those meetings? Can you all talk about what you are doing?

Mr. FEASTER. That generally is not the format. It is a more formal setting basically dealing with community wide issues. We are sort of unique in that community, though.

Chairman BARTON. I don't know but would it be ever appropriate for you to ask the other Inspector Generals to share staff or resources, at least on a temporary basis?

Mr. FEASTER. Most of the Inspector Generals are very tight in their staff limitations. We have basically had one agreement with the Department of Interior IG's Office. They are providing staff on a reimbursable basis to us. We have currently are involved in developing a memorandum of understanding with the Department of Education who are doing some audits for us in New York.

Chairman BARTON. Let me get a little more specific about the pending issue. This E-Rate Program that has been in effect since the mid to late 1990's, it is ministered by something called the Universal Service Administration, I think, what is your view of them?

Mr. FEASTER. They are a very capable organization that try to do the right thing.

Chairman BARTON. You honestly believe that given the fact that every time we look under a rock we see misuse and grants that should not have been granted and equipment that sits in warehouses? You really think they are capable?

Mr. FEASTER. I think they need to do more work and different type of work. We keep pushing, urging.

Chairman BARTON. Who appoints the head of that organization?

Mr. FEASTER. The Chairman of the FCC.

Chairman BARTON. The Chairman of the FCC. And once appointed, does that individual serve at the pleasure of the chairman or is there a specific timeframe?

Mr. FEASTER. I don't believe. There is a term I think they serve at the pleasure of the chairman.

Chairman BARTON. Okay. Do you think it would be a good idea if we had them come in and sit where you are sitting?

Mr. FEASTER. I think they are here.

Chairman BARTON. They are going to be on the next panel?

Mr. FEASTER. Yes, sir.

Chairman BARTON. That is a very good idea.

Mr. FEASTER. I think so. I do want to make a point. One of the solutions to our resource program is getting access to the Universal Service Fund from my office and I do think we need congressional legislation to do that or some way of getting legal access to that fund. That would solve my resource problem and let me hire contractors to conduct independent audits.

Chairman BARTON. We have collected about $13 billion in this fund and my opinion based on the summaries I read, a lot of that money has not been spent very wisely. If I were to give you three choices about the E-Rate Program, one would be to eliminate it. Second would be to continue it as it is and give them a bonus for the way it has been operated. The other would be to restructure or reform it. Which of those options would you choose?

Mr. FEASTER. I think I may take the third option, sir. We are trying to do that right now.

Chairman BARTON. Do you think the Congress needs to legislatively direct that restructuring?

Mr. FEASTER. As my chairman likes to say, that is above my pay grade. I will leave that up to you to make that decision.

Chairman BARTON. You are entitled to an opinion.

Mr. FEASTER. I don't know if we really need that or not. I think some maybe direction and guidance from Congress may be a solution.

Chairman BARTON. In the audits and investigations that your staff has conducted, would it be their view that the recipients or the applicants for these funds viewed the program as a big candy jar? Kind of free money or something that they didn't have to really put too much attention into how money was going to be spent because it wasn't their money?

Mr. FEASTER. I would agree to that. I think if they treated it more like their money rather than free money, I think it would be a lot different.

Chairman BARTON. Would it be appropriate, if we were to have a legislative solution, that we would seek some sort of a codification of situations in which we could request or require refunds of monies that have already been spent?

Mr. FEASTER. Yes, sir.

Chairman BARTON. Okay. Would it be appropriate if we were to pass legislation in this area to put specific penalties perspectively in place up to and including not only fines but perhaps criminal

penalties for misuse and abuse of funds appropriated through this program?

Mr. FEASTER. Yes, sir.

Chairman BARTON. I have got 3 more minutes. I think I am going to yield back because there are some other questions but they are really more directed to the other panels. I do want to ask the gentleman from Puerto Rico. My understanding is the problems that we have discovered at Puerto Rico are because of a change in the Governor of that commonwealth and the fact that investigations were begun that showed that the prior administration had not been responsible. Is that a fair statement?

Mr. SALDAÑA. Well, I would say, sir, as I mentioned in the other report, the whole problem arises because of a lack of proper planning from the Education Department. I insist, and that is something you may consider here, is that you may request or administer regulations that whenever funds are assigned to the states, there should be a review agency.

Like in Puerto Rico we have the Office of Management and Budget, the local Puerto Rico Office of Management and Budget that should be as the control for the recipient which is in this case the Education Department. For me that would be very critical. And then itself I will also say that schools by themself should submit proposals to the Education Department that should be evaluated in detail as which of them will be ready to receive the funds.

Then after that those schools are evaluated, a certain number of schools which could be no more than 10 or 20 percent of the total that should be considered for the compilation or summation for the request of funds to the Federal agency. That could be a way that you can establish some kind of control to avoid situations like this because Puerto Rico applied for the whole funds that we are assigning total but then we didn't have adequate control so this shouldn't happen. But I think in view of other cases that you are discussing here this morning, you can establish that kind of regulation.

Chairman BARTON. Well, I want you to know that, I mean, we ask that you come and you have come and cooperated and we appreciate that. We are not picking on Puerto Rico. We could have almost picked a school district or a community out of the hat. We chose Puerto Rico because of the size of the situation and the fact that when our staff went down to conduct an onsite investigation, we found quite a bit of equipment that was just sitting around in warehouses.

It is not an indication. Do not take this indication that you are the only part of this program that has a problem. I think it is systemic and endemic and the point of these hearings are to outline that and then to try to find a remedy to correct it so we can continue the program in the future.

With that, Mr. Chairman, I would yield back.

Mr. GREENWOOD. The Chair thanks the gentleman. The Chair welcomes the gentleman from Massachusetts, Mr. Markey, who has agreed to yield while he prepares his question to Mr. Walden who has a time constraint problem. The Chair recognizes Mr. Walden for 10 minutes.

Mr. WALDEN. Thank you, Mr. Chairman. Thank you, Mr. Markey. Mr. Feaster, I want to make sure I understand this. There have been, what, 142 audits done?

Mr. FEASTER. 122.

Mr. WALDEN. 122 over 6 years in this program?

Mr. FEASTER. No. That was this past year, sir.

Mr. WALDEN. I am sorry.

Mr. FEASTER. Over the past year.

Mr. WALDEN. So 1 year?

Mr. FEASTER. Yes.

Mr. WALDEN. How many audits in total have been done over the length of the program?

Mr. FEASTER. Probably close to 200.

Mr. WALDEN. Okay. So a total of 200 audits over 6 years. Is that pretty close?

Mr. FEASTER. I am sorry?

Mr. WALDEN. 200 audits over 6 years?

Mr. FEASTER. That is an estimate just off the top of my head.

Mr. WALDEN. And how many grants are issued each year?

Mr. FEASTER. There are over 30,000 beneficiaries.

Mr. WALDEN. Beneficiaries. Each year?

Mr. FEASTER. Each year.

Mr. WALDEN. It has been active for 6 years?

Mr. FEASTER. Yes, sir.

Mr. WALDEN. Is that pretty much an average, 30,000 a year over 6 years?

Mr. FEASTER. I think it has been increasing.

Mr. WALDEN. Okay. And we have looked at basically 200 of those? Am I looking at this correctly?

Mr. FEASTER. That or less.

Mr. WALDEN. So less than 200.

Mr. FEASTER. Right. I don't have the numbers in front of me.

Mr. WALDEN. Less than 200 beneficiaries have been audited over 6 years and there are roughly 30,000 beneficiaries.

Mr. FEASTER. Yes. A very limited program of audits.

Mr. WALDEN. And we have spent $8 billion out of this fund?

Mr. FEASTER. I thought the number was $13 billion.

Mr. WALDEN. I think that is how much has come in.

Mr. FEASTER. I don't have those numbers. I am sorry.

Mr. WALDEN. But it is somewhere between $8 and $13 billion.

Mr. FEASTER. The annual rate is $2.5 billion.

Mr. WALDEN. The money that is collected comes from rate payers' phone bills. Can you tell me the track that it goes on then? I pay it, it goes to the phone company.

Mr. FEASTER. The phone company gives it to the FCC.

Mr. WALDEN. It goes to the FCC. Goes to the Universal Service Fund.

Mr. FEASTER. And then the Universal Service Fund sends the money out to the beneficiaries.

Mr. WALDEN. To the beneficiaries. Does it ever go through the hands of the FCC? Does it ever come through the Congress?

Mr. FEASTER. No, sir.

Mr. WALDEN. And the USAC itself is made up of whom?

Mr. FEASTER. Private nonprofit company.

Mr. WALDEN. Comprised of?

Mr. FEASTER. People hired.

Mr. WALDEN. By who?

Mr. FEASTER. By USAC.

Mr. WALDEN. So the National Exchange Carrier Association? It leaves the phone companies then?

Mr. FEASTER. They represent the phone companies but USAC is private independent.

Mr. WALDEN. Right. I am trying to figure out who owns USAC. How do you become a USAC that gets $2.5 billion a year? That is a pretty good deal and nobody looks at you.

Mr. FEASTER. I am not exactly sure, sir.

Mr. WALDEN. All right. Of your audits that you've done, what is the percent of those that are noncompliant?

Mr. FEASTER. Of the 122, 32 percent are noncompliant.

Mr. WALDEN. And what does noncompliant mean?

Mr. FEASTER. There were substantial violations of Commission rules involved.

Mr. WALDEN. And then there's another group that has been noncompliant with procedures. Correct? Isn't there a difference between procedures used and——

Mr. FEASTER. Right. If they are noncompliant with procedures, we call those findings but they are non-cost recoverable.

Mr. WALDEN. And that is because the statute doesn't allow for——

Mr. FEASTER. That is because our General Counsel has said we have to have a formal Commission rule to recover the funds related to those violations.

Mr. WALDEN. And has anyone sought a formal Commission rule to do that, to change that so we can recover it?

Mr. FEASTER. We have suggested that and I think the Bureau is thinking about it. We have suggested that they codify the USAC procedures in order to make them, in effect, rules and recoverable.

Mr. WALDEN. How much do you think is out there that could be recoverable if the rules were changed by the FCC to allow recovery of violation of the procedures?

Mr. FEASTER. Well, I don't have the exact numbers but there were findings. Even in the audit, the 122 we've audited, the ones that were found generally compliant there were findings of violations of USAC procedures in those so I think there is a substantial sum of money in addition to the ones that are recoverable under the noncompliant ones.

Mr. WALDEN. And the amount of the noncompliant recoverable?

Mr. FEASTER. I don't have that number in front of me.

Mr. WALDEN. Can you give me an estimate?

Mr. FEASTER. I would have to check on that number. I am not trusting what I am seeing there.

Mr. WALDEN. Okay. Can you give me a ballpark number?

Mr. FEASTER. Well, I believe the recoverables under the noncompliant ones are $3 million so I think we are probably talking substantially above that number. At least double that number.

Mr. WALDEN. Okay. That you could go after if the rules were changed.

Mr. FEASTER. Yes, sir.

Mr. WALDEN. And then when it comes to auditing, how many auditors do you really think you need to oversee this program effectively and what would the cost of that be?

Mr. FEASTER. To just do the E-Rate Program we estimate that we will need approximately $12 million to hire contractors to do that and some additional staff on my staff to review the work of contractors that would do about 240 audits.

Mr. WALDEN. Per year?

Mr. FEASTER. Per year. Yes, sir.

Mr. WALDEN. And you think that would be an adequate number of audits?

Mr. FEASTER. That would give us a statistically valid sample of the community that we could draw conclusions from to see how bad the problem actually is.

Mr. WALDEN. Because what you are really finding now is at least half of these beneficiaries are either not compliant with the rules or the procedures. Right?

Mr. FEASTER. Yes, sir. Yes.

Mr. WALDEN. I mean, is this an astonishing finding?

Mr. FEASTER. To me it is. Yes, sir.

Mr. WALDEN. Do you find this anywhere else where you audit?

Mr. FEASTER. No.

Mr. WALDEN. How long has this been going on? Six years?

Mr. FEASTER. Six years.

Mr. WALDEN. Then I want to go to another point. I mean, I spent a few years on a community bank audit board before I came here on the Audit Committee. I asked this in the Ag Committee and the IG there said, "Can't audit the books of the Forest Service." They have eventually done that. I said, "Anybody held accountable for the lack of ability to audit for how this thing is run?"

What about here? Are people being held accountable when you go in? I know in Puerto Rico, I guess, one of the gentlemen actually has a free lunch program in a Florida prison now but what are you finding? Are people who engage in these fraudulent acts being held accountable? Are the people in the Government? I am a local government supporter with as few Federal strings as possible but this is outrageous.

Mr. FEASTER. What we've seen so far other than the people that have violated criminal statutes and being prosecuted by the U.S. Attorney's Office. There is very little holding the schools accountable for these actions. In many instances at least they have to be turning a closed eye to what is going on.

Mr. WALDEN. So people aren't getting reprimanded or fired or their incompetence?

Mr. FEASTER. We have seen no indications of that. The Commission certainly doesn't do it to the schools. I assume that our Chairman would hold the Bureau accountable if he didn't think they were doing a good job.

Mr. WALDEN. What would be the most important change we could make to clean up this mess?

Mr. FEASTER. I think rather than one of a series of things that we need to do. Strengthen the competitive bidding process. Strengthen the certification process. Strengthen record keeping. Rules to codify implementing procedures of the USAC. Increasing

the oversight of tech plans. That is a short list of things we need to do.

Mr. WALDEN. Thank you. I appreciate the work you and your folks have done, and the same for you, sir.

Mr. Chairman, I have to go chair another hearing. I will try to get back for more of this. Thank you.

Mr. GREENWOOD. The Chair thanks the gentleman and recognizes the gentleman from Massachusetts for 10 minutes for inquiry.

Mr. MARKEY. I thank the gentleman very much. Back in 1992 I cast a vote for NAFTA and NAFTA was going to speed up the rate at which American jobs would be churned. It was a very difficult vote for me. In 1993 as Chairman of the Telecommunications Subcommittee when I was putting together the Telecommunications Act, I built in a provision that called for discounted rates for schools, for kids, that telephone companies would have to provide as part of the Universal Service Fund. The bill was ultimately filibustered in the Senate in 1994. It died.

Then in 1995 and 1996 on the Senate side Senator Rockefeller and Snowe did an excellent job of refining the idea and turning it into this program. At the time what I did was I gave a name to the program at the time. I called it the E-Rate or Education Rate. That was the title I gave to it so that it would be a program that dealt with the need that our country had if we were going to engage the global community to ensure that the kids in our country had access to the skill set they would need in order to compete for jobs in a global economy.

That would be technology based jobs. We were going to give up the low-end jobs in order to compete for the high-end jobs. That was the trade and that was how I saw the Telecommunications Act. That is why I moved to make the discounted rates in there and why the Senate ultimately framed it.

So the E-Rate is something that I am obviously very proud of. As I am sitting here listening, Mr. Chairman, to what is going on, I was thinking over the Boston Public Library the inscription is, "The education of its people is the best defense of a country."

Just think if in the Defense budget we purchased all the tanks, all the planes, but we didn't educate the people to use them but we had all the hardware. What kind of defense would that be? Well, the education of the people is the best defense for a country so that was the thought here. Put it in every library. Put it in every school. Give a discount, especially to the kids who are in the poorer schools because the kids in the poorer schools are less likely to have the computers at home. That was the whole idea. It would be in the school. It would be the substitute. Wealth won't be a barrier.

When I was a kid growing up you took your books home, you competed with the school's superintendent's kid. If you don't have a computer at home, you had better have it in the classroom, and you better have a teacher who knows how to use it and knows how to train the kid. Then the kids can compete. That was the whole idea. It was a simple idea in a world in which we were going to have more and more information-based jobs. That was what it was all about.

It was about the poorest kids because we really don't have to worry about the wealthiest kids because those kids already have—they have already mastered nine different technologies by the time they are 17 and it is on their resume as they apply to Ivy League schools all across the country. That is not the problem.

It is the lower end kids who are just as smart but they just can't take the books home and compete any longer. They need the technology. That is why this is such a crime against the children. All those companies and all those public officials who turned a blind eye are turning a blind eye to the destruction of opportunities for children to gain the skill set they would need in order to compete in a global economy.

That is the real scandal here. That is the real scandal because we had a deal. The Congress had a deal. The American people had a deal. We will speed up trade but we will also speed up access to the skill set for the families and the kids in those families who are going to be most vulnerable. Just an absolute scandal that this has happened.

So we obviously can't allow this to continue any longer because it just makes my blood boil that in one territory, one part of our country $100 million can be taken from the children because there is no substitute for it in those families for the most part and they just don't have an alternative. If it wasn't going to be done in the classroom, it wasn't going to be done and it just dooms that whole generation of kids to yet another cycle waiting for the next generation to be given the same opportunities. That is the real tragedy of what we're hearing.

Thank you both for the work you have done. I appreciate it. I know you feel the same way and it means the world what you do.

Thank you, Mr. Chairman, for this hearing.

You only have three inspectors, Mr. Feaster? Is that what I heard?

Mr. FEASTER. Yes, sir.

Mr. MARKEY. Three inspectors for the entire United States of America?

Mr. FEASTER. And the Commonwealth of Puerto Rico.

Mr. MARKEY. And the Commonwealth of Puerto Rico. What percentage of the total fraud do you believe you have touched so far? Are you at the tip of the iceberg? Have you hit the iceberg or the tip of the iceberg?

Mr. FEASTER. At the very tip.

Mr. MARKEY. The very tip of the iceberg.

Mr. FEASTER. Everything we have looked at, every rock we turn over we find stuff.

Mr. MARKEY. And do you find that it is the biggest companies as well as the smallest contractors? Do you find it in all aspects of the vending community?

Mr. FEASTER. Yes. As I mentioned in my earlier statement, NEC, a very large contractor agreed to a payment of $20 million. One or two-person scam units in New York were convicted also. A full range of possibilities there.

Mr. MARKEY. How many inspectors do you need, Mr. Feaster?

Mr. FEASTER. In order to do 240 audits which would be a statistically valid sample, I need about $12 million and 3 or 4 additional staff.

Mr. MARKEY. Well, I think that we on a bipartisan basis should make sure that you get that money if for no other reason that you would save us basically 99 cents on the dollar.

Mr. FEASTER. I will give you every dollar back in recoveries for everything I spend.

Mr. MARKEY. No, I think you will give us back far more.

Mr. FEASTER. Yes, sir.

Mr. MARKEY. I think you would give us back 99 cents for every cent we spend. That is my appealing. Just because there will be a cop on the beat tapping the sidewalk letting people know there is a much higher percentage that they are going to be—I hope somebody does jail time for this. I mean, I really do. I hope somebody goes to prison. I really do. It just boils my blood. This is so much bigger.

We don't have a celebrity here. You know what the problem is? The people we are talking about, the victims are some 7-year-old kids some place so it is never going to make the front sections of the newspapers. It is not going to be above the fold and collar of some famous inside trading person. We are talking about $65,000 or $100,000 which just obsesses every single magazine. That is nothing.

That is the tragedy of our system, that we don't focus on this. Inside traders steal children's future. That is a scandal worth covering above the fold of the front page every single day and I know it is not going to but it is true.

How many inspectors do you have, Mr. Saldaña?

Mr. SALDAÑA. We have 435.

Mr. MARKEY. Inspectors?

Mr. SALDAÑA. Auditors. Yes, sir.

Mr. MARKEY. Auditors. Yeah.

Mr. SALDAÑA. But we have to cover the whole Commonwealth. We have more than 2,400 units. But we don't have enough funds also.

Mr. MARKEY. You do not have enough funds. Now, is most of this, do you think, in the phone bills? Are the phone bills a relatively small part of the scandal and the wiring and the rest of it is where the real problem occurred?

Mr. FEASTER. It is the internal connections.

Mr. MARKEY. So two-thirds of the fund is pretty much the phone bills so there may be some scamming on phone bills but for the most part that is not where the real scandal is. It is over here with all the work these contractors are doing. Uh?

Mr. FEASTER. Yes, sir. My staff reminds me we haven't done enough work to draw that conclusion yet.

Mr. MARKEY. The conclusion on the phone bills?

Mr. FEASTER. Yes. We are just not sure because we haven't done enough work.

Mr. MARKEY. So the phone bills themselves might be a scandal but you just don't know yet. That is just because you are limited to three people?

Mr. FEASTER. Yes, sir.

Mr. MARKEY. That is unbelievable. That is unbelievable. So has there ever been any evidence of phone scandals? Are there any grand juries going on around the country on the phone bill issues that you know of? You don't know of any?

Mr. FEASTER. No.

Mr. MARKEY. Okay. How many grand juries are going on with regard to the other side of it, the wiring and all that contracting? How many, to your knowledge, is going on?

Mr. FEASTER. There were 40 cases that were monitored. I think there are two.

Mr. MARKEY. Two.

Mr. FEASTER. And there are some ongoing investigations that I don't think reached that grand jury stage.

Mr. MARKEY. And are there scandals the size of Puerto Rico out there in the United States, the 50 states?

Mr. FEASTER. I don't think so. I am not sure.

Mr. MARKEY. Not sure.

Mr. FEASTER. It is hard to tell how much of the funds are at risk to draw that conclusion.

Mr. GREENWOOD. The time of the gentleman has expired.

Mr. MARKEY. Okay. I thank the gentleman.

Mr. GREENWOOD. The Chair thanks the gentleman and we will do a brief second round. Just a couple points. The story was above the fold, first page of USA Today last week so we are getting some attention. We are getting some attention.

Mr. MARKEY. I mean everyday.

Mr. GREENWOOD. I understand.

Mr. MARKEY. A relatively small insider trading case can be——

Mr. GREENWOOD. That was her fault. That was her fault.

Mr. MARKEY. In terms of the news coverage it is just the proportionality.

Mr. GREENWOOD. I don't disagree with the gentleman. I don't disagree with the gentleman. I always thought Ed-Rate stood for Ed Markey. I didn't realize it was education. I am delighted to learn that.

The $12 million that you have suggested, Mr. Feaster, according to my calculations, will be .05 percent of the budget so it is a tiny little portion. Our staff will do some work. I still think probably the most efficient way to audit this thing is to have every program audited out of the funds at every school district. That way you get 100 percent instead of a statistically important. We may need to do both.

Let me turn to Mr. Saldaña. Your testimony describes a number of irregularities and failures in the bidding process. You note that the Puerto Rico Department of Education has complied with your recommendations. How are you going to ensure that the Department's assertions are accurate?

Mr. SALDAÑA. We are going to perform another audit the next coming year. As soon as we have resources available we will be there verifying everything they are doing.

Mr. GREENWOOD. Are you certain you are going to have the resources available to do that?

Mr. SALDAÑA. At least we will try with the resources we already have. We have that in our plan for the coming year. Yes, sir. We

will visit several schools on a random basis and verify it ourself that everything should be the proper set up.

Mr. GREENWOOD. And what would be the consequences for the school district if it failed to follow your recommendations?

Mr. SALDAÑA. Well, we will be directly on the Education Department because they are the ones that are responsible for that. That is what I was saying before is that you may consider establishing some kind of a relation that whether funds are going to be assigned for this program should be based on a quota and should be based on applications directly by the different schools and those that comply with the requirements before.

They make the petition of funds to the Federal agency and they should be verified and should be evaluated and given some kind of rating. Those within that level should be considered for the application of funds but never in excess of a certain amount of percent of the total needs. That way when they come next year, you can verify that if they comply with the previous program, then you can assign.

Mr. GREENWOOD. That is way too sensible an approach for the U.S. Government but it makes a lot of sense to me. What are you able to say about the Department's abilities, the Puerto Rican Department of Education's ability to administer and plan for spending E-Rate funds at present? Have they changed their capability?

Mr. SALDAÑA. Yes, they are improving. We have regular meetings with the secretary and his staff. They have created some kind of controls. They have established an audit committee that includes persons from other agencies which is very commendable and we recognize that. We will be very fine when we perform this next year.

Mr. GREENWOOD. Okay. I don't need the balance of my time. Would the gentlelady from Colorado like another 5 minutes?

Ms. DEGETTE. Thank you, Mr. Chairman. Before I ask my questions, I would ask unanimous consent to submit Mr. Dingell's opening statement for the record.

Mr. GREENWOOD. Without objection.

Ms. DEGETTE. Thank you. Mr. Saldaña, I had some questions for you which I think would help us in figuring out how exactly this abuse is occurring in other places as well as in Puerto Rico. You noted that the audits of the PRDOE contract with the DRC revealed that counter to Federal and Commonwealth regulations, formal bid procurement procedures were not followed to award the contract. Instead, PRDOE requested and evaluated proposals. Do you know who was responsible for instituting those bid procedures?

Mr. SALDAÑA. The secretary himself.

Ms. DEGETTE. The secretary. And were those procedures illegal?

Mr. SALDAÑA. No. The procedures were properly established. The fact is that they didn't follow the established procedure.

Ms. DEGETTE. Oh, I see. They had procedures. And who was it that didn't follow the procedures?

Mr. SALDAÑA. The secretary with a committee that he had designated for that purpose. All the agencies in the island had strict regulations about the process and they have a board for adjudicating the different big processes. They didn't comply with those requirements.

Ms. DEGETTE. Was that the fact they didn't comply with the process illegal?

Mr. SALDAÑA. Yes, that is illegal.

Ms. DEGETTE. And other criminal prosecutions going on?

Mr. SALDAÑA. Well, we have referred that to the Justice Department, to the Commonwealth Justice Department, and they are awaiting that at this time. We also had referred that to the Federal district attorneys there in Puerto Rico.

Ms. DEGETTE. And were any civil remedies pursued against those individuals?

Mr. SALDAÑA. They have those two options. Either criminal or civil or both.

Ms. DEGETTE. Okay. Now, you testified that a physical inspection of 30 schools between October 11 and November 21, 2000, yielded a number of disturbing discoveries. Among the deficiencies you noted that a telecommunications infrastructure network installed in the schools was not used, that PRDOE had not acquired the computers for the students, that the teachers had limited knowledge on computer use, and that physical and electrical conditions in the schools did not have the capacity required for the communication and computer equipment. Right?

Mr. SALDAÑA. Yes.

Ms. DEGETTE. Who was responsible for those failings?

Mr. SALDAÑA. Well, the committee that should have evaluated all that and to have the approval of the Office of Management and Budget of the Commonwealth because they have a committee that evaluates all the information technology proposals that they didn't follow those regulations.

Ms. DEGETTE. Do you have any evidence of—I mean, was this just slip-shod management or was there actually monetary compensation under the table? Do we know why they did this?

Mr. SALDAÑA. We don't have that evidence at this time.

Ms. DEGETTE. Okay. So you don't really know?

Mr. SALDAÑA. If the Justice Department and the Commonwealth had that, that is something I don't know.

Ms. DEGETTE. Exactly. Okay. Now, your findings led you to say that PRDOE did not attain any benefit from the investment of $73 million, in internal connections and telecommunications and almost 300,000 in services from lines connected to the Internet of the EDUNET network that corresponded to the amounts billed to the contractors. Who is to blame for that misuse? That is almost $74 million.

Mr. SALDAÑA. The management of the Department at that time should be held accountable and obviously they have to establish a claim to the contractors in that process also. That is something that has to be evaluated in accordance with the contract that was signed with those companies.

Ms. DEGETTE. How did you find out about these problems? How did they come to your Department's attention?

Mr. SALDAÑA. Well, we go there. We have a schedule of audits that we perform. We also receive complaints. We have a system whereby any citizen or public employee may call our office and report any kind of condition. That may be like an improper situation or fraud situation they can refer to us.

Ms. DEGETTE. And how did you find out about it in this case?

Mr. SALDAÑA. In this case was regular audit that we have.

Ms. DEGETTE. I am sorry. What?

Mr. SALDAÑA. Regular audit that we go there and then we start making the evaluations of different aspects. We have issued several reports that are indicated in this report that are related with other matters that we reported that were not being followed in accordance with regulations also.

Ms. DEGETTE. And once you discovered these abuses during your regular audit, did you then report that to the IG's Office? Did they get involved in this then?

Mr. SALDAÑA. At some time they attained the information from us. We sent them the information.

Ms. DEGETTE. Mr. Feaster, I want to ask you of the number of investigations that you conduct, how many of them occur as the result and alert a local official or someone like Mr. Saldaña's office contacting you with this information?

Mr. FEASTER. It is a wide range of inputs. Concerned citizens, service providers who didn't get contracts, local officials, U.S. officials.

Ms. DEGETTE. Would you say the bulk of your investigations occur because of complaints from all this variety of groups or are they because of regular audits like Mr. Saldaña's Department was conducting?

Mr. FEASTER. I would say about 50/50.

Ms. DEGETTE. Would it help you to do independent audits if you had the additional staff?

Mr. FEASTER. Yes. I wouldn't want to be totally dependent upon outside sources or a hotline or things like that.

Ms. DEGETTE. All right. Thank you.

Thank you, Mr. Chairman.

Mr. GREENWOOD. The Chair thanks the gentlelady. Did the gentleman from Texas want to question the second round? Okay. In that case, Mr. Feaster, Mr. Saldaña, thank you very much for your help this morning. We appreciate it. You are excused.

Mr. FEASTER. Thank you.

Mr. GREENWOOD. The Chair would call forward our second panel consisting of the Honorable Cesar A. Rey, Ph.D., Secretary of the Department of Education for the Commonwealth of Puerto Rico who is accompanied by Mr. Carlos Vidal Arbona, Chief Technology Officer at the Puerto Rico Department of Education, and by Mr. Adonay Ramirez, ARJ Professional and Consulting Service, Inc. Also Ms. Cristina Lambert, President and Chief Executive Officer of the Puerto Rico Telephone Company, accompanied by Arnaldo Diaz, Strategic Business Officer, Enterprise Services, and Mr. Santos Diaz, President of Data Research Corporation.

Good morning to you all and welcome. We thank you for being here. I think all of you were here when I advised the previous panel that pursuant to the custom of this committee we take our testimony under oath and so I need to ask if any of the witnesses today object to providing your testimony under oath? Seeing no such objection, I will also advise you that pursuant to the rules of this committee and the House, you are entitled to be represented

by counsel. Do any of the witnesses wish to be represented by counsel this morning?

Ms. LAMBERT. My counsel is here. If he can participate, that would be fine.

Mr. GREENWOOD. Well, he may or may not participate but if he is representing you, then you need to identify him by name, please.

Ms. LAMBERT. Jim Slattery.

Mr. GREENWOOD. Jim Slattery. We have heard of him and we know who he is. Anyone else wish to be represented by counsel? Mr. Diaz, do you?

Mr. SANTOS DIAZ. Yes. Good morning. My name is Santos Diaz. I also have with me Mr. John Nevares who is my legal counsel.

Mr. GREENWOOD. Okay. Welcome to you as well, sir.

Mr. REY. My legal adviser is here.

Mr. GREENWOOD. Your legal adviser is here. And his name is?

Mr. REY. Adonay Ramirez Jimenez.

Mr. GREENWOOD. Welcome. Thank you, sir.

Okay. If the witnesses would then stand and raise your right hand, please.

[Witnesses sworn.]

Mr. GREENWOOD. You are under oath and we will begin, I believe, with Mr. Rey. Welcome, sir, and you are recognized to give your opening statement.

TESTIMONY OF HON. CESAR A. REY, SECRETARY, DEPARTMENT OF EDUCATION, COMMONWEALTH OF PUERTO RICO; ACCOMPANIED BY CARLOS VIDAL ARBONA, CHIEF TECHNOLOGY OFFICER, PUERTO RICO DEPARTMENT OF EDUCATION; AND ADONAY RAMIREZ, ARJ PROFESSIONAL AND CONSULTING SERVICE, INC.; CRISTINA LAMBERT, PRESIDENT AND CHIEF EXECUTIVE OFFICER, PUERTO RICO TELEPHONE COMPANY; ACCOMPANIED BY ARNALDO DIAZ, STRATEGIC BUSINESS OFFICER, ENTERPRISE SERVICES; AND SANTOS DIAZ, PRESIDENT, DATA RESEARCH CORPORATION

Mr. REY. Good morning, Mr. Chairman. I am very proud and very honored to be here.

Mr. GREENWOOD. Let me just suggest you pull a microphone a little closer to you. They are very directional and speak directly into it.

Mr. REY. Is this better?

Mr. GREENWOOD. That is better. Thank you.

Mr. REY. Again, my name is Cesar Hernandez. I am a Sociologist and the Secretary of education for the Commonwealth of Puerto Rico since January 7, 2001. This is the first time that I hold a public office. I have been a Dean of Academic Affairs and this is my first time with this type of experience. Prior to accepting this responsibility, I dedicated all my life to research and to higher education in Puerto Rico.

We proudly accepted the invitation of this subcommittee to share with you some of our experiences in the ongoing efforts to provide the school children of Puerto Rico with advanced telecommunication services, as well as to incorporate Puerto Rico to the E-Rate Program. I submitted a written presentation with an attachment

consistent of the sequence of relevant events related to our Department and the university.

Previously we submitted to this committee's professional staff our petition on January 30, 2003, to the Federal Communications Commission, FCC, plus exhibits which we request that it also be become part of the public record of these hearings.

The public school system of Puerto Rico is one of the largest under the jurisdiction of the United States. We have more than 610,000 students attending 1,540 schools scattered over an area of 3,500 square miles. Our Department has close to 80,000 employees who are represented by four different labor unions and has a yearly budget of approximately $3 billion, the largest in the Commonwealth.

You are aware that all Puerto Ricans with business, residential, or several telephones contribute daily to the Universal Fund, also commonly known as the E-Rate Fund. Puerto Ricans have continued to pay into the fund even though our Department has received no funds at all from the FCC since the year 2000.

Under my administration our Department is committed to developing a state-of-the-art, efficient island-wide network to provide a uniform communications and Internet service covering all municipalities in the main island of Puerto Rico and the two adjacent island-municipalities, Vieques and Culebra, with or with E-Rate assistance. This is the program that we inherited upon taking office in July 2001.

Network design. We did not find any document with the design of the network nor documentation regarding how it was going to be developed, data volumes, cost estimates, management systems and support. Simple observation showed an awkward structure with one half of the schools fitted with a wireless system connected to the supplier's facilities, and the other half with a wired—terrestrial—system serviced by a different supplier connected to the Department's central offices in San Juan. The two systems did not interface.

Infrastructure at PRDE central offices. The server and communications infrastructure at the Department's central offices was totally inappropriate.

Computer purchases. A bid to purchase about 100,000 computers had been conducted by the previous administration, before 2001, of course. This bid was successfully protested in court by some vendors and the bid was canceled with IBM among others.

Status of the project. Of the 1,500 schools in the system, only a handful—less than 10—were regularly connecting to the Internet. The project was simply not operating.

We hired a private consultant who made a preliminary evaluation with a sample of 100 schools. We discovered that, first, more than 50 percent of the communications lines were out of service, not activated nor installed. Second, communications equipment was installed in inappropriate areas that were too small, too hot, or got wet when it rained. Third, central office infrastructure necessary to support the network was not appropriate. Fourth, no prior evaluation of vendor performance was found.

Between the summer of 2001 and the summer of 2003 we took a series of steps in an attempt to rescue the inherited project with

a three-prong approach, on the school side, in the middle, and the Department's central offices. We adopted a turnkey approach for technology acquisition which proved to be successful. This includes hardware, software, communications, electricity, security and furniture—when applicable. We developed the standard for uniformity in laboratory acquisitions and developed two types of laboratories: mobile and fixed.

Mobile laboratories consist of a cart with 26 printers and a server with very low electrical requirements. They can be moved to any room during academic hours and when not in use can be stored in a secure place. The fixed laboratories have 26 desktop computers, two printers and a server. Since 2001 we have installed more than 340 labs at the investment of $28.5 million in Commonwealth funds.

We performed a survey to identify training needs among teachers. Questionnaires were distributed to 46,000 teachers and we received 44,000 responses which represents 95 percent which is extremely high, 95 percent response rate. Some of the findings were:

First, 75 percent of the teachers indicated little knowledge about computers. Second, 84 percent admitted very little knowledge about software packages like Word, PowerPoint, and Excel. Third, 83 percent indicated that they used computers in their classes very few times, among other findings.

Obviously, the training efforts conducted in the past have not been effective. As a result, we designed and implemented a training program tailored to these specific needs and oriented toward deliverables or products usually needed by the teacher to do his/her job. We started the trainings during the summer of 2001 and through March 2004 have had 48,000 enrollments. As a result, our teachers have been trained and supervised to use computers as a classroom tool.

An aggressive school repair project was implemented to upgrade infrastructure and more than $80 million were spent during the first 2 years repairing physical and electrical facilities of the 1,000 schools. Upon discontinuation of terrestrial services on June 30, 2003, we connected approximately 400 schools via dial-up telephony. Conscious that this is not a final solution we proceeded to identify available offerings and evaluated alternative technical solutions.

In November 2003 we decided to discard terrestrial connections and ultimately chose a satellite broadband connection as a cost effective and efficient solution—$12.4 million per year versus $36 million per year for the former solution.

Let us now talk about our experience with the FCC and USAC. During the calendar year 2000 at the request of FCC and USAC Arthur Andersen conducted an independent review of 17 beneficiaries of the USAC support mechanism financed by E-Rate funds for the first funding year, 1998-1999. Our Department was one of the beneficiaries subject of the review.

The Andersen auditors visited Puerto Rico in August 2000 prior to the general elections of that year. Andersen's report to USAC was not issued until October 17, 2001, that is, more than a year after their site visit to Puerto Rico. The only finding of this audit that was adverse to PRDE relates to the absence of desktop com-

puters in any of the classrooms of the only two schools visited out of the total 1,540 schools in the system.

Based upon this finding concerning year 1, USAC wrote a letter to PRDOE dated December 5, 2001, citing the Andersen finding in the context of being "very concerned" and demanded that our Department provide additional information concerning our ability to use schools and libraries support mechanism funding before USAC will commit any additional funding. That was 2001. Thus, Puerto Rico was effectively cutoff from the E-Rate Funds Program before allowing our Department to reach to the Andersen report.

We immediately responded and explicitly addressed each and every one of the issues raised in the December 5, 2001, letter, both in writing and through a personal presentation to FCC/USAC, where our compliance with their requests were amply documented. this presentation occurred on January 15, 2002, followed by my letter of January 23, 2002, to Mr. George McDonald, USAC Vice President for the Schools and Libraries Division.

This letter and its exhibits, as well as subsequent submissions to FCC/USAC provide the detailed information about acquisition of computers, lists of schools where equipment had been installed, specific information about our investments in the project, information on teacher's training and not just evaluations, but detailed reports on significant infrastructure repairs and upgrades. To date, USAC has never responded in writing to our letter of January 23, 2002.

As a matter of fact, neither the FCC nor USAC ever provided our Department with any procedural guidelines, a timetable nor any specific steps that we could have or should have taken to immediately regain access to the R-Rate Program. The information and documents provided in our January 23, 2002 letter were supplemented during personal visits of high-ranking delegations of the PRDOE to FCC/USAC on April 26 and October 1, 2002.

During these visits, USAC personnel made general comments complimenting our efforts, but did not produce any official pronouncement regarding the process by which FCC/USAC was evaluating our Department's ability to use the schools and libraries support mechanism, nor when would a decision be rendered.

On September 27, 2002, I formally demanded in writing from USAC the immediate availability of funding for years 4 and 5. I personally hand delivered said letter to Attorney Jane Mago, then General Counsel to the FCC during a meeting of October 1, 2002. To date, the letter as well remains unanswered.

Another 3 months elapsed without any action on the part of FCC/USAC. Again, at our request, on January 23, 2003, another delegation of the PRDE visited both USAC and the FCC. At that meeting, Attorney Mago, who was still the General counsel for FCC, requested that we submit yet another request in writing to the FCC fully documented. She promised that upon receipt of such document by the FCC she would see to it that a decision would be made by the FCC within 10 days. We again complied and filed on January 30, 2003, a seven-page letter with 12 exhibits to which I made reference at the beginning of this presentation.

Several months again passed without any response and, again, at our insistence another meeting with FCC/USAC was scheduled

for late May 2003. A few days earlier, on May 16, 2003, the FCC issued a public notice requesting any interested parties to submit comments on our January 30 letter. All comments received by the FCC supported our Department's petition. Again, nothing happened throughout the summer of 2003.

In August 2003 we decided to approach the Energy and Commerce Committee of the U.S. House of Representatives in an effort to obtain support for our requests for the release of the funding. Following that meeting, we later received in Puerto Rico the visit of several staff member of this committee.

In November 2003 at the request and insistence of the PRDE, a delegation from our Department accompanied by Puerto Rico Resident Commissioner, the Honorable Anibal Acevedo Vila, visited the FCC and met with Commissioners Kevin J. Martin and Michael Copps, and with senior legal advisors to the other three Commissioners, to again insist on a resolution.

Finally, on November 23, 2003, the FCC issued a resolution and order (FCC-03-294) instructing the USAC to process the Puerto Rico Department of Education's application for E-Rate funding for years 4, 5, and 6, subject to prior completion of an external audit. Almost 6 months later, on April 28, 2004, USAC formally advised the PRDE that it had retained the services of KPMG, LLP to perform the audit, which finally commenced on May 24, 2004.

In summary, our Department has made aggregate investments beyond $300 million of non-E-Rate funds and has been working very hard to take necessary corrective action to offer our students a project that works without the support of the FCC and USAC. The recovery plan we have undertaken has produced tangible results and benefits for the students and teachers of Puerto Rico. However, with E-Rate funding we can do much more.

Conclusion. In the past our Department has been bogged down by unending litigation and vendor-driven development plans. As a result we inherited an alarmingly expensive, over-engineered system that did not work.

Recommendations. Whatever agency of the U.S. Government is ultimately entrusted with administering the E-Rate Program must ensure that the service recipient certifies invoices and services received prior to disbursing payments to the vendors. Second, the E-Rate support mechanism should allow districts to acquire with E-Rate funds service validation software to corroborate services and facilitate invoice certification.

Third, the agency administering the E-Rate fund should have a technical advisory team available for school districts to consult openly on technical matters or doubtful supplier practices.

Fourth, current policy does not allow the use of the network for administrative purposes. This forces schools to acquire and sustain a second network, or to engage in complex procedures to account for a network utilization between academic and administrative tasks. Administrative use of the E-Rate funded network by schools should be allowed given that schools increasingly are required to collect data to comply with existing Federal laws and programs such as No Child Left Behind, Carl D. Perkins, Special Education, and other programs.

Fifth, if access to the Internet for educational purposes is the primary object of the Universal Fund, then a government agency more knowledgeable of the process of education and more sensitive to the needs of the school system should be in charge of administering the distribution of the funds. For example, the U.S. Department of Education which, by the way, would also be far less involved with the priorities and aspirations of the telecommunications companies.

We commend this committee's initiative to take a hard look at the E-Rate Program and it will support any congressional action to restructure the E-Rate Program so that it better serves its intended educational purposes. On behalf of the more than 600,000 students in Puerto Rico, we encourage you to do so. Thank you very much.

[The prepared statement of Cesar Rey follows:]

PREPARED STATEMENT OF CÉSAR A. REY HERNÁNDEZ, SECRETARY, DEPARTMENT OF EDUCATION, COMMONWEALTH OF PUERTO RICO

Good Morning Mr. Chairman and members of the Subcommittee on Oversight and Investigations of the Energy and Commerce Committee of the U.S. House of Representatives. My name is César Augusto Rey Hernández. I am a Sociologist and the Secretary of Education for the Commonwealth of Puerto Rico. I have been the Secretary of Education since January 7, 2001 when I was appointed by a new government administration elected on November 7th 2000. This is the first time that I hold a public office. Prior to accepting this responsibility, I dedicated my whole life to higher education and to the Academia, at the Universidad del Sagrado Corazón in San Juan, and other institutions.

Perhaps you are aware that the public school system of the Commonwealth of Puerto Rico is one of the largest under the jurisdiction of the United States, with more than 610,000 students attending 1540 schools scattered over an area of 3,500 square miles. The Puerto Rico Department of Education (PRDE) has close to 80 thousand employees who are represented by 4 different labor organizations, and has a yearly budget of approximately $3 billion. Every year, close to 30,000 young men and women graduate from our public school system. These students need to be capable of mastering the tools of the information age. We cannot allow them to lag behind in the digital arena because their socioeconomic profile may have limited their access to computing devices and the Internet.

As you know, Puerto Ricans with business, residential, or cellular telephones contribute daily to the Universal Fund administered by the Federal Communications Commission (FCC) through the Universal Service Administrative Company (USAC).

Puerto Ricans have continued to pay into the Universal Fund even when Puerto Rico has received no funding at all from the FCC/USAC since 2000, despite the fact that since early 2002 we documented to the FCC/USAC the measures taken to overcome the shortcomings and deficiencies of the technology project inherited from the past. My administration and the team of people that have worked with me from day one have invested their best efforts to produce a lasting contribution in all areas of the educational endeavor, including the development of an effective and useful technology program.

Our Department is committed to developing a state-of-the-art, efficient island-wide network to provide a uniform communications and Internet service to about 1540 public schoo1s in Puerto Rico, covering all municipalities in the main island of Puerto Rico and two adjacent island-municipalities, Vieques and Culebra, with or without E-Rate assistance.

We have proudly accepted the invitation of this Subcommittee on Oversight and Investigations to share with you some of our experiences in the ongoing effort to provide our schoolchildren with advanced telecommunications services as well as our efforts to reincorporate Puerto Rico into the E-Rate program.

BACKGROUND

The technological project to connect the Puerto Rico public school system to the Internet with E-Rate funds started in 1998-99 (year 1) with 760 schools, when E-Rate funds were provided by FCC/USAC for communication lines, communications equipment and internal connections. In 1999-00 (year 2) funds were provided for communication lines, communications equipment and internal connections for 780

additional schools, including two servers for each of those schools, for a total of 1560 servers. In 2000-01 (year 3) funds were approved for about 100 additional schools not completed in previous phases, and 4600 additional servers. For 2001-02 (year 4, first year under our administration) PRDE applied for completing the installation of communication facilities for about 200 schools pending from previous years.

One of the first challenges we faced upon taking office was filing the E-Rate funding application (form 471) for year 4 (July 2001 thru June 2002), which was due on January 18, 2001. We only had ten calendar days to file the application. The previous administration had filed Form 470 in late 2000 and had received and evaluated the corresponding vendor proposals, based on their technology project.

Due to the short period of time available to review proposals, much less to evaluate the project as a whole, we used the following criteria to file the application:

- We should seek to complete tasks already started;
- Provide maintenance to the already installed equipment;
- Pay rent for communication lines already installed;
- Seek E-Rate discounts for internal connections and internet access already contracted.

We avoided initiating new tasks or attempting to change the technological approaches of the project until the pending tasks were completed, the entire project was evaluated, tests were performed and the real status and effectiveness of the program was determined.

Preliminary evaluation

Early in 2001 we realized that evaluating the inherited project in detail was going to require a long time, due among other reasons, to its huge magnitude and its over-engineered design. Therefore, we decided to divide the process in two parts: a preliminary evaluation and a detailed evaluation. The preliminary evaluation produced the following findings:

1. **Network design.** We did not find any document with the design of the network nor documentation regarding how it was going to be developed, data volumes, cost estimates, management systems and support. Simple observation showed a rather awkward structure with one half of the schools fitted with a wireless system connected to the supplier's facilities, and the other half with a wired (terrestrial) system serviced by a different supplier connected to the Department's central offices in San Juan. The two systems did not interface.
2. **Management.** No established procedures to manage network security, installing new versions of programs, troubleshooting or updating drivers or similar network management tasks were found. Neither were the tools and people to be used for this work identified. Properly managing the network is very important, both because of the number of schools relying on it and because of its wide geographical extension. It is impossible to provide reasonable service turnaround if technicians have to travel to each school in order to fix problems or provide support. On the other hand, the capacity of the servers was too low to implement centralized management and support functions.
3. **Electrical and security infrastructure.** Many schools had electrical deficiencies and security problems. In others, electricity was not enough to properly power computers and many did not have security bars to protect the equipment from theft, abuse or vandalism.
4. **Infrastructure at PRDE central offices.** The server and communications infrastructure at the Department's central offices was totally inappropriate. We inherited a jumbled mishmash of cables strung in a haphazard manner without any systematic organization or observance of industry standards for servicing. The PRDE internal local area network (LAN) needed to be completely rebuilt so as to provide the maintenance and remote support services essential to properly use the school network
5. **Multiyear contracts and procurement process.** One of the contracts inherited from the previous administration for Internet service for year 3 (2000-2001) was amended in December of 2000 to extend its term until 2004. Besides, local bidding procedures did not appear to have been followed when choosing suppliers.
6. **Computer Purchases.** A bid to purchase about 100,000 computers had been conducted by the previous administration. This bid was successfully protested by some vendors. The final ruling issued by the Puerto Rico Court of Appeals notified on March 2001 upheld the protest, and the bid was cancelled.
7. **Status of the project.** The condition of each school regarding internal cabling, communication lines, servers, physical facilities and electricity was unknown. No reliable documentation was available regarding the status of the project in each school and overall. Of the 1540 schools in the system, only a handful (less

than 10) were regularly connecting to the Internet. The project was simply not operating.

ACTION STEPS

Main Strategies

After the preliminary evaluation in early 2001, and pending further analysis, we attempted to rescue the inherited project with a three pronged approach:

- **On the school side.** Provide computers to schools by developing computer laboratories; design and implement a teacher training program; implement a school repair program; design and implement a program to begin using technology in the classroom. Allocate funds for computer software.
- **At the center.** Requested a detailed evaluation of the network from an independent, private consultant. Design and test a methodology to provide administration and support to the network. Review of the legal, regulatory and financial aspects of the project vis-à-vis E-Rate funding.
- **At the central office side.** Design and implement a new LAN infrastructure, and a new server infrastructure for the central office buildings. Establish a Help Desk unit to provide support to regional offices and schools.

By following this approach we attacked the project's deficiencies in an integrated way, taking all important aspects into consideration, not just the installation of computer and communications equipment. Also, this approach allowed us to pilot test several additional technology projects which were necessary complements to the school network project.

Detailed evaluation

We decided to carry out a more thorough evaluation, which included visiting schools and performing communication tests. In order to execute the evaluation we contracted a private consultant. On July 2001 the consultant was hired and the evaluation process commenced.

In September 2001, the consultant presented his report on the status of the school network. Some of the salient findings were:

1. More than 50% of the communication lines from a sample of 100 schools were not installed, were not activated or were out of service.
2. Servers and communication equipment were installed in inappropriate areas that were too small or got wet when it rained. Electrical installations for servers and communications equipment were not adequate or did not exist.
3. Central office infrastructure necessary to support the network was not appropriate.
4. No project plans were prepared, nor was any evaluation of vendor performance done.
5. No Requests for Proposals had been prepared to guide vendors in submitting proposals.
6. Multiyear contracts were signed during the last days of the previous administration, without documented justification.
7. Ineffective technical trainings were provided (i.e.: 12 weeks in a row of continuous Microsoft trainings to non-technical people).
8. Many school directors did not know about the project, therefore their commitment level with the project was very low or inexistent.

Based on these findings we stepped up our efforts to demand accountability from the existing vendors through a series of measures, including weekly meetings. We also decided to extend the detailed tests to the remaining 1400 schools. The Office of Management and Budget of the Commonwealth government cooperated by providing us with resources to perform these tests in a short period of time.

When we started the evaluation not more than 9 schools out of 1540 were effectively connected to the Internet.

We designed a methodology to provide administration and support to the school network

An approach to manage servers and workstations from PRDE central offices using Microsoft Active Directory was designed and tested. Test results supported the implementation of this method. Many administrative tasks such as software distribution, configuration, problem troubleshooting and security implementation could now be performed remotely. Travel time to provide these services to schools could be recovered and used towards additional service requests. The current network management tools based on a simpler design requiring no network support functions from staff at the school level, is less people dependent, has lower operational costs and makes uniform administration less complex.

Provide computers to schools

We adopted a fully "turnkey" solution approach for technology acquisition which has proved to be consistently successful. This includes hardware, software, communications, electricity, security and furniture (when applicable). This approach has set the standard for uniformity in laboratory acquisitions.

Two different types of school laboratories were designed: mobile and fixed. Mobile laboratories consist of a cart with 26 laptops, a printer and a server. The cart has very low electrical requirements. It can be moved to any room during academic hours and, when not in use can be stored in a secure place. The fixed ones have 26 desktop computers, two printers and a server. They also include all electrical requirements, as well as air conditioning and security bars (for windows and doors). Both types of laboratories also include complementary audiovisual equipment for the purpose of leveraging and extending the educational potential of the computers that make up the laboratory.

The choice of equipment is made individually by each school in accordance with guidelines developed by the Office of Information Systems. The choice takes into consideration the condition of the electrical infrastructure, the security exposure of the school and the suitability of classrooms to be dedicated as laboratories. **Three bids have been successfully conducted since 2001 for mobile and fixed laboratories. We have already installed 343 of these laboratories, an investment of $28.5 million in Commonwealth funds.**

Vendors have been required to provide the electrical and security infrastructure, together with the necessary hardware, software and communications products. Vendors were also required to connect the laboratories to the school (E-Rate funded) network. As you can see, in this way we have not only been taking care of the need for computers, but also the electrical and the security requirements to reduce outage or system unavailability.

Train teachers in the use of technology

A basic premise in adopting the use of technology is that the obstacles to widespread use must be understood prior to committing large investments. The prior administration's efforts to promote computer use by distributing 37,000 laptops to teachers only achieved instant gratification as demonstrated by a teacher survey of literacy levels administered in 2001. We performed a survey to identify training needs among school teachers. Questionnaires were distributed to 46,311 teachers. We received 44,311 responses, which represents a 95.7% response rate. Some of the findings were:

1. 75% indicated their knowledge about computers was low.
2. 84% indicated their knowledge about software packages like Word, Power Point and Excel was very low.
3. 83% indicated their use of computers in administrative tasks was very low.
4. 80% indicated they used computers in their classes very few times.
5. 82% indicated their use of computers to produce materials for their classes was very little.
6. 79% indicated they do not use computers regularly to search for supporting material (Internet, encyclopedias, dictionaries).
7. 83% indicated their use of the computer in an integrated way in the classroom is very little.
8. 78% indicated they do not consider the computer a tool for their professional development.

The training efforts conducted in the past apparently were not effective. As a result, we designed and implemented a training program tailored to these specific needs and oriented towards deliverables or products usually needed by the teacher to do his/her job. We started the trainings during the summer of 2001 and through March of 2004 have had 48,627 enrollments.

Initiate academic projects using computers

In order to obtain optimal educational benefit from the use of computers it is not enough to install computers in schools and to train teachers. We have to integrate their use to specific academic projects. Initially we began to apply this principle through a project ca1Ied "Escuelas de Iniciativa". In it, teachers were trained, coordinated and supervised to use computers as a classroom tool. This was a complete academic project that included training, support from expert professionals and assessment. Subsequently we developed a network of centers "CITEDs" (Centros de Innovación Tecnológica para la Docencia) staffed with a teacher who is a Specialist in Educational Technology and whose main mission is to train teachers in the use of technology in the classroom. Specialists are available in more than 60 CITEDs

around the island to assist a particular teacher with a project or a group of teachers requiring training.

Implement a school repair project

A school repair project was implemented in order to prepare schools for the August 2002 semester ("Proyecto 1000"). More than $80 million were spent repairing physical and electrical facilities in that project alone. Other projects to repair electrical facilities and install window bars were financed with non E/Rate funds.

Allocate funds for computer software

The previous administration signed a $25 million dollar four-year agreement with Microsoft to acquire 60,000 license sets of several software packages that included the Windows operating system, the Microsoft Office Productivity Suite, Encarta, Atlas, and Publisher. The contract included training and consulting services. Teacher training offerings included basic, intermediate and advance usage of the Microsoft tools, graphic software for education material development and Internet integration into to the curriculum.

Additionally, most technology integration projects implemented since 2001 provided funds for purchasing content software to be used by students and teachers.

Improve central office infrastructure

When we analyzed the computer and communications infrastructure at PRDE's central office, we realized that it was far away from the infrastructure required to support the academic and administrative projects being conducted. The cabling had been installed by non-qualified personnel, without being certified nor following any industry standards. Almost daily a segment of the network was down. The capacity of the servers was too low and system response time was measured in minutes instead of seconds. A varied assortment of communications devices were used (hubs, switches, bridges) causing data traffic bottlenecks and a generally unreliable network. A $1.2 million project to redesign and install a standards compliant network was carried out with Commonwealth funds and now provides reliable service to the central and regional offices. To complete the infrastructure upgrade a server farm project totaling $1.9 million was installed in replacement of a mainframe system, to house academic as well as administrative support systems serving the Department and its schools.

Help Desk support

Between 2001 and 2004 we have recruited 48 persons to staff and improve Help Desk services. They have been trained to certify laboratory installations and also to provide technical support to stand alone PCs. Thirteen of these technicians serve the Central offices, while thirty five serve the regional offices and schools.

Project Reconceptualization

Upon the discontinuation of terrestrial services on June 30, 2003, we proceeded to connect as many schools as we could—400 to be exact—via dial up telephony. Conscious that this is not a final solution on which to operate an educational technology program we proceeded to identify available offerings in the marketplace and evaluated during five months alternative technical solutions. We decided to discard terrestrial connections and ultimately decided upon satellite broadband connections as a cost effective and efficient solution ($12.4 million per year vs. $36 million per year).

INTERACTION WITH FCC/USAC

Up to now we have been outlining the efforts made by our administration to provide the public school system of Puerto Rico with a reliable and useful wide area computer network to serve both the academic and administrative functions of the Department of Education. The network will also allow our teachers and students to be connected to and learn to benefit from access to the world wide web, commonly known as the "Internet". You have also noted that all of these efforts have been undertaken during a period when Puerto Rico has been cut off from the E-Rate Funding Program entirely. It is now appropriate to inform this Committee on the experience our Department has had with the agencies of the U.S. Government entrusted with administering and distributing the Universal Service Fund; that is, the Federal Communications Commission (FCC) and the Universal Service Administrative Company (USAC).

During the calendar year 2000, at the request of FCC/USAC Arthur Andersen, LLP was hired to conduct an independent review of 17 beneficiaries of the USAC support mechanism financed by E-Rate Funds for the first funding year (98-99). The

Puerto Rico Department of Education (PRDE) was one of the beneficiaries subject of the review.

The Andersen auditors visited Puerto Rico between August 23 and September 1, 2000. They inspected the Central Data Center of the PRDOE and physically verified that the equipment funded by the E-Rate Program existed and had been installed for the purpose of supporting Internet connectivity for 780 Schools which then had T-1 lines. They also verified that teachers had been provided with laptop computers which enable them to access the Internet.

Andersen's report to USAC was not issued until October 17, 2001, that is, *more than a year* after their site visit to Puerto Rico. The only finding of this audit that was adverse to PRDE relates to the absence of desktop computers in any of the classrooms of the only two (2) schools visited out of the total 1,540 schools in the system.

Based upon this finding concerning Year 1, USAC wrote a letter to PRDOE dated December 5, 2001 citing the Andersen finding in the context of being "very concerned" and demanded that our Department "must provide additional information concerning its ability to use Schools and Libraries Support Mechanism funding". Specifically, we were requested to produce "before USAC will commit any additional funding" the following:

1. Detailed information about the acquisition of computers to make use of the connections.
2. A list of the schools where equipment had been installed.
3. Specific information about PRDE's investments in productivity and curriculum software.
4. The PRDE progress in delivering professional development (teacher training).
5. PRDE's evaluation of any necessary upgrades to the electrical systems in the schools.

The letter concluded that USAC would not commit nor disburse any additional funding to Puerto Rico (irrespective of the program year) until it had received and evaluated our Department's response to the above letter, which was received in my office during the last few days of 2001, between Christmas and New Years Day.

Of course, by then we already had the benefit of the report of our independent consultant which had been rendered in September, 2001 and had spent long months and substantial resources in evaluating and working to rescue the program. By then we were also well aware of the magnitude of the problem that we had inherited which did not necessarily become apparent from the Andersen findings. Long before then we had already started to implement corrective measures based on the recovery strategy we designed. But, the fact remains that FCC/USAC, without first allowing PRDE to react to the Andersen report, had effectively cut-off Puerto Rico from the E-Rate Funds Program.

We immediately responded and explicitly addressed each and every one of the issues raised in the December 5, 2001 letter, both in writing and through a personal presentation to FCC/USAC, where our compliance with their requests were amply documented. **This presentation occurred on January 15, 2002,** followed by my letter of January 23, 2002 to Mr. George McDonald, USAC Vice President for the Schools and Libraries Division. This letter and its exhibits, as well as subsequent submissions to FCC/USAC, provide the detailed information about acquisition of computers, lists of schools where the equipment had been installed, specific information about our investments in the project, which to date far exceed the funds ever disbursed by FCC/USAC, information on teacher's training and not just evaluations, but detailed reports on significant infrastructure repairs and upgrades. **To date, USAC has never responded in writing to our letter of January 23, 2002.**

As a matter of fact, neither the FCC nor USAC ever provided our Department with any procedural guidelines, a timetable nor any specific steps that we could have or should have taken to immediately regain access to the E-Rate Program. It should be noted that FCC/USAC took the unilateral decision to stop E-Rate Funding for Puerto Rico *15 months after the Andersen site review, without any prior consultation with the PRDOE and without an opportunity for our Department to react to the Andersen report prior to the drastic action that was taken.*

The information provided to FCC/USAC on January 23, 2002 was supplemented during personal visits of high-ranking delegations of the PRDOE to FCC/USAC on April 26 and October 1, 2002. During these visits, USAC personnel made general comments complimenting our efforts, but did not produce any official pronouncement regarding the process by which it was evaluating our Department's "ability to use the schools and libraries support mechanism", nor when would a decision be rendered.

Since time continued to pass without any decision from FCC/USAC regarding access by Puerto Rico to the E-Rate program on September 27, 2002 our Department

formally demanded in writing from USAC the immediate availability of funding for Years 4 and 5 after having more than fully complied with all of the requests contained in USAC's letter of December of 2001. I personally hand-delivered a copy of said letter to Atty. Jane Mago, then General Counsel to the FCC during a meeting at the FCC on October 1, 2002. **Again, nothing happened. Today my letter of September 27, 2002 also remains unanswered.**

After another three months elapsed without any action on the part of FCC/USAC, again at our request, on January 23, 2003 another high ranking delegation of the PRDE visited both USAC and the FCC. At that meeting, Atty. Mago, who was still the General Counsel, requested that the PRDE submit yet another request in writing to the FCC, fully documented, again requesting the release of E-Rate Funding for Puerto Rico. She stated that upon receipt of such document by the FCC she would see to it that the document reach the desks of the Commissioners, and that the PRDE would receive a decision within ten days. Naturally, we again complied and filed on January 30, 2003 a 7-page letter with 12 exhibits to once more formally request the immediate availability to Puerto Rico of E-Rate Funding for Years 4 and 5. The exhibits, consisted of prior correspondence and printed summaries of the personal presentations that had been made to FCC/USAC on January, April and October of 2002 and January 23, 2003. Following the January 30 submission, we began to receive occasional verbal requests for documents or information, and verbal inquiries from FCC/USAC staff, primarily on our procurement procedures.

Since several months again passed without any response from FCC/USAC, at the request of PRDE another meeting with FCC/USAC was scheduled for late May 2003. A few days earlier, on May 16, the FCC issued a public notice requesting any interested parties to submit comments on our January 30 letter. All comments received by the FCC supported our Department's petition. **Again, nothing happened throughout the Summer of 2003.**

In August, 2003, we decided to approach the Commerce and Energy Committee of the U.S. House of Representatives in an effort to obtain support for our requests for the release of the funding. Following that meeting, we later (Feb/04) received in Puerto Rico the visit of several staff members of this Committee.

In November of 2003, and at the request and insistence of the PRDE, a delegation from our Department, accompanied by Puerto Rico Resident Commissioner, the Honorable Anϕbal Acevedo Vilμ, visited the FCC and met with Commissioners Kevin J. Martin and Michael J. Copps and with senior legal advisors to the other three Commissioners, to again insist on a resolution.

Finally, on November 25, 2003 the FCC issued a resolution and order (FCC-03-294) instructing USAC to process the Puerto Rico Department of Education's applications for E-Rate Funding for Years 4, 5 and 6, subject to prior completion of an external audit. Almost 6 months later, on April 28, 2004 USAC formally advised the PRDE that it had retained the services of KPMG, LLP to perform the audit, which finally commenced on May 24, 2004.

CLOSING REMARKS

Our Department has made aggregate investments beyond $300 million of non ERATE funds and has been working very hard in a planned and reasoned manner to analyze what was done by the previous administration and to take the necessary corrective action to offer our students a project that works. We believe that we have focused every important aspect of the project, including policy setting, technology planning, network development, administration, support and maintenance, school equipment, school infrastructure, central office infrastructure, teacher training, academic projects and Help Desk support. **We are committed to continue developing our program by installing computers at the schools, training teachers, designing new academic projects and making sure vendors do their corresponding part.**

The recovery plan we have undertaken without any E-Rate support has produced tangible results and benefits for the student and teachers of Puerto Rico. But we definitely can use E-Rate funding and E-Rate support to continue. Every additional delay in proceeding with funds disbursements will make the catch-up cycle longer and more difficult. Worse of all, it will allow more students to graduate without necessary skills. **Any further delays or worse yet, continued inaction, will have even more Puerto Ricans wondering why they are contributing to the Universal Service Fund.**

Lastly, we would like to share a few thoughts that in our estimation may assist the US Congress in enacting legislation that will result in an E-Rate program more beneficial to the educational process.

1. The PRDE in the past has been bogged down with unending litigation and vendor-driven development plans. As a result we inherited an alarmingly expensive, over-engineered system that did not work. When our participation in the E-Rate program was abruptly shut-off and we were obliged to seek alternatives, we were able to identify viable options at much lower costs. The huge cost of installing terrestrial networks makes E-Rate an attractive subsidy source for telecom companies wanting to extend their network into the rural areas where the customer density is low.

2. Whatever agency of the US government is ultimately entrusted with administering the E-Rate program, must ensure that the service recipient certifies invoices and services received prior to disbursing payments to the vendors. Also, the E-Rate support mechanism should allow districts to acquire with E-Rate funds service validation software to corroborate services and facilitate invoice certification.

3. Telecommunications equipment connection is only half of the equation—inconsistent service availability is the recurrent loss/waste gap with a potential to drain resources that could be used to service more schools. The agency administering the E-Rate fund should have a technical advisory team available for school districts to consult openly on technical matters or doubtful supplier practices. The cost of providing this service will be insignificant compared to the potential savings.

4. Current FCC/USAC policy does not allow the use of the network for administrative purposes. This forces schools to acquire and sustain a second network, or to engage in complex procedures to account for network utilization between academic and administrative tasks. Administrative use of the E-Rate funded network by schools should be allowed given that schools increasingly are required to collect data to comply with existing federal laws and programs (i.e. No Child Left Behind, Carl D. Perkins, Special Education, and other programs.)

5. If access to the Internet for educational purposes is the primary object of the Universal Fund, then a government agency more knowledgeable of the process of education and more sensitive to the needs of the school system should be in charge of administering the distribution of the funds. For example, the US Department of Education, which by the way, would also be far less involved with the priorities and aspirations of the telecommunications companies.

We commend this Committee's initiative to take a hard look at the E-Rate program and will support any congressional action to restructure the E-Rate program so that it better serves its intended educational purposes. On behalf of the more than 600 thousand school children of Puerto Rico we encourage you to do so. Thank you very much.

TIMELINE

Sequence of relevant events related to PRDOE ERATE project

Date	Event
1998	USAC approves $46,222,680 in E-Rate funds to PRDOE
1999	USAC approves $56,879,778 in E-Rate funds to PRDOE
2000	USAC approves $55,605,088 in E-Rate fund to PRDOE
Augusta 23-September 1, 2000	Arthur Andersen audit for first funding year (1998)
October 17, 2001	Arthur Andersen presents audit report to USAC.
2001	
January 7, 2001	Dr. César Rey Hernández takes office
January 8, 2001	Dr. César Rey Hernández names an advisory committee of professionals to address the telecommunications and Internet supplier selection process and meet the January 18th E-Rate funds request deadline. The evaluation committee fulfilled the request in the absence of the Systems Department Director who had resigned as of December 31st. Proposals had already been requested and received by the previous administration.
January 18, 2001	E-Rate funding application due date for year 4 (2001).
January 18, 2001	Advisory committee recommends avoiding initiating new tasks or changing the technological approaches of the project until the pending tasks were completed, the whole project was evaluated, and tests were performed to determine the real status of the project.
February 2001	Dr. Rey issues letter instructing school directors to stop any local activities involving E-Rate funding.
March-April 2001	PRDOE designs a three-pronged strategy to recover the project (the Center (network), the schools and the Central Office)

Sequence of relevant events related to PRDOE ERATE project—Continued

Date	Event
July 2001	PRDOE hires ARJ Professional and Consulting Services to assess current situation and uses this information to seek responsibility from vendors
September 18, 2001	ARJ Consulting and Consulting Services publishes ReEducATe network assessment.
October 30, 2001	PRTC letter to PRDOE serving as basis for recovery plan to correct installation deficiencies identified by PRDOE.
September 4, 2001	First laboratory bid awarded (100 laboratories)
December 5, 2001	USAC requests PRDOE to provide additional information concerning its capability to use the E-Rate funding mechanism. The letter infonns PRDOE that USAC withholds from making commitments or disbursements to PRDOE vendors until evaluation of response to its letter.
2002	
January 15, 2002	PRDOE makes first personal presentation to USAC, OIG and FCC on progress readiness to participate in E-Rate program
January 23, 2002	Dr. César Rey Hernández letter to George McDonald at USAC. Letter also indicates that contractors have been advised to provide services and repair installations which were not made adequately or face legal actions for noncompliance. No response from USAC.
January 23, 2002	PRDOE cancels DRC contract.
February 26, 2002	DRC discontinues Internet and telecommunications service to schools serviced.
March 2002	Bid 2002-030 was awarded. Bid authorized the acquisition of 3,362 Desktop Computers. Computers were installed in school libraries.
April 26, 2002	Second presentation to USAC/FCC on efforts made by PRDOE to meet E-Rate program requirements.
September 27, 2002	Dr. César Rey letter to USAC formally requesting immediate release of funds for years 4 (2001) and 5 (2002).
October 1, 2002	Hand delivery to FCC General Counsel of formal letter requesting USAC the release of years 4 and 5 funds.
October 1, 2002	Third presentation to USAC on efforts made by PRDOE to meet E-Rate program requirements.
2003	
January 23, 2003	Fourth presentation from PRDOE to USAC/FCC.
January 30, 2003	PRDOE provides FCC with information requested in January 23rd meeting.
May 16, 2003	FCC issues public notice requesting any interested party to submit comments on PRDOE's petition. All comments received supported PRDOE's petition.
June 30, 2003	PRTC discontinues Internet and telecommunications service to schools serviced
June 30, 2003	PRTC files a civil suit against the PRDOE before the Superior Court of Puerto Rico
August 21, 2003	Meeting with Energy and Commerce Committee Staff to describe PRDE efforts to obtain approval and release of funding.
September 19, 2003	Dr. Carmen Collazo Rivera letter to Thomas Dilenge, Energy and Commerce Committee requesting participation in the E-Rate fund to provide Internet access to public school students.
November 2003	PRTC drops the civil suit against the PRDOE.
November 25, 2003	FCC Order instructing USAC to carry out two audits of the E-Rate program: 1998-2000 and 2001-2003.
February 2, 2004	Commerce and Energy staff members visit Puerto Rico through February 5th to perform fact finding activities.
February 13, 2004	PRDOE meets with USAC (McDonald and staff) to inquire status of FCC ordered E-Rate audit, provide background documents for audit and request prompt start
April 30, 2004	Alternate Telecommunications and Internet provider ReEducATe Contract signed using a satellite based alternative.
May 24, 2004	USAC E-Rate Audit by KPMG begins.

Mr. GREENWOOD. Thank you, Mr. Secretary. That was very well done and very constructive. We appreciate it.

We will move to you next, Ms. Lambert.

TESTIMONY OF CRISTINA LAMBERT

Ms. LAMBERT. Good morning. Thank you for allowing me the opportunity to be here with you this morning. I have submitted my testimony in writing. What I would like to do is just take this time to share with you the highlights of that testimony. I have chosen not to read the testimony at this time. I also promise not to make this a technology session but I have a chart here that I will be referring to as I speak.

Let me give you a little background about me. I am Cristina Lambert and I am currently the President and CEO of Puerto Rico Telephone. I have been in the telecommunications industry for 30 years previously with Continental Telephone and then with GTE. I went to Puerto Rico after the privatization in August 1999.

Let me begin by sharing that I am committed to supporting education in Puerto Rico for the people of Puerto Rico, for the children of Puerto Rico. My interest here today is to see that we move forward with funding for Puerto Rico.

About Puerto Telephone Company, it has been around for 90 years and I have to say that Arnaldo Diaz, who is here with me today, has been involved in the E-Rate project since it started in 1998. Puerto Telephone is a very advanced telephone company. 100 percent digital network, fiber optic around the island, fully redundant network. Most of all, to this panel, it is committed to quality.

When I say it is committed to quality, I mean that we, Puerto Rico Telephone, have made an investment of $1.2 billion in infrastructure improvement over the last 5 years. That improvement was made in the network to serve 1.6 million wireline and wireless customers.

We understand that telecommunications is important not only for education but for the economic well being of Puerto Rico. For economic growth, quality of life, a job placement, a solid telecommunications network is required. PRT contributes to the local Universal Fund, the major contributor on the island to that fund.

In addition to that contribution, we offer scholarships to students of Puerto Rico annually, internships to the students of Puerto Rico to work in the telephone company, and we have 30 digital centers around the island and the very poorest neighborhoods in Puerto Rico because we understand that it is important to cross the digital divide. Again, I state that we fully support E-Rate and the vision that this body of Government had when E-Rate was established.

If you would allow me to move to the chart, I would like to share with you what Puerto Rico Telephone's involvement has been over the past 5 years in the E-Rate Program. For color coordination, Puerto Rico Telephone is in orange and what you'll see there is that we are responsible for providing broadband access to the schools. When you see a piece of equipment there it's a router. That router was to be housed in the cabinet that you see in blue. Beyond the entrance of the school building, Puerto Rico Telephone's responsibility was to ensure that router was functional within the school.

Beyond that, PRT did not have responsibility inside of the school for internal wiring, for placement of the cabinet, for education, training, or any other of those functions that you see listed on that chart. I won't bore you with the details of all the color coordination,

but as we refer and as we talk to this process, you can see that what this demonstrates it was not an end-to-end solution.

Each vendor had responsibility and what you have been hearing today may have been a lack of coordination or administration or project management of this process. It was by far complicated and complex to deliver service. Again, we were responsible for the installation, the configuration, and the maintenance of that network.

In order for PRT to deliver telephone service to the schools of Puerto Rico, and I need to back up to say that the implementation of EDUNET in Puerto Rico was in phases. In Phase I Puerto Rico Telephone had responsibility directly to the Department of Education to provide service. The Department of Education was our customer.

In Phase II we provided transport service as a vendor to DRC. Again, in all the 1,500 schools we were responsible for providing access. To do that, Puerto Rico Telephone in 1998 purchased an ATM network, an ATM frame relay network, to deliver that service, purchased a significant amount of central office equipment to deliver that service and, in some cases, had to construct facilities to the schools because there were, in fact, no facilities at those schools.

In all cases we paid our vendors to deliver those services because many of the vendors in Puerto Rico that deliver services are small companies and they would not be able to extend credit for such a network for extended period of time.

I want to add much more to this discussion but, again, I promise not to make it a technical solution or technical discussion so I would only say that all of the audits that you have heard talked about today, the FCC audit, the USAC audit, the controller's audit, all point to a number of issues but the focus has not necessarily been on the transport.

We can talk briefly about the project that was implemented in 2002. To demonstrate, Puerto Rico Telephone worked with the Department of Education to create model schools, 400 model school. In those model schools we invested $1.3 million of funds that we never intended to recuperate to demonstrate that with an end-to-end provider we could, in fact, make this project work. That was a very successful process.

Mr. GREENWOOD. Let me interrupt you for a second. What you heard there is we are about to have some votes and what I would like to try to do is have you wrap up very quickly. We will have lots of questions for you.

Ms. LAMBERT. Okay.

Mr. GREENWOOD. We will try to get Mr. Diaz' testimony in before we have to break.

Ms. LAMBERT. I'll do it in 2 seconds.

Mr. GREENWOOD. Excellent.

Ms. LAMBERT. I talked about the 400 school project. It was very successful and we demonstrated there that this project could work. Let me just end by saying that Puerto Rico Telephone delivers telecommunication service to the Department of Education and a number of other national and local companies. We have 35,000 circuits in service every given day and of those only 100 customers at most are out of service at any given time. We know that we are very ca-

pable of delivering high-bandwidth service to our customers. We want to support the Department of Education and continue to do so on an everyday basis by providing telecom service. Thank you very much.

PREPARED STATEMENT OF CRISTINA LAMBERT, PUERTO RICO TELEPHONE COMPANY

INTRODUCTION

My name is Cristina Lambert and I am President and Chief Executive Officer of Puerto Rico Telephone. I assumed my current position in November 2003. I originally joined PRT in August of 1999. My responsibilities at that time included managing the company's sales, marketing and network operations functions. I have been in the telecommunications industry for 30 years serving in various capacities at Contel and GTE.

I want to thank you for inviting me to appear today at this hearing regarding the E-Rate program. I am pleased to have the opportunity to address these issues that are critically important to me, Puerto Ricans and to this nation.

PRT is a diversified telecommunications company operating in the Commonwealth of Puerto Rico. Puerto Rico Telephone has been committed to providing modern, quality telecommunications services to as many Puerto Ricans as possible. PRT is the most technologically advanced and most reliable telecommunications company in Puerto Rico and the Caribbean. PRT's network is 100 percent digital with over 75,000 miles of fiber optic cable serving approximately 1.6 million wireline and wireless customers and we continue to invest in our infrastructure. Over the past five years we have invested over $1.2 billion in our network.

PRT places tremendous emphasis on providing modern telecommunications as a means of improving the economic welfare of Puerto Ricans and the overall business environment in the Commonwealth. In particular, PRT is committed to improving and enhancing educational programs on the island. Beyond the company's direct contributions to the universal service fund, PRT has earmarked millions of dollars to scholarships, internships, work-study programs, research grants and Internet community centers for the people of Puerto Rico.

From its inception, PRT has fully supported the E-rate program and its objective of ensuring Internet access to public and private schools in Puerto Rico. This project has been a focal point of the company's mission of "building the foundation of the new Puerto Rico."

PRT'S PARTICIPATION IN THE DOE'S INTERNET ACCESS PROJECTS

In 1998 the Puerto Rico Department of Education began an Internet Access project for Puerto Rico's public school system, originally called EDUNET but later named RE-EDUCATE. The plan originally called for the provision of Internet access to approximately 750 public schools in Puerto Rico (later denoted as the Phase I schools) and ultimately for access to over 1500 schools (the new schools being denoted as the Phase II schools). From 1998 to 2003 PRT was a vendor for the DOE in what has been termed Years 1 through 5 of the E-rate program. Our duties as a vendor were specified by the DOE in accordance with the Department's procurement process and as approved by USAC's Schools and Libraries Division. I have attached a chart, which sets forth the responsibilities of PRT, another vendor, DRC, and DOE for years 1 through 5.

During those years, under the terms of the contracts, PRT provided broadband access (T-1, ATM), to connect each of the Phase I schools to a central ATM node located at the DOE's premises. PRT also sold and provided maintenance to communications premises equipment (CPEs)—routers, not computers—for all Phase I schools. It is important for this body to understand that PRT was not in charge of this project. It was a vendor who was contractually obligated to provide services pursuant to DOE or, in some years, to DRC as a subcontractor.

In each year, DOE was responsible for the overall project management and for providing an adequate electrical infrastructure and environmental conditions for the reliable operation of the telecommunications equipment. Indeed, DOE had certified in each of the 470 forms it submitted to SLD during the life of the program that the Department was able to provide such oversight and infrastructure. In addition, DOE was responsible for training teachers, having computer equipment available and installed, and for providing "help desk" assistance. Necessary telecommunications equipment storage and inside wiring was the responsibility of other DOE vendors. Therefore, during this five-year period of this E-Rate project PRT was contractually responsible for:

1. A broadband connection to each of the Phase I schools to the central ATM node located at DOE central offices providing the PRT-installed routers access to the Internet.
2. Broadband connections to each of the Phase II schools (the other half of the 1500 schools), as a subcontractor to DRC. In each case, before billing could begin this vendor accepted the connection.
3. The installation, configuration, and maintenance of routers in approximately half of the over 1500 public schools in Puerto Rico, the Phase I schools, and at the central site at the DOE main office.

PRT'S PERFORMANCE IN THE RE-EDUCATE PROJECT

In each year of the Program, PRT met and exceeded its obligations as set out above. Underscoring PRT's continued dedication to the E-Rate program and the ultimate successful operation of the RE-EDUCATE network, PRT also performed a number of additional tasks beyond those for which it was contractually obligated. For example, when equipment was damaged due to problems attributable to the school's power deficiencies and cabinet placement and design—even though PRT had previously pointed out the placement and design problems—PRT routinely replaced equipment that was outside of the scope of the maintenance contract and did so free of charge. In all years, PRT routinely met with DOE personnel to highlight areas of potential improvement and to work towards solving problems with the network and specific schools.

During Year Four of the project a new administration took office in Puerto Rico. PRT worked hand-in-hand with the current DOE administration to demonstrate that, under the proper environmental conditions, the RE-EDUCATE network could provide consistent high bandwidth Internet service to the schools. To that end, PRT volunteered to invest over $1.2 million of its own time and resources to "Project 400." This project's objective was a top-to-bottom evaluation of end-user Internet Access capabilities of 400 specific Phase I schools. In each of these schools, PRT performed electrical and internal wiring infrastructure recovery work, provided Uninterrupted Power Supplies (UPS) to protect PRT's provided equipment and installed larger cabinets in appropriate locations. In addition, during 2002, PRT loaned the DOE approximately 300 personal computers to enhance the ability of the Project 400 schools to make use of Internet access.

In Year 5, the DOE announced that PRT had been awarded a "turn key solution" contract. Shortly thereafter, the DOE and PRT demonstrated that: the whole Re-educate network could be stabilized. Specifically, PRT installed a network operations center staffed with PRT personnel on DOE's premises to monitor network performance and dispatch personnel to remedy any problems. In addition, PRT trained over 30 newly hired DOE technical support personnel to assist schools in internal troubleshooting, greatly expanding available support services.

Thanks to the substantial effort put forth by PRT, by the end of 2002 PRT had firmly established that Phase I schools had reliable Internet service. At the same time, the DOE asked PRT to determine if Phase II schools could be cost-effectively integrated into the overall RE-EDUCATE network. To that end, PRT established that integration was feasible through the successful completion of a pilot program at three schools in May 2002. We have a video, which we will be pleased to provide you, exploring these efforts at one of the schools, the University Gardens School, that highlights the accomplishments achieved in meeting the DOE's challenge.

During Years 4 and 5 (2001-2003), the DOE awarded contracts to continue its RE-EDUCATE network but the SLD did not fund the DOE. PRT, as a contractually obligated service provider, could not unilaterally terminate services to the DOE. Importantly, the DOE never requested that we terminate the services. On the contrary, the DOE asked us to continue to provide service even though we were not being paid. PRT continued to provide service, in good faith, throughout the term of the contract. But with no assurance of payment we were forced to terminate services to the DOE on June 30, 2003 when the Year 5 contract expired.

CONCLUDING REMARKS

In conclusion, PRT has met and exceeded all of its contractual obligations in providing equipment and services to the Puerto Rico public schools and in many cases went well beyond those obligations, demonstrating our clear commitment to the educational and social goals of E-Rate. Admittedly this project was not an unqualified success; I believe that Project 400 proved that the RE-EDUCATE network as conceived by DOE and Congress and implemented by DOE selected vendors could provide high speed Internet access to the schoolchildren of Puerto Rico.

Indeed, PRT has seen first hand, as an E-Rate vendor in a different, non-Reeducate, project at over 100 private schools in Puerto Rico, that reliable Internet access can be successfully utilized by the educational system—more than 60,000 students and over 4,000 teachers at private schools have benefited from this program.

The facilities in place in Puerto Rico's public schools today are key building blocks for providing the students in the Puerto Rico public school system with reliable high speed Internet access in the future. We are eager to assist the DOE in completing this project, assuming we can agree on terms, which meet both parties' needs and ensure timely payment of PRT's contractual charges.

I would be happy to answer any of your questions.

Mr. GREENWOOD. Thank you.

Mr. Santos Diaz, you are recognized for 5 minutes and then we will break probably until about 12:30.

TESTIMONY OF SANTOS DIAZ

Mr. SANTOS DIAZ. Good morning everybody. I am very happy to be here. Is this okay?

Mr. GREENWOOD. Yes, it is. Good morning, sir.

Mr. SANTOS DIAZ. Good morning to you. Good morning, Mr. Chairman, Congressmen, ladies. My name is Santos Diaz. I am very pleased to inform and testify today before the Oversight and Investigations Subcommittee of the Committee on Energy and Commerce of the U.S. House of Representatives as President of DRC, regarding my knowledge of the advance Telecommunications Services provided to the public schools in Puerto Rico by DRC under the E-Rate program.

On April 8, 1998, DRC presented a proposal to the Puerto Rico Department of Education to provide services covered under the School and Libraries Division of Universal Service Administrative Corporation E-Rate funding program. Our proposal came in response to a request for proposal, USAC form 470, posted by the PRDE on the USAC website as required by the E-Rate program regulations. The request for proposal posted by the PRDE required three categories of services:

(1) Internal Connections, (2) Internet Access, and (3) Telecommunications Services for 760 public schools in PR.

The PRDE decided to implement the E-Rate program in two phases consisting of two blocks of schools. In its first year, 1998-1999, PRDE's E-rate program covered and requested funding and services for approximately half of all public schools in PR.

DRC's proposal included the offering of services only for the Internal Connections part of the RFP since DRC at that moment was only a systems integration operation and not an Internet Service Provider.

DRC was evaluated by the PRDE as the best alternative for the Internal Connection services and was awarded the installation of the communications infrastructure—wiring—for the first block of 760 schools. Puerto Rico Telephone Company was awarded the Telecommunications and Internet Access services part of the RFP.

It is my understanding that the only company to present a proposal that year for the Internet Access and Telecommunications requested was PRTC. For the Internal Connections services both PRTC and DRC presented offers. DRC, which possessed ample previous experience and expertise in the installation of cable infrastructures, was nevertheless the lowest bidder and was thus ac-

cordingly selected. The contract so awarded totaled some $13,107,332.

DRC's implementation of the project begun on January 1999, when funds were officially approved by USAC, and ended around September 1999. During that time period, DRC installed and tested 91,000 drops of UTP Cat5 wiring at 745 schools, invoicing 86,640 drops as contracted with PRDE and funded by E-Rate.

During this implementation phase, some infrastructure deficiencies issues such as lack of adequate electrical facilities and vandalism were encountered. To that effect a letter was sent to Mr. Kivio Peguero, Information Systems Director for the PRDE, informing him of these complications and presenting the PRDE with our recommendations.

An average of 12 classrooms per school were cabled with 8-12 wiring drops per classroom. All wiring drops installed were tested and accepted by PRDE. The external auditing company contracted by the PRDE for such purposes, Software Designers, performed the certification and acceptance processes at every school.

Namely, Software Designers would issue a cabling certification report to PRDE certifying the installation as complete and functional. After receiving such completion certification for any specific school, DRC would proceed to invoice, as required, both USAC and the PRDE for their respective share of the services rendered.

On March 8, 1999 DRC presented a proposal in response to a USAC form 470 request for proposal published by the PRDE on the USAC site requesting services and offers from eligible service providers for year 2 of E-Rate, 1999-2000. The PRDE requested new services for the second block of public schools, consisting of some 780 schools, and the continuation of services for the first block of schools performed in year 1 of E-Rate. This time around DRC's proposal included the provision of all services requested: Internal Connections, Internet Access and Telecommunications.

DRC was evaluated as the best alternative for the new block of schools, awarded the bid, and contracted to perform various services. Other services were awarded to other eligible service providers, including PRTC.

DRC's awarded contract, which totaled $51,478,221, provided for the installation of wireless communications infrastructure and the provision of the telecommunications and Internet access at each of the 780 schools comprising PRDE's E-Rate implementation phase 2.

The project was implemented between October 1999—when USAC officially approved the funding commitment—and May 2000. During that period DRC provided equipment, installed the wireless communications infrastructure at 762 schools, and initiated the installation of T1 telecommunication lines and the Internet access services to the schools.

DRC subcontracted PRTC, the incumbent Local Exchange Carrier, to install the T1 telecommunication lines. By the end of the fiscal year, June 30, 2000, PRTC had installed 392 T1 lines and thus those 392 schools were connected with access to the Internet. Accordingly, DRC invoiced both USAC and the PRDE.

The acceptance criteria——

Mr. GREENWOOD. Mr. Diaz, I hate to do this to you. You are about halfway through your testimony and about 120 percent through your time. That is okay but I do have to get down to the floor and vote so I'll give you a choice. We can come back at 12:30 and you can resume your testimony or, if you would like, you can sort of get to the bottom line.

Mr. SANTOS DIAZ. I would like to continue with my testimony.

Mr. GREENWOOD. In that case, the committee will recess until 12:30. I would note for the witnesses that on the B level of this building there are two restaurants, so to speak, where you can get something to eat. Thank you.

[Whereupon, at 11:53 a.m., the subcommittee recessed, to reconvene at 12:34 p.m. the same day.]

Mr. GREENWOOD. The meeting will come to order. I would ask the witnesses to return to the table, please.

Mr. Diaz, would you like to complete your testimony now, please?

Mr. SANTOS DIAZ. Yes. Thank you. I guess I was a little—when I was told 5 minutes, I think everybody was saying I was going a little too fast so I was just trying to cover all the material in that time slot.

I think I am talking about year 2000 now and I'll just continue reading what I was presenting. During that period DRC provided equipment, installed the wireless communications infrastructure at 762 schools, and initiated the installation of T1 telecommunication lines and the Internet access services to the schools.

DRC subcontracted PRTC, the incumbent Local Exchange Carrier, to install the T1 telecommunication lines. By the end of the fiscal year, June 30, 2000, PRTC had installed 392 T1 lines and thus those 392 schools were connected with access to the Internet. By the way, the documentation that I have with me, what it documents is the installation of all these schools whereby between DRC, the Department of Education, in this case the schools, and Puerto Rico Telephone Company.

The process that we followed was basically we had two forms which we call the preinstallation form and a post-installation form where we were getting the signatures of not only Puerto Telephone Company, but also the representative of the schools who would see the connectivity or the installation. In other words, the access to the Internet. This evidence we brought with us. This we did for each and every school.

Mr. GREENWOOD. We will enter that into the record.

Mr. SANTOS DIAZ. We did submit copies of all this evidence.

Mr. GREENWOOD. Thank you.

Mr. SANTOS DIAZ. Okay. Again, the acceptance process was as follows: First, DRC would issue a pre-acceptance installation document which included the school information, the date of the T1 installation, and the service order number.

PRTC would then issue its own T1 installation certification document signed both by the local carrier installer and the DRC project manager, certifying that the T1 had been installed and was functioning properly.

Following the issuance of these certifications, DRC would proceed to invoice USAC and the PRDE. All other products and services contracted and provided during year 2 of E-Rate were similarly ac-

cepted by PRDE and documented accordingly before DRC proceeded to invoice USAC and the PRDE.

The problems with vandalism and the inadequate school electrical infrastructure persisted throughout the program's second year. Yet, once the installation process was finished and so certified at each school, it was the PRDE's responsibility to maintain and safe keep the installed equipment, to provide adequate electricity, to provide the personal computers and software for the students and teachers—end users—and to train the teachers on proper techniques and ways of using the Internet as a teaching tool.

If any equipment was not function properly or not being used at all after acceptance by the PRDE due to the above-mentioned issues, that is a situation out of the control and responsibility of DRC.

On January 5, 2000, DRC and PRTC partnered and presented a joint proposal to the PRDE in response to the 470 request for proposal published by the PRDE at the USAC site for the third year of E-Rate funding. On January 18, the PRDE awarded DRC, PRTC, and four other eligible service providers a series of different services contracts. Another seven bidders were not awarded any services. DRC was awarded the Internal Connections, Internet Access, and Telecommunications services contracts, totaling $45,570,800 dollars, and it was approved for funding by USAC with an 87 percent discount.

During this third year of E-Rate, DRC continued with the installation of T1 telecommunication lines to the schools not yet connected, provided the Internet access to these schools, and provided additional equipment such as servers, tape drives and UPS protection for the equipment. By the end of the fiscal year, June 30, 2001, PRTC had installed and connected 709 T1 telecommunication lines and DRC was providing Internet access services to these schools.

Accordingly, DRC proceeded to invoice both USAC and the PRDE after any service and/or equipment was accepted by the PRDE. Sadly, the problems with vandalism and the inadequate school electrical infrastructure similarly persisted throughout the program's third year. PRDE's failure to avert and/or correct the threat of vandalism, to provide adequate electrical facilities, and to supply end users—students and teachers—with computers and software failed.

This situation was and continues to be a detriment for the most effective use of the installed equipment, communications infrastructure and Internet access services by the end users. School vandalism, lack of adequate facilities, and personal computers, and absence of proper teacher training on using the Internet as a teaching tool are definitely the biggest liabilities the PRDE still faces today.

On December 26, 2000, DRC presented a proposal to the PRDE in response to the 470 request for proposal published by the PRDE at the USAC site, requesting services from eligible providers for year 4 of E-Rate funding. On January 17, 2001 the PRDE awarded DRC the Internal Connections services contract for establishing the wiring backbone between the different buildings in those schools having more than one structure as well as the contract for the continuation of the Internet Access and Telecommunications for the block of schools DRC was servicing at that moment.

PRDE similarly awarded PRTC the contract for the continuation of the Internet Access and Telecommunications to the block of schools PRTC was servicing at that moment. Another nine bidders were not awarded any services. DRC was awarded Internal Connections, Internet Access and Telecommunications services contracts totaling $22,841,714 dollars. Nevertheless, the funding request was never officially approved for funding by USAC for reasons unknown to us.

Notwithstanding, DRC and its subcontractor PRTC continued installing T1 telecommunications lines to those schools not yet connected based on the expectation of a later approval of the funds as had happened on the previous E-Rate years.

On January 23, 2002 the PRDE unilaterally and without any contractually valid or supportable reason canceled the existing contract with DRC, simultaneously requesting it to formally shut down the Internet Access and Telecommunications services being provided. DRC requested the PRDE's reconsideration of its decision, but the PRDE did not do so, forcing DRC to shut down its service.

At present, this unilateral decision is being contested in the U.S. Federal Court of Puerto Rico, where DRC has filed suit against the PRDE, the Government of the Commonwealth of Puerto Rico, and USAC. The service provided by DRC up to the point of shutdown had been invoiced but no payment has been received even though USAC apparently approved the requested funding in 2003. A total of 736 public schools were connected with T1 lines and Internet access service by the date that service was reluctantly stopped.

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As far as I know and understand, the E-Rate program as a whole, including the equipment and telecommunications infrastructure created with E-Rate funds in the PRDE, is for all practical purposes defunct and all the money and efforts invested for nearly 4 years in building a solid and robust communications infrastructure, both locally and in the wide area network, has gone awry. One of the things I want to stress is that if during the last 3½ years the——

[The prepared statement of Santos Diaz follows:]

PREPARED STATEMENT OF SANTOS DIAZ, PRESIDENT, DATA RESEARCH CORPORATION

My name is Santos Díaz Díaz, President of Data Research Corporation (DRC). I am very pleased to inform and testify today before the Oversight and Investigations Subcommittee of the Committee on Energy and Commerce of the U.S. House of Representatives, in my capacity as President of DRC, regarding my knowledge of the advance Telecommunications Services provided to the public schools in Puerto Rico by DRC under the E-Rate program.

On April 8, 1998, DRC presented a proposal to the Puerto Rico Department of Education (PRDE) to provide services covered under the School and Libraries Division of Universal Service Administrative Corporation (USAC) E-Rate funding program. Our proposal came in response to a request for proposal (RFP), USAC form 470, posted by the PRDE on the USAC website as required by the E-Rate program regulations. The request for proposal posted by the PRDE required three (3) categories of services:

(1) Internal Connections,
(2) Internet Access, and
(3) Telecommunications Services
for 760 public schools in PR.

The PRDE decided to implement the E-Rate program in two (2) phases consisting of two blocks of schools. In its first year, 1998-1999, PRDE's E-rate program covered and requested funding and services for approximately half of all public schools in PR.

DRC's proposal included the offering of services only for the Internal Connections part of the RFP since DRC at that moment was only a systems integration operation and not an Internet Service Provider (ISP).

DRC was evaluated by the PRDE as the best alternative for the Internal Connection services and was awarded the installation of the communications infrastructure (wiring) for the first block of 760 schools. Puerto Rico Telephone Company (PRTC) was awarded the Telecommunications and Internet Access services part of the RFP.

It is my understanding that the only company to present a proposal that year for the Internet Access and Telecommunications requested was PRTC. For the Internal Connections services both PRTC and DRC presented offers. DRC, which possessed ample previous experience and expertise in the installation of cable infrastructures, was nevertheless the lowest bidder and was thus accordingly selected. The contract so awarded totaled some $ 13,107,332.

DRC's implementation of the project begun on January 1999, when funds were officially approved by USAC, and ended around September of 1999. During that time period, DRC installed and tested 91,000 drops of UTP Cat5 wiring at 745 schools, invoicing 86,640 drops as contracted with PRDE and funded by E-Rate.

During this implementation phase, some infrastructure deficiencies issues' such as lack of adequate electrical facilities and vandalism—were encountered. To that effect a letter was sent to Mr. Kivio Peguero, Information Systems Director for the PRDE, informing him of these complications and presenting the PRDE with our recommendations.

An average of twelve (12) classrooms per school were cabled with 8-12 wiring drops per classroom. All wiring drops installed were tested and accepted by PRDE. The external auditing company contracted by the PRDE for such purposes, Software Designers, performed the certification and acceptance processes at every school. Namely, Software Designers would issue a cabling certification report to PRDE certifying the installation as complete and functional. After receiving such completeion certification for any specific school, DRC would proceed to invoice, as required, both USAC and the PRDE for their respective share of the services rendered.

On March 8, 1999 DRC presented a proposal in response to a USAC form 470 request for proposal published by the PRDE on the USAC site requesting services and offers from eligible service providers for year 2 of E-Rate, 1999-2000. The PRDE requested new services for the second block of public schools, consisting of some 780 schools, and the continuation of services for the first block of schools performed in year 1 of E-Rate. This time around DRC's proposal included the provision of all services requested: Internal Connections, Internet Access and Telecommunications.

DRC was evaluated as the best alternative for the new block of schools, awarded the bid, and contracted to perform various services. Other services were awarded to other eligible service providers, including PRTC.

DRC's awarded contract, which totaled $ 51,478,221, provided for the installation of wireless communications infrastructure and the provision of the telecommunications and Internet access at each of the 780 schools comprising PRDE's E-Rate implantation phase 2.

The project was implemented between October 1999—when USAC officially approved the funding commitment—and May 2000. During that period DRC provided equipment, installed the wireless communications infrastructure at 762 schools, and initiated the installation of T1 telecommunication lines and the Internet access services to the schools.

DRC subcontracted PRTC, the incumbent Local Exchange Carrier, to install the T1 telecommunication lines. By the end of the fiscal year, June 30, 2000, PRTC had installed 392 T1 lines and thus those 392 schools were connected with access to the Internet. Accordingly, DRC invoiced both USAC and the PRDE.

The acceptance criteria and process for the T1 installation at the schools was defined based on telecommunication industry standards. Such was undertaken as follows. First, DRC would issue a pre-acceptance installation document which included the school information, the date of the T1 installation, and the service order number.

PRTC would then issue its own T1 installation certification document signed both by the local carrier installer and the DRC project manager, certifying that the T1 had been installed and was functioning properly.

Following the issuance of these certifications, DRC would proceed to invoice USAC and the PRDE.

All other products and services contracted and provided during year 2 of E-Rate were similarly accepted by PRDE and documented accordingly before DRC proceeded to invoice USAC and the PRDE.

The problems with vandalism and the inadequate school electrical infrastructure persisted throughout the program's second year. Yet, once the installation process was finished and so certified at each school, it was the PRDE's responsibility to maintain and safe keep the installed equipment, to provide adequate electricity, to provide the personal computers and software for the students and teachers (end users), and to train the teachers on proper techniques and ways of using the Internet as a teaching tool. After acceptance by the PRDE, any equipment malfunction as well as PRDE's consequent inability to utilize the services and equipment provided by DRC due to the abovementioned vandalism is a circumstance beyond DRC's control and contractual responsibility.

The PRDE was not effective in preventing vandalism, educating its students about the importance of safekeeping and protecting the new equipment and infrastructure, and in updating and improving its utilities infrastructure.

On January 5, 2000, DRC and PRTC partnered and presented a joint proposal to the PRDE in response to the 470 request for proposal published by the PRDE at the USAC site for the 3rd year of E-Rate funding.

On the 18th of January, the PRDE awarded DRC, PRTC, and four other eligible service providers a series of different services contracts. Another seven (7) bidders were not awarded any services.

DRC was awarded the Internal Connections, Internet Access, and Telecommunications services contracts, totaling $ 45,570,800 dollars, and it was approved for funding by USAC with an 87% discount.

During this third year of E-Rate, DRC continued with the installation of T1 telecommunication lines to the schools not yet connected, provided the Internet access to these schools, and provided additional equipment such as servers, tape drives and UPS protection for the equipment. By the end of the fiscal year, June 30, 2001, PRTC had installed and connected 709 T1 telecommunication lines and DRC was providing Internet access services to these schools. Accordingly, DRC proceeded to invoice both USAC and the PRDE after any service and/or equipment was accepted by the PRDE.

Sadly, the problems with vandalism and the inadequate school electrical infrastructure similarly persisted throughout the program's third year. PRDE's failure to avert and/or correct the threat of vandalism, to provide adequate electrical facilities, and to supply end users (students and teachers) with computers and software failed. This situation was and continues to be a detriment for the most effective use of the installed equipment, communications infrastructure and Internet access services by the end users. School vandalism, lack of adequate facilities, and personal computers, and absence of proper teacher training on using the Internet as a teaching tool are definitely the biggest liabilities the PRDE still faces today.

On December 26, 2000, DRC presented a proposal to the PRDE in response to the 470 request for proposal published by the PRDE at the USAC site, requesting services from eligible providers for year 4 of E-Rate funding. On the 17th of January, 2001 the PRDE awarded DRC the Internal Connections services contract for establishing the wiring backbone between the different buildings in those schools having more than one structure as well as the contract for the continuation of the Internet Access and Telecommunications for the block of schools DRC was servicing at that

moment. PRDE similarly awarded PRTC the contract for the continuation of the Internet Access and Telecommunications to the block of schools PRTC was servicing at that moment. Another nine (9) bidders were not awarded any services. DRC was awarded Internal Connections, Internet Access and Telecommunications services contracts totaling $ 22,841,714 dollars. Nevertheless, the funding request was never officially approved for funding by USAC for reasons unknown to us.

Notwithstanding, DRC and its subcontractor PRTC continued installing T1 telecommunications lines to those schools not yet connected based on the expectation of a later approval of the funds as had happened on the previous E-rate years.

On January 23, 2002 the PRDE unilaterally and without any contractually valid or supportable reason cancelled the existing contract with DRC, simultaneously requesting it to formally shut down the Internet Access and Telecommunications services being provided. DRC requested the PRDE's reconsideration of its decision, but the PRDE did not do so, forcing DRC to shut down its service.

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Mr. GREENWOOD. Tell you what, Mr. Diaz. You've taken 15 minutes of a 5-minute allotment so we will get to the other things you would like to stress hopefully in the questions.

The Chair recognizes himself for 10 minutes for the purpose of inquiry.

Dr. Rey, you state in your testimony that your initial evaluation found only nine schools out of 1,540 were effectively connected to the Internet. Given this and the related facts you report such as the limited computer literacy of the teachers, how much of the $100 million dispersed in E-Rate funds has been wasted?

Mr. REY. That will be very difficult to calculate but, to my understanding, most of that money was a waste as the letter from the FCC that I received on November 27 stated. It will be very difficult to calculate that to be precise.

Mr. GREENWOOD. And how much of that do you think is going to be able to be recovered? Is it all down the drain? Is the equipment that is in the warehouses, the $23 million worth of equipment?

Mr. REY. The warehouse that you saw is not functional at this point because it is outdating. We are investing in new equipment that brings the wireless so we are investing more than $90 million and we are bidding for $90 million that we might get liberated from the R-Rate fund for the last 3 years, 4, 5, and 6 year.

Mr. GREENWOOD. What is going to happen to the $23 million of equipment in the warehouses? Is it going to be thrown away?

Mr. REY. I would like Mr. Vidal to answer that, please.

Mr. GREENWOOD. Well, Mr. Vidal, did I swear you in?

Mr. VIDAL. Yes.

Mr. GREENWOOD. Okay. In that case, you can respond.

Mr. VIDAL. The equipment that is in the warehouse is equipment that through time has become obsolete. You can go into a computer store now and buy equipment with four times that capacity for probably a third of the cost of what that cost. The question we would ask ourselves is if we are going to invest in installing equipment and we were to use similar type of equipment, would we invest in putting in equipment that has a future life of 3 years or would we invest in installing equipment that has become obsolete over the past 3 years?

Mr. GREENWOOD. Dr. Rey, your administration found what appears to be wholly inadequate infrastructure in planning for the E-Rate network. What responsibility does the Puerto Rico Department of Education have as an institution for the waste of these funds? I was surprised to hear you say that you never found any documentation that there was even a plan.

Mr. REY. That is true.

Mr. GREENWOOD. That is incredible to me.

Mr. REY. That is true. I guess the Department by that time had the obligation to coordinate and establish a plan. They didn't. And to claim that plan for the vendors also. We don't have any evidence to date to show that they did that. It was misplanning and misleading funds.

Mr. GREENWOOD. And has there been any effort to interview those who should have been responsible?

Mr. REY. Of course, and we have a case in court now that is taking care of that.

Mr. GREENWOOD. This is a case where through greed, incompetence, and maybe criminal activity not only was $100 million of rate payer's money squandered, but worse than that the educational opportunity of hundreds of thousands of children was squandered. When are we going to find out who is responsible?

Mr. REY. That is in the Justice Department of Puerto Rico at this point We have been collaborating since day 1 with the U.S. Department of Education, with the FBI, and with the Justice Department in Puerto Rico. We made an audit in our first 3 months of incumbency. As the Secretary for Education we made an audit of all the things that were misplaced and we established an ongoing process that is still going on regarding auditing process in the Department. Not only the technology but the rest of the administration.

Mr. GREENWOOD. Do you expect that there will be criminal charges filed in this case?

Mr. REY. I hope so.

Mr. GREENWOOD. And do you have any evidence that would suggest criminal behavior at this point?

Mr. REY. I think I am not allowed to say that publicly at this point but the Department Secretary of Education is in jail as we speak.

Mr. GREENWOOD. What responsibility do you think the vendors have for all of this waste?

Mr. REY. I guess they have a responsibility to educate and coordinate and to establish a process of coordination of that investment that USAC and FCC is doing. As a matter of fact, we don't manage the money. The money goes directly through USAC to the vendors so they have the obligation to establish an order and a educational process of that investment.

Mr. GREENWOOD. Does it seem to you that since there is no documentation of a plan here, does it look to you like the vendors created a gold-plated system that was far more than the capacity of the school district to absorb just so they could sell the maximum amount of equipment and make the most money?

Mr. REY. Probably they did.

Mr. GREENWOOD. Mr. Vidal, you are nodding your head. Take a microphone and tell us what you think.

Mr. VIDAL. Our evaluation of this is that the system design was over-engineered.

Mr. GREENWOOD. By whom? Who is responsible for that over-engineering?

Mr. VIDAL. When the Secretary and his team came into office and they found what was already installed there, they found that there were multiple pieces of equipment, each of them consuming electricity, of course, and demanding of the electrical infrastructure of the school. On top of that, there were two servers. There was a——

Mr. GREENWOOD. You say two servers. You mean in each school?

Mr. VIDAL. Yes. Four servers in each school. I am being corrected. And there was also——

Mr. GREENWOOD. Where one would have sufficed?

Mr. VIDAL. Yes. Yes. Two additional——

Mr. GREENWOOD. That wasn't an accident, was it?

Mr. VIDAL. I think that——

Mr. GREENWOOD. You think that was stupidity or do you think that was somebody figuring I would rather sell you four servers per school than one?

Mr. VIDAL. I cannot speak to the motives but one would say that you tend to start small and grow from there as you see results. Here this was sort of a grandiose solution to what——

Mr. GREENWOOD. I am still not getting who did the over-engineering. Was it school district officials? Was it somebody who was selling the equipment driving this process and telling the school officials that, "This is what you need. You need four servers in every school."

Mr. VIDAL. I think that may point to the fact of some of the limitations we are finding with the E-Rate Program earlier.

Mr. GREENWOOD. Say that again, please?

Mr. VIDAL. That point perhaps to one of the limitations you were pointing earlier in which the doctor also mentioned when he said vendor driven. On one side the technical depth that a vendor has and all the possibilities they can sell and jiggle in front of people's eyes, plus perhaps the lower literacy that some of the districts may have may create the right conditions for this to happen.

Mr. GREENWOOD. Are you aware of any evidence that the vendors were wining and dining school officials in order to carry their favor?

Mr. REY. I don't have any evidence of that. However, what is evident is that they didn't have control and USAC was not executing any controls over the process that was going on. I mean, we're talking about more than $100 million without any controlled supervision or auditing. That is risky to say the least.

Mr. GREENWOOD. It is grotesque is what it is. Why did you terminate the contract with DRC?

Mr. REY. Because we weren't satisfied with the performance. Of course, that was not a good investment as we saw it at that time.

Mr. GREENWOOD. Do you differ with Mr. Diaz' testimony?

Mr. REY. Of course.

Mr. GREENWOOD. Tell us how. In what way?

Mr. REY. Because they have a different problem. They see this in a different manner. We audit our processes. We know the investment that USAC and FCC made. We calculate the investment that they made and the performance was extremely low, extremely poor. Nine schools connected to the Internet after $100 million of investment paying $36 million per year. That is quite eloquent, I guess.

Mr. GREENWOOD. What is your understanding for why funding was withheld in 2001 and 2002?

Mr. REY. Because of the chaos that the former secretary had in place.

Mr. GREENWOOD. Do you think that USAC is responding appropriately to your new plans now or do you think they are dragging their feet?

Mr. REY. Dragging their feet, I guess, because after 3½ years now is when we get a letter to continue our process and there will be auditing now but it took them too long to answer that letter and to answer that petition. As a matter of fact, we invested more than $300 million in the whole process in order to keep on track the process of E-Rate and connect to the Internet.

Mr. GREENWOOD. The gentlelady from Colorado is recognized for 10 minutes.

Ms. DEGETTE. Thank you, Mr. Chairman. Mr. Diaz, how much money did your company receive as a result of these contracts with the PRDOE?

Mr. SANTOS DIAZ. Around $90 million, I believe.

Ms. DEGETTE. $90 million.

Mr. SANTOS DIAZ. In 4 years.

Ms. DEGETTE. And, Ms. Lambert, how much did your company receive as a result of these contracts?

Ms. LAMBERT. If you will give me just a second, I'll put my glasses on.

Ms. DEGETTE. I would be happy to.

Ms. LAMBERT. Okay. If I am reading this correctly, in year one the company was awarded $10 million and billed $9.9 million. In year two the amount invoiced was $8 million. In year three the amount invoiced was $13 million. Those are the three.

Ms. DEGETTE. That adds up to about $31 million.

Ms. LAMBERT. For the 3 years, yes.

Ms. DEGETTE. Right, $31 million over 3 years. Now, you testified, I believe, Ms. Lambert, that the job of PRT was to take the wires up to the school buildings. Correct?

Ms. LAMBERT. Yes.

Ms. DEGETTE. Into the router?

Ms. LAMBERT. Into the router.

Ms. DEGETTE. And then you testified, Mr. Diaz, that your company's job was the internal connections.

Mr. SANTOS DIAZ. That is correct.

Ms. DEGETTE. Now, listening to the two of you testify today, I don't hear either one of you saying that your companies had any responsibility to work with the Department of Education to see that these systems actually went into place and worked. Do you think you had any responsibility to do that?

Mr. SANTOS DIAZ. Ms. Congressman, we did have meetings. As a matter of fact, we had weekly meetings and there are minutes of meetings where we would bring in our issues. When I say we, Puerto Telephone Company and DRC where we stressed what were our concerns. We address them the way we needed to up to the point of our responsibility which was very well dictated by E-Rate.

Ms. DEGETTE. So your answer, sir, is yes, you do think you had some responsibility rather than just collecting $90 million to see that students actually had this available.

Mr. SANTOS DIAZ. That is correct.

Ms. DEGETTE. What about you, Ms. Lambert?

Ms. LAMBERT. Okay. Well, what you see depicted there is the contractual responsibility.

Ms. DEGETTE. You know what? I used to be a lawyer. I understand reading contracts.

Ms. LAMBERT. Sure.

Ms. DEGETTE. But your company collected $31 million over a 3-year period. Do you think you had a responsibility to work with the other vendor and the Department of Education?

Ms. LAMBERT. Yes, we did.

Ms. DEGETTE. And what did you do to try to achieve that end?

Ms. LAMBERT. Well, in the case of the 400 schools we used rate-payer's money to——

Ms. DEGETTE. I am sorry?

Ms. LAMBERT. We used rate-payer's money to conduct internal wiring where it was needed.

Ms. DEGETTE. And when was that, Ms. Lambert?

Ms. LAMBERT. In 2002.

Ms. DEGETTE. That was well after——

Ms. LAMBERT. Yes.

Ms. DEGETTE. [continuing] all the events we are talking to. Right?

Ms. LAMBERT. We began to raise the issues and we have records that we have submitted to this body indicating that we were raising the issues since 1999 and working with the Department of Education to correct those issues. I share your concern and would state for the record that this administration has provided the resources to coordinate this process much more effectively than the previous administration did. What I believe is lacking was an implementa-

tion team, someone who coordinated this effort effectively and understood the technology enough to coordinate it.

Ms. DEGETTE. But with all due respect, you folks are the ones with the technical expertise to do that.

Ms. LAMBERT. Yes.

Ms. DEGETTE. And in experiences that I have had with other providers who deal with customers. If the customers don't have—I am not saying they are not to blame because there is plenty of blame to go around here, but what people do especially when they are collecting fees of this staggering size is they hire people to come in and help execute that. Did you do any of that?

Mr. SANTOS DIAZ. Yes, we——

Ms. DEGETTE. Okay. Mr. Diaz.

Mr. SANTOS DIAZ. Yes, we went beyond our responsibility.

Ms. DEGETTE. What did you do?

Mr. SANTOS DIAZ. As a matter of fact, we even established a monitoring system which we have in our own facilities where we had people assigned looking at screens all day just to make sure that the lines were up and running.

Ms. DEGETTE. But they weren't, were they?

Mr. SANTOS DIAZ. Yes, they were. We had 740 lines up and running.

Ms. DEGETTE. But how many schools were up and running?

Mr. SANTOS DIAZ. That is 740 schools.

Ms. DEGETTE. 740 schools. Is that true, Dr. Rey? Could you please give me your side of the story?

Mr. REY. Yes, indeed. We made an audit as soon as we got to the office and we established day-to-day basis checking on schools, evening sending people to check on the connection and the finding was the one that I told you. That is why we have a difference, a radical difference.

Ms. DEGETTE. You told us nine schools.

Mr. REY. Nine schools.

Ms. DEGETTE. Out of how many schools?

Mr. REY. 1,500.

Ms. DEGETTE. 1,500.

Mr. SANTOS DIAZ. May I add?

Ms. DEGETTE. Go ahead.

Mr. SANTOS DIAZ. When we came in the rule of the games were totally changed. Let me just stress on this. The telecommunications standards for connectivity, this is the evidence that we bring in. Basically our responsibility through the E-Rate program is to make sure that all the way up to the wall drop there was communications.

In other words, E-Rate specifically says that you cannot on eligible items such as providing computers, such as training teachers, such as providing additional software was construed as eligible and, if provided by the service provider, it would be understood as a kickback. The Department of Education wanted us to do that. In many instances we have minutes of meetings whereby they would say, "If you do not provide these computers, if you do not do these other things, you will not get paid." We have evidence of all this.

Ms. DEGETTE. Your view is that E-Rate—let me just get clear on this. Your view is the E-Rate specifically prohibits you from going in for no cost——

Mr. SANTOS DIAZ. That is correct.

Ms. DEGETTE. [continuing] and identifying problems and working with them to——

Mr. SANTOS DIAZ. No. Identify problems we did.

Ms. DEGETTE. I mean, I am not——

Mr. SANTOS DIAZ. We had meetings every week and——

Ms. DEGETTE. Sir, I understand you had meetings. Are you saying, though—what you're saying is you could not be reimbursed for training teachers and I understand that the law prohibits you from paying for electricity, for example. But, aside from the meetings, what did you do to try to make this system work together? Did you work, for example, with PRT to make sure the connections worked?

Mr. SANTOS DIAZ. Yes. As a matter of fact, we had people from PRTC in our offices weekly. We hired also a third party consultant just to make sure that the communications were established between the schools through DRC and, again, through the Department of Education. We did go beyond and we tried. I am the product of a public school. I studied all my life in public schools and I really wanted to see this work also. We did everything within out responsibilities to make this work. However, there was another agenda that didn't make it. If they would have acquired——

Ms. DEGETTE. Let us do this.

Mr. SANTOS DIAZ. Can I just add this? If they would have acquired in the last 3½ years 100,000 computers, this would have been working. They don't have any computers. They expect the service provider to give them out for free. That is totally illegal.

Ms. DEGETTE. Here is the problem. They don't have computers because there has just been all this money spent and for no result and now they can't get any money from anybody. I would say that is probably pretty accurate. Wouldn't it be?

Mr. SANTOS DIAZ. That is true.

Ms. DEGETTE. Mr. Vidal.

Mr. VIDAL. I would like to just make a comment and also give the opportunity to Professor Ramirez who was the project manager for that project. I will translate for him when he speaks.

Mr. RAMIREZ. I just want to comment that during the summer of 2001 a special project was conducted with the vendors to provide access to 100 schools from Phases I and II meaning those that were wired and also used the wireless connections internally.

After 3 months of efforts, only 63 of those 100 were finally connected. Based on these results, we requested from the vendors a plan to recover the schools under their responsibility. As a result, one vendor presented what we have called Proyecto 400.

The other vendor also presented a recovery plan and the sole fact that they agreed on the recovery plan without any complaint is an acknowledgement of the critical status of the project.

Ms. DEGETTE. I think Mr. Ramirez wanted to speak.

Mr. VIDAL. When he came in as a project manager for the network project in July 2001, because he didn't have any documentation which to go on and get started, he called the suppliers to come in for a meeting to then set the stage. He said everything that is

passed is behind us. Let's get going. Let's get started. Let's have a fresh start. Let's concentrate on getting 100 schools up. Demonstrate that you can get 100 schools up and running.

They put a modest goal in front of them. Let's get at least one computer to be able to reach the Internet at each one of those 100 schools and let's get it done by the end of July. So 3 months afterwards they had 63. They were not able to achieve the full 100 in 1 month or in 3 months.

Ms. DEGETTE. Gracias. Mr. Diaz, I just have one more question. You testified that you were concerned and brought this up during regular meetings. I wanted to ask you during what period of time was the equipment that we saw in the photographs and videotape sold to the Department of Education?

Mr. SANTOS DIAZ. I believe it was 1999/2000.

Ms. DEGETTE. And during that same period did anyone at your company have concerns that the program was not going well, that the third category on that chart was not happening?

Mr. SANTOS DIAZ. We have plenty of documentation sent to the Department of Education where we were setting up the awareness of the things that were going on. The same problems.

Ms. DEGETTE. I understand. You know, I don't mean to be short with you. I have a limited amount of time as does every other member. My question is this $23 million of equipment that was sold through the E-Rate and is now sitting in a warehouse, did you ever say or did anybody at your company ever say, "Let's stop doing this. Let's stop getting this money in and putting this equipment in the warehouse until we start wiring up some schools."

Mr. SANTOS DIAZ. Specifically, the wiring was done. The infrastructure was in place and those cards were for a bid of 100,000 computers which was out, was awarded, and then contested as——

Ms. DEGETTE. But you never said, "This isn't going to happen. I think we had better put a halt to this until it starts getting——

Mr. SANTOS DIAZ. How are we going to know that the bid was going to be contested to this vendor and the 100,000 computers were not going to be in?

Ms. DEGETTE. Let me ask you this. You heard Mr. Vidal testify that now because of technological changes this equipment is three, 4 years out of date at a minimum. Are you willing to do anything to work with them to try to——

Mr. SANTOS DIAZ. We have always been willing and I do not agree in terms that this equipment cannot be used. We all know here in this room——

Ms. DEGETTE. He never said it can't be used. He said——

Mr. SANTOS DIAZ. It was obsolete.

Ms. DEGETTE. Do you agree with that or not?

Mr. SANTOS DIAZ. Sure, I agree. I mean, technology changes every 6 months and we know that. There are faster computers, faster equipment, and so on, but that doesn't mean that you can't use what you have. If that's what you have and that's what you paid for, why not use it? That I do not agree with.

Ms. DEGETTE. That is a great attitude toward the school children of Puerto Rico.

Mr. GREENWOOD. The Chair recognizes himself for 10 minutes.

Did you want to say something, Ms. Lambert?

Ms. LAMBERT. Yes. I just have a comment in regard to Project 400. PRT participated with the vendor on the project—I am sorry, with the Department of Education on the Project 400 because we believed that an end-to-end provider such as us would enable this project to work.

When the comment was made that it was in acknowledgement of an error, it was more in acknowledgement to demonstrate that the equipment that was purchased is usable and that we could provide Internet access to the schools and working together as a team we would be successful in that effort.

We even did so on some of the Phase II schools to demonstrate that, in fact, the Phase II school's technology could also be integrated. When we came up to see Jane Mago we, in fact, showed her a video of one of the Phase II schools in which the technology was integrated to be functional. I just wanted to share that with you.

Mr. GREENWOOD. Let me ask this question and then we will get back to you, Mr. Diaz. My understanding of the way this program works is that the E-Rate funds cannot be used to actually buy the computers. It can't buy PCs and it can't buy lap tops so the school district is required to certify before it is eligible for these funds that, in fact, it has the computers and it has the software. It has that stuff to justify all of the infrastructure to hook it up to the Internet. Is that right?

Mr. SANTOS DIAZ. That is correct.

Mr. GREENWOOD. Okay. Now, you just mentioned the fact that they had put out an RFP and a bid to buy 100,000 computers. Were you clear and are you clear today on whether, in fact, that met the letter of the law? In other words, they weren't able to certify that they had those computers. They may have been able to certify that they were in the process of trying to acquire them but what is your understanding of what the law requires or the rules require in terms of actually having them in their custody in place in their schools out to bid?

Mr. SANTOS DIAZ. My understand is that every year the Department of Education had to present a plan whereby they would justify the acquisition of the equipment. That was the first thing that had to happen. I never saw the plan but they had mentioned to us that they were in the process of acquiring 100,000 computers.

Mr. GREENWOOD. I understand that but I am asking you this. Is that sufficient? We can ask the USAC people when they get up next but is it your understanding that having put out a bid is sufficient to meet the requirement that they had the computers available to them to justify the connection?

Mr. SANTOS DIAZ. I don't have any knowledge of that.

Mr. GREENWOOD. You don't know one way or the other whether it is or not?

Mr. SANTOS DIAZ. No.

Mr. GREENWOOD. Now, you ordered 73,000 wireless cards for Puerto Rico's schools. Is that right?

Mr. SANTOS DIAZ. Based on what they requested from us.

Mr. GREENWOOD. The Department lacked the computers to install them, as we just said. You unsuccessfully attempted to return 20,000 of those to Lucent. Is that correct?

Mr. SANTOS DIAZ. That is correct.

Mr. GREENWOOD. Nonetheless, DRC submitted invoices for payment by E-Rate for the purchase and the installation while they sat, and while they continue to sit, wrapped and uninstalled. Why did DRC violate program rules and improperly seek payment for this equipment?

Mr. SANTOS DIAZ. As a matter of fact, that issue was addressed by the vice president, the lady who was in charge, where she called E-Rate Public Schools and Library Division stating that in our proposal we had included these cards and it was all bundled as a price the configuration of the card. What was the procedure?

He said, "Well, if you have to install them and configure them and the computers will be acquired later on, sure, you don't have to unbundle the configuration side of it. You can bill for it and then subsequently configure these cards when installed." Those were the procedures that we followed.

Mr. GREENWOOD. Did you retain all the payment for the installation?

Mr. SANTOS DIAZ. Did I retain?

Mr. GREENWOOD. I mean, you got paid for that?

Mr. SANTOS DIAZ. I got paid for part of it, not all of it. Again, we still have pending payments from E-Rate.

Mr. GREENWOOD. But would you want to be paid for installing something that you didn't install?

Mr. SANTOS DIAZ. No, no, if it is not going to happen.

Mr. GREENWOOD. It sounds like it is not going to happen.

Mr. SANTOS DIAZ. It looks like it is not going to happen because they haven't acquired the 100,000 computers which that would be the solution for all this. If they would have acquired 100,000 computers, this would have been up and running as it should Mr. GREENWOOD. And whose idea was it to try to take the leap all the way to a wireless system? In other words, not being——

Mr. SANTOS DIAZ. The Department of Education. When the RPF, what is says is the infrastructure using the latest technology. That is what it specifically said.

Mr. GREENWOOD. Using the latest technology. And so who interpreted that phrase to mean wireless?

Mr. SANTOS DIAZ. Well, about three companies that went through the bidding process offered wireless alternatives.

Mr. GREENWOOD. Including yours?

Mr. SANTOS DIAZ. Including ours.

Mr. GREENWOOD. How did DRC first learn about the E-Rate program?

Mr. SANTOS DIAZ. As we specifically state, it was through the USAC publication of the 470 where they request bidding for Puerto Rico and other States.

Mr. GREENWOOD. What happened to DRC when the current administration was elected?

Mr. SANTOS DIAZ. First thing is we went through all this political persecution. Not only myself but all entrepreneurs with the previous administration.

Mr. GREENWOOD. What does that mean?

Mr. SANTOS DIAZ. That means that we are prostatehooders and anything that smells prostatehood. All the entrepreneurs canceled their contracts and we were just part of them. I was very attached

to a previous Governor and previous commissioner in resident. It is very well known that I am a prostatehooder.

Mr. GREENWOOD. Let me be clear. Do you believe the Department of Education canceled the contract with DRC because of your politics and not because of the services of your company?

Mr. SANTOS DIAZ. That is correct.

Mr. GREENWOOD. What do you have to say to that, Mr. Secretary?

Mr. REY. Mr. Chairman——

Mr. SANTOS DIAZ. Honestly. We evaluated all the companies that were working for us and after a year we canceled the contract because of the lack of performance. That is the type of thing that we have to avoid.

Mr. GREENWOOD. How many contracts like Mr. Diaz', like DRC's, were canceled by the Puerto Rican Department of Education?

Mr. SANTOS DIAZ. I don't recall the number exactly.

Mr. GREENWOOD. Give me an order of magnitude.

Mr. SANTOS DIAZ. All the vendors or all the outsourcing that was justified within the budget of the Department was canceled.

Mr. GREENWOOD. Would you say this is in the order of magnitude of 10 or 100 or 1,000?

Mr. SANTOS DIAZ. We kept some of them. I don't know. Maybe 10. I am not sure.

Mr. GREENWOOD. You think maybe the entire Department of Education canceled 10 contracts?

Mr. SANTOS DIAZ. We are talking about $3 billion. I don't recall honestly. It probably could be 10 of different types of contracts.

Mr. GREENWOOD. So it wasn't just contracts that had to do with the E-Rate Program?

Mr. SANTOS DIAZ. Of course no. Lawyers and public relations agencies.

Mr. GREENWOOD. And over what period of time from the time that your administration took over, how long did it take for those contracts to be canceled?

Mr. SANTOS DIAZ. First of all, we evaluate them and we get the change for them to prove that they were useful to the Department and that they could attain and achieve their performance as they promised to after an evaluation, after a legal consultation.

Mr. GREENWOOD. So are we talking that this happened in a matter of days, weeks, months, or years?

Mr. SANTOS DIAZ. By any means months.

Mr. GREENWOOD. Months.

Mr. SANTOS DIAZ. Even a year.

Mr. GREENWOOD. Do you happen to know anything about the political affiliation of any of those contracts, the companies or the individuals of all those contracts?

Mr. SANTOS DIAZ. That is not a criteria and, again, I have been 20 years of my life during research. I come from economics. I don't come from a political party and that is the mentality that this government has.

Mr. GREENWOOD. We have quite different testimony here. Don't we? We have the Secretary of Education under oath saying there was no political consideration in the dismissal of any of these contracts. We have Mr. Diaz under oath saying that there was whole-

sale cancellation of contracts for political reasons including your own. Is that right?

Mr. SANTOS DIAZ. Yes. As a matter of fact, I can add that all our contracts with all agencies were canceled during the same period of time so this obviously was a political thing.

Mr. GREENWOOD. Are you aware of other companies that shared your political affiliation that had their contracts canceled by the Department of Education?

Mr. SANTOS DIAZ. I would say nearly 100 percent of all entrepreneurs with the previous administration have canceled their contracts. 100 percent.

Mr. GREENWOOD. And do you differ with the Secretary's estimate that as far as the Department of Education was concerned, the order of magnitude was something like 10 contracts?

Mr. SANTOS DIAZ. I do not have that kind of information.

Mr. GREENWOOD. You don't know?

Mr. SANTOS DIAZ. No.

Mr. REY. Mr. Chairman, can I add that several of the contractors that were working for the Department of Education are in jail today just for the record.

Mr. GREENWOOD. Okay. Back to you, Mr. Secretary. Why are you shifting to a satellite system which will use little if any of the currently installed infrastructure?

Mr. REY. I will ask Mr. Vidal to answer that question. To start with, it is cheaper, it is faster, and in terms of connectivity brings us a better option to our schools but the details Mr. Vidal will take of.

Mr. VIDAL. The key reason is the price and functionality, a very, very attractive ratio for the Department. When the last bid for year 6 was awarded to Centennial, Puerto Rico, that decision eventually was challenged by the Puerto Telephone Company. That challenge consumed about 7 months of one of our entire years to try to get this system up and running.

On June 30 when the service was discontinued, we were faced now with 7 months delayed in having service to the schools, no connectivity to the Internet, and having to do something quick about it because school was starting in August.

We devised then an emergency plan utilizing traditional telephones, just dial-up telephones, to at least provide access to two computers that prior to that had been installed in every library of all the schools. In parallel with that we evaluated alternatives and alternatives that were of a size or of the depth of the pocket that the Department could afford. As a result of that, we found that satellite technology was available and could work. We tested not only satellite technology but we tested different vendors, satellite vendors, and also we tested other technologies.

The test showed us under real circumstances actually putting into a school that had a laboratory with 26 computers that it could withstand and provide that level of service. Then we made the decision to settle ourselves on this technology and proceed with all necessary steps to begin installation.

Mr. GREENWOOD. Let me finally ask this question. You may have testified to this, Secretary Rey, but I don't recall. Tell me about your expectations to purchase computers, what your time line is

and when you expect to have enough computers, whether it is 100,000 or whatever it is, to be adequate to the task of educating the children.

Mr. REY. We have 12,000 computers already in. By the end of the year my aim is to connect all the schools of Puerto Rico to the Internet and to have the proper equipment in place in all schools in Puerto Rico.

Mr. GREENWOOD. By the end of this year?

Mr. REY. Yes, indeed.

Mr. GREENWOOD. I may have you back.

Mr. REY. Sure. We would be glad to be back.

Mr. GREENWOOD. Does the gentlelady from Colorado wish to inquire further?

Ms. DEGETTE. Thank you, Mr. Chairman. Now, Ms. Lambert, I wanted to follow up a little bit with you. You testified I believe that your company received about $31 million dollars. Correct?

Ms. LAMBERT. For years 1, 2, and 3.

Ms. DEGETTE. For years 1, 2, and 3. Most of that was for T1 service to the schools. Correct?

Ms. LAMBERT. That is correct.

Ms. DEGETTE. I understand that you were charging $1,500 per school per month for the T1 line service. Is that right? You charged it for 5 years, I think. You were paid for the first 3 years. Right?

Ms. LAMBERT. That is correct. May I answer in terms of——

Ms. DEGETTE. Sure. Go ahead.

Ms. LAMBERT. The $1,500 is a tariff rate and the service that was requested was an ATM T1 line. It is very different from a framed relay or fractional T1. The request was for an ATM T1 connectivity with a vision to provide video and distance learning on those lines.

Ms. DEGETTE. Tragically few, if any, of the schools were actually able to utilize those lines. Correct?

Ms. LAMBERT. I think the vision was not met.

Ms. DEGETTE. Anywhere. Right?

Ms. LAMBERT. In the schools, yes.

Ms. DEGETTE. Right. Now, I would like to know for those lines you just described how much does it actually cost for out-of-pocket cost, marginal cost, etc., for an idle T1 line?

Ms. LAMBERT. We do not measure our margins based on a particular product so I can't answer for you what my margin would be on an ATM line. But if I may answer generally speaking, the investment was made in the ATM network. The investment was made in the transmission equipment and all of those facilities could not be used for another customer when they were dedicated to the school.

Ms. DEGETTE. So does that come up to a loss or a lost opportunity cost then of $1,500 per month per school?

Ms. LAMBERT. Well, I am not sure I understand.

Ms. DEGETTE. If you don't know, you don't know.

Ms. LAMBERT. I am not sure I understand your question.

Ms. DEGETTE. Well, I mean, here is my question. For 5 years you had these ATM lines to the schools for which you were billing $1,500 per school. You were paid most of the $31 million for the first 3 years for these lines which were not usable. Right? And then, as I understand it, you billed for the next 2 years for those

lines and now you are in litigation over being paid for that even thought they weren't used then. Correct?

Ms. LAMBERT. Well, first——

Ms. DEGETTE. No, is that right?

Ms. LAMBERT. No, that is not right.

Ms. DEGETTE. Okay. Tell me where I am wrong.

Ms. LAMBERT. Okay. First of all, we are not in litigation.

Ms. DEGETTE. Okay.

Ms. LAMBERT. The Secretary and I have come to an agreement that we are going to work through our differences on this issue so we are not in litigation.

Ms. DEGETTE. That is the best news I have heard all day.

Ms. LAMBERT. Second, we made the investment and the network purchase primarily to provide schools. Again, I was not in Puerto Rico at the time but I know at the time that this service was requested, PRT did not have an ATM network so the company made an investment in purchasing the capability to provide an ATM capability——

Ms. DEGETTE. And how much did the company pay for that?

Ms. LAMBERT. I can't answer that question.

Ms. DEGETTE. See, you can see why we are frustrated because what we are seeing is you guys being paid $31 million to hook up these ATM lines which were never used and still aren't being used to this day. We see DRC being paid almost $90 million and there is $23 million of stuff sitting in warehouses that is now obsolete which they are saying we should use anyway and still only very few schools are wired. I don't have much time left but you get my drift. I am not going to sit here and argue with you, both of you, and everybody. You know, this is about kids.

Ms. LAMBERT. I understand.

Ms. DEGETTE. I don't care how you cost it out or the lost opportunity costs or the investment. You have made a profit from this and you cannot—I mean, you have. One reason we instituted the E-Rate is so that school children could benefit from increased competition. I know you get that.

I have a couple more questions for Secretary Rey. Is it your understanding that the E-Rate rules mandate that bids be awarded to whichever vendor is able to provide all the services in the schools, RFP, at the lowest price?

Mr. REY. That is my understanding, of course.

Ms. DEGETTE. I want to know if you have any idea how the previous administration's award to the 5-year E-Rate contract to PRTC, even though DRC's proposal was $9.2 million lower in cost than the PRTC offer?

Mr. REY. I don't have any answer.

Ms. DEGETTE. Okay. Now, I think you testified in your opening statement that your schools have received no E-Rate funding since 2001. Is that correct?

Mr. REY. That is correct.

Ms. DEGETTE. What effect has that had on Puerto Rico schools and school children?

Mr. REY. It took us 3 years to be here doing some testimony trying to recover some money and with a lot of struggle trying to connect 400 schools that we have connected today. I mean, it took us

3½ years to struggle with the E-Rate funding in order to construct the connectivity of the children of Puerto Rico to the world through the Internet. However, again, I have to say that our Government has invested more than $300 million trying to reconstruct whatever was left out by the former administration.

Ms. DEGETTE. What effect has this had on the kids?

Mr. REY. Detrimental effects for now and for the future because perhaps we are dragging our feet in terms of the knowledge that they should have at this point in Puerto Rico.

Ms. DEGETTE. Now, in your opening statement you also testified about your frustration with the FCC and the USAC for their failure to help Puerto Rico rectify these problems in a timely manner. Even today do you have any indication when Puerto Rico might receive E-Rate funds?

Mr. REY. Not at all.

Ms. DEGETTE. And I just want to ask——

Mr. REY. Even though I am very optimistic about it.

Ms. DEGETTE. There is always an optimist in every crowd.

Mr. REY. That is why I am Secretary for Education. Otherwise, I wouldn't be here.

Ms. DEGETTE. And we admire your efforts.

Mr. REY. Thank you.

Ms. DEGETTE. I have no further questions.

Mr. NEVARES. Mr. Chairman, if I may be heard just very briefly.

Mr. GREENWOOD. Were you sworn in with the rest? Did you take the oath?

Mr. NEVARES. No, but I can take the oath.

Mr. GREENWOOD. All right. Then you will have to stand and raise your right hand.

[Witness sworn.]

Mr. GREENWOOD. Please restate your name again for the record.

Mr. NEVARES. My name is John Nevares.

Mr. GREENWOOD. Speak right directly into the microphone Mr. NEVARES. Going back to the bid for 100,000 computers that was challenged in the courts in Puerto and canceled by the court, if this new administration in the year 2001 had come out with a bid for 100,000 computers, we wouldn't be here today because the children of Puerto would have a computer to work with but they waited until now, 3½ years later, to acquire, I just heard, 12,000 computers which I know are not even connected to the Internet because in a press conference given by the Secretary on May 6, which I can provide to the committee, he stated that they still had—and this is May 6, 2004—that they still at the Department of Education public school system only 3,000 computers for the children.

Mr. GREENWOOD. Do you presume to know why it is that the school district did not order the 100,000 computers 3 years ago?

Mr. NEVARES. I have no idea why they didn't——

Mr. GREENWOOD. Let us ask Mr. Rey.

Mr. NEVARES. [continuing] bid 100,000 computers and that would have solved one part of the problem. The other problem would have been the electrical problems in some schools which could have also been fixed and we wouldn't be here today.

Mr. GREENWOOD. Okay. Mr. Rey, you want to quickly respond to that?

Mr. REY. Our priority was to connect the schools to the Internet. As a matter of fact, we reviewed the whole process when we arrived to the Department because it was not a matter of buying things and gadgets, state-of-the-art, to satisfy the vendors. It was to connect the people of Puerto Rico, the students of Puerto Rico to the Internet.

Mr. GREENWOOD. What the gentleman just testified I think would argue is you had the phone company up and running. You had the lines dropped at the schools. You had the equipment in the warehouse. The missing component was the computers. That is his argument.

Mr. REY. We audit all the process, Mr. Chairman, and that is not the reality that we found.

Mr. GREENWOOD. Okay. Well, you can understand our frustration. The picture that we have here now is $30 million worth of phone service that was never utilized down the drain. We have something like $58 million worth of lines run to schools which will now rot for the next century because they are not going to be used.

And we have got $23 million worth of equipment in warehouses that will probably be bulldozed into a landfill in Puerto Rico somewhere and that is all money paid by grandmothers trying to call their kids to wish them a happy birthday somewhere in the United States. This a grotesque waste of public dollars and we are going to put an end to it in this committee.

All right. We thank you all for your testimony and for traveling to Washington.

Mr. REY. Mr. Chairman, I commend you for this initiative and congratulations and thank you for the invitation.

Mr. GREENWOOD. Thank you, sir. Thank you.

Okay. I would ask the third panel consisting of Ms. Carol Mattey, Deputy Chief of Wireline Competition Bureau for the Federal Communications Commission, and Ms. Jane E. Mago, Chief, Office of Strategic Planning and Policy Analysis at the Federal Communications Commission, and Mr. George McDonald, Vice President, Schools and Libraries Division, Universal Service Administrative Company.

Okay. Good afternoon. We thank you for your patience and we look forward to your testimony. It is the custom of this subcommittee to take testimony under oath and so I begin by asking if any of you object to giving your testimony under oath this afternoon.

Ms. MATTEY. No.

Mr. GREENWOOD. I also need to inform you that pursuant to the rules of this committee and the House that you are entitled to be represented by counsel as you give your testimony. Do any of you wish to be represented by counsel?

Ms. MATTEY. No.

Mr. MCDONALD. No.

Mr. GREENWOOD. Okay. In that case, would you please rise and raise your right hands.

[Witnesses sworn.]

Mr. GREENWOOD. You are under oath. Is it Mattey?

Ms. MATTEY. Mattey.

Mr. GREENWOOD. Okay. You are recognized for your opening statement. Make sure the microphone is turned on. If it has a green light, it is on. Pull it as close to your mouth as possible so everyone can hear you. Thank you.

TESTIMONY OF CAROL E. MATTEY, DEPUTY CHIEF, WIRELINE COMPETITION BUREAU, FEDERAL COMMUNICATIONS COMMISSION; ACCOMPANIED BY JANE E. MAGO, CHIEF, OFFICE OF STRATEGIC PLANNING AND POLICY ANALYSIS, FEDERAL COMMUNICATIONS COMMISSION; AND GEORGE McDONALD, VICE PRESIDENT, SCHOOLS AND LIBRARIES DIVISION, UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Ms. MATTEY. Good morning Chairman Greenwood and distinguished members of the subcommittee. I am Carol Mattey, Deputy Bureau Chief of the Wireline Competition Bureau and joining me today is Jane Mago, Chief of the Office of Strategic Planning and Policy Analysis at the FCC.

We appreciate the opportunity to appear before you to discuss the E-Rate Program which provides critical support enabling schools and libraries to access the vast resources of the Internet. E-Rate has provided over $11 billion in discounts enabling literally millions of school children and library patrons including those in many of the nation's poorest and most isolated communities to obtain access to modern telecommunications and information services for educational purposes.

Communities in every state in the Nation have benefited from E-Rate. Ninety-nine percent of public schools now have Internet access and 94 percent of them have broadband connections in large part due to the discounts available from the E-Rate.

USAC administers the E-Rate Program on a day-to-day basis subject to FCC oversight. Our oversight through rulemaking, fact-specific adjudicatory decisions, and auditing is fundamental to maintaining an effective E-Rate Program that is free of waste, fraud, and abuse.

Despite the existence of bad actors that have taken advantage of certain aspects of the program design, we believe that this program is an overall success. There will always be those who try to game the system, but the Commission is committed to closing the loopholes where abuse can occur.

The Commission has already made a number of changes through rulemaking to deter waste, fraud, and abuse. For instance, we have adopted rules to debar bad actors from the program and limits on repeated requests for internal connections. We are also using the rulemaking process to address the issues of program design raised by the Office of Inspector General. We will be addressing recovery issues and strengthening our document retention requirements. We also are working to synchronize our rules and USAC's procedures to ensure effective enforcement.

Today's hearing is focusing on one matter, the special case of the E-Rate applications of Puerto Rico Department of Education. Puerto Rico is a case where there was admitted misconduct in the first years of the E-Rate funding. That misconduct led USAC to suspend processing of any PRDOE funding requests. After several meetings

with FCC staff, Puerto Rico formally requested in early 2003 action on its pending request.

By that time the Commission was aware that there were a number of cases in which either a service provider or a beneficiary were under some form of investigation that had caused them to be suspended from the E-Rate Program. Puerto Rico was only one such situation and the Commission concluded that it was imperative to develop a framework that would protect the E-Rate fund in such situations while remaining sensitive to the interest of parties that may ultimately be cleared of any wrongdoing.

The Commission stated and applied this frame work in the Puerto Rico order issued in November 2003. The Commission unanimously held that USAC generally should defer action on any application upon receiving evidence of potential program violations until there is sufficient reason to believe that those violations are no longer implicated In concise terms, the Puerto Rico order lays out a trust but verify policy. The Commission's trust is based on Puerto Rico's current administration's assertion that it has complied with the Commission's rules and has implemented a plan to correct the fundamental deficiencies in the infrastructure of Puerto Rico's schools.

The required audits are the means by which the Commission verifies the assertions of the current Puerto Rico administration. The Puerto Rico experience provides a good lesson on how the FCC can enhance program integrity. Irregularities were uncovered through routine program audits and self-disclosure. USAC responded with a measured response that demanded correction of program violations before risking further E-Rate dollars.

The Commission used its review of this matter to craft a general policy framework to deal with entities subject to investigation for failure to comply with our rules. This policy allows Puerto Rico to move forward as a program participant if it can pass the rigors of a targeted audit designed to test the areas that have been identified as weaknesses.

As the Puerto Rico situation illustrates, we oversee the operation of E-Rate through a system of audits that measure day-to-day compliance with our rules. In 2004 the Commission is implementing an even more extensive audit program. We intend to use statistical sampling techniques so that the audit results can provide a basis for forming conclusions about overall program compliance and also provide us with needed information to comply with the Improper Payments Act of 2002.

To conclude, we are committed to making ongoing improvements in the E-Rate Program and welcome questions on these issues. Thank you, Mr. Chairman and committee members for the opportunity to participate in this review.

Mr. GREENWOOD. Thank you.

Ms. Mago, do you have testimony?

Ms. MAGO. My testimony was covered by Ms. Mattey.

Mr. GREENWOOD. All right. That is what I thought might be the case.

[The prepared statement of Jane E. Mago follows:]

PREPARED STATEMENT OF JANE E. MAGO, CHIEF, OFFICE OF STRATEGIC PLANNING AND POLICY ANALYSIS, AND CAROL E. MATTEY, DEPUTY CHIEF, WIRELINE COMPETITION BUREAU, FEDERAL COMMUNICATIONS COMMISSION

Good morning, Chairman Greenwood, Representative Deutsch, and distinguished members of the Subcommittee. We appreciate the opportunity to appear before you to discuss the FCC's efforts to continue to improve the E-rate program and provide critical support enabling schools and libraries to access the vast resources of the Internet. The Commission is proud to be implementing this important aspect of universal service support.

INTRODUCTION

The schools and libraries mechanism of the FCC's universal service program, often called the E-rate program, has provided discounts enabling literally millions of school children and library patrons, including those in many of the nation's poorest and most isolated communities, to obtain access to modern telecommunications and information services for educational purposes. Our nation has benefited significantly from the E-rate program, which the FCC created to fulfill Congress's direction in section 254(h) of the Communications Act.

Over the course of the first six years of its existence, the E-rate program has committed over $11 billion in funds to schools and libraries in every state in the nation. This support has benefited communities across the country, large and small, urban and rural. According to the U.S. Department of Education, ninety-two percent of classrooms in public schools were connected to the Internet in 2002, while only fifty-one percent were connected in 1998, the first year of the program. Ninety-nine percent of public schools now have Internet access, and ninety-four percent of them have broadband connections. This tremendous progress is due in significant part to the discounts available from the E-rate program.

As an ongoing matter, the E-rate program enables schools and libraries to pay discounted rates to keep this access affordable. Once the schools and libraries are wired, they still face monthly recurring service charges for telecommunications service and Internet access. These service charges are sizeable. Indeed, in the 2004 filing window schools and libraries sought support for $1.6 billion in telecommunications services and Internet access.

The Universal Service Administrative Company (USAC) administers the E-rate program on a day-to-day basis. USAC is a public non-profit company that administers all four universal service programs. Among other things, USAC currently processes nearly 40,000 E-rate applications a year and disburses funds for approved applications. USAC operates within the rules established by the FCC for the E-rate and other universal service programs, and the Commission and its staff exercise oversight over USAC.

As the E-rate program approaches its seventh birthday, the Commission is actively assessing where we are and how we can improve the E-rate program going forward. This is very much a team effort within the FCC, with regular interactions between the Wireline Competition Bureau, the Enforcement Bureau, the Office of Managing Director, the Office of General Counsel, the Office of Strategic Planning and Policy Analysis, and the Office of Inspector General.

Despite the existence of bad actors that have taken advantage of certain aspects of the program design, we believe that this program has been an overall success. There will always be those who try to game the system, but the Commission is committed to closing the avenues where abuse can occur and eradicating all waste, fraud and abuse in the E-rate program. We recognize that it is our job, as it has been from day one, to maintain oversight over the E-rate program. And while there have been aberrations, by and large, we have enabled implementation of the statutory goals with a minimum of waste, fraud and abuse.

- The Commission's oversight program has had three chief components—rulemaking, fact-specific adjudicatory decisions, and auditing—and these three components continue to reinforce each other as the program enters its seventh year.
- We will be expanding the scope of our auditing work in the coming year substantially, in order to meet our obligations under the Improper Payments Information Act of 2002 (IPIA). Although the audit work conducted to date suggests that the level of rule noncompliance is relatively low, our goal is eradication. Let us emphasize: waste, fraud and abuse is never acceptable. We will work vigorously to protect these dollars from misuse.
- Finally, the systems we have in place have successfully detected situations, like the Puerto Rico Department of Education, where program participants have run afoul of our rules. We learn from our experiences: corrective measures have been launched to rectify past problems, and prevent them from recurring in the future.

And through these efforts, we seek to ensure that the school children and library patrons across America continue to enjoy the benefits of affordable access to advanced telecommunications and information services.

OVERSIGHT THROUGH RULEMAKINGS

In 2002, the E-rate program's fifth year, the Commission began an ongoing review process, which continues to this day, to consider ways to improve the E-rate program. The Commission issued a Notice of Proposed Rulemaking (NPRM) to seek comment on ways to ensure that E-rate program funds are utilized in an efficient, effective, and fair manner, while preventing waste, fraud and abuse. Since then, the Commission has issued a series of orders that have brought us further down the road to improve the E-rate program, and the Commission continues to pursue these reform goals today. Through our rulemaking process, we seek to make the Commission's requirements more transparent for all and to eliminate confusion as to what the FCC expects of participants in this program.

In the last year, the Commission's rulemaking activities have focused on tightening our rules to prevent waste of the limited E-rate dollars by bad actors who seek to take advantage of certain aspects of the program's design. For example, in April 2003, the Commission adopted rules to debar individuals and companies that have proved to be bad actors. We have procedures to expel from the program anyone convicted of a criminal violation or found civilly liable for actions relating to this program. We already have applied these procedures to several companies, and we have sought comment on what other situations may warrant debarment.

In December 2003, the Commission emphasized that our rules have always prohibited funding of duplicative equipment and service. The Commission also adopted new rules limiting the transfer of E-rate funded equipment and limiting repeated requests for internal connections. The Commission clarified the types of maintenance services that are eligible for support, and adopted a more transparent process for updating the list of eligible services in future years. In addition, the Commission directed USAC to develop a pilot program to test a computerized online list of eligible internal connections equipment, a measure expected to enable USAC and the Commission to better track the types of equipment the program is supporting.

The Commission's rulemaking efforts to improve the E-rate program are ongoing. In December 2003, the Commission requested comment on additional proposals designed to curb the occurrence of waste, fraud and abuse. For instance, the Commission asked for public comment on whether to adopt bright line rules for determining "cost effective" funding requests, such as a specified dollar amount per student or library patron for specific types of service; whether to codify additional requirements for technology plans; and whether to require that beneficiaries disclose their use of outside consultants. The Commission also sought comment on whether to lower the highest discount rates, in response to suggestions that the current discount levels may not provide sufficient incentives to make prudent funding requests. The comment cycle on this Further Notice of Proposed Rulemaking closed in April, and we expect to make further recommendations in two or more orders, one to be presented this quarter and the other to be presented next quarter.

We also are using the rulemaking process to address issues of program design raised by the Office of Inspector General. For instance, the Wireline Competition Bureau is recommending that the Commission refine its rules for recovery of funds committed in violation of statutory or FCC requirements, and strengthen its document retention requirements to enhance our oversight activities, as recommended by the FCC's Office of Inspector General. We believe that such measures, if adopted, would greatly reduce the occurrence of waste, fraud an abuse by those who seek to unjustly enrich their own fortunes to the detriment of the E-rate program.

In addition, we are working to synchronize our rules and USAC's procedures. USAC has established numerous operating procedures to administer the e-rate program on a day-to-day basis. USAC needs the flexibility to act swiftly in response to specific inquiries and situations. The Commission has codified a number of USAC procedures through the rulemaking process in the last year, and the Wireline Competition Bureau has directed USAC to prepare a list of all USAC procedures a violation of which should form the basis for recovery of funds. We are working to establish "bright lines" for beneficiary compliance, where possible, and to make clear to beneficiaries the consequences of noncompliance.

To sum up, as the program has matured, the measures taken by the Commission to improve the E-rate program through our rulemaking oversight have evolved beyond tightening "nuts and bolts," to refining the application and disbursement processes, to addressing broader policy issues, such as creating incentives for bene-

ficiaries to reduce waste and promote more equitable consumption of the program's resources.

OVERSIGHT THROUGH ADJUDICATIONS

The second oversight tool the Commission uses is adjudication, deciding specific factual cases under our rules.

Section 54.702(c) of the Commission's rules expressly states that USAC "may not make policy, interpret unclear provisions of the statute or rules, or interpret the intent of Congress. Where the Act or the Commission's rules are unclear, or do not address a particular situation, the Administrator shall seek guidance from the Commission." Our rules also expressly provide that any party may seek Commission review of any action taken by USAC. Through our review of appeals of specific decisions made on E-rate applications, as well as our examination of broader questions that necessarily arise in the course of administering a $2.25 billion per year funding program, we exercise oversight over the universal service fund and implement measures to reduce the occurrence of waste, fraud and abuse.

By 2003, the Commission was aware that there were a number of cases in which either a service provider, a beneficiary, or both, were under some form of investigation that implicated their involvement in the E-rate program. The Commission concluded that it was imperative to address some specific problem situations. In doing so, it developed a general framework for how to protect the E-rate fund in situations in which one or more parties is under investigation for potential waste, fraud and abuse, while remaining sensitive to the interests of parties that ultimately may be cleared of any wrongdoing.

The Commission stated and applied its general framework in the *Puerto Rico Department of Education (PRDOE) Order* issued in November 2003. The Commission unanimously held that USAC generally should defer action on any application upon receiving evidence, including evidence from an active law enforcement investigation, of potential program violations, until such time as questions raised by the evidence can be resolved, or until there is sufficient reason to believe that potential program violations are no longer implicated. The Commission expressly recognized that it may be appropriate to fund applications, notwithstanding the pendency of an ongoing law enforcement investigation, after subjecting such applications to an especially probing and cautious review. This minimizes inadvertent harm to innocent parties, such as a school and its students, or a library and its patrons, who may have no involvement in any of the alleged wrongdoing.

Today's hearing is focusing on the special case of the E-rate applications of the Puerto Rico Department of Education (PRDOE). We are pleased to work with the subcommittee and its staff in looking at these transactions. PRDOE, in fact, is a case-in-point of how the Commission's sequential process of rulemaking, adjudication, and audit is effective.

In 2000, PRDOE was included in a randomly selected audit of seventeen program beneficiaries conducted for the first program year performed by outside auditors engaged by USAC, and field work commenced later that year. In April 2001, the Office of the Comptroller General of Puerto Rico informed the FCC's Office of Inspector General that the Comptroller had found evidence that PRDOE had not complied with state and local procurement regulations during years one and two of the schools and libraries program. The IG referred the matter to the Federal Bureau of Investigations in May 2001. Meanwhile, USAC concluded its audit process in October 2001 and, in December 2001, issued a letter to PRDOE suspending all pending disbursements and placing further application processing on hold, pending receipt of further information.

Over the course of 2002, PRDOE provided additional information to USAC and Commission staff. The new PRDOE administration admitted to USAC and to Commission staff that things were amiss under the prior administration in the expenditure of E-rate funds. The new PRDOE administration said that it would take corrective action, including making major personnel and structural changes to mitigate and correct the problems of the prior administration. In numerous meetings and discussions FCC staff and PRDOE officials focused on ways to permit PRDOE to participate in the E-rate program, while ensuring appropriate protections against waste, fraud and abuse. In addition, over this time, FCC staff coordinated with officials at the Department of Education and Department of Justice regarding investigations relating to PRDOE and proposals to ensure appropriate handling of funds in the future.

Ultimately, and in recognition that the need to revalidate the eligibility of E-rate applicants might not be unique to PRDOE, Commission staff concluded that a public comment process would provide the best way for the agency to move forward. While

admittedly more time consuming than what the parties had hoped, this process was transparent and fair. Early in 2003, the new PRDOE administration requested in writing that the Commission direct USAC to process its applications and disburse funds for program years 2001 and 2002. This commenced the adjudicatory process, and Commission staff sought public comment on that request, received filings from three parties, and prepared recommendations for the Commission.

On November 25, 2003 the Commission issued the *PRDOE Order,* concluding that it would be appropriate for USAC to resume processing of PRDOE's pending applications for funding years 2001 and 2002 upon completion of a targeted, independent audit designed to provide assurances of PRDOE's compliance with the FCC's rules. The Commission maintained USAC's suspension of PRDOE's first three years of participation in the program, pending completion of a separate independent audit and further action by the Commission.

In concise terms, the *PRDOE Order* lays out a "trust but verify" policy towards the current Puerto Rican situation. The Commission's trust is based on the current Puerto Rican administration's assertion that it has complied with the Commission's rules and has implemented a plan to correct fundamental deficiencies in the infrastructure of PRDOE's schools and offices. The required audits are the means by which the Commission verifies the assertions of the new PRDOE administration.

The PRDOE experience provides a good lesson on how the FCC can enhance program integrity through routine detection, intervention and responsive policymaking. Irregularities with PRDOE were uncovered through routine program audits and self-disclosure by a subsequent administration. USAC responded with the measured response that demanded resolution of program violations before risking further E-rate dollars. The Commission used its review of PRDOE to craft a general policy framework to deal with entities subject to investigation for failure to comply with our rules. This newly enunciated policy allows PRDOE to move forward as a program participant if it can pass the rigors of a targeted audit designed to test the areas that routine audits identified as weaknesses under the prior administration.

The Puerto Rico story is not over. The targeted audits called for in the FCC's November order have begun. We hope that PRDOE can demonstrate that it was in compliance with our rules when it submitted its applications in 2001 and 2002. Meanwhile, we are reviewing our rules and audit procedures to learn from this experience. We all come away wiser, and the E-rate program will be stronger as a result of this experience. The lessons we have learned here and the process we have in place hopefully will make the E-rate program work better in the future. We are hard at work to avoid a "next time."

Even while devoting significant staff resources to addressing the PRDOE case, the Commission ruled in two other major E-rate adjudications in 2003. The Commission issued a major order that closely examined procurement practices in a number of school districts, not in Puerto Rico, that collectively sought over $250 million in E-rate funding. The Commission concluded that those practices thwarted the Commission's competitive bidding requirements and clarified what applicants need to do to comply with our rules. Also in 2003, the Commission addressed a case where a key individual associated with a service provider that provided state-wide internet access service was under law enforcement investigation. In that case, the Commission concluded it was appropriate not to provide any support to that service provider pending resolution of the investigation. At the same time, the Commission made provisions to ensure that subcontractors that were not in any way implicated by the investigation would receive payments for services rendered. We note as well that the Commission decided each of these adjudications unanimously.

OVERSIGHT THROUGH AUDITS

As the PRDOE situation illustrates, we oversee the operation of E-rate through a system of audits that is a measure of day-to-day compliance with our rules. We are expanding that system, to ensure that we detect the bad actors we know will try to take advantage of the program.

The Commission is strongly committed to maintaining a robust audit program for the E-rate, and is working closely with USAC on all audits. Audits of the E-rate program provide important information to the Commission in assessing program compliance, and also in helping the Commission identify steps that it may take to help reduce the likelihood of waste, fraud and abuse.

We have an active E-rate audit program. Since the E-rate program's inception, USAC has conducted beneficiary audits. USAC now has twelve full-time staff that conducts internal audits of the program, and also engages external independent auditors to do more extensive audit work. The Wireline Competition Bureau has two

full-time audit staff dedicated to universal service oversight, as well as two audit staff that perform that function on a part time basis.

In addition, our Office of Inspector General dedicates three of its eight auditors to Universal Service Fund oversight. In October 2001, we detailed another four auditors from the Wireline Competition Bureau (then known as the Common Carrier Bureau) to assist in auditing the E-rate program. In January 2003, we entered into a Memorandum of Understanding with the Department of Interior and USAC to conduct additional E-rate audits. Two audits have been completed under this arrangement and fieldwork has been completed in three more.

The audit program is a cooperative effort. In December 2002, for example, USAC engaged in an independent auditor to conduct 79 beneficiary audits from funding year 2000. At our request, these audits were conducted according to government approved standards so that our Inspector General could more easily use the data from those audits for our purposes.

Early audits of the E-rate program were directed at a discrete number of high dollar beneficiaries. More recently, the audit program has expanded in terms of sheer numbers of beneficiaries audited and the random selection of such beneficiaries. The annual number of audits has grown from about two dozen in the early years to over one hundred in 2003. These audits are conducted by professional auditors, both internal USAC audit staff, and independent auditors with whom USAC contracts. To date, audits have been conducted of beneficiaries that collectively have received over $1.1 billion in disbursements.

In 2003, audits were finalized for 106 randomly selected beneficiaries, with the work performed by USAC's audit staff, USAC's outside auditor, and the FCC's Office of Inspector General. Collectively, those audits covered $263 million in disbursements and the audit findings required only $3 million in recoveries. That is: professional auditors found an error rate of less than 1.2 percent in the audits completed last year. We want to lower that already low percentage, but this recent work provides some comfort that waste, fraud and abuse is not endemic to the program and that improvement should continue.

In 2004, the Commission is implementing an even more intensive audit program. We intend to use statistical sampling techniques, so that the audit results can provide a basis for forming conclusions about overall program compliance and provide needed information so that we can comply with the IPIA. These efforts will provide the Commission with more and better information on program and participant performance.

Funding this expanded audit program has been challenging. Last year, for example, the FCC unsuccessfully sought an appropriation to enable our Inspector General to conduct independent audits of the Universal Service Program. In the interim, we have drafted a new three-way agreement among the FCC, the FCC's Inspector General, and USAC to enable us to move forward with necessary audits. Under this agreement, USAC will contract with independent auditors, applying government auditing standards to conduct audits of a statistically significant number of E-rate recipients. We anticipate that the results from these audits will enable us to gauge vulnerabilities in the program so that we can act to correct them.

Finally, we are committed to seeking a legislative clarification of the Commission's authority to permit the FCC to transfer funds from the Universal Service Fund to pay for necessary audits, implementation and recovery actions. This will enable the FCC to contract directly with auditors. We are working with OMB to propose specific legislation to authorize the transfer.

In sum, audits are critical to the oversight package. Audits confirm and close the loop. They provide us with information to assess the wisdom of our rules. They inform future rulemakings; many of the rule changes made in the last year or currently under consideration have been sparked by what the audits have revealed to be weaknesses in the current program design.

And finally, audits are the vehicle by which we determine if monies need to be recovered from particular beneficiaries, so that the benefits of the E-rate program go only to those who comply with our rules. The agency is working to ensure timely resolution of all audit findings, whether those audits are conducted by USAC internal audit staff, independent outside auditors hired by USAC, or the FCC's Office of Inspector General. We are also working to ensure timely recovery of erroneously disbursed funds identified by these audits. We agree that we all need to do better in this area, so that audit and recovery work is completed more expeditiously. We expect that this quarter, the Commission will act on several recommendations related to these issues made by the Wireline Competition Bureau. We also are supportive of USAC's plans to step up its outreach efforts to better educate beneficiaries by scheduling 1,000 site visits a year.

CONCLUSION

We are committed to making ongoing improvements in the e-rate program, and we look forward to your questions on these issues. We would be happy to provide any assistance to the Subcommittee and stand ready to offer our technical and subject area expertise as you move forward. Thank you, Mr. Chairman, for the opportunity to participate in your review of the universal service fund's schools and libraries support mechanism.

Mr. GREENWOOD. Mr. McDonald, you are recognized for your opening statement.

TESTIMONY OF GEORGE McDONALD

Mr. MCDONALD. Good morning, Mr. Chairman and members of the subcommittee. My name is George McDonald. I am the Vice President of the Universal Service Administrative Company responsible for the Schools and Libraries Division. It is my privilege to be here today to speak to you about USAC and its administration of the Schools and Libraries Universal Service Support Mechanism, commonly referred to as the E-Rate program.

USAC is the not-for-profit corporation designated by the Federal Communications Commission to administer the E-rate program based on the Telecommunications Act of 1996 and FCC regulations adopted pursuant to the Act. In order to accomplish our mission, we work closely with the FCC, consulting almost daily on issues of implementation.

We are committed to helping prevent waste, fraud, and abuse in the universal service support mechanisms, and we devote substantial resources toward that goal so that the benefits of the discounts go only to eligible recipients for eligible uses.

Before we began making funding commitments in 1998, we hired an independent consultant to advise us on our internal controls and attest to the adequacy of those controls. Our internal controls are designed to ensure that commitment and disbursement of E-Rate funds are consistent with FCC rules relating, for example, to the eligibility of entities, of services, and appropriate discount rates. Also, in 1998 staff of the U.S. General Accounting Office reviewed our draft procedures and recommended changes which we implemented.

We employ many tools to help assure compliance with program rules. These include detailed application and invoice review procedures, denials of funding commitments when appropriate, rejection of incorrect invoices, audits of program beneficiaries and service providers, recovery of funds where rule violations are found, investigations of whistleblower hotline complaints, support to law enforcement investigations, and referral of matters involving suspected program abuse to law enforcement authorities.

USAC's application and invoicing review procedures have greatly evolved over the past 6 years, becoming more detailed and comprehensive, as we have gained experience with the program. For example, as we saw instances of service providers not making applicants pay the nondiscount share—a key rule of the program—we initiated verification of payment of that share into our invoice review process. USAC's internal controls have prevented the unlawful disbursement of hundreds of millions of dollars.

We receive approximately 35,000 E-Rate applications per year. In addition, we process an average 80,000 individual requests for pay-

ment annually. Our fundamental responsibility is to make well-founded decisions to approve or deny these requests. Each of these documents is individually processed using detailed Program Integrity Assurance, or PIA, review procedures to arrive at an appropriate decision consistent with program rules.

We also conduct audits of beneficiaries to assess applicant program compliance. As a result of audit findings, we have modified and strengthened our internal controls, improved our outreach, and better educated applicants and service providers regarding program rules.

In order to provide the public with a means of reporting activities that may be in violation of E-Rate program rules, USAC maintains a whistleblower hotline. USAC's Special Investigations Team investigates every call to determine if further action is required. We receive and follow up on over 100 calls per year.

Comprehensive applicant and service provider training in program requirements are vital components of program integrity. USAC's training of applicants and service providers emphasize the importance of compliance with program rules and the consequences of non-compliance.

One of the key lessons we have learned from our experience in administering the program and from the audits we have conducted, as well as from law enforcement investigations and media reports, is that USAC needs a larger oversight presence in the field. Site visits will allow us to assess more fully, in real-time, how E-Rate funds are being used, to learn about and publicize best practices in education technology and program compliance, and to help ensure that products and services have in fact been delivered and are being used effectively. We have issued a Request for Proposals soliciting bids to conduct some 1,000 site visits a year. This step will further enhance program integrity.

Finally, let me turn to the participation of the Puerto Rico Department of Education in the E-Rate program. For the first 3 funding years of the program, 1998-2000, PRDOE applied for and received a substantial amount of funding from USAC. As a part of our initial set of audits of beneficiaries in 2000, we selected PRDOE for an audit of the first funding year. The audit was completed in October 2001.

We were particularly concerned about findings that 100,000 computers that were to be installed in classrooms had not by then been purchased and installed and that there were no computers in the two schools the auditors had visited. So we advised PRDOE in December 2001 that we would make no further commitments or disbursements of E-rate funds until we received and evaluated its response to our inquiries concerning the availability of computers and other resources required to make effective use of the discounted services.

Since that time, USAC and the FCC have worked with PRDOE as it has sought to come into compliance with program rules. In November 2003, the FCC issued an order directing USAC to conduct an audit of PRDOE prior to disbursing any additional E-Rate funds. That audit has begun.

Mr. Chairman, thank you for providing me with the opportunity to address the subcommittee. We look forward to continuing to

work with Congress to improve the Schools and Libraries Support Mechanism. I would be happy to respond to any questions you may have.

[The prepared statement of George McDonald follows:]

PREPARED STATEMENT OF GEORGE MCDONALD, UNIVERSAL SERVICE ADMINISTRATIVE COMPANY VICE PRESIDENT, SCHOOLS AND LIBRARIES DIVISION

Good morning, Mr. Chairman and Members of the Subcommittee. My name is George McDonald. I am the Vice President of the Universal Service Administrative Company ("USAC") responsible for the Schools and Libraries Division. It is my privilege to be here today to speak to you about USAC and its administration of the Schools and Libraries Universal Service Support Mechanism, commonly referred to as the "E-rate" program.

Overview

USAC is the not-for-profit corporation designated by the Federal Communications Commission ("FCC") to administer the E-rate program based on the Telecommunications Act of 1996 and FCC regulations adopted pursuant to the Act. In order to accomplish our mission, we work closely with the FCC, consulting almost daily on issues of implementation.

We are committed to helping prevent waste, fraud, and abuse in the universal service support mechanisms, and we devote substantial resources towards that goal so that the benefits of the discounts go only to eligible recipients for eligible uses. I would like to describe some of the administrative procedures we use to help ensure program integrity. I will also outline a new initiative designed to further improve compliance with program rules. Finally, I will briefly describe USAC's activities concerning the Puerto Rico Department of Education's participation in the E-rate program.

Before we began making funding commitments in 1998, we hired an independent consultant, Coopers and Lybrand—which later became PricewaterhouseCoopers—to advise us on our internal controls and attest to the adequacy of those controls. Our internal controls are designed to ensure that commitment and disbursement of E-rate funds are consistent with FCC rules relating, for example, to the eligibility of entities, of services, and appropriate discount rates. At the request of Senator McCain, staff of the U.S. General Accounting Office reviewed our draft procedures and recommended changes, which we implemented. For example, we moved a procedure to scrutinize the resources applicants have to use the discounted services from after commitment of funds to before.

We employ many tools to help assure compliance with program rules. These include detailed application and invoice review procedures, denials of funding commitments when appropriate, rejection of incorrect invoices, audits of program beneficiaries and service providers, recovery of funds where rule violations are found, investigations of whistleblower hotline complaints, support to law enforcement investigations, and referral of matters involving suspected program abuse to law enforcement authorities.

USAC's application and invoicing review procedures have greatly evolved over the past six years, becoming more detailed and comprehensive, as we have gained experience with the program. For example, as we saw instances of service providers not making applicants pay the nondiscount share (a key rule of the program), we initiated verification of payment of that share into our invoice review process. USAC's internal controls have prevented the unlawful disbursement of hundreds of millions of dollars, either as a result of denials based on failure to comply with program rules or cancellation of funding requests by the applicant as a result of USAC inquiries.

Application and Invoice Volumes

We receive approximately 35,000 E-rate applications per year. In addition, we process an average 80,000 individual requests for payment annually. Our fundamental responsibility is to make well-founded decisions to approve or deny these requests. Each of these documents is individually processed using detailed Program Integrity Assurance, or PIA, review procedures to arrive at an appropriate decision consistent with program rules.

Audits

We also conduct audits of beneficiaries to assess applicant program compliance. As a result of audit findings, we have modified and strengthened our internal con-

trols, improved our outreach, and better educated applicants and service providers regarding program rules.

Whistleblower Hotline and Special Investigations Team

In order to provide the public with a means of reporting activities that may be in violation of E-rate program rules, USAC maintains a whistleblower hotline. USAC's Special Investigations Team investigates every call to determine if further action is required. We receive and follow up on over 100 calls per year.

Education Regarding Program Requirements

Comprehensive applicant and service provider training in program requirements are vital components of program integrity. USAC's applicant training—an annual conference of state E-rate coordinators and regional meetings throughout the year—emphasize the importance of compliance with program rules and the consequences of non-compliance. USAC also provides training and education opportunities to service provider participants in the program

New Site Visit Initiative

One of the key lessons we have learned from our experience in administering the program and from the audits we have conducted, as well as from law enforcement investigations and media reports, is that USAC needs a larger oversight presence in the field. Site visits will allow us to assess more fully, in real-time, how E-rate funds are being used, to learn about and publicize best practices in education technology and program compliance, and to help ensure that products and services have in fact been delivered and are being used effectively. We have issued a Request for Proposals soliciting bids to conduct some 1,000 site visits a year. This step will further enhance program integrity.

Puerto Rico Department of Education

Finally, let me turn to the participation of the Puerto Rico Department of Education ("PRDOE") in the E-rate program. For the first three funding years of the program, 1998-2000, PRDOE applied for and received a substantial amount of funding from USAC. As a part of our initial set of audits of beneficiaries in 2000, we selected PRDOE for an audit of the first funding year. The audit was completed in October 2001. We were particularly concerned about findings that 100,000 computers that were to be installed in classrooms had not by then been purchased and installed and that there were no computers in the two schools the auditors had visited. So we advised PRDOE in December 2001 that we would make no further commitments or disbursements of E-rate funds until we received and evaluated its response to our inquiries concerning the availability of computers and other resources required to make effective use of the discounted services. Since that time, USAC and the FCC have worked with PRDOE as it has sought to come into compliance with program rules. In November 2003, the FCC issued an order directing USAC to conduct an audit of PRDOE prior to disbursing any additional E-rate funds. That audit has begun.

Conclusion

Mr. Chairman, thank you for providing me with the opportunity to address the Subcommittee. We look forward to continuing to work with Congress to improve the Schools and Libraries Support Mechanism. I would be happy to respond to any questions you may have.

Mr. GREENWOOD. Thank you very much.

The Chair recognizes himself for 10 minutes for inquiry. Let me start with you, Mr. McDonald. How many people work at USAC?

Mr. MCDONALD. There are 15 people in the Schools and Libraries Division, a little over 100 in all of USAC. USAC administers all the universal service support mechanisms.

Mr. GREENWOOD. So 15 for the Schools and Libraries Program?

Mr. MCDONALD. We out-source the day-to-day operations of the program. Our contractors work force is between 200 and 300 depending on the time of year.

Mr. GREENWOOD. So you have 200 to 300 people under contract. What do they do?

Mr. MCDONALD. They review applications, review appeals, review invoices, conduct special investigations.

Mr. GREENWOOD. Why have you chosen that method as opposed to having all internal employees?

Mr. MCDONALD. When we were beginning we weren't sure exactly how this was going to work, what the volume of work was going to be and we figured that outsourcing was the best way.

Mr. GREENWOOD. Do you still think it is?

Mr. MCDONALD. We competitively bid the award several years ago. We anticipate competitively bidding it again. I think it does provide the best opportunity to get the most efficient productive work force.

Mr. GREENWOOD. Well, you have a lot of problems at USAC and it seems to me that if the contractors are—I am trying to figure out what responsibility the contractors have here. We have got this very diffuse responsibility. You have got FCC, you have got USAC, now we have got contractors, we have got school districts. Let me be specific. With regard to the 100,000 computers for Puerto Rico, had they certified that they weren't in possession of those as part of their application?

Mr. MCDONALD. They certified in their application for 1998 that they had secured access to the resources. We did evaluate whether that was true in Puerto Rico's case and we did decide that it was true. If they had the budget for the 100,000 computers, we would have regarded that as having secured access.

Mr. GREENWOOD. Have you rethought that?

Mr. MCDONALD. I have not today. Maybe we will, sir. The application——

Mr. GREENWOOD. It seems pretty fundamental. If you are going to spend $100 million to hook up 100,000 computers, that having gone through this experience where the computers evaporated in a withdrawn and contested bid, that you want to make sure in the future that certifying that you have access to the computers means they are actually in your buildings. Wouldn't you?

Mr. MCDONALD. One consideration is applicants apply for these funds 5 months before the funding year starts. Then the internal connections to actually link up the computers can take months. The funding year is available for 15 months. Before they would actually be able to hook them up could be 20 months from when they apply for the funds.

Mr. GREENWOOD. Have you been here all day?

Mr. MCDONALD. Yes, sir.

Mr. GREENWOOD. Okay. When we had the first panel we had the IG here. I asked him about auditing. The thing that sort of surprised me about this, and you may have heard me say to him, this is not the first instance in which the Federal Government has tried to figure out how to take money and grant it out to entities like schools and to do it in a way that minimizes waste, fraud, and abuse. Yet, it seems that in the case of USAC here, and I wasn't paying attention at the birth of USAC—have you been there since the beginning?

Mr. MCDONALD. I started with the Schools and Libraries Corporation in December 1997 before we were merged into USAC.

Mr. GREENWOOD. Okay. So when this whole process was invented because admittedly you got precious little guidance from the Congress as to what to do, but it seems to me if it were my job

to set up USAC and I knew I was going to be bringing $2.5, $2.25 billion in the front door and putting it out the back door every year, that I would want to look around and say: what is the state-of-the-art of doing that to prevent waste, fraud, and abuse? Somebody must have invented the best way to make sure that in those instances you have got a maximum number of fiscal controls in place. Did that happen?

Mr. MCDONALD. What we did, sir, was under the direction of the Chairman of the FCC we engaged Coopers & Lybrand who later became PriceWaterhouseCoopers to work with us to design the procedures that we would follow. Senator McCain directed the General Accounting Office to come in and review those procedures as well. As I mentioned, we accommodated both the auditors and the GAO in what those procedures were. We felt like——

Mr. GREENWOOD. What was the essence of Coopers' recommendation? Because apparently what you do, I think, you have got—what did you say? Well, describe again your auditing process. You audit how many of these applications?

Mr. MCDONALD. We review all the applications when they come in.

Mr. GREENWOOD. Right.

Mr. MCDONALD. Do you mean literally the audits after the fact?

Mr. GREENWOOD. Yes.

Mr. MCDONALD. In the first year we audited 17, next year 25, last year 102.

Mr. GREENWOOD. Is that pursuant to what Coopers' recommended to you? If it is an order of magnitude of 30,000 applications and grants that you audit and the order of magnitude of 10, 20, 30?

Mr. MCDONALD. The procedures that Coopers attested to and the GAO was commenting on did not involve audits. They were application invoice review procedures and fund management. We developed that later, the beneficiary audit concept.

Mr. GREENWOOD. What is the state of the thinking at USAC? You have got some egg on your face here. You have got Puerto Rico. You have got Chicago. You have got Atlanta. You have got El Paso, etc. What is the state-of-the-art of your thinking with regard to what is the best way to get this egg off your face and make this program work efficiently?

Mr. MCDONALD. The two lessons that I think we have learned immediately, and this committee may help us learn more, are that we need a larger physical presence. The audits, even the 122 that the Inspector General talked about, is such a small piece of 30,000 so we think we need to get to a much larger number and that is why——

Mr. GREENWOOD. All right. In terms of who does the auditing, you can have the FCC in charge of auditing. You could have USAC in charge of auditing. You could have the IG in charge of auditing. You could have the individual grantee in charge of auditing. You could have contractors do that. There is a variety of ways. The thought that occurred to me is that if I am a school district and I am getting $100 million of free money, it doesn't seem like an awful lot to say, "And part of your deal, individual grantee, is you must contract with an independent accounting firm to do an audit

and provide statements to USAC that demonstrates the fact that you are in compliance with all the guidelines."

Why wouldn't that be the most perfect way to do it because then you will have 30,000 audits? Of course, there is an expenditure of money involved but it would have to be a small fraction of the $2.25 billion and it would seem to me even if you required auditing in the case of every single grantee, you would still be way ahead because you would reduce dramatically the likelihood that you are going to have these boondoggles.

Mr. MCDONALD. That would require a rule change and as USAC we are prohibited from advocating policy. It certainly is a model——

Mr. GREENWOOD. Whoa. Is that right? You are prohibited from advocating policy?

Mr. MCDONALD. Yes, sir. We are the neutral administrator. We are to follow the FCC rules.

Mr. GREENWOOD. Since you guys are up to your hips in this process, how does the FCC benefit from your knowledge if you can't recommend policy?

Mr. MCDONALD. They know all the issues we confront, sir. We take the issues to them, seek guidance from them. They review hundreds of appeals every year. They see the issues that we face.

Mr. GREENWOOD. Let me turn to you, Ms. Mattey.

Ms. DEGETTE. Will the gentleman yield real quick? Actually, Mr. McDonald, while you can't advocate policies, I understand the rules, if Chairman Greenwood asked you your opinion on a policy he is thinking of, I think the rules allow you to give your opinion on that.

Mr. MCDONALD. I was about to go on and say that other Federal agencies do do that. The IG talked about the A133 audits and it seems to me an effective way to proceed.

Mr. GREENWOOD. I am surprised that it would take you until this point in your career to decide that might be a good way to proceed but I am not in your shoes.

Ms. Mattey, how would you respond to my questioning of Mr. McDonald, the line of questioning I had there about what is the best way to audit these programs and would it, in fact, make sense to require that every grantee contract out for an independent audit so that we are not simply taking 1/1000th of the contracts and having spot audits.

Ms. MATTEY. Is your proposal that the school pay for the audit or would the payment come out of the Universal Service Fund?

Mr. GREENWOOD. I think it could go either way because the school has a matching part. Maybe this could be considered part of its match. You have got a lot of money here and it is buying a lot of gold-plated hardware which is fine, I suppose, as long as it is not over-engineered. But it seems like for a relatively small fraction of the cost of all of this hardware that is going in these installations, somebody onsite—this is the way it is done for highway projects. This is the way it is done for a lot of Department of Defense projects. A lot of grantees are required to go out and make sure they have an independent single, I think, audit, they refer to it as, to make sure they are in compliance.

Ms. MATTEY. As a general matter I think the agency agrees that more audits should be done. To that end we have been having conversations with USAC and with the Inspector General, and the agency is working to develop what is called a three-way agreement under which there would be audit work done with the FCC, an outside audit firm, and the schools and libraries.

Mr. GREENWOOD. But that is not what I am proposing. What do you think about what I am proposing?

Ms. MATTEY. One thing that does occur to me is there are some schools and libraries that receive a very small amount of support and the cost of auditing a school that, for instance, is maybe only getting $10,000 worth of dial-up telephone funds.

Mr. GREENWOOD. That is a good point.

Ms. MATTEY. But as a general proposition I think that any school that is getting a sizable amount of support, it would be a good idea to have a more robust audit of the schools.

Mr. GREENWOOD. I am going to yield after this question but particularly for this reason—the way this program works is—the reason I think this program is so easily ripped off is because, first off, it is not even a tax dollar. It is an invisible sort of tax that people don't really understand on their phone bill. When you get your phone bill and this Universal Service Charge is on there, you don't really even know who to complain to.

There is no public pressure applied to the expenditure of these dollars because nobody knows where this money goes except us in this room practically. Then you have this sort of neither fish nor foul USAC entity, nonprofit corporation, which isn't elected, isn't really responsible to answer to political pressure when they screw up.

Then you have school districts out there who are getting 80, 90 percent match. No big deal to them. They have not much at stake in making sure that the money is spent well. They are going to look good to the people who elected them as school board directors getting all this free money and if they foul up, they are not as politically at risk as if they had taken this money out of the taxes of their local people.

All this in combination and then the tendency of the vendors to drive the architecture to be as big and as expensive as possible because the more they do, the more money they make and the happier the school district is because it is all free money anyway. It seems to me for all those reasons we need to have not only more robust but we have to have a complete transformation of the way we think about how to audit these funds.

We have a series of three votes and it will probably take us until 2:30 to accomplish that and return here so can you all be here at 2:30 and then we will, therefore, recess until 2:30.

[Whereupon, at 1:59 p.m. the subcommittee recessed, to reconvene the same day at 2:43.]

Mr. GREENWOOD. The meeting will come to order. The Chair recognizes the gentlewoman from Colorado for 10 minutes for inquiry.

Ms. DEGETTE. Thank you, Mr. Chairman.

Ms. Mattey, the Inspector General testified that, "Every rock that we turn over we find stuff." That is a quote. In your statement you said that the audit work today suggest that the level of rule

noncompliance is relatively low. I am wondering how you can square those two statements.

Ms. MATTEY. The statement in my testimony is based on looking at the dollars that have been dispersed and the comparison of the dollars that need to be recovered based on that audit work. There are two ways you can look at this. One is to say I am auditing a beneficiary and that beneficiary has violated a rule. But in some cases the rule violation in question may only require that you recover a fraction of the dollars that were provided to that entity, maybe 5 percent or 2 percent. The testimony we presented was looking at it in terms of the dollars dispersed and the dollars that need to be recovered.

Ms. DEGETTE. Well, if I may just beg to differ for a minute, the problem is, as the Inspector General said, because of lack of resources in the IG's Office they don't even have enough audits going on every year to do a reliable sample size to see what dollars need to be recovered. Do they?

Ms. MATTEY. I can't comment on what he said. As I said before, the agency thinks that the number of audits need to be increased and that is something that we are all working together to make happen.

Ms. DEGETTE. And until the audits are increased, I think it would probably be fair to say that we don't really know the magnitude of the problem of dollars that need to be recovered. Isn't that fair to say?

Ms. MATTEY. I think that is——

Ms. DEGETTE. If you don't know what is out there, you don't know what you are losing. All you can base your data on is what has been done so far.

Ms. MATTEY. That is correct.

Ms. DEGETTE. Now, in your testimony you said that the systems that the FCC has in place have, "successfully detected situations like the Puerto Rico Department of Education where program participants have run afoul of our rules." I wonder what you would view how much money was wasted in Puerto Rico before the FCC successfully detected the situation?

Ms. MATTEY. I think that is a question that has to await the completion of the audit looking at what was received by Puerto Rico during the first 3 years.

Ms. DEGETTE. Well, there was over $100 million spent in Puerto Rico. Correct?

Ms. MATTEY. That is my understanding.

Ms. DEGETTE. Do you have any opinion as to how much of that money was wasted and how much was not wasted?

Ms. MATTEY. I don't have enough information to have an opinion on that. As I said, that is something the audit will determine ultimately.

Ms. DEGETTE. And who is conducting that audit?

Ms. MATTEY. That audit is being conducted by KPMG under contract with USAC.

Ms. DEGETTE. And when will that audit be completed?

Ms. MATTEY. I would defer to USAC on that. That is the audit that the Commission ordered should happen.

Ms. DEGETTE. Mr. McDonald, when will that audit be completed?

Mr. MCDONALD. They are onsite now. We expect site visits to go into July and then I am not sure how long. I think a month or 2 after that to resolve audit issues and give PRDOE to respond, etc.

Ms. DEGETTE. Okay. Do either one of you, Mr. McDonald, or Ms. Mattey, do you consider that the pace at which the Puerto Rico situation was detected to be a success of the detection systems of the FCC?

Ms. MATTEY. My understanding of the situation is that USAC informed Puerto Rico that no further disbursements would be made less than 2 months after receiving that final audit report in 2001.

Ms. DEGETTE. So you do think it was a success even though——

Ms. MATTEY. I think in this situation it was important to stop further money flowing to Puerto Rico.

Ms. DEGETTE. I cannot agree with you more. I really cannot agree with you more but my question to you is that payment was not stopped until over $100 million was paid out to Puerto Rico. Do you think there is anything that can be done to stop? I mean, you have been here—I think all of you have been here all day.

You have heard about the terrible situation we have there where we have how many schools? Six schools wired? Nine. Excuse me. Nine schools wired? I hate to exaggerate in either direction. I mean, nine schools are wired out of their many, many schools and, yet, $100 million plus was spent. Do any of you see a problem with the lack of detection earlier? Mr. McDonald.

Mr. MCDONALD. As I mentioned in my statement, I think we have all concluded that we need to be present in the field much more than we are. It was an audit that caught that for us and led to the stopping of the money but that is why we are going to initiate these 1,000 site visits to get out there quickly after we have been invoiced so the equipment and services should have been delivered are they there.

Ms. DEGETTE. And in the Puerto Rico situation, as we heard in the last panel, there were not even invoices. Correct?

Mr. MCDONALD. I am not sure what you mean, Congressman.

Ms. DEGETTE. Well, some of the testimony as I heard it was that payments were being made without invoices to support those payments. Were you aware of that?

Mr. MCDONALD. For many of the invoices we checked and there were customer bills to support the invoices. In fact, in 2001 before we cutoff the disbursements we continued to verify with PRDOE that the services were being received and installed and we got that certification from PRDOE.

Ms. DEGETTE. Right. But you just said that the new plan is to make sure that the invoices are accurate to send people out into the field. Before 2001 the testimony I believe as I heard it was that there were not even invoices when dispersements were made.

Mr. MCDONALD. We don't make a disbursement without getting an invoice from the service provider and in many of those cases we would check to see is there a customer bill to support this.

Ms. DEGETTE. Well, in the Puerto Rico situation, is it your testimony to the best of your recollection that all of the payments that were made were supported by invoices because that is not what we heard before.

Mr. MCDONALD. Eighty-eight percent of the funds that we disbursed to PRDOE there was some manual verification. That doesn't mean we verified a customer bill in all those cases but I——

Ms. DEGETTE. Do you think that would be a good practice in the future?

Mr. MCDONALD. This goes back to 1999 making disbursements and we certainly increased our invoice checks, the number, and the quality of those checks a lot.

Ms. DEGETTE. Is it the practice of your agency to only make disbursements when supported by invoices or some other paper documentation or electronic documentation?

Mr. MCDONALD. Today we don't verify 100 percent of the invoices that come into us. They all go through automated checks.

Ms. DEGETTE. Okay. That is not what I am asking you. I am sorry. What I am asking you is do you make disbursements without invoices?

Mr. MCDONALD. We don't make disbursements without invoices from the service provider to us.

Ms. DEGETTE. That is my question. That is my question. Thank you very much. Now, back before 2001, 1999/2000 when all of this was going on in Puerto Rico, was that also the policy?

Mr. MCDONALD. That has always been the case.

Ms. DEGETTE. So have you gone back on this part of the audit that is going on right now to see if there were payments made without invoices during that period of time?

Mr. MCDONALD. There is no way in our system that a payment would be made without either service provider invoice which everything in Puerto Rico is a service provider invoice. There is no way we would make a disbursement without a service provider invoice.

Ms. DEGETTE. Okay. So the testimony we heard earlier then was inaccurate?

Mr. MCDONALD. I don't remember what was said. Customer bills would be different from invoices to us.

Ms. DEGETTE. Yeah, I understand. We are getting caught up in semantics. Now, Mr. Greenwood's proposal, which I think has some eloquence to it, that school districts pay for their own audits, I guess I would just say, Mr. Greenwood, I think particularly for the schools that are receiving funds with No Child Left Behind and many state requirements, I think it may be difficult for many of those schools to pay for these audits out of their own separate resources.

But I definitely think it is a great idea to have them pay for them out of a percentage of the E-Rate funds that they receive. It would be part of the match. My question is do any of you have an opinion as to what level of grant participation you would want to have to have some kind of audit system come into place. I think Ms. Mattey was right, you don't want people getting $10,000 to have to——

Ms. MATTEY. I don't know the specifics, but I would think you would want to look at—I understand there is an existing requirement that applies in other Federal programs and depending on the number of Federal dollars received you get audited every year or every 3 years so that, to me, just from a conceptual level would seem to make sense.

There is a dollar threshold: if you get $50,000 or more, maybe you get audited every 3 years. If you are getting a million dollars, then maybe it is every year. Something like that. I don't have specific figures, but something conceptually like that.

Ms. DEGETTE. Great. Thank you.

Thank you, Mr. Chairman.

Mr. GREENWOOD. The Chair thanks the gentlelady. I want to go back briefly to the question of what is considered waste and what is isn't considered waste. The problem that I have is the metric that you used in your testimony was what percentage of the total dollars outlayed were actually recovered. The problem that I have with that as a metric for waste is that the less money you recover, the better you look.

Ms. MATTEY. Actually, the metric I was talking about is the dollars that need to be recovered compared to the total dollars audited.

Mr. GREENWOOD. Right. I understand that. But here is the problem I have with that. When you look at some of these cases like at the Atlanta School District where they were putting servers in top-of-the-line—let me read this. "Atlanta installed Cisco's top-of-the-line electronics, the equipment that moves Internet traffic through cyberspace in every school rather than in a limited number of regional hubs. Just two of the components could run an entire network. Atlanta ultimately bought more than 200 of them at $50,000 to $100,000 each." Assuming that is correct, they bought 198 extra servers. Are you aware of that allegation from the——

Ms. MATTEY. I have read the trade press reports about that.

Mr. GREENWOOD. Pardon me?

Ms. MATTEY. I have read trade press reports.

Mr. GREENWOOD. Right. Okay. That certainly seems to me to be something that one should count as waste even if it was never recovered and even if there was never a decision made to recover. Do you follow me?

Ms. MATTEY. Yes.

Mr. GREENWOOD. Okay. And let us look at these kind of issues. What sort of standards does either the FCC or USAC have to make sure that we don't get over-engineered gold-plated systems that would be the natural proclivity of a contractor trying to maximize its profit? Anyone.

Ms. MATTEY. Well, as a general matter, the Commission's rules prohibit the funding of duplicative services. In a situation where an entity is getting duplicative services, that would be a violation of our rules.

Mr. GREENWOOD. How do you make sure that doesn't happen?

Ms. MATTEY. Well, from a processing standpoint I would defer to USAC.

Mr. MCDONALD. If we think the services that are being requested are unreasonable, we look to the technology plan to see if they are supported by the technology plan.

Mr. GREENWOOD. How did you respond to Secretary of Education Rey's comment that they never found any document that there even was a plan?

Mr. MCDONALD. They would have certified to us that they had a plan approved by the U.S. Department of Education.

Mr. GREENWOOD. All right. So the Department of Education has to approve their plan and USAC doesn't?

Mr. MCDONALD. Under FCC rules state agencies in this case for Puerto Rico, the U.S. Department of Education, are approvers of technology plans for school districts in their state. We don't approve them but State Departments of Education do.

Mr. GREENWOOD. So State Departments of Education do. I didn't even know that. That is an entirely new wrinkle. So now you have not only is the money collected by phone bills and it is not in taxes and the school district doesn't really care about how much is wasted because it is mostly not their money, but you have got this state Department of Education which has essentially no stake in this business certifying their plan. Is that the way it works?

Mr. MCDONALD. As it does for the U.S. Department of Education.

Mr. GREENWOOD. I understand that. Neither FCC nor the USAC reviews these applications to see as to their adequacy. They allow the State Departments of Education to do that?

Mr. MCDONALD. We don't review the technology plans. We may review them if we have questions about the services being sought in an application.

Mr. GREENWOOD. In other words, if you are not reviewing them, how would questions arise?

Mr. MCDONALD. Because the services may look extraordinary. In some cases, I recall once where we saw very expensive PBXs and we verified that the price was legitimate for the PBX that it was but it had a lot of functionality beyond what most schools and libraries would acquire. We went to the technology plan to see if that functionality was called for in the technology plan and it was.

Mr. GREENWOOD. What motivation would a state Department of Education have to tell one of its school districts that its technology plan was excessive?

Mr. MCDONALD. Good government, sir. I don't have an answer beyond that.

Mr. GREENWOOD. Um. Let me ask a question of you, Ms. Mago. Secretary Rey states that you requested during a January 2003 meeting that he submit another request in writing for the release of the funds and that the PRDOE would receive a decision within 10 days. Is that true?

Ms. MAGO. That is not true to the best of my recollection, sir. I have been trying to figure out what I could have said that could have been misinterpreted that way. My objective here was to try to be as helpful as I could in the course of trying to resolve a problem in a way that would preserve the integrity of the E-Rate Program, not interfere with investigations that were ongoing in other parts of the Government and the Department of Justice and Department of Education and try to figure out if there was some way that we could get to a point where we could make a break between bad events of the past and good events of the future.

Mr. GREENWOOD. You say in your testimony—I guess this is directed to Ms. Mattey—that you intend to use statistical sampling techniques so that audit results can provide a basis for forming conclusions about overall program compliance. To date have you conducted a systematic audit using such statistical sampling techniques?

Ms. MATTEY. Well, the last audit work that was done in the last calendar year, my understanding is that the sample was determined in consultation with the Office of Inspector General so I would defer to Mr. Feaster as to whether that was a statistically valid sample or was it a random sample. The intent on a going-forward basis is to have the agency ensure that a sample is a large enough size so that program conclusions can be drawn from the audit work that is being done in the coming year.

Mr. GREENWOOD. You state in your testimony that you are reviewing your rules and audit procedures to learn from this experience. What lessons do you derive from the fact that PRDOE has been operating since December 2001 without an answer to its funding requests?

Ms. MATTEY. I think the bottom line here is that we want to make sure that Puerto Rico is in compliance with the Commission's rules before money flows to Puerto Rico. Sometimes things take time but we have got to make sure we get it right.

Mr. GREENWOOD. Do you have a time table? Do you have an estimate as to how long you think it will take?

Ms. MATTEY. I would defer again to USAC. I believe he testified about the timing of the audit and the audit process.

Mr. GREENWOOD. Would you repeat what you said about that, Mr. McDonald?

Mr. MCDONALD. The site visits are currently underway. We expect them to continue into July and then I think it will probably take another few months to resolve any issues coming out of that and give PRDOE an opportunity to respond to them.

Mr. GREENWOOD. Ms. Mattey, how many appeals are pending at the FCC?

Ms. MATTEY. I don't know that number off the top of my head.

Mr. GREENWOOD. My staff tells me that the USAC tells them it is 453.

Ms. MATTEY. I don't know if that is the precise number but that sounds right.

Mr. GREENWOOD. How many at the Bureau are working on them?

Ms. MATTEY. Overall in the Bureau I believe we have about seven people working on E-Rate related matters, but I would want to supplement if I don't have the right figure.

Mr. GREENWOOD. Do you know how long it would take seven people to get through 453 appeals? It just seems——

Ms. MATTEY. We do several hundred every year and have since the beginning of the program.

Mr. GREENWOOD. Okay. I want to go back to this issue, Mr. McDonald, of the State Education Departments signing off on the technology plans. Do you know how frequently State Departments of Education do not sign off on them, that reject them as being excessive or unrealistic or too ambitious or too expensive?

Mr. MCDONALD. I don't know that, sir. We wouldn't know that. If they were back and forth to get a plan to an approvable state, we wouldn't know that. We would just know that the state finally had signed off on it.

Mr. GREENWOOD. So am I accurate when I say that neither USAC nor the FCC assumes responsibility for whether the tech-

nology plan is rational or not? You leave that entirely to the Departments of Education?

Mr. MCDONALD. Pursuant to FCC rules the states are permitted to be approvers of technology plans.

Mr. GREENWOOD. Do you agree with that, Ms. Mattey?

Ms. MATTEY. He is accurately stating the Commission's rules.

Mr. GREENWOOD. All right. Thinking about that, do you see where that could cause some concern? It seems to me that when we see some of this—when you have this motivation that I think exist's in the place of the contractors and the vendors to try to encourage the school districts to use what is—they only have to pay 10 or 20 cents on the dollar—the incentive is to overcapitalize the system, to build in a way that suits the interest of the contractor, not necessarily the rate payer who is paying for this, or even the taxpayers paying the 10 to 20 percent. I am uncomfortable with the notion that State Departments of Education who have nothing at stake. It is not state money. There is not a penny of state money.

Ms. MATTEY. It is actually possible that the state is providing the school's match. It may be coming out of state budgets. It would depend on whether it is from the local school district or the state, but my understanding is many school districts do receive funding from the state and that would be——

Mr. GREENWOOD. Specifically for this program?

Ms. MATTEY. I don't know for sure but my understanding is states do provide the funding to the school districts.

Mr. GREENWOOD. In Pennsylvania we spend a lot of money on state education. It goes in the form of student subsidy formulae and so forth. The problem I have is that the bureaucrats in the Department of Education in Harrisburg, Pennsylvania, I don't see that they have a lot invested in whether a school district in Philadelphia or Pittsburgh or Scranton or Harrisburg or anywhere else overdoes their system. I just really have a hard time imagining having spent 24 years in Government that there are people sitting at desks in all these state capitals saying, "What do you mean two servers in the school?" I just find that hard to believe.

My time has expired. Does the gentlelady wish to inquire further?

Ms. DEGETTE. I just wanted to ask Mr. McDonald. I think you testified this audit is ongoing, that they are in the field right now, that they should have some results within the next 2 months. Is that accurate?

Mr. MCDONALD. The site visits should be done in July. This is information I have from our Director of Internal Audit who is down there as we speak. He expects the site visits to be completed in July and then I am anticipating that it would take several months to resolve issues as they come out of the field.

Ms. DEGETTE. Is the intention then that the E-Rate funding would be restored at that point to Puerto Rico?

Mr. MCDONALD. We will take the results of that audit and see if we think that it documents any rule violations and come to our recommendation about what to do with respect to the 2001/2002 applications.

Ms. DEGETTE. I know it is always dangerous when I do this but I think I can speak for the Chairman. It seems to me that the new

administration in Puerto Rico is really making a yeoman's effort and has been since 2001 to rectify a very, very bad situation that resulted in $100 million being basically, in my view, thrown to the winds. I know that the new administration in Puerto Rico has been trying to work with USAC and with the FCC to get the funding restored since 2001.

I am pleased to see you have the audit in the field now and I support that. I think it is necessary after what has transpired. I mean, the Puerto Rican school system is one of the five largest in the country and all these school children are sitting here without the kinds of services that they should be entitled to and that Congress intended. When they testified I heard their frustration in their voices.

I understand the need for an audit for resolving situations but what I would say to all of you, and particularly you, Mr. McDonald, is I really think that USAC and the FCC need to do everything once this audit is completed to expedite funds back to Puerto Rico so that we can get this program back on track. I see you are nodding. I don't think you would disagree with that in any way.

Mr. MCDONALD. I believe that the Bureau, the Office of Inspector General, and USAC all share that feeling.

Ms. DEGETTE. I would further say, Mr. Chairman, I would hope we would continue to use our oversight authority to ensure that this happens in a timely fashion because what often happens is these processes get bogged down and while we all want to see a thorough investigation, we really don't want it to get bogged down. We want that money to start going back.

Mr. MCDONALD. No FCC action is required if the audit is clean and we have no issues. USAC can act on those applications.

Ms. DEGETTE. Thank you.

Mr. GREENWOOD. The gentlelady yields the balance of her time to me to just wrap up here. Let me just be clear, Ms. Mattey. Why has it taken 2½ years to start the audit in Puerto Rico when they came up to you as soon as they took office and said—they came up to Washington and said, "We have a problem. Our predecessors really fouled this thing up. They broke the rules. We have got to start from scratch." Why has all of this been necessary for so much time to elapse?

Ms. MATTEY. I think I will defer to Ms. Mago on this because she was the person who was in contact with them.

Mr. GREENWOOD. Okay.

Ms. MAGO. The answer quite simply is that we tried to work with the Puerto Rico Department of Education. We had to go through a number of different steps with outside parties working with the Justice Department to ensure that we weren't going to foul up any ongoing investigation, working with the Department of Education to make sure that we were consistent with their investigations and where they were going.

By the time we got to roughly January 2003 we were at a point where we needed to—we said we are ready to try to go forward. At that point we considered what was the proper approach to have a framework because it was clear to us that Puerto Rico was not the only situation where there might need to be a work-out plan, if you will, to be able to go forward. The process that we developed

was to put the matter out for public comment to get information in that way. The Commission issued it's order by November 2003 and then we proceeded from there.

Mr. GREENWOOD. Final question and I will ask each of you to respond if you care to. Do you think this system needs to be restructured based on these experiences?

Ms. MATTEY. I would say there is always room for improvement.

Mr. GREENWOOD. I thought you might say that.

Ms. MAGO. And we have taken steps. We are moving forward. We recognize that there is need for improvement and that is why——

Mr. GREENWOOD. The distinction I am trying to make is the distinction between incremental improvement where you propose some rule changes as opposed to saying, "Look at the way this thing appears on the chart. The money flows here and then it goes to FCC and then USAC and State Board of Education over here."

It seems to me, and it is probably not for you to say, but it seems to me that, what is occurring to me is that, it needs more than the kind of thinking that says there is always room for improvement. That is not necessarily your function. It seems to me we need to get out of the box and we sort of think this thing from scratch.

Any other comments on that point? Without objection, the binder will be made part of the official record and the record will stay open for 30 days so that we can receive some other responses we have requested from the witnesses. Thank you all again for your testimony and the committee is adjourned.

[Whereupon, at 3:12 p.m., the subcommittee adjourned subject to the call of the Chair.]

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Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on	)	
Universal Service	)	CC Docket No. 02-6
	)	
Petition of the Puerto Rico Department of	)	
Education to Release Funds Associated with	)	
the Schools and Libraries Universal Service	)	
Support Mechanism for Years 2001 and 2002	)	

Order

Adopted: November 14, 2003 **Released: November 25, 2003**

By the Commission:

I. INTRODUCTION

1. In this Order, we direct the Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC, or Administrator) to review and process the applications of the Puerto Rico Department of Education (PRDOE) for funding years (FY) 2001 and 2002[1] under the schools and libraries universal support mechanism (E-rate Program) with the conditions contained in this Order. We direct USAC to engage an independent auditor to examine PRDOE's compliance with the Commission's requirements for FY 2001 and 2002 funding, before USAC commits or disburses FY 2001 and 2002 funds on behalf of PRDOE.

2. We also direct USAC to engage an independent auditor to examine PRDOE's compliance with Commission rules during the first three years of its participation in the E-r Program (FY 1998, 1999, 2000). Upon completion of that audit, we will address issues re to PRDOE's participation in the E-rate program for those three funding years, including need for recovery of funds that were distributed during those years.

II. BACKGROUND

A. Program Rules and Policies

3. Under the E-rate program, eligible schools, libraries, and their con for discounts on eligible telecommunications services, Internet access, and ir

[1] For these two funding years, PRDOE has requested $69,500,969 in internal connection services, and Internet access. *See* SLD's website, <http://www.sl.universalservice.org/>

[2] 47 C.F.R. §§ 54.502, 54.503.

In order to receive discounts on eligible services, the Commission's rules require that the applicant make a bona fide request for services by filing with the Administrator an FCC Form 470, which is posted to the Administrator's website for all potential competing service providers to review.[3] The Commission's rules require eligible schools and libraries to seek competitive bids for all services eligible for discounts.[4] After the FCC Form 470 is posted, the applicant must wait at least 28 days before entering into binding service agreements with its chosen providers.[5] When choosing a service provider, the applicant must select the most cost effective bid.[6]

4. Once the applicant has complied with the Commission's competitive bidding requirements and signed a contract for eligible services, the applicant must file FCC Form 471 to notify the Administrator of the services that have been ordered, the carrier with whom the applicant has signed the contract, and an estimate of funds needed to cover the discounts requested for eligible services.[7] SLD reviews the FCC Forms 471 it receives and issues funding commitment decisions in accordance with the Commission's rules.

5. USAC does not provide funds directly to schools and libraries. Instead, the Administrator disburses funds to eligible service providers who, in turn, offer discounted services to eligible schools and libraries.[8] The applicant may ask its service provider to bill the discounted amount. Alternatively, the applicant may pay the full, undiscounted amount, and then file a designated form with the Administrator to request reimbursement.[9]

6. In order to protect against waste, fraud, and abuse, action on pending applications is deferred when USAC is made aware of investigations by federal, state, or local authorities that potentially implicate compliance with program rules for that funding request. In order to avoid jeopardizing non-public investigations, USAC does not notify applicants that an application may

[3] Schools and Libraries Universal Service, Description of Services Requested and Certification Form, OMB 3060-0806 (FCC Form 470); 47 C.F.R. § 54.504(b); *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 9078, para. 575 (1997) (*Universal Service Order*), as corrected by *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Errata, FCC 97-157 (rel. June 4, 1997), *affirmed in part, Texas Office of Public Utility Counsel v. FCC*, 183 F.3d 393 (5th Cir. 1999) (affirming *Universal Service First Report and Order* in part and reversing and remanding on unrelated grounds), *cert. denied, Celpage, Inc. v. FCC*, 120 S. Ct. 2212 (May 30, 2000), *cert. denied, AT&T Corp. v. Cincinnati Bell Tel. Co.*, 120 S. Ct. 2237 (June 5, 2000), *cert. dismissed, GTE Service Corp. v. FCC*, 121 S. Ct. 423 (Nov. 2, 2000).

[4] 47 C.F.R. § 54.504; *Universal Service Order*, 12 FCC Rcd at 9029, para. 480.

[5] 47 C.F.R. § 54.504(b). Services also may be provided under tariff or month-to-month arrangements.

[6] *Universal Service Order*, 12 FCC Rcd at 9029-30, para. 481.

[7] 47 C.F.R. § 54.504(c); Schools and Libraries Universal Service, Services Ordered and Certification Form, OMB 3060-0806 (FCC Form 471).

[8] *See Changes to the Board of Directors of the National Exchange Carrier Association, Inc., Federal-State Joint Board on Universal Service*, CC Docket Nos. 97-21 and 96-45, Order, FCC 99-291, paras. 8-9 (rel. October 8, 1999), *recon. pending*; *Changes to the Board of Directors of the National Exchange Carrier Association, Inc., Federal-State Joint Board on Universal Service*, CC Docket Nos. 97-21 and 96-45, Order, FCC 00-350 (rel. October 26, 2000), *appeal pending sub nom., United States Telecommunications Association v. Federal Communications Commission*, No. 00-1500, filed November 27, 2000; *see also* SLD's website, <http://www.sl.universalservice.org/>.

[9] The reimbursement form is called the Billed Entity Applicant Reimbursement (BEAR) Form.

be on hold.

B. USAC Audit of PRDOE and Pending Investigations

7. In accordance with its standard operating procedures, USAC committed and disbursed funds on behalf of PRDOE during FY 1998-2000 to two service providers, Puerto Rico Telephone Company (PRTC) and Data Research Communications Company (DRC).[10] After the first year of operation of the program, USAC initiated audits of selected beneficiaries in order to carry out its obligation to protect against waste, fraud and abuse. This audit of FY 1998 beneficiaries, conducted by an independent audit firm, was completed in 2000. The audit identified apparent program violations with respect to PRDOE for funding year 1998. Specifically, the independent auditors determined that, in the classrooms visited, there were no desktop computers, which would appear to violate the Commission's requirement that recipients have the necessary resources to utilize the services funded by the E-rate.[11]

8. In response to that audit, on December 5, 2001, USAC suspended payments on behalf of PRDOE for FY 1998-2000 for failure to "secure access to all of the resources, including computers" necessary to make use of the discounted services purchased with the E-rate funding.[12] After consultation with the Wireline Competition Bureau, USAC also suspended consideration of PRDOE's applications for FY 2001 and 2002, and it required PRDOE to respond to the findings of the USAC-initiated audit.[13] In its December 5, 2001 Suspension Letter, USAC asked PRDOE for a detailed analysis of the state of the E-rate program in Puerto Rico, including information on computer installation, curriculum software, teacher training and the school electrical systems.[14] In January, 2002, PRDOE responded to USAC with written and in-person reports. PRDOE stated that it had launched a three-pronged E-rate recovery effort that focused on PRDOE's schools, its central communications network, and its central offices.[15] PRDOE updated its reports in April and October, 2002, detailing its progress in achieving the goals of its recovery program. On September 27, 2002, PRDOE wrote USAC, urging USAC to resume its processing of PRDOE's FY 2001 and 2002 applications.[16]

9. Meanwhile, in the fall of 2000, soon after the USAC-initiated audit, Puerto Rico held

[10] PRDOE received commitments for its 1540 schools for telecommunications services, Internet access, and internal connections for FY 1998, 1999, and 2000, totaling $158 million dollars. Of that, $101 million dollars was disbursed. *See* Letter from Dr. César A. Rey Hernández, Secretary, PRDOE, to Jane Mago, General Counsel, Federal Communications Commission, dated January 30, 2003 (*PRDOE Petition*) at 4 and Exhibit I (Appendix B of Arthur Andersen Audit Report, dated October 17, 2001). In FY 1998, PRDOE selected Puerto Rico Telephone Company (PRTC) for telecommunications service and Internet access, and Data Research Communication Corporation (DRC) for internal connections. In FY 1999, PRDOE selected PRTC for telecommunications service, both PRTC and DRC for Internet access, and DRC for internal connections. In FY 2000, PRDOE selected DRC for Internet access, and PRTC and DRC for internal connections.

[11] *PRDOE Petition* at Exhibit 1, page B-vi.

[12] Letter from George McDonald, USAC, to PRDOE, dated December 5, 2001, at 1-2. (Suspension Letter).

[13] *Id.*

[14] *Id.* at 2.

[15] *PRDOE Petition* at Exhibit IV.

[16] Letter from PRDOE to George McDonald, USAC, dated September 27, 2002.

general elections. In early 2001, the new governor took office and appointed a new Secretary of Education to head PRDOE. Upon taking over, the new Secretary determined that in many schools the equipment did not appear to have been properly installed, and in other schools the electrical infrastructure was obsolete or inadequate.[17] The new Secretary immediately began corrective measures, including hiring an outside consulting firm to undertake a comprehensive and critical analysis of the status of the E-rate program under PRDOE.[18] PRDOE cancelled DRC's service contract under the E-rate program, and subsequently asked the Department of Justice of the Commonwealth of Puerto Rico to investigate DRC's record of performance.[19] At the same time, other federal and local authorities began investigating questionable procedures at the PRDOE under the prior administration's tenure. Between January, 2001 and January, 2002, four separate entities initiated investigations of PRDOE.[20] These investigations, examining events that occurred prior to January, 2001, uncovered a past record of competitive bidding violations, contracts inconsistent with federal requirements, and funds spent on "unallowable activities."[21] Irregularities in the use of U.S. Department of Education funds led the U.S. Department of Justice to indict Victor Fajardo-Velez, Secretary of Education for Puerto Rico from 1994 to 2000. That individual subsequently was sentenced to three years in federal prison and required to pay restitution of over $4 million.[22] Federal investigations into these matters are ongoing.

10. As previously noted, late in 2001, USAC suspended payment to PRDOE for all outstanding commitments for FY 1998, 1999, and 2000. Subsequently, PRTC brought a lawsuit against DRC, alleging it had failed to pay PRTC for services rendered to it. DRC, in turn, counterclaimed, and filed a third-party complaint against USAC in the Commonwealth Court of Puerto Rico.[23] The complaint seeks $77 million in damages from USAC, based in part on the contention that funding commitments issued by USAC constituted binding contracts with the PRDOE. DRC claims that USAC is responsible for any funds due to PRTC based on USAC's funding commitments in previous program years. DRC is claiming that USAC's cessation of payments under the schools and libraries support mechanism is the cause of DRC's default

[17] *PRDOE Petition* at 3.

[18] *Id.*

[19] *Id.* at 5 and Exhibit XII.

[20] Investigations were launched by (1) a committee of the Puerto Rican Senate; (2) by the Department of Justice of the Commonwealth of Puerto Rico; (3) by a committee of prominent citizens ("Blue Ribbon Committee"), appointed by Commonwealth Governor Sila M. Calderón *(see PRDOE Petition* at 5); and (4) by the U.S. Department of Education. *PRDOE Petition* at 5-6; Letter from William D. Hansen, U. S. Department of Education, to Puerto Rico Governor Sila M Calderón, dated May 29, 2002, at 2 (USDOE Letter).

[21] USDOE Letter at 2.

[22] *See* Criminal Docket for Case 02-CR-42-ALL, *U.S. v. Victor Fajardo-Velez,* U.S. District Court, Puerto Rico (San Juan), filed Jan. 22, 2002, sentence entered December 12, 2002. The indictment charged that between 1994 and 2000, the defendant and his co-defendants extorted approximately $4.3 million from PRDOE contractors. Defendant recruited his sister-in-law to represent two corporations, in order to divert funds from them, and he awarded approximately $138 million in contracts to four corporations owned by other defendants. Joint press release of the United States Attorney, District of Puerto Rico; the Puerto Rico Office of the Federal Bureau of Investigation; U.S. Department of Education, Office of Inspector General; and the Puerto Rico Office of the Comptroller, January 23, 2002.

[23] Puerto Rico Telephone Company v. DRC Corporation v. Universal Service Administrative Company, Civ. No. KAC-02-5075-(901) (Sala Superior de San Juan).

against PRTC. DRC also claims relief against USAC based on USAC's funding commitments to PRDOE.

C. PRDOE's Petition

11. On January 30, 2003, PRDOE petitioned the Commission to direct USAC to resume processing PRDOE's applications for FY 2001 and 2002.[24] PRDOE argues that such relief is appropriate for the following reasons: (1) as a result of the 2000 general elections in Puerto Rico, the leadership of PRDOE is new, and unaffiliated with the administration from the first three years of the E-rate program in Puerto Rico; (2) independent audits identified the needed changes in administrative structure and control mechanisms; (3) PRDOE launched a "recovery program" to implement the findings of the independent auditors; and (4) PRDOE responded promptly to requests by USAC for documents and other information.

12. PRDOE states that its recovery program has corrected three key areas that were formerly deficient: (1) the network itself; (2) the infrastructure in the schools; and (3) the infrastructure at the PRDOE central offices. Carried out with funding from non-E-rate sources, PRDOE states it has made $80 million in school electrical repairs, installed 3,300 school computers, set up network help desks with 43 technicians, and trained 27,000 teachers (65% of all teachers), with training scheduled for more teachers. PRDOE states that it is strictly enforcing bidding regulations. PRDOE has rewritten vendor contracts to include enforceable anti-corruption clauses. PRDOE also has instituted a validation process that measures actual access of schools to the network. According to PRDOE, it has moved from practically no schools connected to the network to more than 600 schools.[25]

13. PRDOE pledges to continue cooperating with ongoing investigations of funding years 1998-2000.[26] It commits to comply with all applicable local and federal laws, and to periodically retain an external independent professional firm to evaluate the operational aspects of its E-rate projects and future use of E-rate funds.[27] It also states it will apply its new anti-corruption procedures to funding requests for FY 2001 and 2002, including any service substitution requests that may be required since the original submissions for FY 2001 and 2002.

14. PRDOE states that it has insufficient funds to keep its technology development

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[24] *See PRDOE Petition. See also Wireline Competition Bureau Seeks Comment on a Petition by Puerto Rico Department of Education to Release Funds Associated With Schools and Libraries Universal Service Support Mechanism for Funding Years 2001 and 2002*, CC Docket No. 02-6, Public Notice, DA 03-1731 (rel. May 16, 2003) (*PRDOE Public Notice*). Comments, all in support of PRDOE's Petition, were submitted by the Hon. Aníbal Acevedo-Vilá, Resident Commissioner, Commonwealth of Puerto Rico, U.S. House of Representatives; Centennal Communications Corp.; and The Hispanic Information and Telecommunications Network, Inc. PRDOE had selected PRTC for telecommunications service and Internet access and DRC for Internet access and internal connections for FY 2001. PRDOE selected PRTC for telecommunications service, Internet access, and internal connections and Sprint for telecommunications service for FY 2002.

[25] *PRDOE Petition* at 5. There are 1,540 schools in the public system of the Commonwealth of Puerto Rico. *Id.* at 2, note 1.

[26] *See id.* at 5-6.

[27] *Id.* at 6.

program underway without reentry into the E-rate program.[28] PRDOE states that vendors provided E-rate-eligible services to PRDOE during funding years 2001-2002 and still have not received payment for these services.[29] It also indicates its desire to substitute a service provider other than DRC for internal connections in Funding Year 2001, upon receiving a funding commitment. Finally, PRDOE states that those who will lose the most from a curtailment of its technology initiative are the 660,000 students enrolled in Puerto Rico's public schools. According to PRDOE, every year that PRDOE is unable to participate in the E-rate program results in 50,000 Puerto Ricans graduating from high school without the benefits of the E-rate program.[30]

III. DISCUSSION

15. PRDOE asks the Commission to direct USAC to resume processing its applications seeking discounts from the schools and libraries support mechanisms for FY 2001 and 2002. As explained above, USAC deferred action on these applications as a result of the beneficiary audit which revealed evidence of potential program violations by PRDOE in prior years. Subsequent to that audit, USAC became aware of a number of local and federal law enforcement investigations involving activities of the Puerto Rico Department of Education. Under the facts presented here, it was appropriate for USAC to defer action on PRDOE's FY 2001 and 2002 applications, upon receiving the results of the beneficiary audit and learning of the additional investigations underway in Puerto Rico. We believe that such action is necessary to ensure that the goals of section 254 are met. Specifically, we must guard against waste, fraud, and abuse of E-rate funds to ensure that all schools and libraries receive the benefits of access to advanced telecommunications and information services. This is particularly important here because demand for discounts under the schools and libraries support mechanism continues to exceed the supply of funds. To guard against waste, fraud, and abuse, it is reasonable for USAC generally to defer action on applications upon receiving evidence of potential program violations, including evidence acquired from an active law enforcement investigation related to the E-rate related activities of the applicant or any of the service providers utilized by that applicant, until such time as questions raised by the evidence can be resolved.[31] Thus, USAC correctly deferred action on PRDOE's FY 2001 and 2002 applications in light of the investigations by several third parties of PRDOE's conduct with regard to activities related to their 1998, 1999, and 2000 E-rate applications. That deferral should generally continue until the investigation is resolved, or until there is sufficient reason to believe that potential program violations are not implicated in the deferred applications.

16. We find that USAC proceeded in a probing and cautious fashion in this case, which is appropriate with respect to applications and/or Funding Request Numbers (FRNs) that are linked to an ongoing law enforcement investigation. At the same time, we recognize that

[28] *Id.* at 5.

[29] *PRDOE Public Notice* at 2; *see also* Letter from Jon Slater, PRT Telefonica de Puerto Rico, to César Rey, PRDOE, June 13, 2003. (PRT Telefonica de Puerto Rico Letter)

[30] *PRDOE Petition* at 5.

[31] USAC's practice, which, as this case demonstrates, is the correct one, is specifically to defer action on any application or funding request number (FRN) when it is aware of an active law enforcement investigation of either the applicant or service provider related to that application or FRN.

indefinitely deferring action on applications could inadvertently harm individuals that ultimately will be cleared of any wrongdoing, particularly in those instances when an investigation takes years. As we recently stated in addressing the State of Tennessee's petition for relief, we are disinclined to relegate applications to an uncertain status for an indefinite period of time during the pendency of any protracted investigations.[32] Thus, we believe that there are circumstances where deferring action on an application in whole or in part is unnecessary to prevent waste, fraud and abuse, notwithstanding the pendency of an ongoing law enforcement investigation.[33] In reviewing such applications, however, USAC must subject such applications and/or FRNs to probing and cautious review and carefully consider the specific facts presented in each case. In particular, where, as is true here, there are law enforcement investigations pending, we think it appropriate for USAC to subject these requests to a more intensive review, tailored to the nature of the allegations that have been raised.[34]

17. Here, it was appropriate for USAC to defer action on PRDOE's FY 2001 and 2002 applications in light of the ongoing investigation of activities at PRDOE in the recent prior years, particularly in light of the indictment and conviction of the former Secretary of Education for Puerto Rico for extortion activities related to contractors for PRDOE.[35] However, as discussed below, PRDOE has convinced us that it has taken sufficient action to ensure that the prior issues have been addressed and will not occur again. Thus, we direct USAC to review and process the funding requests of PRDOE for FY 2001 and 2002, other than those associated with DRC, consistent with the conditions contained in this Order. We conclude that such action is appropriate in light of PRDOE's change in leadership and the achievements of its recovery program. This conclusion in no way should be viewed as condoning the actions that occurred in the first three years of PRDOE's E-rate funding. We will address the appropriate measures that will be taken with respect to funding years 1998-2000 in a separate, forthcoming order.

18. As we stated in the recent *Tennessee Order*, the Commission takes seriously all allegations of waste, fraud and abuse.[36] We are disturbed by the allegations of fraud and waste relating to PRDOE's activities during the first three years of PRDOE's participation in the E-rate program.[37] Should the investigations of the first three years result in additional convictions, the Commission's suspension and debarment rules will automatically be triggered.[38] The petition before us, as well as our review of the record, however, convinces us that the fundamental circumstances of leadership and administrative control have changed dramatically since the first three years of the PRDOE program.[39] In determining whether relief is appropriate, we fulfill

[32] *See Request for Immediate Relief by the State of Tennessee*, Order, CC Dockets No. 96-45, 97-21, FCC 03-161 (rel. July 2, 2003) (*Tennessee Order*), at paras. 12, 17.

[33] Of course, USAC must continue to deny all requests that are inconsistent with our rules and requirements applicable to the schools and libraries support mechanism.

[34] This heightened scrutiny may include site visits and other investigatory activities, as well as independent audits.

[35] *See* note 22 above.

[36] *Tennessee Order* at para. 17.

[37] *See supra* note 20.

[38] *Second Report and Order*, 18 FCC Rcd at 9224-9228, paras. 64-77. *See also* 47 CFR § 54.521

[39] *E.g.*, PRDOE's recovery program has revamped the infrastructure and networks in and among the schools, and in PRDOE's central offices. *PRDOE Petition* at 4.

both section 254's requirement of ensuring quality services "at just, reasonable and affordable rates" and our duty to prevent waste, fraud and abuse.[40] We conclude that several factors weigh in favor of directing USAC to resume consideration of PRDOE's FY 2001 and 2002 funding requests seeking discounts for services provided by PRTC and Sprint.

19. At the outset, we note that the allegations under investigation relate to activities occurring in prior funding years, while PRDOE seeks action on funding requests for subsequent years. We conclude that it is appropriate for USAC to proceed with respect to the later funding years, after subjecting the applications to heightened scrutiny to provide assurances that the issues under investigation for the earlier years are not present in FY 2001 and 2002. Based on the representations made by PRDOE in this proceeding, PRDOE is rectifying the problems created by the prior administration.[41] These efforts have allowed PRDOE to move beyond the problems of the past and towards section 254's goal of enhancing access at reasonable and affordable rates.[42] The current administration of PRDOE has been and continues to be responsive to federal and local authorities requesting information. PRDOE has undertaken significant measures to install infrastructure, network, and desk equipment, and has undertaken training to utilize these resources. Moreover, PRDOE launched and implemented these changes from its own funding sources, without relying on E-rate program funds.

20. Furthermore, we conclude, based on the record before us, that there are no outstanding allegations of waste, fraud, abuse, or other wrongdoing relating to any of the current PRDOE leadership or employees, with respect to funding years 2001 and 2002. The only challenge to PRDOE's procedures affecting those funding years has been resolved in PRDOE's favor. In response to allegations of bidding irregularities brought by the losing bidder in PRDOE's FY 2001 award, the Commonwealth's appellate court found against that bidder and for PRDOE.[43] Similarly, there is no evidence that allegations in a currently pending bid protest for FY 2003 affects PRDOE's funding requests for FY 2001 and 2002. Accordingly, we think that the allegations pertaining to FY 2003 should be considered separately and should not bar consideration of PRDOE's funding request for FY 2001 and 2002.[44] To further ensure that all rules have been complied with for FY 2001 and 2002, we direct USAC, as discussed more fully below, to engage the services of an independent auditor to provide assurances that there has been compliance with the Commission's rules. We expect that auditor will examine, among other

[40] 47 U.S.C. § 254 (b)(1); *Tennessee Order* at paras. 17, 22-23.

[41] PRDOE explains that its E-rate recovery program has connected 600 schools to the central network, has trained 65% (27,000) of its teaching force, has made $80 million in school electrical repairs, and installed 3,300 school computers. *PRDOE Petition* at 3-5.

[42] 47 U.S.C. § 254 (b)(1).

[43] *Centennial De Puerto Rico v. Junta De Subastas Central-Departamento De Educación*, No. JR-2002-003, Estado Libre Asociado De Puerto Rico En El Tribunal De Circuito De Apelaciones, Circuito Regional 1 De San Juan, (Feb. 6, 2003).

[44] The challenge to the FY 2003 award was filed by the losing bidder in FY 2003, who happened to have been the winning bidder in the FY 2002 award. That challenge to the FY2003 award is under consideration in *Puerto Rico Telephone Company, Inc. v. Junta de Subastas Central-Departamento de Educación*, Solicitud de Reconsideración de Adjudicacion de Subasta (Junta de Revision Administrativa Departamento de Educación, filed February 14, 2003). We conclude that USAC should defer action on the portions of PRDOE's funding year 2003 application relating to this action until this matter is resolved by the appropriate authorities in Puerto Rico, or it obtains adequate assurances from an independent auditor that there are no bidding irregularities with respect to FY 2003.

things, compliance with the Commission's rules on the competitive bidding process in both FY 2001 and 2002.

21. Although USAC has not acted on PRDOE's FY 2001 and 2002 applications, we understand that PRDOE has, in fact, received at least some of the services for which it requested discounts.[45] We also understand these service providers have not been paid the full (nondiscounted) amount.[46] This situation is not unusual. Due to the vast number of applications each year for the E-rate program, commitments often may not occur by the time a new funding year, or even the new school year, commences. Applicants proceed at their own risk in taking these services in advance of funding commitments, and ultimately may be liable for the full amount of the services, should funding commitments be denied. In most instances, such applicants receive commitments at some point after the funding year begins, and therefore obtain their discounts retroactively. We, therefore, do not fault PRDOE or its suppliers for obtaining or providing services in the absence of commitments, so long as it is understood that the eventual funding approval and payment, if any, will have to meet fully the requirements of our rules.[47]

22. Taken together, the change in PRDOE's leadership, administration and operating procedures represents a significant demarcation point in PRDOE's relationship with the E-rate program. We therefore view PRDOE's conduct with respect to FY 1998, 1999 and 2000 as severable from that of FY 2001 and 2002, such that the two periods should be treated with separate approaches and in separate orders. The analyses required for these two periods (FY 1998-2000 and FY 2001-2002) stem from separate sets of PRDOE decision-makers employing separate administrative procedures. Audit techniques will be able to examine the relevant conduct during distinct phases of PRDOE's participation in the E-rate program.

23. While we are aware that at least four separate investigations have been initiated relating to PRDOE, USAC has not, to date, undertaken an investigation of PRDOE's compliance with our rules during funding years 2001 and 2002. As a precondition to the commitment and release of FY 2001 and 2002 funds to PRDOE's suppliers, PRDOE must be subject to an independent audit to provide assurances that PRDOE has complied with the Commission's E-rate rules for FY 2001 and 2002. USAC shall select the auditor, and that auditor shall perform an audit consistent with the procedures currently being performed for pending beneficiary audits.[48] USAC may, at its discretion, utilize the auditor currently performing these beneficiary audits. The audit shall be conducted in accordance with government auditing standards.[49] We

[45] PRT Telefonica de Puerto Rico Letter.

[46] *Id.*

[47] *Tennessee Order* at paras. 9, 18.

[48] USAC has retained the services of KPMG LLP to perform agreed-upon procedures audits of 78 beneficiaries of the schools and libraries support mechanism for funding year 2000. The procedures were developed by USAC, in consultation with the Commission's Office of Inspector General. The audits are being conducted in accordance with standards set by the American Institute for Certified Public Accountants and Government Auditing Standards.

[49] *See* Chief Financial Officer's Act of 1990, Public Law No. 101-576, as expanded by the Government Management Reform Act of 1994, Public Law No. 103-356. *See also Application of Generally Accepted Accounting Principles for Federal Agencies and Generally Accepted Government Auditing Standards to the Universal Service Fund and the Telecommunications Relay Services Fund,* WC Docket No. 03-213, Order, FCC 03-232 (rel. Oct. 3, 2003).

recognize that it may not be appropriate to perform all the procedures currently being performed in the ongoing beneficiary audits, given that in this case the entity has not actually received any funding under the program. Moreover, we note that the audit procedures currently being performed in the ongoing beneficiary audits are designed not only to determine whether beneficiaries complied with all Commission rules in effect during the relevant funding year, but also to identify broader programmatic issues that may warrant revisions to our rules. The procedures to be performed in the audit that we require today shall be tailored to address the particular issues raised in past investigations of PRDOE relating to compliance with Commission rules in effect for the relevant funding years.

24. Based on the record before us, we also direct USAC not to process funding requests involving DRC for any services rendered during FY 2001 or 2002, or for prior years, in the absence of further direction from the Commission. This precaution is necessary because the Department of Justice of the Commonwealth of Puerto Rico is investigating DRC's performance as a former contractor-of-record.[50] The record before us contains no further information on the status or conclusions of that investigation. We conclude it appropriate under these circumstances for USAC to defer action indefinitely on all FRNs involving DRC because USAC is aware of an active law enforcement investigation directly related to these FRNs (namely, an investigation relating specifically to the conduct of DRC vis-à-vis PRDOE as a vendor of services supported by the E-rate). Conversely, where, as here, the applicant selected other service providers for other funding requests, and we are not aware of any pending investigations specifically relating to those service providers' conduct vis-à-vis PRDOE, we conclude it appropriate for USAC to proceed with respect to those other FRNs, after subjecting those FRNs to heightened scrutiny tailored to the nature of the allegations under investigation.[51] Further, to the extent that funds are committed to PRDOE for FY 2001 and 2002, requests to change service providers[52] and/or substitute service or equipment[53] may be considered, consistent with existing precedent. Such requests will not be entertained with respect to the FRNs involving DRC at this time, pending resolution of the investigations relating to DRC.

25. Finally, USAC has not undertaken a full investigation of the circumstances surrounding PRDOE's participation in the E-rate program during its first three years. It is critical that we expeditiously resolve all outstanding issues relating to funding years 1998, 1999 and 2000. We accordingly direct USAC to engage an independent auditor to examine PRDOE's

[50] *PRDOE Petition* at 5, Exhibit XII.

[51] Thus, under the facts presented here, for funding requests involving service providers other than the one known to be under investigation, USAC may issue affirmative funding commitments if it determines, after subjecting those requests to more intensive review, that the service providers for those FRNs are not implicated in the issues under investigation, and the applicant and service providers have complied with program rules for those FRNS. The existence of an allegation, for instance, of a competitive bidding violation with respect to the selection of one service provider should not preclude action on FRNs involving other service providers.

[52] *See In the Matter of Request for Review of the Decision of the Universal Service Administrator by Copan Public Schools, Copan Oklahoma, Federal-State Joint Board on Universal Service, Changes to the Board of Directors of the National Exchange Carrier Association, Inc.*, CC Docket Nos. 96-45 and 97-21, 15 FCC Rcd 5498 (2000) (*Copan Order*). *See also* http://www.sl.universalservice.org/reference/SpinChange.asp.

[53] *See In the Matter of Request for Guidance by Universal Service Administrator Concerning the Request of Los Angeles Unified School District*, CC Docket Nos. 96-45 and 97-21, Order, 16 FCC Rcd 3496, at 3499 (Com. Car. Bur. 2001). *See also* http://www.sl.universalservice.org/reference/ServiceSub.asp.

first three E-rate funding years, FY 1998, 1999 and 2000. This audit shall be conducted separately from the audit of FY 2001 and 2002, and is not a precondition to the release of FY 2001 and 2002 funds on behalf of PRDOE, should such commitments and disbursements be warranted. This audit may be conducted by the same auditor as the audit for FY 2001 and 2002, but that is not a requirement. As with the audit for FY 2001 and 2002, the audit for FY 1998-2000 shall be conducted in a manner consistent with the procedures currently being performed for pending beneficiary audits, and in accordance with government auditing standards. The Commission will use the audit of FY 1998-2000 in determining what action is appropriate with respect to PRDOE for the first three years of PRDOE's E-rate program.

26. We will not hold PRDOE to a standard above and beyond that required by our rules, but neither will we accept anything less. We caution PRDOE that should it be determined that PRDOE did not, in fact, properly comply with all applicable FCC rules for funding years 2001 and 2002, funding commitments for those years will be denied. The heightened scrutiny to which we subject PRDOE's requests is appropriate in light of the actions of PRDOE in the past. In light of these factors, we find it consistent with section 254 to direct USAC to resume processing of PRDOE's FY 2001 and 2002 funding requests associated with PRTC and Sprint, conditioned on the results of the independent audit demonstrating PRDOE's material compliance with the Commission's rules. The Commission is committed and obliged to implement the E-rate program by advancing the overall public interest, a requirement we find is fulfilled by this Order.[54]

IV. ORDERING CLAUSES

27. ACCORDINGLY, IT IS ORDERED, pursuant to sections 1-4, and 254 of the Communications Act of 1934, 47 U.S.C. §§ 151-154 and 254, and section 54.503 of the Commission's rules, 47 C.F.R. § 54.503, that the PRDOE Petition filed by the Puerto Rico Department of Education on January 30, 2003, IS GRANTED to the extent provided herein, and subject to the conditions stated herein. We instruct SLD to resume review of PRDOE's funding requests for year 2001 and 2002 applications and, if appropriate, issue the requisite funding decision commitment letters and subsequent disbursements pursuant thereto.

28. IT IS FURTHER ORDERED that this Order is effective upon release.

FEDERAL COMMUNICATIONS COMMISSION

Marlene H. Dortch
Secretary

[54] Upon conclusion of this independent audit, we will review the first three years of PRDOE's participation in the E-rate program.

TAB 2

Federal Communications Commission
Washington, D.C. 20554

January 16, 2003

Scott Hammond, Esquire
Director of Criminal Enforcement
Antitrust Division
U.S. Department of Justice
950 Pennsylvania Avenue, N.W.
Washington, D.C. 20530

Dear Mr. Hammond:

The Federal Communications Commission is considering processing the Puerto Rico Department of Education (PRDOE)'s application for universal service support for schools and libraries for funding years 3 and 4 (January 1, 2001 to June 30, 2003). As explained below, the FCC's Office of Inspector General referred allegations about former PRDOE officials and their activities during funding years 1 and 2 (January 1, 1998 to June 30, 1999) to the Federal Bureau of Investigations. I thought it prudent to coordinate this matter with your office to ensure that the FCC staff's approach to processing the applications for funding years 3 and 4 does not impede the Justice Department's investigation of PRDOE for funding years 1 and 2.

On April 19, 2001, Ms. Olga Ramirez, an auditor with the Office of the Comptroller of Puerto Rico, informed the FCC's Office of Inspector General that her office had conducted an audit of the Puerto Rico Department of Education (PRDOE) and found that it did not comply with state and local procurement regulations during the vendor selection process for funding years 1 and 2 of the schools and libraries program. The FCC asked the Universal Service Administrative Company to inquire into this matter. In its response, USAC informed the FCC that Arthur Anderson had visited two schools and a data center and found that "PRDOE was not able (as of the date of our site visit) to fully meet the educational objectives (and training requirements) for which E-Rate funding had been provided." On May 31, 2001, the Federal Communications Commission's Office of Inspector General referred these allegations to Supervisory Special Agent Bruce Schwindt of the Governmental Fraud Unit of the Federal Bureau of Investigation (Attached).

The FBI has informed the FCC's Office of Inspector General that it has been unable to initiate an investigation of the referral due to other priorities and limited resources. We understand that, on December 13, 2002, Victor Fajardo, the former Secretary of Education for Puerto Rico, was sentenced for his role in diverting $4.3

million of Department of Education funds. Mr. Fajardo served as Secretary of Education from 1994 to 2000, which, it appears, would have covered the issues we referred to the FBI in May 31, 2001.

Since the time of the FCC's referral, the new Secretary of Education, Dr. Cesar Rey-Hernandez and his staff have made representations to the FCC and the Department of Education that suggest PRDOE has taken significant steps towards remedying deficiencies in the competitive bidding process. For instance, Secretary Rey-Hernandez instructed his Director for the Federal Affairs Office to initiate a full review of the procurement process for all federal programs. As a result of the investigation, PRDOE asserts that several corrective action letters were issued to inform PRDOE personnel, contractors and vendors of the new procurement and monitoring procedures. Also, in July 2001, Secretary Rey-Hernandez issued new guidelines to be followed before the award or renewal of any type of contract (Attached). PRDOE has also asserted that it has spent more than $100 million to provide its public schools with much of the equipment and services those schools were supposed to have for funding years 1 and 2. PRDOE claims that, without funding for years 3 and 4, it will not be able to pay service providers for certain advanced telecommunications services.

Section 254 of the 1996 Telecommunications Act requires the Commission to base its universal service policies on certain principles including the principle that access to advanced telecommunications and information services should be made available throughout the nation. There is also, of course, an important governmental interest in ensuring that prior problems with the disbursement of funds for universal service for schools and libraries are corrected and funds improperly obtained in the past are recovered. In light of the steps PRDOE states it has taken to correct problems with its procurement process, the FCC believes it should consider whether PRDOE satisfies our requirements to receive schools and libraries funding for funding years 3 and 4. Staff at the FCC further believe, at this point, that there may be an approach that would balance the governmental interests and provide schools and libraries funds to the more than 600,000 public school students in Puerto Rico.

Under the FCC staff approach, PRDOE would be required to file a petition asking the FCC to begin processing its application for funding years 3 and 4. In its petition, the PRDOE would detail what steps PRDOE will take to ensure competitive bidding and to prevent fraud and other systemic problems with E-rate funds. In return for processing its application for funding years 3 and 4, the FCC would require PRDOE to be bound to complying with the following conditions:

- Cooperate w/ any investigation into past abuses.
- Return any unspent funds from the first three funding years.
- Document goals of the funds vs. actual achievements.
- Document goals of funds vs. current status of educational technology.
- Hire an independent auditor.
- Consult w/ USAC to ensure '01 & '02 funds comply with program rules.

- Ensure PRDOE takes necessary steps, such as adopting new regulations, to prevent abuses in future.
- All steps completed or underway in one year from date of agreement.
- Pursue fund recoveries from service providers to the extent they intentionally violated program rules.

As the FBI has been unable to investigate the FCC referral, it would not appear that the above described approach would interfere with the investigation for funding years 1 and 2. Nor are we aware of any Department of Justice regulation or policy that would prevent the FCC staff's proposed approach for processing PRDOE's application for funding years 3 and 4. Therefore, we are asking that if your office has any question or concerns about the approach, that it contact me within fourteen days from your receipt of this letter. Because of the substantial need PRDOE has identified for these funds, unless we hear an objection from you, we plan to go forward with the process of reviewing and granting, subject to conditions, PRDOE's application for funding years 3 and 4. Should you have any concerns or questions, please call me at (202) 418-1700. Should I be unavailable, you may contact Louis Peraertz of my staff at (202) 418-1879.

Sincerely,

Jane E. Mago
General Counsel

2 Attachments

11/16/2001 FRI 16:41 FAX 787723001 ☑001

TAB 3

DRC CORPORATION
SYSTEMS INTEGRATORS
Tel. (787) 723-7621
Fax: (787) 723-7610

FAX COVER SHEET

TO: Charles Walter FAX: 1 202 - 776 - 0080

COMPANY: SLD USAC TEL. 1 202 - 776 - 0200

FROM: DRC Corporation DATE: NOV. 16 de 2001

RE: PAGES: 29

☐URGENT ☐FOR REVIEW ☐PLEASE COMMENT ☐PLEASE REPLY ☐PLEASE RECYCLE

MESSAGE

This is the document we have prepared to explain the validation methods we have used.

IMPORTANT:

THIS MESSAGE IS INTENDED ONLY FOR THE USE OF THE INDIVIDUAL OR ENTITY TO WHICH IS ADDRESSED, AND MAY CONTAIN INFORMATION THAT IS PRIVILEGED, CONFIDENTIAL, AND EXEMPT FOR DISCLOSURE UNDER APPLICABLE LAW. IF THE READER OF THIS MESSAGE IS NOT THE INTENDED RECIPIENT OR THE EMPLOYEE OR AGENT RESPONSIBLE, YOU ARE HEREBY NOTIFIED THAT ANY DISCLOSURE, DISSEMINATION, DISTRIBUTION OR COPYING OF THE COMMUNICATION IS STRICTLY PROHIBITED. IF YOU RECEIVED THIS FACSIMILE TRANSMISSION IN ERROR, PLEASE NOTIFY IMMEDIATELY THE SENDER BY TELEPHONE SO THAT WE CAN ARRANGE FOR ITS RETURN.

DRC Center, #1608 Ponce de León Ave., Suite 500, Santurce, P.R. 00909

DRC Corporation for
Department of Education E-rate program
On Internet Access and Validation for E-rate

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Introduction

For the past three and a half years, DRC Corporation (DRC) has been engaged in the provision of Internet access and Internal Connection services to the Commonwealth of Puerto Rico's Department of Education (DoE) under the E-rate program.

This document will summarize the services provided to the DoE for each year, as well as the methods used to validate and document the services, thus allowing USAC to provide a written opinion regarding the methods used by DRC, specifically as to the Internet Access services.

DRC will describe hereunder the services rendered to the DoE in regards to the E-rate program, in a chronological order and for each of the three years, emphasizing Internet Access and Internal connection services.

Services Provided

For purposes of E-rate implementation, the DoE arbitrarily divided its approximate 1540 schools into two groups, each belonging to one of two phases: Phase I, comprising of 760 schools and Phase II, of 780. Both "Phases" contain schools throughout the Island.

Year 1 (1998-1999)

For Year 1 of the E-rate program, DRC bid contained structured cabling services for Phase I schools. Telecommunication services Internet Access for these schools were awarded to PRTC. This year has already been the subject of an audit from E-rate Program External auditors Arthur Andersen. We understand that no negative findings were found regarding DRC provided services.

Services Provided

Structured cabling services were provided for a total of seven hundred and forty five (745) schools. The rest of the schools (15) were not serviced for various reasons: closed, restoration, and re-location among them. Approximately ninety-two thousand (92,000) drops were run. Wall mount cabinets were provided and installed to house terminations in two sizes: 19"X24"X20", and 45"X22"X24", it all depended on the needs of each school. The DoE decided that they would use these to house infrastructure equipment to be provided by PRT for E-rate telecommunication and Internet Access services.

All our services were provided in accordance to or exceeding the specifications stated in the proposal for year one. However, the difference between the proposed cabling of 86,640 drops and the 92,000 were not invoiced to the DoE. See Exhibit E for a copy of the proposal's "Appendix A: General Information on Cabling", where the services as well as the certification methods are described.

Validation methods

Certification was completed according to the proposal. Please see the Exhibit E, "Cable Testing" section for a description of it.

Year 2 (1999-2000)

Year two services provided by DRC included Internet Access as well as Internal Connections for Phase II schools. Continuation services for Internet Access and Telecommunication Services were also awarded to PRTC for Phase I schools. See Exhibits B and G.

Internal connections included a Wireless infrastructure Lucent Technologies Access Points, as well as a total of) 780 ATM switches, 780 hubs, and 1560 servers (two per Phase II school). Some structured cabling was also included, to connect the Access Points to the schools hub. As part of the equipment delivered and installed in each school, there was a cabinet or rack equipped with fans, since we knew in advance that we would be placing other equipment, provided by us, on it.

Services Provided

Three major initiatives started concurrently for year 2: (1) Wireless infrastructure for internal connections for each school, (2) Delivery, configuration and setup of servers and hubs for internal connections, and (3) Internet access for each school, including the transport (T1) service and the ATM switch connection. Since these initiatives were scheduled to occur simultaneously, and to keep track of the status of all three for each school, DRC prepared and maintained databases containing the information collected. Most schools were visited several times in order to complete the work to be performed.

When the June 30, 2000 date arrived, DRC had accepted from PRT, the company providing the T1 transport services, three hundred and ninety-three (393) schools. Due to some technical situations at the DRC Central site, Internet Access was not invoiced for any of these schools throughout this year. On the other hand, at the September 30, 2000 (extended) deadline for non-recurring services, the ATM switches, hubs, as well as the servers, had been delivered and installed in Phase II schools.

Validation methods

Wireless Infrastructure: In order to determine the optimal configuration of the wireless infrastructure various workgroups with a minimum of two persons in it were formed. They would go through the entire school facilities testing the radio frequency between the wave point central units and the academic classrooms. This test was performed with a Lucent Technologies software tool, which verifies the Signal Strength, Radio Noise, and Signal vs. Noise between the computer and the WavePoints. Using the results obtained, the WavePoints could be re-located in the most convenient areas to insure coverage of the maximum number of classrooms with the minimum number of WavePoints. Once the equipment was installed in a school, a second test was then performed to confirm that the signal inside each of the academic classrooms was strong enough to provide the wireless services for Internet Connection. If the T1 had been already installed, the test included browsing the Internet with the Microsoft Internet Explorer.

T1 transport services were accepted from PRT in accordance to the industry standards and as described in Section FOUR of the "Transport Service Agreement" signed between DRC Corporation and PRT for these purposes (See Exhibit F). The following procedure was established:

1. Testing performed and accepted by DRC Corporation.
2. Preliminary Acceptance Document filled, dated, and signed by DRC. See Exhibit H. Please note that for the purposes of this document, DRC is considered "the customer".
3. Acceptance information entered into the database. Acceptance of Installation Document printed and forwarded to PRT for signature by the appropriate personnel. See Exhibit I
4. Signed document returned to DRC for safekeeping and documentation purposes.

Acceptance date is the date established to start charging the transport services. This is the date used for the initial invoice for transport services for a particular school.

For the rest of the internal connection equipment, a checklist was designed and provided for the DRC technician to fill out in each Phase II school visit during this year. We required a countersignature from a school-designated person in each of the checklists and for each visit. During the implementation of services progressed for Phase II, the checklist form was revised to contain more information and modified to make sure that all items that we wanted to check and validate were included. This checklist (see Exhibit F) guided the DRC technician to check the electrical connection for each equipment, the physical connections between the Wave Point, the servers and the hub, the physical connections to the ATM switch, and the connections from the ATM switch to the T1. We also checked the number of Wave Points in the schools, and that the equipment had been placed in the rack (cabinet) provided for these purposes.

Year 3 (2000-2001)

Year three Services provided for the continuation of Internet Access for all Phase I and Phase II schools.

Services Provided

DRC continued with the installation of T1's and provision of Internet Access for Phase II schools. Technical difficulties at the Central site were finally resolved in July of 2000, so it allowed us to invoice the Internet access services and the transport services for those schools with the T1 already installed. As Internal connections, DRC installed and configured a total of four (4) servers, each with its UPS, for each Phase I school; two (2) servers (with a UPS each) for Phase II schools; and one (1) tape backup unit for all schools. Additional Access Points and antenna cards were also awarded, to be able to maintain the quality of signal in certain schools.

The approach taken to the pre-installation of the Operating System was different this year. Since DRC Corporation also provided the Operational Software for these servers, we obtained authorization from the manufacturer (Microsoft) to "factory-install" it. Instead of handling the server equipment at a Central site, all equipment came with an image of the required configuration installed. Pre-assignment of serial numbers and delivery for each school was made from two central warehouses. Once delivery was confirmed, a technician was dispatched, to finish off the installation, check and validate each of its parts.

DRC endured great efforts to leave all the equipment connected and operating at each school's site. In those cases where the environmental or electrical conditions were impeding factors, and if no computer installations for Internet Access were imminent in the near future, the equipment was placed back into its boxes and returned to a safe place in each school to avoid any risk of damage. This occurred after installation was performed and all tests were completed.

Validation methods

The wireless connections were validated in the method described above for year 2.

Again, checklists were prepared to guide the technicians throughout each visit. The original checklist for Year 2 of E-rate was enhanced and modified to include Phase I schools that were receiving server equipment for the first time. Most schools were visited more than once, to complete all validations. Validation of the server equipment included "pings" from each server to its ATM switch, as a proof of network connectivity. A backup was made on the tape provided. The results of these operations were saved in a file (or more than one), at the server, and either saved on floppy disk or sent via e-mail to DRC Corporation.

To validate Internet access connectivity, a "tracert" operation was completed from each school to an Internet site www.cogui.net (206.99.218.6). We also saved the results of this operation either in hard disk, floppy disk and/or e-mail to DRC Corporation.

In addition, DRC is continuously monitoring the status of the T-1 lines and the schools through various methods:

1. Through its NOC Center in the ISP facilities
2. Through Terminal Services installed at each of the servers in the schools. Using these services, we can perform operations to validate a school's access to the Internet.

Whenever a T1 line is "down", DRC follows the trouble-reporting procedure designed for these situations with PRT, and a "Job ticket" is opened. Once the problem or situation is corrected, the ticket is closed. This procedure will allow us to receive from the PRT and proactively pass-on to the DoE any credits for failed T1 circuits and Internet access.

Prologue

At the outset, please note that the policy of implementation and use of the Internet access in schools is considered differently by the previous administrations and the present one. Hence, a change in the scope and breadth of the implementation of this access is present. Student access to computers in schools was originally seen in a five-to-one ratio, as opposed to a computer lab in each school with the resources needed to foster and develop computer and Internet-research skills in students of the public system. Regardless of our opinion as to the justification or validity of either of these two approaches, and without dwelling into the specifics, merits, benefits, pros and cons of either one, the amount of effort, work and investment required from the DoE for each one of them will vary considerably. For example, the electrical infrastructure capacity will be directly proportional to the amount of computer equipment, and the physical security requirements will depend on the amount of classrooms and their locations within the schools.

From a strictly implementation perspective, we consider that the matters previously mentioned must be of concern to the billing entity, and should be part of its technology implementation plan. The vendors and providers selected to provide whatever services were posted in the Form 470 should be concerned with the proper implementation and validation of its services, as agreed to in the contract, in subsequent meetings, and/or according to industry accepted standards.

Although not confirmed in writing, the DoE has expressed its intent to pay the Internet Access invoices in accordance to a procedure they have designed to validate each school. The procedure requires a person within each school to sign-on to a page located in the DoE web site (www.de.gobierno.pr) once a week, four times per month. Multiple validations within a calendar week count as one. If schools fails to sign-on to this page and provide thereof the information required by it, for whatever reason, which may be just simple failure to do by the person responsible of performing this task, the DoE will then assume that the school did not have Internet Access for that period of time. Furthermore, each time a school validates its connection in this fashion, a 25% percentage of the service is accepted. At the end of the month, they will only accept for payment the aggregate percentage resulting from validation for each school. Please see Exhibit J. We understand that this procedure, if used as the validating method to pay the Internet Access invoice, does not follow industry standards. Failure to access the particular site could be caused simply by a server not being operational. This is not only unheard of in the industry, this procedure was also not discussed and agreed to by the DoE and the service providers, previous to its implementation.

Telecommunication and Internet Access Services are invoiced for their availability. We recognize a customer's right to receive credits whenever they are not available, and invoices will be credited accordingly. Aware of the importance of accurate invoicing, DRC has established a Network

Operating Center in its central office to proactively monitor the T1 circuits, start and complete troubleshooting as soon as a failed circuit is observed, open a "trouble ticket" with PRT for its repair and restoration, and credit the DoE proactively. DRC's proprietary database previously described will also allow the technician to record and follow up these situations, from their inception to their resolution.

Exhibit E

Appendix A: General Information on Cabling

Information Outlets (I/Os)

A typical I/Os contain one eight-position modular jacks. The specific quantity of I/Os and the jacks-per-I/O is usually pre-determined in a walk-through of the area to be cabled.

Horizontal Cabling

The horizontal wiring subsystem is the cabling between the I/Os and the wiring center subsystem. Each floor typically is considered a separate horizontal subsystem. There are exceptions to this rule which are subject to square feet of area space coverage and/or I/O density. In all cases, the horizontal subsystem will be point-to-point wiring from an I/O to a serving IDF or MDF. Bridged connections are not authorized for voice and data UTP cabling. Pull strings are installed with all cable installations. Any UTP installed in any facilities will be plenum rated *if they are not inside conduit*, Category 5 for data and shall meet NEC requirements for low-flame and low-smoke. All UTP cable shall meet or exceed the requirements of the ANSI/ICEA Publication S-80-576. The following additional specifications will be observed for horizontal cabling:

1. Unshielded twisted pair (UTP) cables will be 4-pair, 100 Ohm, 24 AWG, and will be provided in Category 5 (Data). Where more than one category of cable is required, cable of different sheath colors will be utilized to distinguish the cable types by category. All UTP will meet or exceed all TSB-36 requirements. This cable will be UL listed and verified under UL's LAN Cable Certification Program specifications/criteria.
2. Horizontal distribution cables will not exceed 90 meters (295 feet). Cross-connect patch cords will not exceed 6 meters (20 feet) in any case. Note that a total of 10 meters (33 feet) allowance is made for the combined length of patch cables and the equipment to I/O cable, as required.
3. The most prevalent horizontal cable distribution method will be the ceiling (zone) distribution. Where conduit systems are required, the DRC will follow the guidelines identified in the BICSI DTM Manual as well as adhering to national and local codes, both electrical and fire safety.
4. All horizontal cabling will be installed in a grid pattern with a bend radius of 10 times the cable diameter. All cables will share common raceways and will be neatly tie wrapped in all cases. Cables in ceiling distribution systems will be attached to the under floor deck and will not lay on suspended ceilings in any instances.

DRC Corporation
DRC Center Building
1608 Ponce de León Avenue
Santurce, Puerto Rico 00909

Tel. 787-723-7621
Fax. 787-723-7610
DRC Confidential

5. Avoidance of electromagnetic interference (EMI) in all horizontal subsystem installations is required. A four-foot clearance must be maintained from large motors and/or transformers, a one-foot clearance from electrical distribution, and a minimum of five-inches clearance from fluorescent lighting. Horizontal distribution cable pathways will cross perpendicular to fluorescent lighting or electrical distribution. Additional clearance requirements are identified in the ANSI/EIA/TIA-569 and ANSI/NFPA 70.

I/O Installation

I/Os will be installed whenever possible in flush mount gang boxes. All I/Os will be mounted 18 inches above the finished floor (AFF). Installation of surface mounted I/O hardware is done where penetration of a wall is impossible or impractical.

I/O Pinout

DRC will utilize the ANSI/EIA/TIA-568 designation 568A. All I/O pin/pair assignments will be in accordance with this designation.

Cable Testing

Comprehensive test results of all structured wiring systems installed should be completed. Test results will be for a complete integrated system encompassing all cable and hardware components provided or installed. At a minimum the UTP cable and hardware must be verified to be compliant with TSB-36 and TSB-40 and meet Category 5 requirements (Data).

A. The following tests will be completed for all twisted pair cables:

- Cable identification- cable type/labels, IDF and I/O room or pole number.
- Visual inspection- Physical condition of cable and connectors.
- End-to-End connectivity- Line mapping; Continuity, polarity, and pairing configuration check.
- DC loop resistance- measured in ohms.
- Electrical noise testing- Any impulse noise over 264mV that occurs twice in a 10 second period shall be noted on the standardized test forms.
- Cable effective length testing- using test equipment, a TDR test result of measured length shall be documented.
- Cable impedance testing- 10Base-T; 100 ohms + 15%
- Capacitance testing In accordance with EIA/TIA maximum mutual capacitance specifications.

DRC Corporation
DRC Center Building
1608 Ponce de León Avenue
Santurce, Puerto Rico 00909

Tel. 787-723-7621
Fax. 787-723-7510
DRC Confidential

- Attenuation testing- Signal loss in dB/mV.
- Near-end crosstalk (NEXT) testing- The results shall be in accordance with acceptable limits as defined in the UL's LAN cable certification program.
- Signal-to-noise ratio provided in dB

B. Any cables that are found to be deficient should be replaced or its problem corrected. In any event, re-testing of the new or corrected cable will satisfy each of the test procedures outlined above.

Labeling

Labeling practices will conform to the ANSI/EIA/TIA-606 guidelines. All adhesive labels shall conform to the specifications and requirements of UL 969 (REF D-16) for indoor and/or outdoor labels. All labels will be typed or computer-generated, and not hand-written. Color coding rules outlined in Section 8.3.2 of the TIA/EIA-606 recommendation will be followed.

DRC Corporation
DRC Center Building
1608 Ponce de León Avenue
Santurce, Puerto Rico 00909

Tel. 787-723-7621
Fax. 787-723-7610
DRC Confidential

Exhibit B

FCC Form

Approval by OMB
3060-0806

470

Schools and Libraries Universal Service Description of Services Requested and Certification Form

Estimated Average Burden Hours Per Response: 6.0 hours

This form is designed to help schools and libraries describe the eligible telecommunications-related services they seek so that this data can be posted on a website and interested service providers can identify the applicant as a potential customer and compete to serve it.

Please read instructions before completing. (To be completed by entity that will negotiate with providers.)

Block 1: Applicant Address and Identifications
(School, library, or consortium desiring Universal Service funding.)

Posting Date: 03/04/1999
Allowable Contract Date: 04/01/1999
Certification Received Date: 03/05/1999

1. Name of Applicant: Puerto Rico Department of Education
2. Funding Year: 07/01/1999 - 06/30/2000

3a. NCES School Code (if individual school) Or NCES Library Code(if individual library)
State: 72 - District: 00030 - School/Library:

3b. Universal Service Control Number: 658180000222949
3c. Applicant ID Number: 157779

4a. Type Of Applicant
(Check only one box.)
- ○ school
- ○ school district
- ○ library or library consortium under the LSTA
- ◉ consortium of multiple entities

4b. If Applicant is a consortium, check all other boxes that apply:
- ☐ includes non-governmental entities ineligible for support
- ☐ entity desires separate bills for each member of consortium
- ☐ entity desires separate bills for some members of consortium
- ☐ region of a state ☐ statewide ☐ multi-state
- ☑ state educational agency
- ☐ local educational agency
- ☐ educational service agency

5. Applicant's Street Address, P.O.Box, or Route Number
Street: PO Box 190759
City: San Juan | State: PR | Zip Code 5Digit: 00919 | Zip Code 4Digit: 0759
Telephone number: (787) 7592000 Ext: 6110 | E-mail Address: peguero_k@dc.prstar.net

6. Contact Person's Name: Eng. Kivio A. Peguero
Street Address, P.O.Box, or Route Number(if different from item 5)
Street: PO Box 190759
City: San Juan | State: PR | Zip Code 5Digit: 00919 | Zip Code 4Digit: 0759

Fill in all of the following(if available), and check the preferred mode of contact:

○ Telephone Number Ext:	○ Fax Number Ext:	◉ E-mail address:	○ Mail:
(787) 7673152	(787) 7547195	peguero_k@de.prstar.net	

Block 2: Other Characteristics Of Applicant

7a. Number of students: 325362	7b. Number of library patrons: 244022
8. Number of buildings to be served: 3321	9. Number of rooms to be served: 17142

Block 3: Summary Description of Needs or Services Requested

10. ☐ Check if applicant seeks discounts only for eligible services based on one or more existing,binding contract(s) and proceed to Block 4.

Sequence #	Date Contract Signed	Contract Termination Date

11. ☐ Check here if you have a Request for Proposal(RFP) available.If RFP is posted on a website, provide the website address

(1)	(2) Existing Services	(3) Additional Services Desired	(4) Total Services Desired	(5) Details (Optional)
12. Telecommunications Services				
a. Number of phones that have or require service (See instructions concerning extension phones and fax machines.)	954	1000	1954	
b. Number of computers that have or require service	8345	45882	54227	
c. Number of high bandwidth video conferencing links	0	780	780	
d. Specify other (Optional)				
13.Internal Connections	Existing	Additional	Total	Details
a. Number of buildings with at least some rooms connected	64	3257	3321	
b. Number of rooms connected	72	17070	17142	
c. Highest Speed of connection	56 kbps	T-1		
d. Specify other (Optional)				
14.Internet Access	Existing	Additional	Total	Details
a. Number of dial up connections necessary	50	0	50	
b. Highest speed of dial up connections	56 kbps	0		
c. Number of direct connections necessary	0	780	780	
d. Highest speed of such direct connections	0	T-1		
e. Specify other (Optional)				

15. You may provide additional summary information about the services you are requesting to help service providers identify your needs more precisely.You may provide technical requirements or give an informal description of your telecommunications-related goals.

General Policy Statement The policy of the Puerto Rico Department of Education (PRDE) relating to the use of technology in education is to develop the application of educational technology in a coordinated integrated manner. Access to the Internet plays an important role in the plans of the PRDE, but by no means is the only component. Interested parties are referred to the PRDE?s provisional plan as presented in its Technology Literacy Proposal (revised). It is appropriate to note that Puerto Rico has received approval for both its Goals 2000 State Plan for Educational Reform and Improvement (which contains important components relating to the use of technology) and the State Plan for Technology Literacy. This latter plan is subject to continuing revision in this highly variable field. Especially in light of the funds available through Universal service and taking into account what is being learned as the Universal Service Reform process develops in terms of needs (infrastructure, hardware, software, personnel and training), some modifications

will undoubtedly be necessary. Although knowledgeable individuals is this field (specially suppliers) should be able to anticipate what these changes are likely to be, the PRDE will attempt to make periodic reports to the public through its Goals 2000 program (Metas Nacionales) as appropriate. The PRDE intends to coordinate the use of funds from a variety of sources to provide adequate resources for discounted and non-discounted costs. Funds from a variety of federal, state and other sources are available and the PRDE is giving a high priority to a coordinated effort that guarantees the autonomy of the community of schools while achieving maximum efficiency and non-duplication of efforts. Toward this end a Technology Inventory of the public schools system has been completed and was used as the basis for the specific items included in this application for discounts through the Universal Service Program. Gener

16. ☑ Check here if there are any restrictions imposed by state or local laws or regulations on how and when providers may contact you or on other bidding procedures.Please describe below any such restrictions or procedures. You may attach restrictions or give website where they are posted.

In general, the Puerto Rico Department of Education?s (PRDE) procurement procedures and rules are outlined in the PRDE Regulation for the Procurement, Sale and Bid for goods and non-personal services (Regulation No. 5430 of May 17, 1996). The aforementioned regulation emphasizes that the procurement procedures must be competitive, reasonable, fair, expeditious, economic and convenient for the PRDE. This standard is similar to the standards adopted in regulations for the administration of the Universal Service discount program. Three major classes of procurement procedures has being adopted by the Regulation (some exceptions are allowed): ☐ Informal purchases value of goods or services to be acquired not to exceed $6,000.00. ? In this procedure informal (telephoned, tax, etc.) quotations are required. ☐ Informal purchases value of goods or services to be acquired of $6,000.01 to $25,000.00 ? In this procedure formal (written) quotations are required. ☐ Purchases over $25,000.00 require Formal Bids. The Regulations establish a prohibition to the members of the Board of Bids (the Board of Bids in the entity that oversees and administers the bidding process). Regulations forbid the business or working relationship between the members of the Board and vendors and/or suppliers. This is to avoid conflicts of interest. For more information about procurement procedures please call the PRDE.

17. Purchases in future years: If you have current plans to purchase additional services in future years, describe them below (Providing this information is optional.)

As outlined in Item 15, future purchase are contemplated to extend internet services and expand EDUNET, the educational intranet of the Puerto Rico Department of Education, so that it will completely cover all public schools and will extend more completely into the schools where it is instituted in a limited way during the early stages. This expansion will focus primarily on LANs within the schools, since the external structure to be put in place at the beginning will be designed to support expansion to a greater number of computers within the connected school and to handle all needs in foreseeable future. The total numbers of computer to be acquired under current plans are estimated at 70,000.

Block 4: Technology Assessment

18.Although the following services and facilities are ineligible for support, they are usually necessary if schools and libraries are to make effective use of the eligible services requested in this application.
(If your application is only for basic voice telephone service, check this box ☐ *and go to Item 19. Otherwise, you must check at least one box in each of the other lines. You may provide details for purchases being sought.)*

a. Desktop communications software: Software required ☑ has been purchased; and/or ☑ is being sought.

b. Electrical systems: ☑ adequate electrical capacity is in place or has already been arranged; and/or ☑ upgrading for additional electrical capacity is being sought.

c. Computers: a sufficient quantity of computers ☑ has been purchased; and/or ☑ is being sought.

d. Computer hardware maintenance: adequate arrangements ☑ have been made; and/or ☑ are being sought.

e. Staff development: ☑ all staff have had an appropriate level of training or additional training has already been scheduled; and/or ☑ training is being sought.

f. Additional details: Use this space to provide additional details to help providers to identify the services or facilities you desire.

Block 5: Listing Consortium Participants

19. **Eligible Entities**: (Billed Entities.) If applicant is an individual school or a library or a school district or a library system that will receive only one bill, it should only fill in the first row of this chart. If applicant is a consortium of multiple billed entities, then it should fill out a row for each billed entity. (Applicant may attach additional pages.)

Billed Entity	Billed Entity's Zip Code	Billed Entity Code *(Inserted by Administrator)*	Zip Code(s) of Recipients of Service
All Public Schools in State PR			

20. **Entities Ineligible for Schools and Libraries Discount:**

Name of Entity	Zip Code(s) of Recipients of Service	Contact Person	Phone Number, E-mail Address, or Alternative Preferred Contact Method

Block 6: Certifications and Signature

21. The applicant includes:(Check one or both)

a. ☑ schools under the statutory definitions of elementary and secondary schools found in the Elementary and Secondary Education Act of 1965, 20 U.S.C. Secs. 8801(14) and (25), that do not operate as for-profit businesses, and do not have endowments exceeding $50 million; and/or

b. ☑ libraries or library consortia eligible for assistance from a State library administrative agency under the Library Services and Technology Act of 1996 that do not operate as for-profit businesses and whose budgets are completely separate from any school(including, but not limited to) elementary and secondary schools, colleges, and universities.

22. All of the individual schools, libraries, and library consortia listed above in item 19 are covered by:

a. ☐ individual technology plans and/or

b. ☑ higher-level technology plans for using the services requested in this application(if those services consist of other than voice services).

23. Status of technology plan(check one):

a. ◉ Technology plan(s) has/have been approved; or

b. ○ Technology plan(s) will be approved by a state or other authorized body; or

c. ○ Technology plan(s) will be submitted to Schools and Libraries Corporation for approval.

24. ☑ I certify that the services the applicant purchases at discounts provided by 47 U.S.C. Sec. 254 will be used solely for educational purposes and will not be sold, resold, or transferred in consideration for money or any other thing of value.

25. ☑ I recognize that support under this program is conditional upon the school(s) or library(ies) I represent securing access to all of the resources, including computers, training, software, maintenance, and electrical connections necessary to use the services purchased effectively.

26. ☑ I certify that I am authorized to submit this request on behalf of the above-named applicant, that I have examined this request, and to the best of my knowledge, information, and belief, all statements of fact contained herein are true.
29. Printed name of authorized person **Victor Fajardo Velez**
30. Title or position of authorized person **Puerto Rico Secretary of Education**

New Search | Return to Search Results

Exhibit H

---FOUR: COORDINATION AND TESTING

4.1 The parties hereto will designate a project manager who will be responsible for coordinating, installing and accepting the telecommunications services proposed in Article One hereinbefore.

4.2 Testing and acceptance procedure protocol of the services provided as per this Agreement shall be as follows:

4.2.1 T1 TESTING (B8ZS-Bipolar eight zero substitution): A channel with technical specifications package DS1 will be capable of an error-free second performance of 98.75%

over a continuous one (1) hour period as measured at the 1.544 Mbps rate through a CSU equivalent which is designed, manufactured and maintained to conform with the specifications contained in Technical Reference PUB 62411. The test will be made between the school to the corresponding channel in the CPE at the DRC Center. It is DRC's responsibility to provide technical assistance to perform the required tests.

4.2.2 DS-3 TESTING:

A channel with technical specifications package DS3 will be capable of an error-free second performance of 98.75% over a continuous eight (8) hour period as measured at the 44.736 Mbps rate through the SONET equipment which is designed, manufactured and maintained to conform with the specifications contained in Technical Reference PUB 62411.

The test will be made between PRTC's C.O. to the corresponding DS3 position at the DSX-3 BNC patch panel at the DRC Center. It is

DRC's responsibility to provide technical assistance to perform the required tests.

Exhibit G. Año 2

FCC Form

471 Schools and Libraries Universal Service Services Ordered and Certification Form

Approval by OM 3060-08

Estimated Average Burden Hours Per Response: 6 hou

This form asks schools and libraries to list the eligible telecommunications-related services they have ordered and estimate the annual charges for them so that the Schools and Libraries Corporation can set aside sufficient support to reimburse providers for services.

Please read instructions before completing. (To be completed by each Billed Entity)

Block 1: Applicant Address and Identifications (School, library, or consortium desiring Universal Service funding.)

1. Name of Applicant (Billed Entity) Puerto Rico Department of Education
2. Funding Year July 1, 1999 - June 30, 2000

3a. NCES School Code *(if individual school)* or NCES Library Code *(if individual library)*

3b. 471 Application Number *(Administrator will insert this)*

3c. Billed Entity Number 157779

4a. Type of Applicant *(Check only one box.)*
- ☐ school
- ☐ school district
- ☐ library or library consortium under the LSTA
- ☒ consortium of multiple entities

4b. *If applicant is a consortium, check all other boxes that apply:*
- ☐ includes non-governmental entities ineligible for support
- ☐ region of a state ☐ statewide ☐ multi-state
- ☐ state educational agency
- ☐ local educational agency
- ☐ educational service agency

5. Applicant's Street Address, P.O. Box, or Route Number
P O Box 190759

City	State	Zip Code	Telephone Number	E-mail Address
San Juan	PR	00919-0759	(787) 759-2000 Ext. 6110	

6. Contact Person's Name Mr. Kivio A. Peguero

Street Address, P.O. Box, or Route Number (if different from Item 5)

City	State	Zip Code

Fill in all of the following (if available), and check the preferred mode of contact: ☐ Telephone _____
☐ FAX _____ ☒ E-mail peguero K@de.prstar.net ☐ Mail

Block 2: Purpose of Request

7. Purpose of Request: (Check all that apply, if any.)

a. ☐ Discount on contract(s) signed prior to a request being posted on the Administrator's website.
Was an FCC Form 470 filed with regard to all the contract(s)? ☐ Yes ☐ No

b. ☒ Discount on contract(s) signed after a request being posted on the Administrator's website.

c. ☐ Minor modification or supplement to existing contract(s) for which a Form 471 was already filed.
471 Application Number _____.

Block 3: Characteristics of Applicant and Applicant's Service Order (derived from FCC Form 470 Blocks 2 & 3)

8a. Number of students	8b. Number of library patrons
325,362	244,022
9. Number of buildings to be served	**10. Number of rooms to be served**
3,321	17,142

Page 1 of 6 FCC Form 471 • December 1998

and Phone Number 759-2000 Ext. 6110

	Existing Service	Total Services After Order
11. Telecommunications Services		
a. Number of phones that have or require service (See instructions concerning extension phones and fax machines.)	954	1,954
b. Number of computers that have or require service	8,345	54,097
c. Number of high bandwidth video conferencing links	0	780
12. Internal Connections		
a. Number of buildings with at least some rooms connected	64	3,321
b. Number of rooms connected	72	17,142
c. Highest speed of connection	56 Kbps	T-1
13. Internet Access		
a. Number of dial up connections	50	50
b. Highest speed of such dial up connections	56 Kbps	N/A
c. Number of direct connections	0	780
d. Highest speed of such direct connections	0	T-1

Block 4: Determining Discount Percentage

14. Fill in one line per school, library, or library consortium and calculate in the last line, an average discount rate for the billed entity. Attach additional pages if necessary. *Note:* If the applicant has already completed this chart for all of the same entities with data that is current, provide the "471 Application Number" (*Item 5b*), from that previous FCC Form 471 here:

(1) Name of Individual School or Library	(2) NCES or Comparable Code for School or Library (Obtain from Administrator)	(3) Urban or Rural	(4) *For Schools:* Number of Students *For Libraries:* NCES Code of a School in its District	(5) *For Schools:* Number of Students Eligible for National School Lunch Program	(6) Discount Calculated from Discount Matrix	(7) Check if School or Library will use "Shared Services" listed in Item 15.
See attachment						☐
						☐
						☐
						☐
						☐
						☐
FOR SHARED SERVICES ORDERED BY BILLED ENTITY (attach worksheet of calculations)						

Page 3 of 5 FCC Form 471 - December 1999

Contact Person's Name: Kivio A. Pegnero and Phone Number: 759-2000 Ext. 6110

Block 5: Services Ordered

15. "Shared" services: All EXCEPT site-specific, internal connections and dedicated ("private line") connections from only one school or library to an ISP or other end-user.

(1)	(2)	CONTRACT (3)	(4)	(5)	(6)	(7)	Amount (8)	(9)	(10)	(11)
SLC Service Provider Number or Full Legal Name of Service Provider	Universal Service Control Number for Form 470 on which this is based	Contract Number (if applicable)	Award Date	Expiration Date	Services or Products	Service Start Date	Estimated One Time Pre-discount Cost	Estimated Monthly Pre-discount Cost	Estimated Total Annual Predicount Cost	Percentage Discount (from Item 14
DRC Corp. 143-012-599	658-180-000-222-949				Telecommunication Services	7-01-99	23,583,300	294,791	3,532,495	90%
					Internet Access	9-01-99	4,204,200	52,552	630,624	90%
					Internal Connections (Shared)	7-01-99	23,665,215			90%
PR Telephone Co 143-012-431	2392-000-000-88-318 *				Telecommunication Services	7-01-99	16,235,689			90%
					Internet Access	7-01-99	210,539			90%
					Internal Connections (Shared)					
					Telecommunication Services					
					Internet Access					
					Internal Connections (Shared)					

*Rent for services first year E-Rate proposal, this project still to be completed during this year, awar date from SLP was January 22, 1999.

Contact Person's Name Kivio A. Pequero Tel Phone Number: 759-2000 Ext. 6110

16. "Site Specific" Services: Internal connections not shared by multiple schools or libraries and dedicated ("private line") connections from only one school or library to an ISP or other end-user.

(1)	(2)	CONTRACT			(6)	(7)	Amount (See instructions about rounding)			(11)	(12)
SLC Number of Service Provider *(Obtain from Service Provider)*	Universal Service Control Number for Form 470 on which this is based	(3) Contract Number (if applicable)	(4) Award Date	(5) Expiration Date	Services or Products	Service Start Date	(8) Estimated One Time Pre-discount Cost	(9) Estimated Monthly Pre-discount Cost	(10) Estimated Total Annual Pre-discount Cost	Percentage Discount (from Item 14)	School or Library Code *(Listed on reverse)*
					Dedicated Services						
					Internal Connections						
					Dedicated Services						
					Internal Connections						
					Dedicated Services						
					Internal Connections						
					Dedicated Services						
					Internal Connections						
					Dedicated Services						
					Internal Connections						

Page 3 of 8

Contact Person's Name Mr. Kivio A. Paguero and Phone Number: 759-2000 Ext. 6110

17. ☒ Check this box to confirm that, for each service provider listed in 15 and 16, above, a list is attached (as an appendix to this form) of a of the services that each service provider is providing to the billed entity. Service providers should provide these lists on request.

18. a. Total dollars of support allocated for this application for the entire funding year *(calculated by administrator)*	
b. Amount of support set aside for this application for the first six months of the year *(calculated by administrator)*	
19. Provide the total estimated cost (pre-discount price) for the services you expect to order in the funding year following the one for which you are applying here. *(This figure is not binding.)*	$30,000,000.
20. Is your order solely for basic telephone service? ☐ Yes ☒ No	

Block 6: Certifications and Signature

21. The applicant is eligible for support because it includes: (Check one or both.)
    a. ☒ schools under the statutory definitions of elementary and secondary schools found in the Elementary and Secondary Education Act of 1965, 20 U.S.C. Secs. 8801(14) and (25), that do not operate as for-profit businesses and do not have endowments exceeding $50 million; and/or
    b. ☒ libraries or library consortia eligible for assistance from a state library administrative agency under the Library Services and Technology Act of 1996 that do not operate as for-profit businesses and whose budgets are completely separate from any schools*, including, but not limited to, elementary and secondary schools, colleges, or universities.

22. The school(s) or library(ies) I represent have secured access to all of the resources, including computers, training, software, maintenance, and electrical connections necessary to make effective use of the services purchased as well as to pay the discounted charges for eligible services.

23. All of the individual schools, libraries, and library consortia listed above in items 15 and 16 are covered by:
    a. ☒ an individual; and/or
    b. ☐ higher-level technology plan(s) for using the services requested in this application (if those services consist of other than voice services).

24. Status of technology plans (check one):
    a. ☒ Technology plan(s) has/have been approved; or
    b. ☐ Technology plan(s) will be approved by a state or other authorized body; or
    c. ☐ Technology plan(s) will be submitted to Schools and Libraries Corporation for approval.

25. I certify that the entities eligible for support that I am representing have complied with all applicable state and local laws regarding procurements of services for which support is being sought.

26. I certify that the services the applicant purchases at discounts provided by 47 U.S.C. Sec. 254 will be used solely for educational purposes and will not be sold, resold, or transferred in consideration for money or any other thing of value.

27. I understand that the discount level used for shared services is conditional, for future years, upon ensuring that the most disadvantaged schools and libraries that are treated as sharing in the service receive an appropriate share of benefits from those services.

28. I recognize that I may be audited pursuant to this application and will retain for five years any and all worksheets and other records that I rely upon to fill out this application.

29. I certify that I am authorized to submit this request on behalf of the above-named institution, that I have examined this request, and to the best of my knowledge, information, and belief, all statements of fact contained herein are true.

30. Signature	31. Date April 5, 1999
32. Printed name of authorized person Victor Fajardo	
33. Title or position of authorized person Secretary of Education	

Persons willfully making false statements on this form can be punished by fine or forfeiture, under the Communications Act, 47 U.S.C. Secs. 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. Sec. 1001.

Contact Person's Name Kivio A. Peguero and Phone Number 759-2000 Ext. 6110

NOTICE TO INDIVIDUALS: Section 54.504 of the Federal Communication Commission's rules requires all schools and libraries ordering services that are eligible for and seeking universal service discounts to file this Services Ordered and Certification Form (FCC Form 471) with the Universal Service Administrator 47 C.F.R. § 54.504. The collection of information stems from the Commission's authority under Section 254 of the Communications Act of 1934, as amended, 47 U.S.C. § 254. The data in the report will be used to ensure that schools and libraries comply with the competitive bidding requirement contained in 47 C.F.R. § 54.504. All schools and libraries planning to order services eligible for universal service discounts must file this form themselves or as part of a consortium.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

The FCC is authorized under the Communications Act of 1934, as amended, to collect the personal information we request in this form. We will use the information you provide to determine whether approving this application is in the public interest. If we believe there may be a violation or potential violation of a FCC statute, regulation, rule or order, your application may be referred to the Federal, state, or local agency responsible for investigating, prosecuting, enforcing or implementing the statute, rule, regulation or order. In certain cases, the information in your application may be disclosed to the Department of Justice or a court or adjudicative body when (a) the FCC; or (b) any employee of the FCC; or (c) the United States Government is a party of a proceeding before the body or has an interest in the proceeding.

If you owe a past due debt to the federal government, the taxpayer identification number (such as your social security number) and other information you provide may also be disclosed to the Department of the Treasury Financial Management Service, other federal agencies and/or your employer to offset your salary, IRS tax refund or other payments to collect that debt. The FCC may also provide this information to these agencies through the matching of computer records when authorized.

With the exception of your social security number, if you do not provide the information we request on the form, the FCC may delay processing of your application or may return your application without action.

The foregoing Notice is required by the Privacy Act of 1974, Pub. L. No. 93-579, December 31, 1974, 5 U.S.C. § 552, and the Paperwork Reduction Act of 1995, Pub. L. No. 104-13, 44 U.S.C. § 3501, *et seq.*

Public reporting burden for this collection of information is estimated to average 6 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, completing, and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing the reporting burden to the Federal Communications Commission, Performance Evaluation and Records Management, Washington, D.C. 20554.

This form should be submitted to:

SLC-Form 471
P.O. Box 7026
Lawrence, Kansas 66044-7026
1-888-203-8100

If sent by express delivery services or U.S. Postal Service, Return Receipt Requested, the form should be mailed to:

SLC-Form 471
c/o Ms. Smith
3833 Greenway Drive
Lawrence, Kansas 66046
1-888-203-8100

Exhibit H

DRC CORPORATION SYSTEMS INTEGRATORS

PRE-ACEPTACIÓN DE INSTALACIÓN

Estimado Cliente: DRC

La(s) facilidad(es) que se indica(n) ha(n) sido completada(s) en el día

10 mes 18 día 2000 año

NUMERO SERVICIO ESPECIAL
179-1697

ORDEN DE SERVICIO
A9-49597

Muchas gracias por permitir servirles con sus necesidades de Telecomunicaciones.

Es necesario que antes de reportar algún servicio como averiado, se aguren que la averia sea para el circuito y/o equipo instalado por la telefónica de Puerto Rico.

Para reportar los circuitos que se averían prodrá llamar al 729-3131.

Aceptado por Cliente
(nombre en letra de molde)

Firma del Cliente

Instalado por Técnico
(nombre en letra de molde)

Firma del Técnico

School Code:	School District:	School Name:
32078	RIO GRANDE	CAROLA

DS3 System:	Bill to SF:	PSAX 2300:	Routed IP:
DRC-RGR-001	179-1696	2300-1-8-19	172.25.1.160

Notes:

Exhibit J

Puerto Rico Telephone Company
TELEFONICA

ACEPTACIÓN DE INSTALACIÓN

Estimado Cliente: DRC

La(s) facilidad(es) que se indica(n) ha(n) sido completada(s) en el día

3/29 4/15/2000
mes día año

NUMERO SERVICIO ESPECIAL	ORDEN DE SERVICIO
149-0005	A9-43739

Muchas gracias por permitir servirles con sus necesidades de Telecomunicaciones.

Es necesario que antes de reportar algún servicio como averiado, se aguren que la averia sea para el circuito y/o equipo instalado por la telefónica de Puerto Rico.

Para reportar los circuitos que se averían prodrá llamar al 729-3131.

Sr. Héctor Vélez
Aceptado por Cliente
(nombre en letra de molde)

Firma del Cliente

Iván Martínez
Instalado por Técnico
(nombre en letra de molde)

Firma del Técnico

School Code:	School District:	School Name:
15222	ISABELA	EMILIA CASTILLO

DS3 System:	Bill to SF:
ADI-DRC-001	103-5022

Exhibit J

Estado Libre Asociado de Puerto Rico
Departamento de Educación

11/5/2001

Desde 1-Nov-01 hasta 5-Nov-01

Escuelas Validadas en Facturas **Noviembre**

Nombre de la Escuela:	Codigos DE ERate				% Facturable	
FASE: 2	Total de Escuelas: 24				= 3.26531%	
NARANJITO	Escuelas Validadas: 1					
FRANCISCO MORALES	71225	20653	1 semana(s) en este periodo.	01-Nov-2001	25	$463.00
TOA ALTA	Escuelas Validadas: 3					
FELIPE DIAZ GONZALEZ	71460	20654	1 semana(s) en este periodo.	01-Nov-2001	25	$463.00
MERCED MARCANO	71456	20653	1 semana(s) en este periodo.	01-Nov-2001	25	$463.00
TOA ALTA HEIGHTS (SUPERIO	78931	20629	2 semana(s) en este periodo.	05-Nov-2001	50	$926.00
TOA BAJA	Escuelas Validadas: 1					
JOSE NEVAREZ LOPEZ	71548	20654	1 semana(s) en este periodo.	02-Nov-2001	25	$463.00
VEGA ALTA	Escuelas Validadas: 1					
APOLO SAN ANTONIO	71751	20687	1 semana(s) en este periodo.	05-Nov-2001	25	$463.00
CAGUAS I	Escuelas Validadas: 1					
ANTONIO LONGO2	0636	20661	1 semana(s) en este periodo.	02-Nov-2001	25	$463.00
CAGUAS II	Escuelas Validadas: 2					
JOSE DE DIEGO	20792	20654	1 semana(s) en este periodo.	02-Nov-2001	25	$463.00
SU MERCEDES PALMA	21014	20654	1 semana(s) en este periodo.	02-Nov-2001	25	$463.00
COMERIO	Escuelas Validadas: 2					
JUANA COLON	21758	20658	1 semana(s) en este periodo.	02-Nov-2001	25	$463.00
PEDRO MORALES BAEZ	21756	20658	1 semana(s) en este periodo.	02-Nov-2001	25	$463.00
CANOVANAS	Escuelas Validadas: 2					
JOSE SANTOS QUIÑONES	34207	20633	1 semana(s) en este periodo.	02-Nov-2001	25	$463.00
JUANA RODRIGUEZ MUNDO	33563	20633	1 semana(s) en este periodo.	01-Nov-2001	25	$463.00
LOIZA	Escuelas Validadas: 1					
JESUSA VIZCARRONDO	31237	20636	1 semana(s) en este periodo.	05-Nov-2001	25	$463.00

Escuelas Validadas en Facturas Noviembre

Nombre de la Escuela:	Codigos DE ERate				% Facturable	
GURABO	Escuelas Validadas: 2					
DRA CONCHITA CUEVAS	26773	20660	1 semana(s) en este periodo.	05-Nov-2001	25	$463.00
JAGUAS	21964	20657	1 semana(s) en este periodo.	02-Nov-2001	25	$463.00
JUNCOS	Escuelas Validadas: 2					
ISABEL FLORES	34363	20671	1 semana(s) en este periodo.	01-Nov-2001	25	$463.00
JOSE A LOPEZ CASTRO	34777	20671	1 semana(s) en este periodo.	01-Nov-2001	25	$463.00
MOCA	Escuelas Validadas: 1					
DR EFRAIN SANCHEZ HIDALG	46003	20681	1 semana(s) en este periodo.	05-Nov-2001	25	$463.00
CAROLINA I	Escuelas Validadas: 1					
CARLOS F DANIELS	66506	20706	1 semana(s) en este periodo.	02-Nov-2001	25	$463.00
CAROLINA II	Escuelas Validadas: 1					
LOLA RODRIGUEZ DE TIO	67660	20708	1 semana(s) en este periodo.	05-Nov-2001	25	$463.00
SAN JUAN I	Escuelas Validadas: 3					
ALBERT EINSTEIN	62984	20709	1 semana(s) en este periodo.	01-Nov-2001	25	$463.00
MANUEL BOADA	63107	20710	1 semana(s) en este periodo.	05-Nov-2001	25	$463.00
RAFAEL MARIA DE LABRA	61705	20709	1 semana(s) en este periodo.	03-Nov-2001	25	$463.00

Gran Total de escuelas validadas en este informe: 24

TAB 4

UNITED STATES DEPARTMENT OF EDUCATION

THE DEPUTY SECRETARY

May 29, 2002

Honorable Sila M. Calderon
Governor
Commonwealth of Puerto Rico
P.O. Box 9020082
San Juan, Puerto Rico 00902-0082

Dear Governor Calderon:

I am following up on Secretary Paige's letter to you regarding serious deficiencies in the Puerto Rico Department of Education's (PRDE's) administration of various programs funded by the U.S. Department of Education (ED). I am sending a similar letter to Secretary of Education Cesar Rey-Hernandez.

As you know, recent events involving the use of Federal education funds by former senior officials of the PRDE, including the former Puerto Rico Secretary of Education and vendors with whom PRDE has had dealings, and various other fiscal and programmatic accountability problems concerning PRDE have caused us great concern. Major deficiencies in PRDE's administration of the largest grant program, Title I of the Elementary and Secondary Education Act, have been confirmed by audits and other reviews made by this Department's Office of Inspector General. Numerous and repeated deficiencies in PRDE's administration of a number of Federal education programs have also been found in the single audits of PRDE conducted by independent auditors. Additionally, the inability of PRDE to provide us with timely single audits has exacerbated greatly these accountability problems.

Although I appreciate the sentiments you expressed and the assurances provided in your letter to the Secretary of January 24, 2002 (that PRDE is taking these problems seriously and is addressing them), we need more detailed information about the particular steps taken or soon to be taken by your government, including PRDE, to address these problems. This is necessary in order for us to carry out our mutual administrative responsibilities to ensure the proper use of Federal education funds in Puerto Rico. While I understand that some of the problems noted may have been inherited from previous Administrations, the recent developments noted above have made it imperative that we take immediate steps to ensure that PRDE has appropriate controls in place to ensure the proper use of all Federal education grant funds it receives. A discussion of some of the most serious outstanding problems follows.

Late and Overdue Audits

All of the problems concerning fiscal and programmatic accountability have been aggravated by the lack of timely single audits. As you may know, for many years, PRDE has failed to submit timely and sufficient single audits under the Single Audit Act. Audits of fiscal years beginning after June 30, 1998 are required by law to be submitted within nine months after the annual period being audited. For earlier years, they were due thirteen months after the end of the audited period. Various commitments made by Puerto Rico officials over the years to submit timely audits have not been met. For example, the most recent single audit of PRDE that we received was for fiscal year (FY) 1999; this was received by the Single Audit Clearinghouse on September 28, 2001; it was about 18 months overdue. Before that, the audit for FY 1998 was submitted on March 20, 2001; it was about 20 months overdue. The audit for FY 1997 was submitted on April 28, 2000, about 21 months late. This situation was virtually the same for audits in previous years. The audit for FY 2000 is already more than a year overdue; the audit for fiscal year 2001 is already overdue, and we understand that work on it has just begun. The requirement for timely audits is a fundamental requirement to ensure proper accountability; the submission of late audits cannot be allowed to continue.

Serious Fiscal Accountability and Programmatic Problems

The findings in the single audits of PRDE, as well as recent audit work done by the Department's Office of Inspector General, make clear that large-scale fiscal accountability and programmatic problems have existed for a number of years and appear to be continuing. Findings show that serious deficiencies exist in many key aspects of procurement, program planning and implementation, and financial and property management. Poor record keeping, contracts issued in a manner that is inconsistent with applicable local regulations and Federal requirements and without proper controls, lack of timely payments to vendors, late obligations and liquidations, Federal funds spent on unallowable activities, and the lack of proper or timely fiscal reconciliations permeate the expenditure of Federal education funds by PRDE. These findings in the audits detail a clear and persistent pattern of problems within PRDE's administration of Federal education programs in numerous areas. Among other things, there is a need for proper planning, implementation, procurement, evaluation, administration, delivery of program services, and timely accountability. All of these significant problems hamper PRDE's ability to provide appropriate education services to its students with Federal education funds. These serious problems cannot be allowed to continue, because it is ultimately the students who suffer.

In communications with this Department, you and representatives of PRDE have pledged to eliminate problems in the administration of Federal grants and have begun to describe some of the steps you have taken. We look forward to your cooperation in expanding the PRDE's commitment to fundamental changes in every aspect of PRDE programs funded by the Department. Significant changes must be initiated in the many areas outlined in this letter.

Based on these problems, which are exacerbated by the lack of timely single audits and the serious accountability problems it causes, as of the date of this letter, we are designating PRDE a "high-risk grantee" under 34 C.F.R. 80.12, making the agency subject to special conditions in all of the Federal education programs that it administers. The special conditions placed on PRDE's grants could include such additional requirements as filing special reports, paying out the grant funds on a reimbursement basis, and the establishment of an independent third party agent to manage and administer part or all of the grant funds. Additionally, some funding may be suspended, terminated, or withheld in accordance with our enforcement authority, and other appropriate remedies may be considered. However, for a short period of time I am deferring attaching specific special conditions and taking other enforcement actions in order to give the government of Puerto Rico, including PRDE, a chance to address our concerns. I will determine what special conditions are appropriate and whether additional enforcement action should be taken based on the responses submitted by Puerto Rico, including PRDE, to the requests for information below. While I remain hopeful that your government, including PRDE, will demonstrate the appropriate commitment and initiative to improve the management of PRDE, so that some or all of these remedies will not be necessary, I am alarmed by the seriousness and lengthy history of the problems found in Puerto Rico.

To allow us to determine what special conditions should be imposed, and what other remedies should be taken, please submit on a timely basis (so that I will receive within thirty (30) days of the date of this letter) the following:

<u>A Corrective Action Plan detailing:</u>

(1) Your government's plan for expedited submission of audits by PRDE for FYs 2000 and 2001, and the timely submission of audits for FY 2002 and all future years;

(2) Your government's plan to improve PRDE's procurement process to ensure the timely award of contracts and the fair and unbiased adherence to appropriate rules for ensuring competitive bidding, fair prices, and the proper implementation of procurement actions.

(3) Your government's means of addressing other key problems mentioned above or in the single audits and the audits conducted by our OIG.

With regard to the last two items, audits have noted long-standing and serious problems in PRDE's procurement process, and in many aspects of grant planning, implementation, and accountability. These problems make it difficult to ensure that eligible recipients receive appropriate services on a timely basis and that accurate and reliable record keeping systems are maintained. There is an evident need for a prompt and thorough overhaul of many aspects of PRDE's grant administration. The deficiencies that our auditors have noted include an absence of internal controls in PRDE's procurement system, a need for the development of specifications to process contract awards and for proper review of vouchers for goods and services; a need for better program planning and implementation; and the need to develop and implement better fiscal controls, and a reliable system of keeping records. It is essential that these items be

seen as high priorities as PRDE attempts to reestablish integrity and efficiency in its management of Federal grant funds, so that all requirements are met and so that proper education services are provided to the proper beneficiaries. We would expect corrective actions to address, at a minimum, these areas. In addition, we invite PRDE officials to review the audit findings and the other problems mentioned in this letter and advise me of the other corrective actions being taken that will help address our concerns and minimize the risks of our grant funds being improperly administered.

The information I have requested is essential to our responsible oversight of PRDE's grants and to maintaining PRDE's future eligibility for such grants. I request that the Puerto Rico government reply thoroughly and by the deadline indicated above with the information requested. The corrective action plan should include a schedule of when each of the corrective actions will be implemented. We expect that PRDE's implementation of the corrective actions will begin immediately and that all of the actions will be fully implemented by the end of this calendar year. I also ask that the Puerto Rico government examine whether similar problems exist with other Puerto Rico agencies that administer grant funds received from our Department. If they do, please report on corrective actions to be taken with regard to those agencies.

In addition to the information we have requested in this letter, in the near future, my staff will also be requesting PRDE to provide specific information that we need for timely resolution of audit findings that are outstanding. We trust that you and the Secretary of Education will ensure that we have the full cooperation of PRDE in ensuring prompt, complete, and accurate responses necessary for audit resolution.

My hope is that PRDE will demonstrate significant progress in implementing necessary changes and improvements, so that my Department will not have to take the more prescriptive measures outlined in this letter that it has available to protect Federal grant funds. My staff stands ready to answer questions and provide technical assistance on the applicable Federal requirements in the programs affected and on more general grant fund accountability, but it will take a genuine commitment by your government, and by PRDE in particular, to complete the needed corrective actions in a timely manner.

I remain hopeful that your government will address our concerns. I have designated Phil Maestri of our Office of Chief Financial Officer to be the designated contact for questions and requests for assistance from your office and PRDE. He can be reached at (202) 205-3511. We look forward to working with you and others in your government to improve the delivery of Federal education services so that no child in Puerto Rico is left behind.

Sincerely,

William D. Hansen

cc: Secretary of Education Cesar Rey-Hernandez
Representative Aníbal Acevedo Vilá

TAB 5

Universal Service Administrative Company

D. Scott Barash
Vice President & General Counsel
sbarash@universalservice.org

May 17, 2001

H. Walker Feaster, III
Inspector General
Federal Communications Commission
445 12th St., SW
Washington, DC 20554

RE: Response to Request for Information regarding the Puerto Rico Department of Education
This Letter Contains Confidential Investigatory Information

Dear Inspector General Feaster:

This letter is in response to your request for information regarding the Puerto Rico Department of Education's (PRDOE) receipt of support from the Schools and Libraries Universal Service Support Mechanism.

The first part of the letter provides detail regarding PRDOE's participation in the program and provides references to the various program forms and application review materials in the enclosed binders of attachments. We have enclosed two sets of binders. The second part of the letter provides a brief overview of the relevant schools and libraries support mechanism application process, self-certification requirements and answers the questions posed. The discussion assumes a degree of familiarity with USAC's operations and the workings of the Schools and Libraries Support Mechanism. We will be happy to further explain any matter concerning program operations should you wish us to do so.

This letter and the attachments so marked contain confidential and propriety information regarding USAC's internal procedures. The continued confidentiality of these procedures is critical to protecting the program from risk of fraud. Consequently, USAC requests that you do not divulge their contents without discussing the scope of any potential disclosure with USAC.

I. Summary

This letter and the attached information is being provided in response to a request that originated from the Office of the Comptroller of Puerto Rico (Comptroller). According to the Comptroller, PRDOE may have violated the program rules that require applicants

2120 L Street, N.W., Suite 600, Washington, DC 20037Voice: 202.776.0200 Fax: 202.776.0080
Visit us online at: http://www.universalservice.org

to certify that they have secured access to all the resources necessary to make effective use of the services, and that they have complied with all applicable state and local procurement laws. The Comptroller has requested any information we have regarding those violations as well as our response to certain questions.

II. Puerto Rico's Participation in the Program

PRDOE has applied for universal service support for schools and libraries in each funding year. As of April 24, 2001, $158,707,548 had been committed to PRDOE in universal service support and $28,399,890 had been disbursed to service providers that supplied service to PRDOE.

A. Funding Year 1 (January 1, 1998 – June 30, 1999)

PRDOE submitted Form 470 # 239200000088318 (Attachment 1) and Form 471 # 44575. (Attachment 3)[1]. The allowable contract date for contracts arising out of this application was April 13, 1998. SLD committed a total of $46,222,680.60 in universal service support funds for products and services to be provided to PRDOE for Funding Year 1. (Attachment 4).

In the course of reviewing this application, SLD obtained a copy of PRDOE's Technology Plan dated 1998, and updated May 1999. (Attachment 5). SLD did not perform a substantive review of the contents of this plan. In addition, SLD requested an explanation of bidding dates, contract award date, and contract work start date in regard to PRDOE's contract with the Puerto Rico Telephone Company. (Attachment 3, PIA Notes Dated 12/16/98, 12/17/98).

In response to the Comptroller's request, we are providing a copy of the draft agreed-upon procedures report prepared by Arthur Andersen. (Attachment 5a). This report was undertaken as part of the review of select beneficiaries of year one funding. In Section B, the report indicates that PRDOE's 1998/99 Technology Plan was reviewed and adequately complied with program requirements. In Section E, the report indicates that PRDOE "management also indicated that all bids received were appropriately evaluated in accordance with state and local requirements." However, the report also indicates that the auditors were unable to determine whether the contracts associated with this application were signed after the allowable contract date. (Copies of the DRC Corporation and Puerto Rico Telephone Company contracts associated with this application are at Attachment 3, and are labeled as such.)

[1] The attachments submitted with each form 471 and the Program Integrity Assurance review materials are identified by subject and organized chronologically at the tabs behind the Form 471 for each program year.

B. Funding Year 2 (July 1, 1999 – June 30, 2000)

PRDOE submitted Form 470 # 658180000222949 (Attachment 6) and Form 471 # 149802. (Attachment 8). The allowable contract date for contracts arising out of this application was April 1, 1999. (Attachment 7). SLD committed a total of $56,879,778.85 in universal service support funds for products and services to be provided to PRDOE for Funding Year 2. (Attachment 9).

The Form 471 submitted by PRDOE did not indicate the contract award date for any of the contracts awarded pursuant to this application. (Attachment 8, p. 49). In the course of reviewing this application, SLD determined that the contract award date for the FRNs associated with the DRC Corporation (DRC) contract was April 5, 1999. (Attachment 8, Problem Resolution Log; DRC contract). The review of this application did not include any other issues relevant to the issues here.

We are also providing you with the documentation regarding PRDOE's request for a contract modification (Attachment 10), PRDOE's appeal of SLD's denial of that request (Attachment 11), and the Commitment Adjustment letters that SLD sent to PRDOE (Attachment 12).

C. Funding Year 3 (July 1, 2000 – June 30, 2001)

Puerto Rico submitted Form 470 # 228330000280807 (Attachment 13) and Form 471 # 203292. (Attachment 15) The allowable contract date for contracts arising out of this application was January 14, 2000. (Attachment 14). SLD committed a total of $55,605,088.47 in universal service support funds for products and services to be provided to PRDOE for Funding Year 3. (Attachment 16).

In the course of reviewing this application, no questions arose relevant to the issues here.

We are also providing you with the documentation regarding PRDOE's appeal of SLD's funding commitment decision (Attachment 17) and the Administrator's decision in response to that appeal. (Attachment 18).

D. Funding Year 4 (July 1, 2001 – June 30, 2001)

For Funding Year 4, PRDOE submitted two applications for universal service support. These applications are currently being reviewed to determine whether each satisfies program standards necessary for the applications to be considered filed within the filing window. Should the results of this review be positive, they will be processed pursuant to usual program standards. We will keep you updated on the status of these applications, and will provide any documentation that you request once this initial review is complete.

II. Relevant Program Background

The application process is initiated when an applicant files FCC Form 470 – the Description of Services Requested and Certification Form. These forms are posted to the USAC web site. This posting enables prospective service providers to bid on the equipment and services for which the applicant is requesting universal service support. After the Form 470 has been posted, the applicant must wait 28 days before entering into agreements with service providers for the equipment and services requested. The applicant is sent a Receipt Notification Letter when SLD has posted the 470. Among other things, this letter provides the applicant with its "Allowable Contract Date" – the date on or after which it may enter into agreements with its service provider. Once the applicant enters into agreements with service providers, the applicant files FCC Form 471 – the Services Ordered and Certification Form. This form requests support for eligible services. SLD reviews these forms and issues funding commitment decisions in accordance with the Commission's rules.

Under the order establishing the universal service support mechanisms, the FCC requires applicants and service providers to comply with self-certification requirements as a condition of participating in the schools and libraries program.[2] Relevant to the issues here, participants certify that they have secured access to all the resources, including training, necessary to make effective use of the support requested. Participants further certify that they have complied with all applicable local and state procurement laws. Program forms also warn participants that willful false statements on the forms are punishable by fine or imprisonment under telecommunications and criminal statutes.

Relevant to the issues presented here, SLD internal procedures governing the processing of applications for support include, among other things, determination of whether the contract award date indicated on the Form 471 falls on or after the allowable contract date to ensure compliance with the 28-day posting requirement; whether the applicant has certified that it has secured access to all the resources necessary to make effective use of the support requested, whether the applicant has certified that it has a technology plan; and whether the applicant has certified that it has complied with applicable state and local procurement laws. SLD may review whether the applicant has evidence to support its certification that it has adequate resources to make effective use of the support. However, FCC rules do not contemplate, and SLD does not conduct a review that would result in a determination of whether an applicant has in fact complied with state and local procurement laws.[3] Rather, the rules and SLD rely upon the applicant's self-certification that it has complied with necessary laws.

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[2] *See* Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Report and Order*, FCC 97-157 ¶ 425, 522-525 (rel. May 8, 1997)("*Universal Service Order*").

[3] SLD internal procedures governing the processing of applications for support may trigger reviews of the applicant's compliance with the program's competitive bidding requirements, as distinct from state and local competitive bidding requirements.

IV. Response to Questions

USAC has been asked the following questions:

(1) Did PRDOE comply with the applicable federal regulations?

Response: Since PRDOE received funding commitments in funding years one through three, it complied with the applicable federal regulations to the extent that no issues were identified during the application review process that would have resulted in the denial of the funds that were committed.

(2) If PRDOE did not comply with state regulations requiring it to have all the necessary resources to use equipment purchased with universal service funds, could it be judged as having willfully made false statements? If so, what are the consequences of such an act?

If PRDOE did not in fact have the necessary resources to make effective use of the universal service support, SLD would not generally determine whether the certification was "willfully false." SLD has the authority to deny funding requests where evidence to support the certification regarding the adequacy of resources was lacking.[4] This authority allows USAC to deny funding requests without addressing whether the certification was "willfully false."

Please feel free to contact me at (202) 263-1605, or USAC's Assistant General Counsel, Kristy Carroll, at (202) 263-1603 if you have any questions about this information, or if we may be of further assistance in this matter.

Sincerely,

D. Scott Barash
Vice President and General Counsel

by:

Kristy L. Carroll
Assistant General Counsel

Enclosure

[4] *See* 47 C.F.R. § 54.504(2)(v).

cc: Katherine Schroeder, Chief, Accounting Policy Division, FCC Common Carrier Bureau
(without attachment)

bcc: Mark Seifert (without attachment)
Ellen Blackler (without attachment)
Tom Bennett (without attachment)
Charles Willoughby (without attachment)

TAB 6

CONFIDENTIAL

George McDonald

From: George McDonald
Sent: Tuesday, January 15, 2002 6:46 PM
To: Leadership
Cc: Ellen Blackler (E-mail); Tom Cline (E-mail)
Subject: PRDOE

Sensitivity: Confidential

Colleagues,

I sent a letter to the Secretary of Education in Puerto Rico on December 5 based on the Arthur Andersen finding that they had not acquired computers to make use of the services for which we had provided discounts. I asked for a detailed accounting of what support resources they had acquired and when, and indicated that we would not make commitments or disbursements until this matter was straightened out.

At PRDOE's request, Tom Cline, Ellen Blackler, Charles Walter (for translation if necessary), and I met with representatives of PRDOE today to hear a presentation from them on the situation with respect to E-rate projects in PR.

The meeting went for about 2-1/2 hours and covered a lot of territory, all of which I won't try to repeat in this e-mail, but here are some highlights as they explained it to us. I am cc'ing Ellen and Tom and invite them to correct anything I get wrong.

The PRDOE reps were very forthcoming, providing us information that they asked us to treat as confidential. I think we came away believing that they are trying to do the right thing here and they are willing to do whatever we ask to make sure we believe that.

The pro-commonwealth party defeated the incumbent pro-statehood party in the gubernatorial election in November 2000. Two of the PRDOE reps at our meeting today were on the transition team for the DOE. The transition was very difficult -- the outgoing administration was reluctant to provide information and the information they did provide was unreliable. The new team found a pretty messy situation; for example, a deficit in the Department of $210 million, not a reputed surplus of $15 million.

There have been four separate investigations of the PRDOE since last January -- by the PR Office of the Comptroller, by the PR Justice Department, by the USDOE OIG and Federal prosecutors, and by a Blue Ribbon Committee appointed by the new governor with representatives of all the major political parties.

The new team had ten days after taking over to file the Year 4 471 (which we have not yet committed) and opted to simply continue services already underway and launch no new initiatives until they had completed an evaluation of where things stood. (There is a request for new connections among a few sites not connected to the network yet.) They continued with the existing vendors (PR Telephone Co, now Verizon, and DRC) even though they found no evidence of a bidding process for the original awards. There is provision for emergency action without a bidding process if funds will be lost, and they carefully exercised and documented their exercise of that authority to stay with these vendors. (PRTC is a monopoly. Anyone wanting to bid against them would have to resell their services.)

The new team undertook a two-part evaluation -- a short-term evaluation to get a quick take on the situation and a longer-term effort undertaken by a consultant.

The preliminary evaluation showed that: (1) there was no reliable documentation on the status of projects at the schools, (2) the infrastructure installed at the PRDOE was inappropriate for its purpose, and (3) there was no network design. On the specific issue of computers, the earlier administration had initiated purchase of 100,000 computers, but a protest against their award of the contract was successful and no appeal was filed.

The detailed evaluation was launched in July 2001 and a report submitted in September. It found that more than 50% of the communication lines were not operational, equipment had been improperly placed where it could be damaged or stolen, there had been no evaluation of vendor performance, no RFPs had been prepared for the procurements, and there had been ineffective training for system administrators. They will provide us copies of the detailed evaluation (which is in Spanish).

The strategy to make things right has three focuses: the network itself, infrastructure in the schools, and the infrastructure at the PRDOE central office. They covered each element, but major highlights were that the schools don't have the electrical capacity to support the once-planned 100,000 computers so they have gone to a lab model -- either a fixed lab in one room with upgraded

CONFIDENTIAL

electricity or a mobile lab supported by laptops, which don't need electrical upgrades. Schools choose the model that work best for them. (They are beginning with a 100-school pilot. The contract has been awarded and survived a bid protest.) Forty-two mobile labs have been installed to date. They are designing a new LAN for the PRDOE office that will be less reliant on multiple servers.

They are seeking accountability from vendors -- to fix the problems at no extra cost. And they are having success -- in two months, the number of schools communicating with the network went from 2 to 216. PRTC is rewiring schools where the original work was unsatisfactory. Altogether they expect 550 schools (a little more than 1/3 of the commonwealth's public schools) connected by the end of this month. Microsoft, which had provided the teacher training, has agreed to a no-cost extension to retrain, and other funds have been earmarked for training.

They briefed us on the funding for all of this -- a total of $331.5 million in new funds, primarily from the Children's Trust Fund (funded with tobacco settlement money) and QZAB funds from a Federal program of interest-free bonds.

We then talked next steps. Their Year 5 application is due Thursday and they are completing the selection of vendors, but there are issues. We encouraged them to submit the Year 5 application on time, and to request a SPIN change if necessary.

I asked that the Secretary reply to my letter giving us (auditable) assurances along the lines of their briefing (and attaching the report that details all this that they gave us in the meeting). I would be looking for statements about what has already been done, funds that have been secured, and a schedule for completion. At that time, we would confer with the FCC about making commitments on their Year 4 application. They are very hopeful of getting those funds to keep the services flowing now that they are getting the schools hooked up.

In terms of paying any more invoices, they have stopped paying, and I told them I would want certifications from them, before we paid any more invoices, that the work had been completed in accordance with the contract terms, etc.

We need to have further discussions with CCB staff about how to look at the commitments and disbursements for prior years given what we now know about the absence of a bidding process, among other issues.

George

TAB 7

PROPOSED WORKOUT PLAN FOR
PUERTO RICO DEPARTMENT OF EDCUCATION

BACKGROUND

The Puerto Rico Department of Education (PRDOE) requested discounts for telecommunications services, Internet access and internal connections for Funding Year 1998 (the first funding year of the Schools and Libraries Universal Service Support Mechanism), and the Schools and Libraries Corporation (the predecessor to the Schools and Libraries Division of the Universal Service Administrative Company) committed $46.2 million in discounts. Of that total, $21.7 million has been disbursed for telecommunications services and internal connections.

The Universal Service Administrative Company (USAC) contracted in the summer of 2000 with Arthur Andersen, LLP, to conduct a series of audits of beneficiaries of Year 1998 funding, and PRDOE was selected as one of the beneficiaries for review. As part of its review, Andersen made site visits to two Puerto Rico public schools at which discounted equipment had been installed. The final report on the beneficiary review of PRDOE concluded as follows:

> [Andersen] noted that there were no (desktop) computers in any of the classrooms visited at either school. Consequently, due to the lack of classroom computers, we ascertained that the PRDOE was not able (as of the date of our site visit) to fully meet the educational objectives (and training requirements) for which E-rate funding had been provided.

The Andersen reports were accepted by the Schools and Libraries Committee in October 2001. As follow-up to the Andersen reports, the USAC Vice President for the Schools and Libraries Division sent a letter to Dr. Cesar A. Rey Hernandez, the Secretary of the PRDOE, on December 5, 2001 (Attachment A), advising him that USAC would make no additional commitments or disbursements to PRDOE or to its service providers until the Department provided detailed information about the acquisition of computers to make use of the connections for which discounts had been provided as well as information about the other resources needed to make effective use of the discounted services, such as software, professional training, maintenance, and electrical capacity.

No further commitments or disbursements have been made since that date. Specifically, USAC has held PRDOE's applications for Year 2001 and Year 2002 funding without action.

In response to that letter, PRDOE asked to meet with USAC. A meeting was held on January 15, 2002, and staff of the Common Carrier Bureau and FCC's OIG attended. The PRDOE representatives were very forthcoming, providing us information that they asked us to treat as confidential.

PRDOE had launched an effort to develop an island-wide network to provide communications and Internet access to about 1,540 schools in Puerto Rico in Funding

USAC/SLD

Year 1998. The first phase of the effort in Funding Year 1998 was aimed at connecting 760 schools. In Funding Year 1999, 780 additional schools were to be connected, and two servers per school were funded. Funding in Funding Year 2000 was for about 100 additional schools and 4,600 additional servers.

The table below shows commitments and disbursements made on behalf of PRDOE for the first three funding years of the Schools and Libraries Support Mechanism.

Year	Service ID	Service Provider Name	Committed Amt	Disbursed Amt
1998	TELCOMM SERVICES	Puerto Rico Telephone Company, Inc.	$34,249,963.50	$9,933,962.60
1998	INTERNET ACCESS	Puerto Rico Telephone Company - Central	$173,695.50	
1998	INTERNET ACCESS	Puerto Rico Telephone Company, Inc.	$2,422.80	
1998	INTERNAL CONNECTNS	Data Research Communication (DRC) Corporation	$11,796,598.80	$11,796,159.78
	TOTAL		$46,222,680.60	$21,730,122.38
1999	INTERNAL CONNECTNS	Data Research Communication (DRC) Corporation	$38,340,305.35	$25,204,156.76
1999	INTERNET ACCESS	Data Research Communication (DRC) Corporation	$3,783,780.00	
1999	INTERNET ACCESS	Puerto Rico Telephone Company, Inc.	$189,485.10	$140,557.32
1999	TELCOMM SERVICES	Puerto Rico Telephone Company, Inc.	$14,566,208.40	$8,191,337.00
	TOTAL		$56,879,778.85	$33,536,051.08
2000	INTERNET ACCESS	Data Research Communication (DRC) Corporation	$15,975,329.06	$11,005,508.28
2000	INTERNAL CONNECTNS	Data Research Communication (DRC) Corporation	$21,699,192.00	$21,560,072.48
2000	INTERNAL CONNECTNS	Puerto Rico Telephone Company, Inc.	$17,930,567.41	$13,391,113.63
	TOTAL		$55,605,088.47	$45,956,694.39
	3-YR TOTAL		$158,707,547.92	$101,222,867.85

The pro-commonwealth party defeated the incumbent pro-statehood party in the gubernatorial election in November 2000. Two of the PRDOE representatives at the meeting were on the transition team for the DOE. The transition was very difficult -- the outgoing administration was reluctant to provide information, and the information they did provide was unreliable. The new team found matters in disarray; for example, a deficit in the Department of $210 million, not a reputed surplus of $15 million.

There had been four separate investigations of the PRDOE between January2001and January 2002 -- by the PR Office of the Comptroller, by the PR Justice Department, by the USDOE OIG and Federal prosecutors, and by a Blue Ribbon Committee appointed by the new governor with representatives of all the major political parties.

The new team had ten days after taking over to file the Year 2001 and opted to simply continue services already underway and launch no new initiatives until they had completed an evaluation of where things stood. (The application included a request for new connections among a few sites not connected to the network yet.) They continued with the existing vendors (PR Telephone Co and DRC) even though they found no evidence of a bidding process for the original awards. There is provision for emergency action without a bidding process if funds will be lost, and they carefully exercised and

documented their exercise of that authority to stay with these vendors. (PRTC is a monopoly. Anyone wanting to bid against them would have to resell their services.)

PRDOE's RECOVERY EFFORT

The new team undertook a two-part evaluation -- a short-term evaluation to get a quick take on the situation and a longer-term effort undertaken by a consultant. The preliminary evaluation showed that: (1) there was no reliable documentation on the status of projects at the schools, (2) the infrastructure installed at the PRDOE was inappropriate for its purpose, and (3) there was no network design. On the specific issue of computers, the earlier administration had initiated purchase of 100,000 computers, but a protest against their award of the contract was successful and no appeal was filed.

The detailed evaluation was launched in July 2001 and a report submitted in September. It found that more than 50% of the communication lines were not operational, equipment had been improperly placed where it could be damaged or stolen, there had been no evaluation of vendor performance, no RFPs had been prepared for the procurements, and there had been ineffective training for system administrators.

The strategy to correct the situation, which PRDOE representatives explained to USAC and FCC at the meeting, had three focuses: the network itself, infrastructure in the schools, and the infrastructure at the PRDOE central office. They briefed us on each element, but major highlights were that the schools do not have the electrical capacity to support the once-planned 100,000 computers so they had moved to a lab model -- either a fixed lab in one room with upgraded electricity or a mobile lab supported by laptops, which do not need electrical upgrades. Schools choose the model they think would work best for them. (PRDOE began with a 100-school pilot. The contract was awarded and survived a bid protest.) Forty-two mobile labs had been installed at the time of the January meeting. A new LAN was being designed for the PRDOE office that would be less reliant on multiple servers.

PRDOE was seeking accountability from vendors -- to fix the problems at no extra cost. And they reported success: in two months, the number of schools communicating with the network went from 2 to 216. PRDOE reported that PRTC was rewiring schools where the original work was unsatisfactory. Altogether PRDOE expected 550 schools (a little more than 1/3 of the commonwealth's public schools) connected by the end of that month. Microsoft, which had provided the teacher training, had agreed to a no-cost extension to retrain, and other funds have been earmarked for training.

PRDOE briefed us on the sources of funding for all of this -- a total of $331.5 million in new funds, primarily from the Children's Trust Fund (funded with tobacco settlement money) and QZAB funds from a Federal program of interest-free bonds.

USAC asked that the Secretary reply to the SLD letter giving USAC auditable assurances along the lines of their briefing.

USAC/SLD

On January 23, 2002, Secretary Rey responded to the December 5, 2001, SLD letter and attached a complete report of PRDOE's actions to understand the state of education technology in Puerto Rico's public schools and to correct the problems left by the previous administration. That response is Attachment B. That same day press reports appeared about the federal indictment of Victor Fajardo, who had served as Puerto Rico's Education Secretary from 1994 to 2000, for extorting millions of dollars, largely in kickbacks from Education Department contractors. Other Education Department employees were also indicted.

PRDOE representatives gave USAC and FCC staff two additional briefings on the status of their recovery efforts -- on April 26, 2002, and October 1, 2002. The status of the recovery effort as of October 1, 2001, according to PRDOE officials is summarized below:

Schools

- Deficiencies found in schools such as equipment installed in inappropriate places, inappropriate electrical connections, lack of ventilation, have been addressed in 400 schools.
- Based on checks of line availability, 479 schools had external access more than 80% of the time.
- Computer laboratories have been installed in 67 schools, and they are being installed now in 35 additional schools. Proposals have been received for 400 additional labs.
- 3,300 computers have been ordered and will be installed 2 per school to provide quick access to the Internet.
- More than 23,000 teachers – more than half of all public school teachers in Puerto Rico -- have been trained in the last 14 months.
- $7 million from the School Renovation Program will be invested in electrical upgrades.

PRDOE Central Facility (from which services are provided to schools)

- A new, significantly improved Local Area Network infrastructure is 99% completed.
- New server infrastructure two-thirds complete.
- A help desk with 38 people, including 27 in regional locations, has been established to help ensure that equipment in schools continues to perform.
- 84 district support technicians have been trained in the design of plans to incorporate technology into the curriculum.

NEXT STEPS

PRDOE maintains that it desperately needs the funding it has requested for Years 2001 and 2002 in order to continue the recovery effort and ensure that the benefits of educational technology reach all 660,000 Puerto Rican schoolchildren.

The table below shows the pending requests for Years 2001 and 2002 from PRDOE.

Year	Service Type	Service Provider	Request to SLD
2001	INTERNET ACCESS	Data Research Communication (DRC) Corporation	$16,342,579
2001	INTERNET ACCESS	Puerto Rico Telephone Company, Inc.	$2,794,155
2001	INTERNAL CONNECTIONS	Data Research Communication (DRC) Corporation	$3,986,547
2001	TELCOMM SERVICES	Puerto Rico Telephone Company, Inc.	$17,481,380
	TOTAL		$40,604,661
2002	TELCOMM SERVICES	Sprint Communications Company L.P.	$640,800
2002	TELCOMM SERVICES	Puerto Rico Telephone Company, Inc.	$21,473,371
2002	INTERNAL CONNECTIONS	Puerto Rico Telephone Company, Inc.	$934,500
2002	INTERNET ACCESS	Puerto Rico Telephone Company, Inc.	$5,847,637
	TOTAL		$28,896,308
	2-YEAR TOTAL		$69,500,969

PRDOE officials since January 2001 have shown themselves to be committed to address the abuses of Schools and Libraries Support Mechanism funding of the previous years. They have surveyed the current status of technology implementation and are aggressively implementing a plan to achieve the public school connectivity. Federal and Puerto Rican officials have been investigating the prior abuses and indictments have been issued.

In order to permit PRDOE to continue to achieve total connectivity of Puerto Rican public schools, funding commitments for Years 2001 and 2002 should be issued consistent with program rules. But, as part of its fiduciary responsibility for the Universal Service Fund, the FCC should require PRDOE to sign an agreement about actions it will continue to take to assure that additional Schools and Libraries funds are spent in accordance with program rules.

The agreement will include the following components:

1. PRDOE will cooperate fully with any official investigation into the abuses of the first three funding years and provide any documents requested that are in its possession.

2. PRDOE will return to USAC any funds still available from the first three funding years.

3. PRDOE, with assistance from USAC, will document what was to be accomplished with the funds that were disbursed for the first three funding years and what actually was done with those funds. It will describe, to the extent possible, (1) the services that were delivered to schools and to PRDOE, and (2) services paid for that were not delivered or were not effectively delivered because, for example, computers were not available to make use of Internet access.

4. PRDOE will provide to USAC a written comparison of what was to be accomplished with the funding for the first three funding years with the current status of implementation of educational technology in Puerto Rico's public schools.

5. PRDOE will contract with an independent auditor, selected in conjunction with USAC, to audit its performance since January 2001 including the accuracy of its representations to USAC and the FCC. The timing of this audit will be mutually agreed upon between PRDOE and USAC, but will be initiated no later than one year from the date of the agreement.

6. PRDOE will consult closely with USAC about how it will use Funding 2001 and 2002 funds and will take special efforts to ensure at it complies with all program rules in its use of those funds.

7. PRDOE and the Commonwealth of Puerto Rico will take such steps as may be necessary, including adoption of new regulations binding on PRDOE, to protect against program abuses in the future.

8. PRDOE and the FCC will agree to a timeline for conduct of these actions, but all will be completed or underway by one year from the date of the agreement.

9. The FCC will direct USAC to process PRDOE's Year 2001 and Year 2002 Forms 471 in accordance with approved procedures for review of these forms from any applicant.

10. The FCC will direct USAC not to issue Commitment Adjustments to PRDOE on funding disbursed during the first three funding years, although it may pursue fund recoveries from service providers to the extent they are believed to have acted intentionally in violation of program rules.

TAB 8

Federal Communications Commission
Washington, D.C. 20554

May 31, 2001

Bruce Schwindt, Supervisory Special Agent
Governmental Fraud Unit
Criminal Investigative Division
Federal Bureau of Investigation
935 Pennsylvania Avenue N.W., Room 7373
Washington, DC 20535

Dear Special Agent Schwindt,

In accordance with our agreement regarding investigations related to the Universal Service Fund (USF), the FCC Office of Inspector General is referring a matter for investigation. We have prepared a brief description of the allegations and provided a summary of the steps that we have taken as part of the preliminary investigative process.

Allegations of Wrongdoing by the Puerto Rican Department of Education (PRDE)

On April 19, 2001, we received an e-mail message from Ms. Olga Ramirez, an auditor with the Office of the Comptroller of Puerto Rico, containing allegations of wrongdoing by the Puerto Rico Department of Education (PRDE) related to the receipt of funding from the Schools and Libraries component of the USF. In her e-mail message, Ms. Ramirez states that PRDE did not comply with state and local procurement regulations during the vendor selection process for funding years 1 and 2 of the schools and libraries program[1]. Ms. Ramirez states that, during funding year 1998, PRDE did not comply with the following regulations governing the PRDE procurement process:

- PRDE did not advertise the "Request for Bid" as required;
- Proposals were not formally opened and bidders were not provided an opportunity to review all submitted proposals;
- PRDE did not obtain the number of bids required as part of the competitive process;
- The proposal evaluation process was not documented; and
- Decision letters were not sent to all bidders.

Ms. Ramirez further states that PRDE did not comply with state and local procurement regulations during the selection process for funding year 1999. Ms.

[1] Funding Year 1 is for the period from January 1, 1998 through June 30, 1999. During Funding Year 1, an extension was granted for the delivery of Non-Recurring Services until September 30, 1999. Funding Year 2 is for the period from July 1, 1999 through June 30, 2000. During Funding Year 2, an extension was granted for the delivery of Non-Recurring Services until September 30, 2000.

Ramirez states that, during that selection, PRDE did not comply with the following regulations:

- Proposals were not formally opened and bidders were not provided an opportunity to review all submitted proposals;
- The proposal evaluation process was not documented;
- Decision letters were not sent until after the contract was signed.

In addition, Ms. Ramirez states that two of the bidders "impugned" the selection decision and that the appellate process was not followed as required by the regulations governing PRDE procurement actions. Ms. Ramirez explained that the appellate process would have prevented PRDE from signing a contract until an administrative review was conducted.

In addition to the allegations regarding violation of procurement regulations, Ms. Ramirez states that PRDE may have violated schools and libraries program rules that require applicants to certify that they have secured access to all the resources necessary to make effective use of the goods and services being provided. Ms. Ramirez explained that, as part of the audit process, representatives from the Office of the Comptroller visited schools and that "the majority of the schools" did not have electrical connections and secure areas for the equipment. Further, Ms. Ramirez stated that the PRDE has not obtained computers and has not provided training to teachers. A complete copy of the e-mail message we received from Ms. Ramirez is included as an attachment to this letter.

Summary of our Preliminary Investigation

After receiving the allegation from Ms. Ramirez, we contacted the Universal Service Administrative Company (USAC) and requested a "referral package" relevant to this matter[2]. On May 17, 2001, we received a referral package from USAC. In their narrative summary, USAC states that PRDE has applied for universal service support for schools and libraries in each funding year of the program. As of April 24, 2001, USAC has committed $158,707,548 to PRDE in universal service support and $28,399,890 has been disbursed to service providers that supplied service to PRDE. In Funding Year 1, the Schools and Libraries Division (SLD) of USAC committed a total of $46,222,680.60 in universal service support funds for good and services to be provided to PRDE through June 30, 1999 (September 30, 1999 for non-recurring services). In Funding Year 2, SLD committed a total of $56,879,778.85 in universal service support funds for good and services to be provided to PRDE through June 30, 2000 (September 30, 2000 for non-

[2] The FCC Office of Inspector General has established a standard referral process with USAC. This process includes the preparation of a "referral package" containing documents in USAC files relevant to the allegation. Standard components of the referral package include the following: (1) a narrative summary of the matter; (2) a copy of the related application; (3) a copy of the related funding commitment letter; (4) a listing of invoices submitted by service providers and disbursements made against those invoices; (5) summary of the applicable regulatory and/or statutory citations and an assessment of how those citations are relevant to the incident; (6) any other documentary matter that supports the alleged irregularity; and (7) a listing of points of contact involved in the situation.

recurring services). In Funding Year 3, SLD has committed a total of $55,605,088.47 in universal service support funds for good and services to be provided to PRDE through June 30, 2000. For Funding Year 4, PRDE has submitted two applications for universal service support. PRDE applications for Funding Year 4 are currently being reviewed by USAC. In addition to describing PRDE participation in the schools and libraries program, USAC prepared a description of those components of the program relevant to this matter including a description of the application process, USAC internal procedures, and FCC rules. We have included a copy of the USAC referral package as an attachment to this letter.

On May 29, 2001, representatives from the FCC Office of Inspector General held a teleconference with Ms. Olga Ramirez from the Office of the Comptroller of Puerto Rico. The objective of the teleconference was to further discuss the allegations set forth in Ms. Ramirez's e-mail message from April 19, 2001 and to determine if any additional information was available relevant to this matter. During the teleconference, we discussed the scope of the audit performed by the Office of the Comptroller and the extent of testing performed during the review. In addition, we made arrangements to obtain additional information including a copy of the regulations governing the PRDE procurement process.

Ms. Ramirez stated that fieldwork on the audit was performed from March 2000 through April 2001. She stated that a draft report has been prepared summarizing the results of the audit but that the draft report is still going through the review process and will not be available for approximately two months. However, Ms. Ramirez stated that we could contact the Comptroller to request access to the draft report and supporting workpapers. With respect to the steps performed during the audit, Ms. Ramirez provided a detailed description of the work performed to support the allegations contained in her 4/19/01 e-mail message. With respect to the procurement, Ms. Ramirez stated that they reviewed proposals and other documents documenting the evaluation process, interviewed PRDE personnel involved in the process, and interviewed a service provider. To determine whether the PRDE had the resources available to make effective use of the eligible services, auditors from the Office of the Comptroller visited thirty (30) schools and examined the level of implementation.

Included in the USAC referral package (Tab 5a) is a Draft Agreed-Upon Procedures Report Prepared by Arthur Andersen summarizing the results of an agreed-upon procedures review they conducted for recipients in Funding Year 1 of the Schools and Libraries Program. During the agreed-upon procedures review, Arthur Andersen selected the Puerto Rico Department of Education as one of the recipients where procedures were performed. As part of the agreed-upon procedures review, Arthur Andersen examined the procurement process during Funding Year 1. In addition, Arthur Andersen visited two schools and a data center as part of the examination to determine whether the PRDE had the resources available to make effective use of the eligible services. In their draft report, Arthur Andersen stated that they had ascertained "through discussion with PRDOE management that they had established appropriate (sic) to evaluate and select the most cost-effective bidder based on the responses to their 470 posting." Arthur Andersen

further stated that "PRDOE management also indicated that all bids received were appropriately evaluated in accordance with state and local requirements." With respect to the availability of resources, Arthur Andersen stated that "we noted that there were no (desktop) computers in any of the classrooms visited" and that, as a result, "PRDOE was not able (as of the date of our site visit) to fully meet the educational objectives (and training requirements) for which E-Rate funding had been provided."

We obtained additional information from USAC regarding the scope of the Arthur Andersen review including working papers documenting the procedures performed to evaluate the procurement process followed by PRDE. Based upon our assessment of this information and our discussion with Ms. Ramirez from the Office of the Comptroller of Puerto Rico, we believe that the audit performed by the Office of the Comptroller was more comprehensive in nature and included a more detailed examination of both the procurement process and the availability of resources. Further, we believe that the Office of the Comptroller, given their role in the government of Puerto Rico, is better positioned to evaluate the schools and libraries program in Puerto Rico. For those reasons, we believe that the findings from that review, as documented in the allegations contained in the April 19, 2001 e-mail message, warrant this referral.

If you have any questions regarding this matter or require further assistance, please contact me at 202-418-0477.

Sincerely,

Thomas D. Bennett
Assistant Inspector General for Audits

Attachment

cc: Ellen Blackler, Special Assistant to the Bureau Chief, Common Carrier Bureau
Kristy L. Carroll, Assistant General Counsel, USAC

TAB 9

From: Olga Ortiz Ramirez <ocprt002@ocpr.gov.pr>
To: "'cwilloug@fcc.gov'" <cwilloug@fcc.gov>
Date: 4/19/01 11:37AM
Subject: Office of the Comptroller of Puerto Rico concerns about bidding process for obtain services with E Rate funds

Dear Mr. Willouhby:

The Office of the Comptroller of Puerto Rico are auditing the local Education Department (PRDE). As part of our audit scope we are evaluate the bidding process for acquiring services and equipment with E Rate Funds during 1998 and 1999. We will appreciate if you can clarified us some concerns and doubt about the E Rate regulation:

During 1998 and 1999, the PRDE certified on the FCC 470 that they had local restrictions about the bidding process. Those restrictions was outlined in the PRDE Regulation for the Procurement, Sale and Bid for goods and non-personal services (PRDE Regulation). This regulation require a formal bid for purchases over $25,000. The formal bid process will be manage by a Board of Bid. Regulation require the following:

-To prepare a "Request for Bid" that include the purpose of the bid, requirement and instructions of when, where and how the providers can present their proposal.

-To publish the "Request for Bid" on newspapers.
-To have a "Open Act" where all the providers present theirs proposals at the same time. In this Act a PRDE official open each proposal, announce the price and each provider have the opportunity to exam it.

-The Board of Bid select the best proposal and send a decision letter to all the providers that participate in this process.

-The provider have ten days to impugn the Board of Bid decision before any sign of contract. If one provider impugn the decision, the Board of Bid can't sign any contract until the PRDE finish an administrative review.

-In the case of an extraordinary situation, the PRDE Secretary can create a "Special Board". This board have the obligation to comply with all the procedures included in the PRDE Regulation.

When PRDE signed the Block 6 (Certification and Signature) on the FCC Form 471 Application, certified that have complied with all applicable state and local laws or rules regarding procurement. Also certified that had all the resources, including computers, training, software, maintenance and electrical connections necessary to make effective use of the eligible services requested in Block 5, and for pay discounted charges for eligible services.

During 1998 the PRDE don't complied with all the procedures established in the PRDE Regulation. They submitted the form FCC 470, on March 11, 1998, 41 days after the opening filling date for participate in the first window. Because of the delay in the submission of the FCC 470 and the desire of participate in the first window, PRDE don't complied with the following procedures required for a formal bid:

-Don't published in a newspaper the "Request for Bid".
-Don't had an Open Act.
-Don't had a competitive process. The PRDE evaluated only two proposal, one for telecommunications and Internet services and other for internal connections services.

-Don't documented any authorization for don't complied with PRDE Regulations.
-Don't documented the Board proposal evaluation.
-Don't sent decisions letters to the providers.

During 1999, the PRDE don't complied with all the procedures established in the PRDE Regulation. They submitted the form FCC 470, on March 4, 1999, 95 days after the opening filling date for participate in the first window. Because of the delay in the submission of the FCC 470 and the desire of participate in the first window, PRDE don't complied with the following procedures required for a formal bid:

-PRDE don't received all the proposal during an open act where all the providers can exam all the submitted proposals.

-The Board of Bid don't documented the evaluation of the proposal. The only evaluation we found in the records was prepared by the Information System Director. He established specifications, received all the proposal, met with the providers, evaluated the proposal and decided which proposal would be selected. This situation can give rise to an interest conflict between the parties and that some providers will be privileged with information about others proposals.

-The decision letters was sent after the sign of the contract.
-Two provider impugned the decision, but PRDE responded the reclaim a month later. In his response, PRDE said that they complied fully with all federal and state competitive bidding requirements. Also, that they can't reconsider the request because in this case they can lost any chance of receiving the E Rate funds.

Also, as part of our evaluation, we visited and evaluated the field job in the schools. We observed that the majority of the schools don't had the electrical connections and capacity needed for use the computers in the classrooms and the physical facilities of the schools was not secure for those equipment. Also, at this date, the PRDE had don't acquire the student's computers and the teachers don't know how to use it.

The PRDE don't planned and implemented adequately the technology plan. If they don't have first proper school infrastructure, don't trained the teachers, and don't have computer the E Rate Funds inversion will be lost.

Based on the FCC regulations:
-Does PRDE complied with all the federal regulations?
-If not, Does PRDE may be judge by willfully making false statements about the complied with state regulations and about having all the resources necessary for use the equipment purchased with the E Rate fund discounts?

-What are the consequences, if any, of this PRDE act?
-Last year, some FCC auditors come to PRDE to evaluate the use of 1998 E

Rate funds. Do you have any audit report published on the Internet?

We count on your cooperation to improve the oversight function and administration of the public funds and property.

Very truly yours,

Olga Ortiz Rammrez
Auditor OCPR

TAB 10

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: January 14, 2002

TO: Chairman

FROM: Inspector General

SUBJECT: Comments on the Arthur Andersen Schools and Libraries Beneficiaries Report

As you know, my office has been working for some time to establish a comprehensive program for auditing the recipients of Schools and Libraries funding. During FY 2001, we worked with representatives from CCB, OMD, Defense Contract Audit Agency (DCAA), and USAC, to design a program that will provide the Commission with systematic insight into the compliance with rules and requirements on the part of the beneficiaries and those vendors providing goods and services. Our program is comprised of two corollary and complimentary efforts. First, we will conduct audits on a sample of beneficiaries large enough to allow us to derive conclusions regarding beneficiary compliance at the program level. Second, we have established a process for vigorously investigating allegations of fraud, waste, and abuse in the program.

To implement the audit component of our program, my office worked closely with DCAA to design a nationwide audit program that allows us to derive conclusions regarding beneficiary compliance at the program level based upon the results of audits at selected recipients. At our direction, DCAA statisticians analyzed the database of fund beneficiaries and designed an audit sample that reflects the characteristics of the universe of beneficiaries. In addition, DCAA has developed a risk assessment process and a standard audit program for use by field auditors. During the first quarter of FY 2002, we initiated audits of ten recipients of funding from year two of the schools and libraries program using OIG audit staff and auditors on detail from CCB and we have scheduled additional audits using these resources. In addition, we are working with USAC to obtain additional, outside audit resources under a contract managed by the OIG and administered by USAC. We expect USAC to release a Request for Proposal this month.

In addition to implementing our oversight program, we have been closely monitoring the oversight program that USAC has employed. Arthur Andersen LLP (hereafter referred to as "Andersen") has recently issued a report[1] summarizing the results of their agreed-upon

1 Report entitled "Independent Public Accountants' Report on Applying Agreed-Upon Procedures" and dated

procedures review of beneficiaries on schools and libraries funding as part of USAC's program. The agreed-upon procedures were "performed solely for the purpose of determining whether schools and libraries receiving support from the S&L Support Mechanism are complying with certain Support Mechanism rules and regulations, in accordance with certain FCC regulations." The scope of the review included 18 beneficiaries that were recipients of funding in the first year of the Schools and Libraries program[2]. The sample was judgmentally selected based upon criteria including dollar value, significance of funding for internal connections, and risk as assessed by the management of Universal Service Administrative Company (USAC) and the Schools and Libraries Division (SLD). In a letter dated October 17, 2001, Cheryl Parrino, CEO - USAC, and George McDonald, VP - SLD, issued a response to the Andersen Agreed-Upon Procedures Report and included a copy of the response in the published version of the Andersen report. A copy of the USAC response is included as an attachment to this memorandum. My staff and I reviewed the Andersen report and the USAC response. Although I do not routinely comment on USAC reports, I have offered comments in this case for two reasons. First, because I do not agree with the manner in which USAC has characterized the results of this review and, second, because I believe that the report does not adequately convey the critical need for more and better beneficiary audit work in the future.

In their response, USAC states that they believe that the review "provided a vitally important assessment of how universal service support is actually being used in schools and libraries and the extent of applicant and service provider compliance with FCC rules." We agree that the beneficiary reviews provide an assessment of how support is being used at those schools and libraries that were examined as part of the audit. However, we do not believe that the scope of the review supports any conclusions about "the extent of applicant and service provider compliance with FCC rules." The sample of beneficiaries audited was selected judgmentally based on materiality and other risk factors. While this review does provide information on the specific beneficiaries reviewed, the sample was not statistically generated and was entirely too limited to support an observation that applicants are generally compliant with program rules.

USAC states in their response that "(i)n the overwhelming majority of cases, this first round of beneficiary reviews demonstrated that applicants are attempting to comply with program rules and that they are generally successful in doing so." I do not believe this characterization of the results of the review accurately conveys our concern. Although I am optimistic that recipients of schools and libraries funding are attempting to comply with the program requirements, my comfort level in this belief is not as much strengthened as it is challenged by the Andersen report. USAC has stated in their response that the review disclosed "few reportable findings". Overall, the Andersen report notes few material deficiencies and even fewer deficiencies that result in exceptions to funding disbursements. However, the report contains numerous observations regarding issues with beneficiary management controls that range from mathematical errors to inadequate documentation to issues of eligibility. In all, weaknesses are

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October 17, 2001. A copy of the response prepared by USAC is included as an attachment to this memorandum.

2 The report contains the results of the review at 17 of the 18 recipients selected. The review was not completed at the Metropolitan Regional Educational Services Agency (MRESA) in Atlanta, Georgia after this recipient was referred to federal law enforcement for investigation.

described in the body of the report at 14 of the 17 beneficiaries for which results are reported.

Furthermore, the Andersen report identifies nearly $8 million in potentially inappropriate funding disbursements that relate to the material findings. These findings are being resolved under a variety of processes and my staff is currently pursuing the status of fund recoveries and outstanding audit issues. However, these funds represent approximately six percent (6%) of the funds disbursed in year one for the recipients audited. Given the limited sample of recipients audited (17 auditees out of 25,930 applicants and $134.6 million audited out of $1.4 billion in funds disbursed in year one), this potential error rate causes me a great deal of concern.

An additional concern I have is due to allegations of potential wrongdoing we have received subsequent to the Andersen fieldwork at the beneficiary sites. In addition to the investigation initiated by Andersen's audit work at one location, we have received allegations of fraudulent activities at four other recipients that were audited by Andersen during this review[3]. While we did not review Andersen's work or the design of the agreed upon procedures, it appears that, in at least some instances, the scope of the agreed-upon procedures may not have provided adequate detection of potential fraud indicators. This is disturbing given that one of the stated objectives of the review was to "detect any fraud, waste, and abuse in the Schools and Libraries Support Mechanism." This concern is a large part of why we have worked with DCAA to develop audit procedures, and why we are increasing out oversight of these activities in general.

The limited sample of recipients, coupled with consideration of the issues of noncompliance with program requirements and inappropriate fund disbursements that were disclosed by the audit, leads me to conclude that the Andersen report is a warning rather than an instrument of good news. While USAC and the members of the USAC board appear to be comforted by the reported audit results, I am alarmed by their implications. My office, in coordination with USAC, has recently launched an audit plan for 2002 that will help ensure adequate audit coverage and provide us with a level of insight into the compliance with program requirements by beneficiaries that is presently not available. USAC has extended their contract with Andersen for additional audits at selected fund recipients. OIG will manage a program of audits based on a statistical analysis of year three fund recipients. And, the FCC and OIG have committed internal resources to provide additional audit coverage for year two of the program.

I will continue to work towards the goal of ensuring this program is effectively managed and subject to adequate oversight. If you would like to discuss the Andersen report or our audit plans further, please contact me at your convenience.

H. Walker Feaster III

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3 New York City Board of Education, Puerto Rico Board of Education, Los Angeles Unified School District, and Chicago Public Schools (two open cases). Commitments to these recipients for the period under investigation exceed $600 million.

Inspector General

Attachment

cc: Chief of Staff
Managing Director
General Counsel
Chief, Common Carrier Bureau

TAB 11

AUDIT REPORT TI-03-09
April 14, 2003
Department of Education
Office of School Information Systems and Technology

(Unit 5260)

Audit period: March 24, 2000 - April 27, 2001

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Commonwealth of Puerto Rico
OFFICE OF THE COMPTROLLER
San Juan, Puerto Rico

April 14, 2003

To the Governor, the President of the Senate, and the Speaker of the House of Representatives

We conducted an audit of the operations of the Office of School Information Systems and Technology (OSITE) of the Department of Education (Department) to determine if they were operating in accordance with the generally accepted standards in this field and if the internal control system established for the processing of transactions was adequate. We conducted this audit in exercise of the authority conferred upon us in **Section 22, Article III of the Constitution of the Commonwealth of Puerto Rico** and **Law No. 9 of July 24, 1952**, as amended.

We decided to issue several reports of that audit. This is the fourth and final report, and it contains the results of our examination of the acquisition of equipment and services related to the **EDUNET Network** and the contracting for and implementation of the system. The first report was issued on March 19, 2001, and contains the results of our examination of the controls, training, procedures, technical support, and security of the computerized equipment and its users, and the performance of the Office of Internal Audit in the evaluation of the development, implementation, and ongoing verification of the information systems (**Audit Report TI-01-9**). The second report was issued on May 29, 2001, and contains the results of our examination of the Academic Scholarship and Educational Assistance systems (**Audit Report TI-01-14**). The third report was issued on December 27, 2001, and contains the results of our examination of the acquisition of computerized equipment and systems and the contracting for professional and consulting services (**Audit Report TI-02-07**).

INFORMATION ABOUT THE AUDITED UNIT

The Department was established by **Section 6, Article IV of the Constitution of the Commonwealth of Puerto Rico** and is governed by **Law No. 149[1] of July 15, 1999, the Organic Law of the Department of Education of Puerto Rico (Law No. 149)**. The Department's primary objective is to achieve the highest possible level of educational excellence. It is also responsible for offering equal opportunity for high-quality education to all Puerto Ricans; appropriately addressing the pre-school level; making the school the primary objective toward which all the resources which the Commonwealth allocates to education are directed; and encouraging the highest level of participation by all components of the educational system in decisions affecting the school.

The Department is headed by a Secretary appointed by the Governor with the advice and consent of the Senate. The organizational structure is comprised of 10 auxiliary Secretariats, the Center for Educational Research and Innovation, the Institute for Administrative Training and Advisory Assistance to Schools, the General Board of Education, and 11 administrative offices at the central level. There are also 10 regional offices, 84 school districts, 1543 community schools, and 10 technological institutes.

The OSITE included two departments: the Computer Center and the Technological Services Center, located in the Department's main building.

As of the date of our audit, the OSITE had in operation a Digital computer, model Alpha 8200, and its respective peripheral equipment. It was used as the server for an external communications network running 24 applications related to the following systems, among others: Educational Assistance; Scholarships for Talented Students; Robert C. Byrd Scholarships;

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[1] Law No. 149 exempts the operations of the community schools under the Department from application of Law No. 230 of July 23, 1974, the Accounting Law of the Government of Puerto Rico; Law No. 5 of October 14, 1975, the Public Service Personnel Act of Puerto Rico; Law No. 164 of July 23, 1974, the General Services Administration Act; subsection B.2, Article 177 of the Political Code of Puerto Rico; and Law No. 57 of June 19, 1958, as amended, which governs the receipt of private donations by public institutions.

Scholarships for Students with Special Abilities; Regular Program Registration Information; Summary of the Personnel and Physical Structure of the Schools and Offices; Information on the Technical Vocational Program; Information on Teaching Personnel; Information on Vocational Personnel; Information on Classified Personnel; End of School Year Enrollment; Bilingual Education; Change in Vocational Program Enrollment; Archive of Schools; Pre- and Post- Comparison of Adult Placement Tests; and Lists of Social Security Claims.

The OSITE also had in operation an IBM Model 3174 computer and its respective peripheral equipment. It offered services to 269 users who worked in the main building and in the Department's regional offices. Twenty of those users, who used the Digital computer, were connected to the IBM through a switch connected to the Digital's **Backbone**.[2]

The OSITE was operating, in parallel, a Network[3] consisting of 18 servers using a **Windows NT** operating system, located in the Department's Computer Center. It was used by 1457 users who worked in the Department's main building, the 10 regional offices, and the 84 school districts.

The OSITE did not have a specific budget allocated. Its operating expenses were covered with the funds allocated to the Auxiliary Services and Technical Assistance Program (Program). The Program's operating budget for fiscal year 1999-2000 was $58,961.00.

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[2]Main transmission line that joins all cabling rooms installed on each floor of the main building with the Computer Center.

[3] A Network is a system for communication and information exchange created to physically connect two or more computers and their respective peripherals.

On the other hand, for the development and implementation of the **Departmental Automation Plan,**[4] $336,817,657 was allocated.[5]

MANAGEMENT'S RESPONSIBILITY

To achieve effective administration, governed by principles of quality, the management of every government organization is responsible for the following, among other things:

1. Adopting written guidelines and procedures that contain internal controls for effective administration and accounting, and ensuring compliance with them
2. Maintaining a competent internal audit office
3. Complying with the requirements imposed by the regulatory agencies
4. Adopting a strategic plan for the operations
5. Maintaining budget control
6. Keeping current with technological advances
7. Maintaining appropriate document filing and control systems
8. Complying with the **Plan for Corrective Action** of the Office of the Comptroller of Puerto Rico and dealing with the outside auditors' recommendations
9. Maintaining an appropriate personnel administration system that includes performance evaluation and a continuing education program for all personnel
10. Complying with the **Government Ethics Law,** which includes disclosing the provisions thereof to all personnel.

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[4] This was approved on March 17, 1997. Its objective was to integrate technology into the education of all students as an effective tool for optimizing teaching, learning, and access to information.

[5] These funds were provided for by **Law No. 259 of December 29, 1995, Joint Resolution No. 35 of May 20, 1997, Joint Resolution No. 333 of August 7, 1998, Joint Resolution No. 405 of August 1999,** and other funds allocated by the Office of Management and Budget.

SCOPE AND METHODOLOGY

The audit covered the period from March 24, 2000 to April 27, 2001. The examination was carried out in accordance with the auditing standards of the Comptroller of Puerto Rico with respect to financial and performance or execution aspects. We carried out the tests we considered necessary based on samples and in accordance with the circumstances.

We used the following methodology in conducting the audit:

- Interviews of officials, employees, and private individuals
- Physical inspections
- Examination and analysis of reports and documents generated by the audited unit
- Analysis of information provided by outside sources
- Tests and analyses of financial information, internal control procedures, and other processes
- Confirmation of accounts and other pertinent information

OPINION

The tests carried out and the evidence in our possession show that the Department's operations with respect to the acquisition of equipment and services related to the **EDUNET Network** and the contracting for and implementation thereof were not carried out in accordance with applicable law and regulations.

The part of this report entitled **DETAILED ACCOUNT OF FINDINGS** comments on **findings 1 to 5**, which are considered the principal findings.

RECOMMENDATIONS

TO THE OFFICE OF THE SECRETARY OF JUSTICE

1. Consider the situations addressed in this report and take the respective actions. **[Findings 1 to 5]**

TO THE SECRETARY OF THE DEPARTMENT

2. Ensure compliance with the provisions of the **Department's Regulations on Purchases, Sale, [and] Bidding on Goods, Works, and non-personal Services,** which require formal bidding and the maintaining of records that include evidence of the requirements established, the due date and receipt date of proposals, the processes of evaluation and justification of the selection of offers, the notification of all suppliers, and the formalization of contracts within the established timeframe. **[Finding 1-a.1) and b.1)]**

3. Ensure that a certification from the Department's Budget Office on the availability of the funds and the account number against which they will be paid is obtained prior to formalization of the contracts. **[Finding 1-a.2) and b.2)]**

4. Ensure that the contracts for acquisition of projects related to the automation plans are submitted to the Office of Management and Budget prior to their execution, in accordance with **Guide No. 16 of Circular-Letter No. 96-01. [Finding 1-a.3) and b.3)]**

5. Ensure that, for all projects, as addressed in **Finding 2:**

    a. A study of needs is conducted prior to the acquisition of the computerized equipment and [prior to] contracting for services.

    b. An effective work plan is established to improve the schools' infrastructure, and that the conclusion is implementation of the **EDUNET Network.**

c. The services provided by the contractors are effectively monitored to ensure efficient achievement of the project objectives.

6. Ensure that the Federal **Title III** funds are used for the purposes for which they are authorized by law. **[Finding 3-a.1)]**

7. Ensure that proposals for Federal funds are processed in the Office of Federal Affairs and that all related transactions are carried out in accordance with applicable laws and procedures. **[Finding 3-a.2)]**

8. Ensure that the contracts include clauses containing the information necessary to protect the Department's best interests. **[Finding 4-a.1)]**

9. Ensure compliance with the provisions which are in effect regarding the certifications required from the suppliers for execution of service contracts in the Department **[Finding 4-a.2)]**

10. Ensure compliance with the provisions of **Law No. 18** and **Regulation No. 33**, which require that executed contracts be filed with the Office of the Comptroller within 15 days of the date of execution. **[Finding 5]**

LETTERS TO MANAGEMENT

The findings in this report were submitted for comments to the Secretary of the Department, the Honorable César A. Rey Hernández (Secretary) by letter dated November 8, 2002, because the former Secretary, Dr. Víctor R. Fajardo Vélez, has been confined to a Federal prison since October 8, 2002.

MANAGEMENT'S COMMENTS

The Secretary submitted his comments by letter dated December 6, 2002. His remarks are included in the second part of this report under **DETAILED ACCOUNT OF FINDINGS IN THE OFFICE OF SCHOOL INFORMATION SYSTEMS AND TECHNOLOGY OF THE DEPARTMENT OF EDUCATION.**

ACKNOWLEDGMENTS

We thank the officials and employees of the Department for their cooperation during our audit.

By:

DETAILED ACCOUNT OF FINDINGS

CLASSIFICATION AND CONTENT OF A FINDING

Our audit reports include the significant findings as determined by testing. These are classified as principal or secondary. The principal findings include deviations from provisions concerning the operations of the audited unit that have a material effect in both quantitative and qualitative terms. The secondary findings consist of failures or errors that have not had serious consequences.

The report's findings are presented in accordance with our Office's report writing guidelines. The purpose is to facilitate the reader's comprehension of the information provided. Each finding consists of the following parts:

Situation - The facts found in the audit that indicate that one or more criteria were not followed.

Criterion - The frame of reference for evaluating the situation. Principally, a law, regulation, circular-letter, memorandum, procedure, internal control standard, standard for sound administration, generally accepted accounting principle, expert opinion, or auditor's judgment.

Effect - The real or potential significance of failure to comply with the criterion.

Cause - The basic reason the situation occurred.

At the conclusion of each finding we refer to the recommendations included in the report, so that the necessary steps can be taken with respect to the errors, irregularities, or illegal actions that are pointed out.

The section on **MANAGEMENT COMMENTS** indicates whether the principal official and the former officials of the audited unit commented on the findings included in the draft report sent to them by our Office. Those comments are considered when the draft report is reviewed, and are included at the conclusion of the respective finding in the section on FINDINGS IN THE OFFICE OF SCHOOL INFORMATION SYSTEMS AND TECHNOLOGY OF THE DEPARTMENT OF EDUCATION, objectively and in accordance with our Office's guidelines. When management fails to provide competent, sufficient, relevant evidence to refute a finding, the finding prevails and the following comment is added at the end thereof: "We have taken management's statements into consideration, but we have determined that the finding stands."

FINDINGS IN THE OFFICE OF SCHOOL INFORMATION SYSTEMS AND TECHNOLOGY OF THE DEPARTMENT OF EDUCATION

Findings 1 to 5 are classified as principal findings.

Finding 1 - Acquisition of equipment and services for the EDUNET Network without the holding of formal bidding, and other deficiencies related to the execution of the contracts

a. In 1997 the Department initiated the telecommunications project consisting of the establishment of a communications network (**EDUNET Network**) with the most advanced technology available, in all the schools, educational regions, and superintendencies of schools, to enable them to obtain videoconference service and Internet access. It would also permit communication with the offices in the Department's main building. The objective was to involve all the schools in the use of technology as an educational tool.

In March 1998, the Department filed a proposal with the Federal Government to obtain the necessary funds (**eRate Funds**)[6] for the first phase of the **EDUNET Network.** This phase consisted of the installation of the communications network infrastructure (internal connections and telecommunications) and the provision of Internet access to 760 schools. Completion of the work on this phase was projected for September 30, 1999. The amount of Federal funds approved came to $46,222,680. The Department's contribution (with Commonwealth funds) was to have been $5,135,834.

In October 1998, the then-Secretary of the Department executed, with two companies, the three contracts shown below in the amount of $51,353,490 for the acquisition of telecommunications equipment and contracting for Internet access services for implementation of the first phase of the **EDUNET Network.**

CONTRACT NUMBER	DATE	SERVICES	AMOUNT
081-99-0161[7]	26 Oct. 98	Telecommunications	$31,122,910
081-99-0162[8]	26 Oct. 98	Transport and Internet	7123248
081-99-0164	15 Oct. 98	Internal Connection	13107332
			$51,353,490

[6] These **eRate** funds are administered by the **Universal Service Administrative Company**, part of the **Schools and Libraries Division** of the **Federal Communications Commission.** These funds are allocated to eligible public and private schools and libraries for Internet access services, telecommunications services, and communications network internal connections. The amount of funds allocated is established on the basis of a range of discounts (20 to 90 percent) with respect to the costs of the eligible services. That discount is assigned on the basis of the poverty level and rural or urban status of the target population. The remaining percentage of the costs must be covered with Commonwealth funds.

[7] That contract was amended (Contract No. 081-99-0161A) to change the telecommunications equipment, which decreased the amount of the original contract to $10,863,557. The contract includes recurring costs for telecommunications line rental.

[8] That contract was amended (Contract No. 081-99-0162A) to change the transport services, which increased the amount of the original contract to $17,374,754. The contract includes recurring costs for Internet access services.

As of April 27, 2001, the companies had invoiced $40,059,626. Of this amount, $35,854,964 had been paid with **eRate Funds**, the Department had paid $3,114,638 with Commonwealth funds, and a balance of $1,090,024 was pending payment.

The examination of the execution of those contracts revealed the following irregularities:

1) Contrary to the provisions of Commonwealth and Federal regulations, the Department did not hold formal bidding to execute the aforementioned contracts. The Department merely considered the proposals submitted by the two companies that were awarded contracts. We did not find, nor could the Department provide, evidence of the request for proposals from other suppliers and their respective offers.

2) The Director of the Department's Budget Office certified the availability of funds for payment of the contracts by means of a document dated February 22, 1999. That is, 119 days after the date the contracts were executed.

3) Contrary to the established guidelines, we did not find, nor could the Department provide, evidence of approval of the contracts by the Office of Management and Budget, prior to or after their execution.

b. In March 1999, the Department filed another proposal with the Federal Government to obtain the necessary funds (**eRate Funds**) for the second phase of the **EDUNET Network.** This phase consisted of the installation of the communications network infrastructure (internal connections and telecommunications) with wireless technology and the provision of Internet access in 780 schools. Completion of the work on this phase was projected for September 30, 2000. The amount of Federal funds approved for this second phase came to $56,879,778. The Department's contribution (in Commonwealth funds) was to have been $6,373,499.

On April 5, 1999, the then-Secretary of the Department executed Contract No. 081-99-0423[9] with one of the companies named in **Part a**. for $51,478,211 for the acquisition of telecommunications equipment and contracting for Internet access services for implementation of the second phase of the **EDUNET Network.** As of April 27, 2001, the company had invoiced $33,849,881. Of this amount, $26,834,997 had been paid with the **eRate Funds,** the Department had paid $6,885,731 with Commonwealth funds, and a balance of $129,153 was pending payment.

With regard to the execution of this contract, we found the following irregularities:

1) Contrary to the provisions of Commonwealth and Federal regulations, the Department again did not hold formal bidding for execution of that contract. The Department carried out a process of calling for and evaluating proposals. The Department had appointed an Evaluation Committee[10] (also known as the Technology Committee) to evaluate the **eRate Fund** proposals. Examination of the request for proposals and the procedure followed by the Department in executing this contract also revealed the following irregularities:

a) The request for proposals did not establish the deadline for submitting proposals. Nor did it establish the date for opening them. The

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[9] On December 14, 1999, this contract (Contract No. 081-99-0423A) was amended to include a clause requiring that the equipment to be installed by the contracted company meet the year 2000 specifications. On August 9, 2000, the contract was amended again (Contract No. 081-99-0423B) to establish that the Department would cover the cost of the telecommunications equipment, $4,112,240, that was not eligible for coverage with **eRate Funds**. This amendment decreased the amount of the original contract to $47,911,361, inasmuch as the cost of the aforementioned equipment was adjusted from $7,679,100 to $4,112,240 when another type of equipment was acquired.

[10] This Committee was comprised of the following officials: the Secretary of the Department, the Director of the OSITE, the Special Press Aide, the Associate Secretary, the Assistant to the Secretary, the Teaching Assistant, the Assistant Secretary of Administration, and the Director of the Office of Outside Resources.

proposals were received by the Department between March 24 and 31, 1999.

b) Of the six proposals received, just two met the specifications required; their costs were between $51,478,121 and $55,617,930. These were evaluated, according to the evidence obtained, by the Director of the OSITE. We were not provided any evidence showing that the Evaluation Committee participated in the evaluation of the proposals. On March 30 and 31, 1999, the Director of the OSITE issued two memoranda to the Secretary of the Department regarding the evaluation of the proposals. However, these documents did not contain the recommendation for executing the contract with the winning company or the reason for rejecting the five unsuccessful proposals.

c) The notification to the unsuccessful bidders was issued on April 7, 1999, two days after the date the contract was executed, instead of the required 24 business hours [sic]. Moreover, it did not contain the reason or the bases for the Department's decision to execute the contract with the winning company, or the reason for rejecting the unsuccessful proposals. Moreover, the contract should have been executed after a period of ten business days from the date of notification to the bidders, which was April 7, 1999. However, as we have already indicated, the contract was formalized on April 5.

2) The Director of the OSITE asked the Director of the Department's Budget Office to certify the availability of funds for payment of the contract by means of a document dated October 19, 1999. That is, 197 days after the contract was executed.

3) Contrary to regulations, we did not find, nor could the Department provide, evidence of approval of the aforementioned contract by the Office of Management and Budget prior to or after its execution.

The **Regulations on Purchases, Sale, and Bidding on Goods, Works, and non-personal Services of the Department of Education (Acquisition Regulations)**, approved by the Secretary on May 15, 1996, as amended, establish as a principle that the acquisition process must be competitive, fair, reasonable, economical, and the most appropriate for the Department. For this reason, the formal bidding process will be used if the expense to be incurred for the acquisition of goods, works, and services exceeds $25,000.

Section 54.504 of the Code of Federal Regulations states:

> An eligible school, library, or consortium that includes an eligible school or library, shall seek competitive bids, pursuant to the requirements established in this subpart, for all services eligible for support under **Secs. 54.502** and **54.503.** These competitive bid requirements apply in addition to state and local competitive bid requirements and are not intended to preempt such state or local requirements.

Article 39.2 of the Acquisition Regulations establishes that the invitation to tender will include, among other things, the deadline (date and time) for submission of offers and for opening of the bids.

Article 62.1 of the Acquisition Regulations provides that all the bidders who submitted offers will be notified within twenty-four business hours [sic] following the award. **Article 62.2** of those **Regulations** establishes that the notice of award will contain the lots awarded in their favor and the reason for rejection of the lots not awarded to them. It will also include a notice to the effect that if they disagree with the award they can challenge it before the Administrative Review Board within the ten business days following the date of notification. When these ten business days have elapsed, the Executive Secretary of the Board will send the Buyer a notification to the effect that the award has not been challenged, and the contract will be formalized, pursuant to the **Regulations.**

Article 2(e) of Law No. 230 dated July 23, 1974, the Accounting Law of Puerto Rico (Law No. 230), as amended, provides, as part of the Government's policy, that there must be a pre-audit of all Government transactions that will serve as an effective weapon of the chief of the agency or entity in the execution of the program(s) for which he/she is responsible. In accordance with this provision, and as a standard for sound administration, the Department should have ensured that the funds needed to make the respective payments were allocated or budgeted before formalizing the aforementioned contracts.

Guide No. 16 of Circular-Letter No. 96-01, promulgated by the Governor's Committee on Information Systems[11] on September 25, 1995, establishes that it will be public policy that any contract for the acquisition of a local network for more than one million dollars, or any contract for the acquisition of projects related to the approved automation plans the amount of which exceeds a half million dollars, will be subject to the written approval of the Office of Management and Budget prior to its execution.

The situations discussed in **parts a.1)** and **b.1)** prevented the Department from enjoying the benefit of free competition among qualified suppliers and from obtaining the best offers and conditions. That defeated the purpose of protecting the Government's best interests. Moreover, [the situations] could have set the stage for the commission of irregularities, favoritism, and other adverse situations in the awarding of the four contracts for $105,652,219,[12] as discussed in this **Finding**.

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[11] Established pursuant to **Article 7, Law No. 110 of August 3, 1995** to, among other things, adopt the policy to be followed and the guidelines that will govern the acquisition and implementation of the information technology systems, equipment, and programs for organizations under the Executive Branch of the Government of the Commonwealth of Puerto Rico.

[12] This amount includes $16,395,215 for the costs of telecommunications services and Internet access that had not been provided during the first year of the project.

The situations discussed in **parts a.2)** and **b.2)** could result in the available funds being insufficient to cover the commitments undertaken.

The situation discussed in **parts a.3)** and **b.3)** prevented the Department's interests from being well protected, since the contracts were executed without the required approvals from the Office of Management and Budget.

The situation discussed in **Part b.1)a)** prevented the bidders from having a definite date for submitting their proposals, guaranteeing fair competition among the bidders.

The situation discussed in **Part b.1)b)** prevented our auditors from verifying, in all details, the correctness of the process carried out. It could also have led to the recommendation received by the Secretary for execution of the contract, if any, not responding to the bests interests of the Department.

The situation discussed in **Part b.1)c)** prevented the unsuccessful bidders from knowing the reasons why their offers were unsuccessful and could have led to some of them challenging the Department's contract award. This, in turn, could have had adverse consequences, inasmuch as the contract had already been formalized and the contractual obligations had been committed to when the bidders were notified.

We attribute the aforementioned situations to non-compliance by the then-Secretary and Director of the OSITE with the applicable legal and regulatory provisions to the detriment of the Department's best interests.

The Secretary of the Department informed us, in the letter he sent us, among other things, about the steps taken to correct the aforementioned situations.

See recommendations 1 and 2 to 4.

Finding 2 - Deficiencies in the implementation and use of the telecommunications infrastructure installed for the EDUNET Network

a. At a physical inspection carried out from October 11 - November 21, 2000, in 30 schools (18 were phase I schools, where the work should have been completed by September 30, 1999, and 12 were phase II schools, where the work should have been completed by September 30, 2000), we found the following deficiencies in **EDUNET Network** implementation:

1) The communications network infrastructure installed in the schools was not being used.
2) The Department had not acquired the computers for the students.[13]
3) The teachers had limited knowledge of computer use.[14]
4) The physical and electrical conditions in the schools did not have the capacity required to use the communications equipment and computers, as indicated:

a) Fifteen of the schools (50 percent) did not have adequate electrical installations for connecting the computers they expected to acquire for the students.

b) Twelve of the schools (40 percent) did not have grilles for the protection of the installed communications equipment.

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[13] On August 17, 2000, the Department awarded **Bid No. RFB-00-01** for the acquisition of 100,000 computers for the public education system. That **Bid** was challenged by seven bidders and declared null and void by the Departmental Administrative Review Board. Three of those bidders asked for a review by the Circuit Court of Appeals. By means of rulings KLRA2000-702, KLRA2000-728, and KLRA2000-729 of December 29, 2000, the Circuit Court of Appeals revoked the award, after determining that the Department violated the bidding procedure. That **Bid** was not included in the scope of this audit.

[14] This situation was discussed in **Finding 3 of Audit Report TI-01-9 of March 19, 2001.**

c) Eleven of the schools (37 percent) did not have locked cabinets for the communications equipment.

d) Four of the schools (13 percent) did not have adequate locks on the doors of the rooms where the communications equipment was located.

e) Two of the schools (7 percent) had broken connection ports.
f) One of the schools (3 percent) kept the antennas' safety covers open.
g) In one of the schools, where rebuilding work had started, the antennas were exposed to water and dust.
h) The person in charge of maintenance at one of the schools had to plaster the holes in the wall because the contractors failed to do so.
i) One of the schools had two junction boxes (4 x 4) without covers and with the cables exposed.
j) In one of the schools, the communications cable piping was broken and detached from the wall.

It is the responsibility of the management team of every government entity to guarantee the investment of funds and the effective utilization of the available resources. The investment of public funds in communications network infrastructures should be planned to obtain the maximum return from the funds invested. Also, in order for the implementation process and the use of a communications network to be effective, the organization's management team should diligently monitor the work of its employees and the contractors during that process.

As a consequence of the foregoing, as of April 27, 2001, the Department had not obtained any benefit whatsoever from the investment of $73,614,511 in internal and telecommunications connections and $294,996 in services with respect to dedicated Internet lines for the **EDUNET Network** project: the amounts invoiced by the contractors mentioned in **Finding 1**. This, in turn, prevented it from fulfilling the objective of enabling all the schools to use technology as an educational tool, despite the high cost incurred. Also, the failure to use the Network infrastructure may lead to deterioration of the installations.

We attribute this situation to the fact that, according to the evidence examined, the Department personnel did not carry out effective planning that included studies of needs and periodic inspections of completed work. Neither did they take into consideration or plan the work necessary to improve the schools' infrastructures either before or during implementation of the **EDUNET Network.**

The Secretary of the Department informed us, in the letter he sent us, among other things, about the steps taken to correct the aforementioned situations.

See recommendations 1 and 5.

Finding 3 - Funds from a Federal program used inappropriately for Department expenses related to the EDUNET Network, and lack of participation by the Office of Outside Resources in the evaluation and allocation of funds for that project

a. On December 15, 1998 and August 25, 1999, the Department executed contracts number 018-99-0286 ($44,850) and ORE-081-00-070 ($98,000) with one company (for a total of $142,850) to evaluate the services rendered by the two companies in implementing the **EDUNET Network. [See Finding 1]** With respect to the two allocations of funds made by the Department to cover the costs related to those contracts, it allocated $92,850 from the Administrative Fund of the Federal **Title III** program and $50,000 from the Educational Goals 2000 Program. The examination of the disbursements

related to those allocations revealed the following irregularities and instances of lack of control:

1) As of April 10, 2001, the Department had inappropriately paid $44,850 from Federal **Title III** Program Funds to cover the costs related to the first contract between May and September 1999. These did not meet the objectives and purposes of the aforementioned Federal program, which includes providing a high-quality education to children who are lagging behind or are academically disadvantaged and giving them a fair and equitable opportunity to obtain that education in order to improve their academic progress in the essential subjects. The services rendered by the company were not related to the aforementioned objectives of the Federal program.

2) The process of evaluation and subsequent allocation of funds to cover the costs related to those contracts was irregular. The Director of the Department's Office of Outside Resources approved the allocation of funds from the Federal **Title III** program and from the Educational Goals 2000 Program without complying with her duty to evaluate the contracts in order to determine whether they met the objectives of the aforementioned programs.

As of the date of our audit, the Office of Outside Resources (now the Office of Federal Affairs) administered and coordinated the appropriate use of the Federal contributions received in Puerto Rico for education. The duties assigned to it when it was established by the Department included calling for proposals, coordinating projects, and allocating the Federal funds to cover the costs of the approved projects.

Section 309 of the Technology for Education Act of 1994 (Title III - Technology for Education) establishes that a maximum of five percent of the funds received during a fiscal year can be used for administrative expenses related directly to the Federal **Title III** program.

Section 80.36 of **Title 34, Code of Federal Regulations (CFR)** provides that when property or services are acquired under a grant, the state must comply with the same policies and procedures it uses for state funds. The Commonwealth should ensure that each purchase order or contract includes the clauses required by the Federal statutes, executive orders, and implementing regulations.

Article 9(a) of Law No. 230 provides that the Secretary will keep records of the obligations and make and keep records of the disbursements by means of documents submitted by the agencies, which will be previously approved for the obligation or payment by the chief of the respective agency or by the official or employee he/she designates as his/her authorized representative. As part of that, and as a standard of sound administration, the agencies have the duty to ensure that the officials in charge of these processes receive all the documents for the allocation of funds and, subsequently, formalization of the respective contract. The procedure carried out by the Department with regard to this matter was contrary to the principles of control that must prevail in the disbursement of public funds.

The misuse and irregularities in the administration of Federal **Title III** Funds can result in the loss of funds if the Department is required to return them. This would deprive it of the ability to use said resources to improve the quality of education and the administration and financial stability of educational institutions serving economically disadvantaged students.

These situations occurred because the Director of the Office of Outside Resources failed to comply with the proper procedure in accordance with the established standards.

The Secretary of the Department informed us, in the letter he sent us, that he had instructed the Assistant Secretary of Administration to follow the proper procedure in connection with the allocation of funds and, subsequently, the formalization of a

contract and the respective disbursements. He indicated he had also given instructions to ensure that internal controls were followed and that the proper practices that should prevail in the administration of Federal and Commonwealth funds were adhered to.

See recommendations 1, 6, and 7.

Finding 4 - Absence of important clauses and certifications from the contractors in the service contracts related to the EDUNET Network

a. The examination of contracts number 081-99-0161, 081-99-0162, 081-99-0164, and 081-99-0423 and their respective amendments **[see Finding 1]** revealed the following significant faults:

1) Important clauses and information to protect the Department's best interests were not included:

- On conflicts of interest on the part of the contracted companies' personnel.
- Specifying that the changes to the services had to be approved by the Department.
- Stipulating that the subcontractors had to be authorized by the Department.
- Contract No. 081-99-0423 did not include the line item under which payment for services would be made.
- Contracts number 081-99-0164 and 081-99-0423 did not include the employer's social security number or the suppliers' record[s] of incorporation.
- Contract No. 081-99-0164 did not include an annex with a list of the schools for which the contract services would be provided. The list

of schools was obtained by our auditors from the Application for Funds prepared by the Department on March 11, 1998.

- The amendment to Contract No. 081-99-0161A did not include, as part of the contract, the annexes thereof (**Exhibit A-1, Proposal for Public ATM Network dated February 5, 1999, B-1, Description of Communications Equipment, and D-1, Description of Manufacturer's Warranties**). These were also not submitted for examination.

- The amendment to Contract No. 081-99-0162A did not include, as part of the contract, the annexes thereof (**Exhibit A-1, Proposal for Public ATM Network dated February 5, 1999, and B-1, Description of Communications Equipment**). These were also not submitted for examination.

2) Also, contracts number 081-99-0164 and 081-99-0423 did not contain clauses requiring the suppliers to submit the documents specified below. The records in connection with those contracts did not contain those documents, nor were they submitted to us for examination:

- **Certificates of Debt (Form SC-6096)** and the **Certificates of Filing of Payroll Lists (Form SC-2888)**, Department of the Treasury.

- **Certificates of Debt in connection with real or personal property,** Municipal Revenue Collection Center (CRIM)

- **Certificates of Debt in connection with unemployment insurance, temporary disability, and social insurance for drivers** (as applicable), Department of Labor and Human Resources

Law No. 230 provides that each agency or corporate entity shall conduct a pre-audit of all its transactions that will serve as an effective weapon

of the chief of the entity in the execution of the program(s) for which he/she is responsible. As part of this, and as a standard for sound administration, the agencies must ensure that contracts which are formalized include the aforementioned information and documents to protect the public interest.

Circular-Letter No. 1300-25-98, issued by the Secretary of the Treasury on May 29, 1998, specifies the documents that should be required when contracts are executed by any government organization with an individual or legal entity.

The situation addressed in **Part a.1)** could be prejudicial to the Department. Also, it limited our oversight actions.

As a consequence of the situation addressed in **Part a.2**), Departmental officials did not have the required tax information about the contracted companies. That situation undermines the Government's public policy of harmonizing government efforts to confirm that the individuals or legal entities that have contractual relationships with the Government comply with their tax responsibilities. That impedes the collection of these entities' potential tax debts to the Government and can lead to the execution of contracts with individuals or legal entities that do not fulfill their tax obligations, and the potential debts becoming uncollectible.

We attribute the aforementioned situations to the fact that the Secretary who executed the aforementioned contracts failed to ensure that the personnel responsible for the contracting process performed their duties in accordance with the established regulatory provisions.

The Secretary of the Department informed us, in the letter he sent us, among other things, about the steps taken to correct the aforementioned situations.

See recommendations 1, 8, and 9.

Finding 5 - Failure to file or late filing of the EDUNET Network contracts with the Office of the Comptroller of Puerto Rico

a. As of March 12, 2001, the Department had not filed, with the Office of the Comptroller of Puerto Rico, contracts number 081-99-0161, 018-99-0162, and 081-99-0423, or their respective amendments, executed in the amount of $76,149,672, in October 1998 and August 1999. **[See Finding 1]**

b. The Department was late in filing, with the Office of the Comptroller of Puerto Rico, the following contracts, executed in the amount of $13,250,182, in October 1998 and August 1999. These were filed between 175 and 397 days late:

CONTRACT NO.	AMOUNT	DATE OF EXECUTION	DATE OF DELIVERY TO OCPR	DAYS LATE
081-99-0164	$13,107,332	15 Oct. 98	1 Dec. 99	397
081-99-0286[15]	44850	15 Dec. 98	1 Dec. 99	336
ORE-081-00-070[15]	98000	25 Aug. 99	2 Mar. 00	175

Law No. 18 dated October 30, 1975, as amended, provides, among other things, that the departments, agencies, instrumentalities, offices, and municipios of the Commonwealth of Puerto Rico shall keep a record of all contracts executed, including the amendments thereof, and shall submit a copy of these to the Office of the Comptroller of Puerto Rico within 15 days following the date of execution of the contract or amendment. **Regulation No. 33,** promulgated by the Office of the Comptroller of Puerto Rico on October 16, 1992 and revised on January 28, 1998, establishes similar provisions.

Failure to comply with the aforementioned provisions deprived this Office of the opportunity to promptly consider the aforementioned contracts for the purposes provided for by law and to include them in the computerized system maintained for the registration of contracts

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[15] **See Finding 3.**

executed by the governmental units in order to make them, as public documents, accessible to the public.

These situations are attributed to the fact that the Administrator of the Department's Legal Division failed to comply with her responsibility to submit copies of the aforementioned contracts to the Office of the Comptroller of Puerto Rico within the required time period. They also show that the Director of the Legal Division was not appropriately supervising these functions.

The Secretary of the Department informed us, in the letter he sent us, among other things, about the steps taken to correct the aforementioned situations.

See recommendations 1 and 10.

ANNEX 1

DEPARTMENT OF EDUCATION
OFFICE OF SCHOOL INFORMATION SYSTEMS AND TECHNOLOGY

PRINCIPAL EXECUTIVE LEVEL OFFICIALS SERVING DURING THE AUDITED PERIOD

NAME	POSITION	PERIOD FROM	PERIOD TO
Hon. César A. Rey Hernández	Secretary	8 Jan. 01	27 Apr. 01
Dr. Victor R. Fajardo Vélez	Secretary	24 Mar. 00	31 Dec. 00
Mr. Ramón Ayala Diaz	Assistant Secretary of Administration	2 Apr. 01	27 Apr. 01
Mr. Héctor R. Nevárez Rivera	Assistant Secretary of Administration	24 Mar. 00	31 Dec. 00
Carmen I. Motta Montañez	Director, Legal Division	9 Jan. 01	27 Apr. 01
Olga E. Birriel Cardona	Director, Legal Division	24 Mar. 00	31 Dec. 00
Mr. José Santana González	Director, Office of School Information Systems and Technology	8 Jan. 01	27 Apr. 01
Mr. Kivio Peguero Cuello	Director, Office of School Information Systems and Technology	24 Mar. 00	31 Dec. 00
Mr. Armando González Fernández	Director, Computer Center	17 Apr. 01	27 Apr. 01
Mr. Pedro González Rodríguez	Director, Computer Center	24 Mar. 00	31 Dec. 00
Mrs. Madelyn Zayas Moreno	Director, Technological Services Center	17 Mar. 01	27 Apr. 01
Mr. Guillermo Pierluisi Isern	Director, Technological Services Center	24 Mar. 00	31 Dec. 00
Mr. José L. Villafañe	Director, Office of Affairs [sic] of the Comptroller	2 Apr. 01	27 Apr. 01
Mr. Tyrone Ortiz Hernández	Director, Office of Affairs [sic] of the Comptroller	24 Mar. 00	31 Dec. 00

ANNEX 1, CONTINUED

NAME	POSITION	PERIOD	
		FROM	TO
Miss Lynette Molina Cardé	Assistant Secretary of Internal Audit	16 Mar. 01	27 Apr. 01
Mr. Eda Velázquez Caraballo	Director, Internal Audit Unit	24 Mar. 00	31 Dec. 00

Translated by Wendy Griswold at the request of the Congressional Research Service, March 5, 2004.

TAB 12

CONFIDENTIAL

George McDonald

From: George McDonald
Sent: Tuesday, February 05, 2002 10:40 AM
To: Ellen Blackler (E-mail)
Cc: Mark Seifert (E-mail); Scott Barash; Wayne Scott
Subject: PRDOE

Ellen,

As you know, the Secretary of Education in Puerto Rico has formally responded to my December 5 letter asking about computers and other support resources. His letter includes an updated version of the report the PR reps gave us at our January 15 meeting.

As we discussed at that January meeting, I believe this letter now gives us auditable claims that they are getting things back on track in Puerto Rico. This is the kind of outcome we have been hoping for in the case of MRESA. I'd like to think we could now go to commitment on the Year 4 application and pay invoices after the PRDOE confirms receipt of services. I'd like to send a letter to them to that effect. The letter would also indicate that we are likely to send auditors down there during 2002 to verify that the remedial work is under way.

There are issues still before us, though, that likely need to be addressed before I send such a letter. They have told us that the original contracts on which we have been paying for years before Year 4 were not awarded in conformance with PR regulations. How do we avoid COMADing the funds committed on contracts awarded in violation of local procurement requirements?

Also, if there were no computers as a result of the successful bid protest, what use was made of the equipment and services we have paid for over the years? I am attaching a table of commitments and disbursements by service type and by year for PRDOE. It's interesting to note that very little use was made of Internet access commitments until Year 3.

Puerto_Rico_Tables_1
12601.xls

I will await your guidance before taking further action. Let me know if you need additional information.

George

Year	Entity Name	Service ID	Service Provider Name	Committed AMT	Approved for Disbursal AMT
1998	Puerto Rico Department of Education	TELCOMM SERVICES	Puerto Rico Telephone Company, Inc.	$34,249,863.50	$9,933,962.60
1998	Puerto Rico Department of Education	INTERNET ACCESS	Puerto Rico Telephone Company - Central	$173,695.50	
1998	Puerto Rico Department of Education	INTERNET ACCESS	Puerto Rico Telephone Company, Inc.	$2,422.80	
1998	Puerto Rico Department of Education	INTERNAL CONNECTNS_S	Data Research Communication (DRC) Corporation	$11,798,598.60	$11,798,159.78
1999	Puerto Rico Department of Education	INTERNAL CONNECTNS_S	Data Research Communication (DRC) Corporation	$38,340,305.35	$25,204,156.76
1999	Puerto Rico Department of Education	INTERNET ACCESS	Data Research Communication (DRC) Corporation	$3,783,780.00	
1999	Puerto Rico Department of Education	INTERNET ACCESS	Puerto Rico Telephone Company, Inc.	$189,485.10	$140,557.32
1999	Puerto Rico Department of Education	TELCOMM SERVICES	Puerto Rico Telephone Company, Inc.	$14,566,208.40	$8,191,337.00
2000	PUERTO RICO DEPARTMENT OF EDUCATION	TELCOMM SERVICES	Virtual Educational Resources Network, Inc.	$0.00	
2000	PUERTO RICO DEPARTMENT OF EDUCATION	TELCOMM SERVICES	Applied Technical Solutions (ATS), Inc.	$0.00	
2000	PUERTO RICO DEPARTMENT OF EDUCATION	TELCOMM SERVICES	El Nuevo Dia	$0.00	
2000	PUERTO RICO DEPARTMENT OF EDUCATION	TELCOMM SERVICES	Oz New Media, Inc.	$0.00	
2000	PUERTO RICO DEPARTMENT OF EDUCATION	INTERNET ACCESS	Data Research Communication (DRC) Corporation	$15,975,329.06	$11,005,508.28
2000	PUERTO RICO DEPARTMENT OF EDUCATION	INTERNAL CONNECTIONS	Data Research Communication (DRC) Corporation	$21,699,192.00	$21,560,072.48
2000	PUERTO RICO DEPARTMENT OF EDUCATION	INTERNAL CONNECTIONS	Puerto Rico Telephone Company, Inc.	$17,930,567.41	$13,391,113.63

CONFIDENTIAL

TAB 13

Commonwealth of Puerto Rico
DEPARTMENT OF EDUCATION

César A. Rey Hernández, Ph.D.
Secretary

January 30, 2003

Ms. Jane E. Mago, Esq.
General Counsel
FEDERAL COMMUNICATIONS COMMISION
445 12th St., S.W.
Washington, D.C. 20554

Re: **E-Rate Funding for Puerto Rico, Years 4 and 5**

Dear Attorney Mago:

The purpose of this letter is to request from the FCC that it authorize the Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC) the immediate availability to Puerto Rico of E-Rate funding for years 4 and 5, in order to complete the development of our "RE-EDÚCATE" program.

I. Background

At the request of USAC, during the year 2000 Arthur Andersen LLP conducted an independent review of seventeen beneficiaries of the SLD support mechanism financed by E-Rate funds pursuant to FCC regulations. Our Department ("PRDOE") was one of the beneficiaries subject of the review.

Pursuant to the "Agreed Upon Procedures" between USAC and Andersen, the review was conducted between August 23 and September 1, 2000, and covered the support mechanism's first funding year (year 1), that is, July 1, 1998 through June 30, 1999.

Andersen's report to USAC, dated October 17, 2001 included, in its Appendix B, their findings concerning the PRDOE. Copy of said Appendix B is enclosed herewith as Exhibit I of this letter. During their visit, the Andersen auditors inspected the Central Data Center of the PRDOE and physically verified that the equipment funded by the E-Rate Program existed and was being used to support internet connectivity for 708 schools which at the time had an operational T-1 line. They also verified that teachers had been provided with laptop computers which enabled them to access the internet (Exhibit I, page B-iv).

P.O. BOX 190759, SAN JUAN, PUERTO RICO 00919-0759 • PHONE: (787) 759-2000 EXTS.: 2404, 4404 • FAX: (787) 250-0275

The Department of Education does not discriminate in its activities, educational services or employment opportunities on the basis of race, color, sex, age, birth, national origin, social condition, political ideas, religious beliefs or any handicap.

The only finding of this audit that was adverse to PRDOE, is contained in paragraph 11d under Section F (Beneficiary Site Selection) relating to the absence of desktop computers in any of the classrooms of the two schools[1] visited, which prompted the following observation from the Andersen auditors:

> Consequently, due to the lack of classroom computers, we ascertained that the PRDOE was not able (as of the date of our site visit) to fully meet the educational objectives (and training requirements) for which E-Rate Funding had been provided. We were, however, able to verify the availability of internet services by accessing the internet using a laptop computer, which we connected to the hub." See **Exhibit I**, page B-vi.

Based upon this finding concerning year 1, USAC wrote a letter to the undersigned dated December 5, 2001, a copy of which is attached hereto as **Exhibit II**. At page 2, USAC cites the above referenced Andersen finding in the context of being "very concerned", demanding that the PRDOE "must provide additional information concerning its ability to use Schools and Libraries Support Mechanism funding".

Specifically, we were requested to produce, "before USAC will commit any additional funding" the following:

1. Detailed information about the acquisition of computers to make use of the connections.
2. A list of the schools where equipment has been installed.
3. Specific information about PRDOE's investments in productivity and curriculum software.
4. The PRDOE progress in delivering professional development (teacher training).
5. The PRDOE's evaluation of any necessary upgrades to the

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[1] There are 1540 schools in the public school system of the Commonwealth of Puerto Rico, treated by USAC as a single, unified "school district" for the purpose of support mechanism financing.

electrical systems in the schools.

The letter concludes by stating that "USAC will neither commit nor disburse Schools and Libraries Support Mechanism funding to PRDOE's vendors" until it has received and evaluated PRDOE's response to the above information requests.

We immediately responded and explicitly addressed each and every of the above items, both in writing and through a personal presentation to USAC where our compliance with USAC's requests were amply documented. The presentation occurred on January 15, 2002, followed by my letter of January 23, 2002 to Mr. George McDonald, USAC's Vice President for the SLD, **Exhibit III** hereto. The eight page report that served as the basis for the presentation plus exhibits, is enclosed in final form as an appendix to my letter. I respectfully direct your attention to this report, which contains our evaluation and findings on: Status of the Project, Infrastructure needed, Network design, Network management, Electrical and security Infrastructure, Procurement process, Purchase of computers and this administration's integrated approach for recovery and development. Exhibit III is in the possession of USAC since more than a year ago and, as explained in my letter to Mr. McDonald, was submitted less than 30 days after the December 5, 2001 letter came to my attention. This report was updated during personal visits to USAC on April 26 and September 30, 2002. See, **Exhibits IV and V** hereto. Together, Exhibits III, IV and V contain: (1) detailed information about the acquisition of computers, (2) numerous lists of the schools where the equipment has been installed, (3) specific information about PRDOE's investments in the project (which to date exceed the funds provided by USAC), (4) detailed information on teachers' training and (5) not just evaluations, but reports on significant infrastructure repairs and upgrades. Although USAC has never responded in writing to my letter of January 23, 2002 (**Exhibit III**) we have received repeated verbal assurances that PRDOE has more than satisfied USAC's requests as stated in their letter of December 5, 2001.

On September 27, 2002 the undersigned formally requested from USAC the immediate availability of funding for years 4 and 5, after having more than fully complied with all of the requests contained in USAC's letter of December of 2001. Copy of said request, which I had the pleasure of hand delivering to you during our meeting of October 1, 2002, is attached hereto as **Exhibit VI**.

II. PRDOE's Actions concerning the E-Rate Funded Project for Internet access by Puerto Rico's public schools children

As you are aware, the general elections of November, 2000, brought a change of administration in the Commonwealth of Puerto Rico. The undersigned took office as the new Secretary of Education in January, 2001. One of our first concerns was the E-Rate funded project, since our initial impression indicated that very few schools were actually connected and in a position to access the internet. In many schools, the equipment that had been acquired during the previous administration did not appear to have been properly installed and in others the electrical infrastructure was obsolete or inadequate. I ordered a thorough evaluation of the status of this project. To conduct the evaluation, our department hired *ARJ Professional and Consulting Services, Inc.* an independent consulting firm, presided by Mr. Adonay Ramirez Jiménez, a highly respected expert in the

field. This independent review included an analysis of: (1) The project's direction and administration, (2) Planning, (3) Administrative structure, (4) Usage of resources and control measures, (5) Stage of development, (6) Contracts with vendors and suppliers, and (7) Conclusions and recommendations.

A preliminary report in Spanish was issued on September 18, 2001 **Exhibit VII** followed by a final thorough report dated March 11, 2002. An executive summary in English that we have prepared for your convenience of the final (March) report is attached as **Exhibit VIII**. Based on the preliminary report's findings, by mid-September 2001 we had confirmed our initial impressions and identified the areas where corrective action needed to be taken. Several recovery programs were immediately set in motion to rescue the project. One of them was "Proyecto 400" where we identified 400 schools that were targeted for urgent recovery.

By the time we received USAC's letter of December 5, 2001, which in turn is based on Andersen's findings regarding year 1 that were made in the Summer of 2000, our administration had already been working for several months on a coherent, comprehensive and intense recovery program, based on what we have called a "three-sided approach": The Center (network), the schools and the PRDOE's central office. This is what enabled the undersigned, in compliance with USAC's letter of December 5, 2001, to provide USAC with a detailed report containing our own findings, a coherent plan of action and the status of the project as of January, 2001, **Exhibit III**, above.

Long after having complied with USAC's December 5, 2001 letter we have continued to provide USAC with documented reports of our progress. The latest, was presented to USAC during our visit of January 23, 2003, see **Exhibit IX**. A review of this update shows that since this administration started its recovery program, and without the benefit of a single disbursement of E-Rate funds, we have already installed 103 laboratories, 44 fixed and 59 mobile; 65 new ones are already ordered; another bid has been conducted for mobile laboratories and one is under way at present for additional fixed laboratories. Additionally, 3300 more computers from a special bid have already been received and are in the process of being installed.

Our teacher training program has successfully trained approximately 27,000 teachers, which constitutes 65% of the entire teacher force of the system. 4,000 additional teachers will be trained during the course of this semester.

On the aspect of designing and implementing programs to use technology as a teaching tool, our department has committed and is spending an additional 8.3 million dollars in six new technology integration projects.

Most electrical repair work has been performed or was bidded and the work is in progress. More than $80 million have been spent in school repairs (Proyecto 1000) in the last two years. Another $31 million from the Qualified Zone Academy Bonds and $3.2 million of the Children's Trust Fund have all been spent on infrastructure development, repair and improvements. Full power plants are being built for 86 schools, at an additional cost of $7 million from the school renovation program.

A new local area network infrastructure was built at the central offices of PRDOE and the installation of a new server infrastructure has been completed. We developed a very effective school validation process and have set up a help desk system with 43 technicians, 29 of them located at the regions to support schools directly and 14 located at the central office.

Corrective actions have continued consistent with our strategies; bidding regulations are being strictly followed; contract forms have been thoroughly revised to include protective and anti-corruption clauses and our "vendor pushing strategy" has continued.

We have gone from practically no schools connected at the outset of our administration, to more than 600 schools validating regularly, 505 of them with 80% + availability.

At this point, our main concern is that the PRDOE may have well exhausted its capability to continue developing the project without additional E-Rate funding. In the absence of an immediate release of years 4 and 5 funds, our department may have no choice but to re-examine the viability and continuity of the entire project.

Every year lost means that 50,000 Puerto Ricans graduate from high school without the opportunity to overcome the technology divide.

III. PRDOE's Commitment for the present and the future

As a result of PRDOE's own findings and reports to USAC (and not from the Andersen report) USAC has become aware of our own concerns regarding possible mismanagement or abuse by a vendor providing services for years 2 and 3 (whose contract we cancelled due to our insatisfaction with its performance), and the apparent inadequacy of controls and management supervision by the department for those years.

Recognizing that any possible abuse or misconduct should be thoroughly investigated, our administration has provided documents and our own initial findings to three agencies of the government of Puerto Rico, to wit: (1) An investigation being conducted by the Government Ethics Committee of the Puerto Rico Senate, presided by Senator Cirilo Tirado; (2) A special, non-partisan committe of independent prominent citizens created in January 2001 by an executive order of the Honorable Sila M. Calderón, Governor, entrusted with reviewing past and present governmental transactions to detect any indication of possible corruption and refer to the proper authorities for prosecution when necessary, commonly referred to as the "Blue Ribbon Committee"; and (3) The Department of Justice of the Commonwealth of Puerto Rico, through the office of Chief Commonwealth Prosecutor (Fiscal General) the Honorable Pedro Gerónimo Goyco Amador, who has initiated an investigation at the request of the PRDOE on the services provided by the former vendor whose contract we cancelled. In this regard, since the outset of our administration, we have been cooperating and are committed to continue to cooperate with any investigation by the appropriate agencies of possible abuses, mismanagement or misconduct. See Exhibits X, XI and XII.

Our administration is also committed to assist the pertinent agencies in any effort directed at pursuing fund recoveries from service providers who may be found to have intentionally violated program rules. However, it is important to remember that PRDOE never received funds from USAC. The vendors and service providers submitted their invoices directly to USAC, which in turn reviewed and approved the same, and forwarded payment directly to the vendors. Thus, PRDOE has never been in possession of any funds from the first three funding years.

We intend to continue our practice, established in 2001, to document the goals of our program in comparison with actual achievements, as well as with respect to the current status of educational technology, see **Exhibits III, IV, V,** and **VII.** We will work with the USAC to identify the differences between what the prior administration represented in the application that would be purchased and what was actually acquired. Also, because so much time has elapsed since our department submitted its requests for years 4 and 5 funding, upon approval of the release of said funds we may well need to work with USAC on service substitution and may need to request from the Commission a waiver of some service substitution restrictions, to the extent that technology has evolved. We will review our years 4 and 5 funding requests not only to ensure compliance with program rules, but also to consult with USAC on the possibility of any service substitution that may be needed.

In 2001 we hired an independent firm to assess what the department had received during funding years 1, 2 and 3 (**Exhibit VII**) which was very helpful in the design of our successful recovery program. We are committed to periodically retain external independent professional firms to evaluate the operational aspects of the project as it develops, and future use of E-RATE funds in light of the expenditures of both PRDOE and E-Rate funds. These independent audits will be conducted on a yearly basis.

In order to ensure that the vendors comply with program rules and as a further step to prevent possible future abuses, we suggest that USAC establish a policy and a procedure for requesting certifications from PRDOE <u>before</u> paying any invoice from the vendors or service providers.

We are committed to continue to strictly enforce the measures taken by the undersigned immediately upon taking office, regarding the procurement process: We not only reorganized the committee in charge of receiving and adjudicating bids (Junta de Subastas) but I also ordered a complete revision of the board's rules and regulations, and next year a review and update of the rules and regulations of the Board of Appeals of the department will be conducted. Likewise, upon my instructions, our Legal Division created a special office for contract review, which during this year has been revising and modifying contract forms and reviewing all acquisition contracts before they are executed, for compliance with the rules and regulations of the Office of the Comptroller and the Office of Governmental Ethics of the Commonwealth of Puerto Rico, ~~other applicable~~ federal or Commonwealth laws and regulations, as well as generally recognized sound management and contractual practices.

In light of the above, there can be no doubt that the Department of Education of the Commonwealth of Puerto Rico can fully meet the educational objectives and training requirements for which E-Rate funding is provided.

IV. Final Remark

More than 660,000 Puerto Rican students have been deprived during the last two years of resources that they are entitled to in order to have an opportunity to overcome the technology divide. People or entities responsible for past misconduct with our RE-EDÚCATE Project should continue to be investigated, and if need be, prosecuted. We are committed to continue to provide USAC with the results of our own findings. However, to penalize all of the public school children of Puerto Rico for possible past abuses would be, to say the least, a monumental injustice.

A Commissioner of the FCC, Mr. Michael J. Copps, has been quoted in the media as saying: "If there is fraud and abuse, root it out. But let's not ignore the benefits that this program (E-Rate) has brought to our children...". We cannot agree more. However, in the case of the *Puerto Rican children*, the program has not yet brought them anything for years 4 and 5.

Sincerely,

César A. Rey Hernández, Ph.D.
Secretary

c: The Honorable Sila María Calderón, Governor
Commonwealth of Puerto Rico

Mr. George McDonald

USAC Vice President for SLD

TAB 14

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

César A. Rey Hernández, Ph.D.
Secretary

Letter to Atty. Jane E. Mago, General Counsel
to the Federal Communications Commission

January 30, 2003

EXHIBIT I

- "Appendix B" of the October 17, 2001 Independent Public Accountants' Report by Arthur Andersen, LLP., with copy of the "Agreed upon procedures"

Puerto Rico Department of Education

During the period August 23 to September 1, 2000, we visited the Puerto Rico Department of Education (the "PRDOE") located in San Juan, Puerto Rico for purposes of performing the agreed-upon procedures included as Exhibit I of the Report of Independent Public Accountants dated October 17, 2001 for Application Number 44575. The PRDOE received the following funding from the Schools and Libraries ("S&L") Support Mechanism (referred to as the "S&L Program" or the "Program"):

- One Funding Request Number ("FRN") for internal connections, with a committed amount (discounted portion) of $11,796,599
- Two FRNs for Internet access, with a committed amount (discounted portion) of $173,696 and $2,423, respectively
- One FRN for telecommunication services, with a committed amount (discounted portion) of $34,249,964

The total committed amount approved for all four FRNs was $46,222,682 (discounted portion). Disbursements were only made for the internal connection and telecommunication FRNs. No services were obtained under the FRN for Internet services since internal connections were not completed in time to utilize these services. As a result, as of May 11, 2000, only $21.7 million of the approved amount of $46.2 million was disbursed for the 11 Service Provider Invoices ("SPI") issued.

The following procedures pertaining to the PRDOE Application Number 44575 were performed.

A. General Procedures

1. We obtained from the Schools and Libraries Division ("SLD") and reviewed, without exception, the following FCC forms and supporting documentation pertaining to the PRDOE's Funding Year One Application:

   - Approved FCC Form 471 (Schools and Libraries Universal Service Services Ordered and Certification Form) - ("Form 471" or the "Application")
   - Funding Commitment Letter (the "Commitment Letter")
   - Program Integrity Assurance ("PIA") Review Notes related to the Application.

B. **Technology Plan**

2. We obtained and reviewed the approved 1998/99 Technology Plan (the "Technology Plan") noting, without exception, that it established clear goals and strategies (including professional development) for using information technology to improve education. The PRDOE had prepared a budget supporting the Technology Plan and had also developed processes to monitor and track the implementation of technology goals and objectives addressed in the plan.

C. **Understanding the Business**

3. We met with the Director of Information Systems and Technology for the PRDOE and the Special Assistant for the Office of Information Systems and Technology to gain a more detailed understanding of the processes related to the administration of the S&L Program for Funding Year One at the PRDOE. This included how the Technology Plan and Application were prepared and validated; how the Application was structured and how it compared to the approved Commitment Letter. We discussed the management of the E-rate project, including: (1) the results of any communications with SLD regarding the Application process and any differences between the Application submitted and approved; and (2) how the expenditure of approved E-rate funds and the status of the work being completed were monitored. We also discussed the procedures established to monitor claims submitted to SLD in the form of SPIs.

   We performed detailed reviews of each relevant process and prepared narrative memoranda documenting the control procedures and process flows for each applicable component process contained within the Funding Year One Program requirements addressed above and determined, without exception, that the PRDOE had established procedures to sufficiently address the Program requirements.

4. We used the information obtained from our detailed reviews to augment the agreed-upon procedures as detailed below.

D. **Program Compliance**

5. To evaluate whether the PRDOE's processes and procedures conformed to the requirements established by S&L Program rules and were sufficient to ensure compliance, we performed the following procedures:

   a. We selected eight of the 11 disbursements from a disbursements data download provided by SLD. For each of the eight disbursements selected, we obtained and compared the vendor invoice and SPI form and performed the following. No exceptions were noted, except as detailed below:

      i. We traced and agreed the amount disbursed from the SLD disbursement data download to the corresponding SPI forms to ensure accuracy and completeness.

ii. We traced and agreed the SPI forms to the corresponding vendor invoices and supporting documentation. We recalculated and agreed the discounted amount reflected on the SPI forms using the approved discount percentage per the Commitment Letter.

b. Consistent with Year One regulations and procedures, the approved Application did not include a detailed list of equipment and installation costs to be funded through the E-rate Program. Therefore, we did not verify the details of the equipment and services purchased to the Application.

c. We were unable to verify the equipment purchased with E-rate funds to the schools' asset registers, as no asset registers were maintained for this equipment due to the small amount of equipment purchased for each school. During our site visit we were able to verify, without exception, the equipment purchased and installed to the corresponding equipment packing slips.

d. We verified, without exception, that the beneficiary had paid their (non-discounted) portion of the E-rate expenditure by agreement of the amounts paid to the vendor payment report and disbursement log. We verified that the correct discount percentage had been applied in accordance with, and by agreement to, the approved discount percentage for SPI claims per the approved Commitment Letter.

e. We verified that the equipment and cabling had been installed by the cut-off date (September 30, 1999) via review of a database established by the PRDOE. This database is used by the PRDOE to monitor the status of work completed to ensure payments to vendors and claims to SLD are only made for completed work. We reviewed the database for accuracy and completeness by performance of the following procedures. We also noted that the PRDOE asserted (and reaffirmed in a letter to USAC dated September 21, 2001) that all the wiring and certification were completed prior to September 30, 1999.

Cabling Installation:

i. We traced and agreed 38 schools selected from the Data Research Company ("DRC") invoices to the database to verify that the status was listed as "complete" and that the amount was eligible for payment. We noted no exceptions.

ii. To ensure that the cabling installation was actually completed by the cut-off date for Funding Year One, we reviewed the vendor's testing results (on a DRC CD-ROM) for 32 of the 38 schools selected, and verified, without exception, that the DRC test results were approved as satisfactory prior to September 30, 1999. For the remaining six schools selected, we were unable to verify that the installations were performed by the September 30, 1999 cut-off date for Funding Year One, as the vendor did not complete testing of these installations until after the September 30, 1999 cut-off date.

Equipment Installation:

iii. We tested the accuracy of the PRDOE database regarding completed schools. We traced and agreed 35 of the 38 schools selected from the database to the corresponding school's Puerto Rico Telephone Company's ("PRTC") packing slip and verified that the packing slip had been signed and dated by the school's Director prior to September 30, 1999. For one of the schools selected, we were unable to verify that the installation was performed by the September 30, 1998 cut-off date, as the packing slip was not dated. Equipment for the remaining two schools had not been installed or invoiced as these two schools were closed, therefore, for these two schools this test was not applicable.

iv. For 15 additional schools selected from the PRTC invoice for the T1 installations, we verified that the schools had been certified as complete on the Certification Report submitted by Software Design School Cabling (a consulting company hired by the PRDOE to ensure that the installation was appropriately completed).

f. We further selected an additional sample of ten schools from the PRDOE database that were listed as completed for both equipment and cabling installation. We verified, by review of the applicable invoices, that they had been invoiced by both companies.

6. During our review of disbursements, we noted that for one vendor, the PRTC, only 745 of the 760 schools covered under the contract had the E-rate funded equipment installed; and only 359 of the 760 schools had a T-1 line installed by September 30, 1999. As a result, the installation charges invoiced were reduced by $745,393 from the original contracted amount. However, due to the lack of sufficient detail provided within both the contract and the PRTC invoices, we were unable to verify whether this price reduction was consistent with the reduction in the scope of work performed.

7. To ensure the approved funding amount had not been exceeded, we totaled the SPI disbursements and compared this total to the approved funding amount per the Commitment Letter noting, without exception, that the amount disbursed did not exceed the amount approved by SLD.

8. We inquired as to the expenditure of funds to purchase equipment and services in support of E-rate funded expenditures and were advised by the PRDOE that, due to a legal dispute with a potential vendor in the awarding of the supplier contract, they had not yet purchased and installed 100,000 of the classroom (desktop) computers included in the Technology Plan. These computers are necessary to support the E-rate funded expenditures. We noted the lack of classroom computers during our site visit observations, as detailed in Section F., below. However, we were advised by the PRDOE, and further verified through discussion with a teacher at one of the sites visited, that teachers were provided with laptop computers which enabled them to access the Internet. We also noted that other aspects of the E-rate funding requirements were being met.

Competitive Bidding

9. We reviewed the three contracts (and the contract amendments) relating to the approved Application and verified, without exception, except as noted below, that the following guidelines had been followed:

   a. We confirmed that the Form 470 had been posted, as required under S&L Program rules, listing the requested equipment and/or services.

   b. We ascertained through discussion with PRDOE management that they had established appropriate procedures to evaluate and select the most cost-effective bidder based on the responses to their 470 posting. PRDOE management also indicated that all bids received were appropriately evaluated in accordance with state and local requirements.

   c. We verified that the contracts were appropriately approved by the Department of Education. We were unable to determine whether the three contracts were signed after the allowable contract date based on the date of the 470 posting. The DRC contract was signed but not dated by either the PRDOE or the service provider. We reviewed the contract, noting that the PRDOE's law firm dated the contract as being prepared after the allowable contract date. Additionally, we noted that the two PRTC contracts were signed by the PRDOE and the service provider, but that the service provider signatures were dated after the allowable contract date.

Beneficiary Site Selection

10. We performed site visits at the PRDOE Central Data Center and two selected schools: Bella Vista Elementary School and Dr. Jose M. Lazaro Senior High School.

11. We visited the two schools and, using the information contained within the corresponding PRTC Packing List (which listed the make and model of the equipment installed), performed the following:

   a. We physically verified, without exception, that the equipment funded by the Program existed.

   b. We verified, without exception, the make and model for each item of equipment examined back to the PRTC packing list and invoice.

   c. We verified, without exception, that the make and model of the equipment purchased and installed had not been substituted, based on physical observation of the equipment and verification to the details per the corresponding PRTC packing slip.

d. As indicated in Section D.8, we noted that there were no (desktop) computers in any of the classrooms visited at either school. Consequently, due to the lack of classroom computers, we ascertained that the PRDOE was not able (as of the date of our site visit) to fully meet the educational objectives (and training requirements) for which E-rate funding had been provided. We were, however, able to verify the availability of Internet services by accessing the Internet using a laptop computer, which we connected to the hub.

12. We visited the Central Data Center and physically verified that the equipment (Nortel 6480 Concentrator Unit) funded by the Program existed and was being used to support Internet connectivity for each of the 708 schools which currently have an operational T-1 line. We also ensured that the unit was fully integrated with fiber optics to the PRTC's OC48 communications network that is included in the monthly service fee under the contract.

ANDERSEN

INDEPENDENT PUBLIC ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

Arthur Andersen LLP
1345 Avenue of the Americas
New York NY 10105-0032
www.andersen.com

October 17, 2001

Ms. Cheryl Parrino
Chief Executive Officer
Universal Service Administrative Company
583 D'Ononfrio Drive
Suite 201
Madison, WI 53719

Dear Ms. Parrino:

At your request, we have performed the agreed-upon procedures enumerated below with respect to the Beneficiaries of the Schools and Libraries Support Mechanism (the "S&L" Support Mechanism or the "Support Mechanism") of the Universal Service Fund, as administered by the Schools and Libraries Division ("SLD") of the Universal Service Administrative Company ("USAC") pursuant to Federal Communications Commission ("FCC") regulations. These procedures were performed solely for the purpose of determining whether schools and libraries receiving support from the S&L Support Mechanism are complying with certain Support Mechanism rules and regulations, in accordance with FCC regulations. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The purpose of the S&L Support Mechanism (often referred to as the "E-rate" Program) is to provide financial support to schools and libraries for telecommunication and Internet services and internal connections. Funding approval is dependent on the beneficiaries' eligibility and their abilities to meet and comply with Support Mechanism requirements. The purpose of performing these procedures was to determine (through site visits and physical verification at each of the selected beneficiary sites) whether: 1) these requirements were met and adhered to, and 2) funds received (often referred to as "E-rate funds") were utilized for purposes intended as stipulated in the funding and application requirements. The agreed-upon procedures work program utilized in conducting these site visits is included as Exhibit I.

The agreed-upon procedures were performed for the Support Mechanism's first Funding Year ("Year One"), which covered an 18-month period from January 1, 1998 to June 30, 1999. Subsequent FCC rule changes resulted in an extension of the Support Mechanism first Funding Year, for non-recurring services only, to September 30, 1999.

Selection of Sample

Based on discussions with SLD and USAC management, it was determined that 18 beneficiary locations would be judgmentally selected for performance of the agreed-upon procedures identified in Exhibit I of this report. The selection process was designed to concentrate on beneficiary Applications with the highest dollar value, emphasizing those with significant internal connections, and others identified as high risk by SLD and USAC management, in addition to a selection from the four primary categories reflecting the diverse demographics (both rural and urban) of the beneficiaries included in the Year One application population – i.e., schools (public and private), school districts, consortia, and libraries.

While performing the agreed-upon procedures at one of the selected sites, we identified certain inconsistencies and irregularities which resulted in USAC engaging Arthur Andersen LLP's Business Fraud & Investigation Services practice to complete and report on their findings. Consequently, the agreed-upon procedures performed and reported herein include only the remaining selected 17 beneficiaries listed below (a more detailed list is included as Exhibit II of this report):

A. **New York City Board of Education**, New York, New York
B. **Puerto Rico Department of Education**, San Juan, Puerto Rico
C. **Los Angeles Unified Cluster 07 (Grant Van Nuys)**, Los Angeles, California
D. **Milwaukee School District**, Milwaukee, Wisconsin
E. **Los Angeles Unified School District**, Los Angeles, California
F. **Chicago Public Schools**, Chicago, Illinois
G. **Henderson County School District**, Henderson, Kentucky
H. **New York Public Library**, New York, New York
I. **Paducah Independent School District**, Paducah, Kentucky
J. **Eldorado School District**, Eldorado, Illinois
K. **Georgia Department of Adult & Technical Education Office of Public Libraries**, Atlanta, Georgia
L. **Milwaukee Public Library**, Milwaukee, Wisconsin
M. **Illinois State Board of Education**, Springfield, Illinois
N. **Knox County School District**, Knoxville, Tennessee
O. **Byrd Middle and Magnet School**, Los Angeles, California
P. **St. Charles Borromeo School**, New York, New York
Q. **Children of the Peace – Holy Trinity School**, Chicago, Illinois

- An audit of service provider invoices performed by the beneficiary revealed that one of the service providers had submitted invoices for reimbursement that were based on estimated not actual costs. The amounts paid by USAC based on the estimated costs submitted exceeded the actual costs incurred by an estimated $280,362. The amount of the estimated over-payment identified by the beneficiary had not been refunded to SLD or USAC, as of the date of our findings. However, the service provider has since asserted to the beneficiary (and to the SLD) that payment was rendered to USAC on August 29, 2001.

- The same beneficiary was also unable to provide adequate support for the split of internal connection related charges between (E-rate funded) eligible Bear Entity Applicant Reimbursement ("BEAR") claims and ineligible (non-E-rate related) costs. The beneficiary has acknowledged that the amount submitted to USAC for reimbursement was overstated, but has not been able to substantiate their revised claim amount. We initially estimated that the beneficiary had allocated approximately 77% of the total vendor billing to compile the E-rate eligible amounts subsequently submitted to and reimbursed by SLD (at the appropriate discount rate). The beneficiary now claims that they should have used an allocation rate of 55% to determine the E-rate eligible amounts to be submitted. However, based on the limited information provided, we are unable to support the 55% allocation rate now estimated by the beneficiary, and consequently, are unable to determine the amount associated with this issue. This same beneficiary also received reimbursement totaling $456,572 (discounted) which pertained to work initiated, and for which payment was rendered (to the vendor), prior to commencement of the Funding Year (January 1, 1998). In addition, the beneficiary also received reimbursement totaling $1.965 million pertaining to installation costs claimed for work performed after the September 30, 1999 cut-off date.

- For another beneficiary, we identified errors in the calculation of the discounted amounts on two Service Provider Invoices totaling $804,751 (pertaining to two FRNs). The total discounted amount submitted to (and paid by) SLD for reimbursement of these two invoices amounted to $665,105. The correct discount amount (at 75%, the approved discount percentage) should have been $610,982, resulting in a net excess claim amount of $54,123. It should be noted that for each of the two FRNs, the amounts disbursed by SLD ($560,516 and $104,589,) were less than the approved FRN funding amounts (totaling $1.1 million and $0.2 million, respectively).

- We noted that one beneficiary had not received reimbursement from the service provider in the amount of $1,620 for part of one BEAR.

- We noted that another beneficiary submitted its BEAR forms based on the cost estimates submitted with their application, rather than on the actual costs incurred. This resulted in an estimated over-claim of funds on one FRN (due to the actual costs being less than the original estimates), totaling $25,897. An excess claim was also filed on another FRN, resulting in part from estimates (in excess of cost) being submitted, but also due to the inclusion of an amount related to a 10% service charge billed by the state-operated agency handling the vendor payments. This service charge is not an eligible cost. The aggregate estimated amount at issue for this second FRN (as a result of the 10% service charge and the estimated cost in excess of actual cost being claimed) is $18,790.

- For the same beneficiary, we noted (based on our invoice review of one of the FRNs) that many of the invoices supporting the BEAR reimbursement of this FRN pertained to work performed by a vendor who was not an authorized service provider under this application (the "unauthorized vendor"), rather than the approved vendor who was in fact the recipient of the funds received from SLD (totaling $765,802, discounted). We further identified that only $363,948 (discounted) of the $765,802 paid by SLD to the approved vendor (and paid by the approved vendor to the beneficiary) was for services actually provided by the approved vendor. The balance of $401,854 was for work performed by the unauthorized vendor. The approved vendor subsequently provided a letter stating that they had requested the unauthorized vendor to provide the required contracted equipment and services directly to the beneficiary, since the equipment and services the beneficiary required at the time were at a price the approved vendor could not then agree to. This letter further stated that since that time a distribution agreement was entered into between the two vendors that allows the approved vendor to directly provide the unauthorized vendor's equipment to the beneficiary. However, neither vendor has provided any evidence of the contract execution date, terms or coverage relating to the subsequent agreement referred to in the letter. Also, we noted that the unauthorized vendor was paid by the beneficiary prior to the BEAR being submitted to USAC for reimbursement to the approved vendor.

- For one beneficiary, we were advised that, as of the date of our site visit and review, the school had not yet paid its (non-discounted) portion of E-rate funded equipment and services due to the school not being satisfied with the network connectivity test results. A similar situation was noted for another school that had not paid the non-discounted portion of the invoice for E-rate funded services as of the date of our review and site visit. In both situations, the SLD had funded the discounted portion and not been notified that the remaining balance (the non-discounted portion) was being withheld. Beneficiaries should be aware that retention of documentation supporting payment of the non-discounted portion of E-rate funded equipment and services is necessary to support Program compliance.

AGREED-UPON PROCEDURES WORKPROGRAM

The Schools and Libraries Division ("SLD") of USAC currently administers the universal service support mechanism for eligible schools and libraries pursuant to Federal Communications Commission ("FCC") regulations. Certain aspects of program administration are outsourced to the National Exchange Carriers Association ("NECA") and subcontractors retained by NECA.

Agreed-upon Procedures Objectives

This agreed-upon procedures review of the Schools and Libraries Support Mechanism (the "S&L" Support Mechanism or the "Support Mechanism") beneficiaries is designed to achieve the following objectives relating to Funding Year One ("Year One") applications for selected beneficiaries: (1) detect waste, fraud, and abuse of S&L Support mechanism funds; (2) serve as a deterrent to S&L Support Mechanism abuse; and (3) generate insights about the quality of S&L Support Mechanism implementation by Schools and Libraries ("S&L") beneficiaries.

Overall Objectives

The Schools and Libraries Committee of the USAC Board of Directors and USAC have identified certain support mechanism and agreed-upon procedure review objectives to further support the implementation of the Schools and Libraries universal service support mechanisms at the beneficiary level and to help assure that schools and libraries receiving support from the Schools and Libraries Support Mechanism (also referred to as the "E-rate" Program) are in compliance with Support Mechanism rules and regulations. The objective of the agreed-upon procedures review is to ascertain whether or not appropriate controls, procedures and processes have been developed and implemented by the beneficiaries to ensure compliance with Support Mechanism rules and requirements, as they relate to Year One applications and funding reimbursement processes at the beneficiary level. A representative sample of beneficiaries will be selected for a site visit and detailed review. The purpose of each beneficiary site visit and review will be to determine whether established procedures (at the beneficiary level) sufficiently address the following criteria:

(1) A process has been established to select the most cost effective Service Provider. In situations where alternative Service Providers were selected (i.e., other than the most cost effective) sufficient reasons have been documented.

(2) Bidding requirements have been established and adhered to in accordance with S&L Support Mechanism rules.

(3) Equipment or services provided and funded were consistent with what was represented on the Year One Application and were provided or installed within the approved Year One installation period, as extended, of January 1, 1998 to September 30, 1999.

(4) The beneficiary had adequate resources, as certified, to use the discounted services or equipment for which funding had been provided.

(5) The beneficiary had an approved technology plan as certified.

(6) The approved funding and corresponding service were provided to the correct recipient in the correct amounts.

(7) Payments to beneficiaries or Service Providers were made in accordance with approved funding requirements and did not exceed amounts approved per the associated Funding Commitment Letter (the "Commitment Letter").

(8) The services obtained were used for the purpose for which the funding had been provided as certified on the Application.

We were not engaged to perform an examination, the objective of which would be the expression of an opinion on the beneficiaries' compliance with S&L Program rules and regulations. Accordingly, we do not express such an opinion. Had we been engaged to perform additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the SLD, USAC, and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

We have no responsibility to update our report beyond the date of this letter.

Arthur Andersen LLP

Roseland, New Jersey

The detailed procedures performed for each application at each individual beneficiary location, and the results of these procedures, are included as Appendices A to Q (Appendix references correspond to the above list of beneficiary applications selected for review). Extended procedures were performed at selected beneficiary locations related to the Year One applications at the specific request of SLD management. The detailed results of these extended procedures are also included, as applicable, in Appendices A to Q.

Issues Summary

We noted certain exceptions identified as a result of performing the agreed-upon procedures, as summarized below:

- We noted that, in many instances where beneficiaries indicated receipt and installation of services and equipment relating to internal connections prior to the initial cut-off date of September 30, 1999, sufficient documentary evidence was not available to either prove or refute that assertion. Where available, we reviewed the dates and results of systems testing to validate performance prior to the September 30, 1999 cut-off date. We also identified two beneficiaries who were unable to provide sufficient evidence of their approved contracts being executed after the allowable contract dates. Applicants should be aware that retention of appropriate evidentiary documentation for compliance with cut-off requirements is necessary to support eligibility.

- We identified one instance where a contract was executed prior to the allowable contract date and another where internal connections were purchased and installed both before and after the funding year. Applicants should be aware that compliance with cut-off and dating requirements is necessary to ensure continued eligibility.

- One beneficiary was unable to provide or obtain (from the service provider) invoices or other documentation sufficient to support the allocation and breakdown of selected E-rate reimbursements on a Funding Request Number ("FRN") (per school) basis. Internet services, totaling $2.6 million, could not be linked to specific schools based on the invoices provided by the service provider. In addition, $35,567 pertaining to six internal connection FRNs could not be tied to individual schools.

- Another beneficiary and the vendor were unable to provide invoices or other documentation sufficient to readily support the correct allocation of (E-rate eligible) billings supporting E-rate reimbursements received, totaling $1.958 million (discounted). For the same beneficiary, we were unable to physically account for all of the E-rate funded equipment purchases during our site visits.

Schools and Libraries Support Mechanism Selected Beneficiaries

Ref. No.	Application No.	Applicant	State	Approved Funding Amount	Funds Disbursed*	FRNs
A.	112571	NEW YORK CITY BOARD OF EDUCATION	NY	$ 66,452,734	$ 58,413,033	2,836
B.	44575	PUERTO RICO DEPARTMENT OF EDUCATION	PR	46,222,682	21,730,122	4
C.	30774	LOS ANGELES UNIFIED CLUSTER 07 (GRANT VAN NUYS)	CA	3,528,266	3,375,177	4
D.	110953	MILWAUKEE SCHOOL DISTRICT	WI	23,827,148	20,934,325	304
E.	102615	LOS ANGELES UNIFIED SCHOOL DISTRICT	CA	8,772,895	4,743,303	3
F.	62505	CHICAGO PUBLIC SCHOOLS	IL	15,974,070	9,368,533	1
G.	111774	HENDERSON COUNTY SCHOOL DISTRICT	KY	2,217,538	1,743,383	14
H.	70302	NEW YORK PUBLIC LIBRARY	NY	6,514,146	5,066,764	61
I.	111582	PADUCAH INDEPENDENT SCHOOL DISTRICT	KY	1,013,503	891,968	18
J.	13756	ELDORADO SCHOOL DISTRICT	IL	52,777	30,293	15
K.	11911	GEORGIA DEPARTMENT OF ADULT & TECHNICAL EDUCATION OFFICE OF PUBLIC LIBRARIES	GA	3,071,845	1,558,709	208
L.	79510	MILWAUKEE PUBLIC LIBRARY	WI	1,854,368	1,280,231	7
M.	112173	ILLINOIS STATE BOARD OF EDUCATION	IL	3,191,095	3,097,986	7
N.	107041	KNOX COUNTY SCHOOL DISTRICT	TN	2,214,687	1,967,021	148
O.	31378	BYRD MIDDLE AND MAGNET SCHOOL	CA	375,200	358,255	1
P.	95603	ST. CHARLES BORROMEO SCHOOL	NY	53,873	35,361	3
Q.	42772	CHILDREN OF THE PEACE - HOLY TRINITY SCHOOL	IL	45,744	31,320	3
		TOTAL		$185,382,571	$134,625,784	

* Funds disbursed are as of the dates noted per the individual report appendices.

TAB 15

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

César A. Rey Hernández, Ph.D.
Secretary

Letter to Atty. Jane E. Mago, General Counsel
to the Federal Communications Commission

January 30, 2003

EXHIBIT II

- USAC LETTER TO PRDOE - DECEMBER 5, 2001

17,760
WP
1/8/02

Universal Service Administrative Company
Schools & Libraries Division

George McDonald
USAC Vice President, SLD

December 5, 2001

Cesar A. Rey Hernandez
Secretary
Puerto Rico Department of Education
P.O. Box 190759
San Juan, Puerto Rico 00919 0759

RE: Presence of Computers to Use Schools and Libraries Universal Service Support Mechanism Discounted Service

Dear Mr. Rey:

The Puerto Rico Department of Education (PRDOE) requested Schools and Libraries Universal Service Support Mechanism discounts for Funding Year 1 (January 1, 1998, through June 30, 1999) for telecommunications services, Internet access, and internal connections, and $46.2 million in discounts were approved covering all three service categories. Of that total, $21.7 million has been disbursed for telecommunications and internal connections.

During our review of PRDOE's request for Funding Year 1 discounts, SLD asked for evidence that PRDOE had "secured access to all of the resources, including computers, training, software, maintenance, and electrical connections necessary to make effective use of the services purchased as well as to pay the discounted charges for eligible services," as it had certified on FCC Form 471.

Based on the information provided in response to our request, we concluded that PRDOE had demonstrated that there would be the necessary resources (including computers) to make effective use of the discounted service and approved the requests.

As you know, PRDOE was selected for a beneficiary review during the summer of 2000 to be conducted by Arthur Andersen, LLP on behalf of the Universal Service Administrative Company (USAC). The final report on the beneficiary review of PRDOE concluded as follows:

2120 L Street, N.W., Suite 600, Washington, DC 20037 Voice: 202.776.0200 Fax: 202.776.0080
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> [Andersen] noted that there were no (desktop) computers in any of the classrooms visited at either school. Consequently, due to the lack of classroom computers, we ascertained that the PRDOE was not able (as of the date of our site visit) to fully meet the educational objectives (and training requirements) for which E-rate funding had been provided.

The schools that Andersen visited were Bella Vista Elementary School and Dr. Jose M. Lazaro Senior High School. Discounted equipment had been installed at both schools.

USAC is very concerned regarding this finding. Not only did we commit $46.2 million to PRDOE For Funding Year 1, we also committed $56.9 million for Funding Year 2 (July 1, 1999, through June 30, 2000), and $55.6 million for Funding Year 3 (July 1, 2000, through June 30, 2001). PRDOE has Funding Year 4 requests totaling over $40 million pending with SLD.

In light of USAC's concerns, PRDOE must provide additional information concerning its ability to use Schools and Libraries Support Mechanism funding. Before USAC will commit any additional funding to PRDOE, and before USAC can decide whether we should seek recovery of some of the funds that have been disbursed, we must determine whether the PRDOE has been meeting its responsibility to make effective use of the services for which we have been providing discounts.

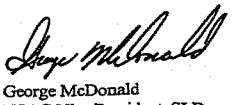
To that end, USAC requests a response within 30 days of the date of this letter with detailed information about the acquisition of computers to make use of the connections for which we provided discounts. Please provide specific information about the computer acquisitions. Please provide a list of the schools where equipment has been installed and include the date of the equipment installation. Please also indicate, by school, whether, how many, and when computers were installed to make use of the resulting service.

Furthermore, given this audit finding, we are concerned that you may not have the other necessary resources referenced above. If there are no computers, we are concerned that you may not have secured access to sufficient software, or that you may not have trained your teachers. We are also concerned that you may have not secured access to sufficient maintenance or that you may not have upgraded your electrical connections in these and other schools. Therefore, please also provide us specific and detailed information about your investments in productivity and curriculum software; your progress in delivering professional development to ensure that educators know how to use these new technologies to improve education; your resources to maintain computers and peripherals, and your evaluation of, and any necessary upgrades to, the electrical systems in your schools.

Because of USAC's significant concerns regarding this matter, USAC will neither commit nor disburse Schools and Libraries Support Mechanism funding to PRDOE's vendors until it has received and evaluated PRDOE's response to this letter. If you have any questions about this request for information, please contact me at 202-776-0200.

Thank you in advance for your cooperation.

Sincerely,



George McDonald
USAC Vice President, SLD

cc: Mark Seifert, Common Carrier Bureau, FCC

TAB 16

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

César A. Rey Hernández, Ph.D.
Secretary

Letter to Atty. Jane E. Mago, General Counsel
to the Federal Communications Commission

January 30, 2003

EXHIBIT III

- January 23, 2002 response of Secretary César A. Rey to USAC's December 5, 2001 request for information, with attachment, consisting of final form of report used on January 15, 2002 for PRDOE's presentation to USAC.

Estado Libre Asociado de Puerto Rico
DEPARTAMENTO DE EDUCACIÓN

César A. Rey Hernández, Ph.D.
Secretario

January 23, 2002

Mr. George McDonald
USAC Vice President, SLD
2120 L Street, N.W., Suite 600,
Washington, D.C. 20037

Dear Mr. McDonald:

I acknowledge receipt of your letter dated December 5, 2001, received at the Department, by mail, on December 17, 2001, and brought to my attention after the Christmas recess, on January 8, 2002.

I apologize for the delay in responding, but as I am sure my representatives explained to you in person, although the Department's administrative offices were working throughout the Holidays, the mail center only had a skeleton crew during the recess, and there was a considerable delay processing correspondence, including your letter. However, so as to convey the importance I gave to the communication, I immediately ordered that a personal visit be coordinated with you and your staff, which visit took place on January 15, 2002.

I understand that a full presentation was done to you, and representatives from the OIG and the FCC, during the meeting, and a candid and full exchange of concerns, solutions and plans took place then.

I would like, none the less, to formally respond to your letter, and stress the steps this new administration has undertaken to successfully culminate this important project for our public school children.

As the report which served as a basis for the presentation-- and which I enclose in its final form with this letter-- reflects, the Department and the Government have committed substantial resources to this project. The approximately 300 million dollars that the report reflects are devoted to the "Red Educate" have already being allocated and are available to the Department within 24 hours notice to the trustees of the funds (mainly, the Puerto Rico Government Development Bank and Paine Weber). Recovery and systematic development plans have been approved, and bidding processes have been conducted according to law, bids awarded, and over 100 laboratories are being installed as I write

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El Departamento de Educación no discrimina por razón de raza, color, sexo, nacimiento, origen nacional, condición social, ideas políticas o religiosas, edad o impedimento en sus actividades, servicios educativos y oportunidades de empleo.

this letter. All of the above may be subjected to audit procedures, if you so wish, and I reiterate the invitation to visit Puerto Rico and see for yourself the program in progress at the schools where the laboratories have already been established.

Furthermore, please be advised that contractors who have failed to provide the services adequately have been advised that they need to provide those services and repair those installations which were not adequately made, or else they may be facing legal actions for non-compliance with contractual terms and/or false representations to USAC and the Department as to job completion for purposes of collecting under their contracts.

I trust that the above information, together with the detailed report enclosed, and the presentation made to you on January 15th, convinces you that we are truly committed to this project, and very willing to partner with you to make it a success for the benefit of public school children in Puerto Rico.

Should you need any additional information, please do not hesitate to contact me.

Sincerely,

César A. Rey Hernández, PhD
Secretary

Puerto Rico Department of Education (PRDOE)
Status of the school network (ERate funded) project
January 18, 2002

Puerto Rico Department of Education (PRDOE)
Status of the school network (ERate funded) project
January 18, 2002

Background

On Jan 2, 2001 a new administration took charge of the Puerto Rico Government. As part of this new administration, on Jan 7, 2001 Dr. César Rey-Hernandez was appointed Secretary of Education by the Governor of Puerto Rico.

One of the first challenges faced by the new secretary was filing the ERate funding application for year 4, which was due on January 18, 2001. We only had about ten calendar days to evaluate the proposals and to file the application. The previous administration filed Form 470 and received the corresponding proposals.

Due to the short period of time available to analyze the proposals, we decided to use the following approaches to apply for funds:

- Finish tasks already started
- Provide maintenance to the already installed equipment
- Pay rent for communication lines already installed
- Pay internet access already contracted

We avoided initiating new tasks or changing the technological approaches of the project until the pending tasks were completed, the whole project was evaluated, tests were performed and the real status of the project was determined.

Brief project description

PRDOE is developing an island wide network to provide communications and Internet service to about 1540 schools in Puerto Rico, covering all municipalities and two additional islands (Vieques and Culebra). The project started in 1998-99 (year 1) with 760 schools, when funds were provided for communication lines, communications equipment and internal connections. In 1999-00 (year 2) funds were provided for communication lines, communications equipment and internal connections for 780 additional schools. Two servers per school were also funded, for a total of 1560. In 2000-01 (year 3) funds were provided for about 100 additional schools not completed in previous phases, and 4600 additional servers. For 2001-02 (year 4, first year under our control) PRDOE applied for completing the installation of communication facilities for about 200 schools pending from previous phases. As we said before, we decided not to initiate new tasks until we could determine the real status of the project.

Preliminary evaluation

Very soon we realized that evaluating the project in detail was going to take a long time due, among other reasons, to its huge magnitude. As we said before, this project includes more than 1500 schools throughout all municipalities in Puerto Rico, as well as two additional islands (Vieques and Culebra). Therefore, we decided to divide the evaluation in two parts: a preliminary evaluation and a detailed evaluation. From the preliminary evaluation we discovered the following:

1. **Status of the project.** The status of each school regarding internal cabling, communication lines, servers, physical facilities and electricity was unknown. No reliable documentation was available regarding the status of the project in each school and overall. The network was divided in two segments which couldn't communicate between them.

2. **Infrastructure needed at PRDOE central offices.** The server and communications infrastructure required at the central offices to properly utilize the school network was inappropriate. The PRDOE internal local area network (LAN) needed to be completely rebuilt so as to provide the maintenance and support services necessary to properly use the school network.

3. **Network design.** We didn't find any document with the design of the network nor documentation regarding how it was going to be administered, security measures, data volumes, costs estimates and approaches to provide management and support.

4. **Approach to manage the network.** No approach to manage the network was defined, nor the tools and people to be used for this task.[1] Properly managing this network is a very important task, both because of its huge magnitude and the wide geographical area it covers. It is impossible to travel to each school in order to fix problems and/or provide support. Even though a training for network managers was started, it is not realistic to develop through trainings (nor to hire and retain) more than 1500 network managers. On the other hand, the capacity of the servers was too low to implement approaches to support centralized management and support.

5. **Electrical and security infrastructure.** Many of our schools have electrical deficiencies and security problems. Electricity is not enough to properly use computers and many schools don't have security bars to protect the equipment

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[1] By managing the network we mean managing security, installing new versions of programs, troubleshooting, updating drivers, etc.

from thieves. Many million dollars are needed to provide adequate electricity and security to each room in each school.

6. **Multiyear contracts and procurement process.** One of the contracts inherited from the previous administration for Internet service is a multiyear contract. Besides, local bidding procedures were not followed when choosing vendors.

7. **Purchase of computers.** A bid to purchase about 100,000 computers was conducted by the previous administration. This bid was successfully protested by some vendors. The final decision was issued by the Appeals Court on March 2001.

Main strategy

After the preliminary evaluation, and after the final decision from the Appeals Court was received, we decided to take control of the project attacking it from three sides at the same time, and following an integrated approach:

- **At the center.** Perform a detailed evaluation of the school network using a private consultant. Design and test an approach to provide administration and support to the school network. Perform an analysis of the legal, regulatory and financial aspects of ERate funding.

- **At the school side.** Provide computers to schools using laboratories and taking into consideration the electrical and security conditions in each school. Design and implement a teacher training program. Design and implement a program to start using technology in the classroom. Implement a school repair program. Allocate funds for computer software.

- **At PRDOE side.** Design and implement a new LAN infrastructure, and a new server infrastructure, for the central office buildings. Establish a Help Desk unit to provide support.

By following this approach we are attacking the project in an integrated way, taking all important aspects into consideration, not just the installation of computer and communications equipment. This way we expect to obtain more valuable results in a faster way than if we just wait until the whole project is evaluated in detail. Also, this approach allows us to pilot test several additional technology projects which are necessary complements to the school network project.

Detailed evaluation

We decided to perform a more thorough evaluation, including visiting schools and performing communication tests. We contracted a private consultant to perform the evaluation. Unfortunately, we had to wait until the new fiscal year due to a budget deficit.[2] On July 2001 the consultant was hired and the evaluation process started.

On September 2001, the consultant presented his report on the status of the school network. Some of the findings are:

1. More than 50% of the communication lines from a sample of 100 schools were not installed, not activated or out of service.

2. Servers and communication equipment were installed in inappropriate areas (that get wet when it rains or that are too small). Electrical installations for servers and communications equipment are not adequate or do not exist.

3. Central office infrastructure needed to provide support to the network is not appropriate.

4. No project plans were prepared, nor evaluation of vendor performance. was done

5. Multiyear contracts were signed.

6. No RFPs were prepared to guide vendors in preparing proposals.

7. Ineffective technical trainings were provided (ex: 12 weeks in a row of Microsoft trainings to non technical people).

8. Many school directors didn't know about the project, therefore their identification level with the project is very low or inexistent.

Based on the findings on this report we requested accountability from vendors in order to solve the problems we found. We also decided to extend the detailed test to the remaining 1400 schools. Our local Office of Management and Budget will be providing resources to perform this test in a short period of time by the beginning of February.

It is important to notice that when we started the evaluation only two schools were connected to the Internet. As of today 216 are connected, which represents a big improvement.

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[2] The budget deficit that we inherited at PRDOE was about 205 million dollars, which represents about 13% of our total budget. As a result, all contracts were frozen by the Governor.

Approach to provide administration and support to the school network

An approach to manage servers and workstations from PRDOE central offices using Microsoft Active Directory was designed and tested. We involved Microsoft consultants in this process. So far test results have supported the implementation of this approach. Through this approach many administration tasks like software distribution, troubleshooting of problems and security implementation will be done from a central location, minimizing the need to travel to each school and the required skill level of school personnel.

We believe that the only reasonable contribution that can be expected from people at schools is to support teachers in functional and operational aspects. Network management tasks have to be minimized through a proper network design and, the ones that cannot be eliminated, will have to be performed mostly from a central location.

Provide computers to schools

We designed two different types of school laboratories, taking into consideration the status of the electrical infrastructure, the security exposure of the school and the availability of classrooms to be dedicated to laboratories. We already conducted a bid for 100 computer laboratories to be installed in our schools. Some of these laboratories are fixed and some are mobile. The fixed ones have 26 desktop computers, two printers and a server. They also include all electrical requirements, as well as air conditioning and security bars (for windows and doors). The mobile laboratories consist of a cart with 26 laptops, a printer and a server. The cart has very low electrical requirements. Only one regular 20 ampere outlet is required. It can be moved to any room during academic hours and, during the night, it can be stored in a secured place. Both laboratories also include audiovisual equipment.

Vendors were required to provide the electrical and security infrastructure, together with the necessary hardware, software and communications products. Vendors were also required to communicate the laboratories with the school (ERate funded) network.[3] When servers and computers boot up, they display the PRDOE logo and a message stating that the equipment belongs to the Puerto Rico Department of Education. As you can see, this way we are not only taking care of the need for computers, but also the electrical and the security requirements.

These 100 laboratories constitute a pilot test for our computer and infrastructure approaches. The total cost is about eight million dollars. We already delivered 42 of these laboratories to schools. We have allocated $115,500,000 dollars from the Children's Trust Fund to purchase additional laboratories for 1,500 schools (see appendix 1). Besides, we have allocated 11 million dollars from the QZAB funds for additional specialized laboratories (CAT),

[3] We want to clarify that the laboratory approach is more economically feasible at this moment due to the huge investment required to provide each room at each school with the proper electrical, security and hardware requirements. The laboratory approach we are following is in agreement with our technology plan and it does not exclude installing computers in each classroom when it becomes feasible, both from the economic and security standpoints.

which will also be connected to the school network (see appendix 2). Additional 4.6 million dollars were allocated from a federal competitive proposal for technology acquisition (see appendix 3)

We are using a fully turn key solution approach for technology acquisition. This approach includes hardware, software, communications, electricity, security and furniture (when it applies).

Train teachers in the use of technology

We did a survey to identify training needs among school teachers. Questionnaires were distributed to 46,311 teachers. We received 44,045 responses, which represents a 95.11% response rate. Some of the findings are:

1. 75% indicated their knowledge about computers is low.
2. 84% indicated their knowledge about software packages like Word, Power Point and Excel is very low.
3. 83% indicated their use of computers in administrative tasks is very low.
4. 80% indicated they use computers in their classes very few times.
5. 82% indicated their use of computers to produce materials for their classes is very little.
6. 79% indicated they don't use computers regularly to search for supporting material (Internet, encyclopedias, dictionaries).
7. 83% indicated their use of the computer in an integrated way in the classroom is very little.
8. 78% indicated they do not consider the computer a tool for their professional development.

The training efforts conducted in the past apparently were not effective. As a result, we designed and started to implement trainings tailored to these specific needs and **oriented towards deliverables**[4]. We started the trainings last summer and so far we have trained 12,498 teachers. Training projects will continue in this and the following semesters. We have already made QZAB fund commitments for 22 million dollars for trainings (see appendix 2).

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[4] By "deliverables" we mean the products that a teacher usually needs to do his job, like a course outline, a course conference or an exam.

Microsoft is our private partner for the QZAB funds. They have committed to provide about 9 million dollars in software, training and services.

Initiate academic projects using computers

We believe that in order to make good use of computers it is not enough to install computers in schools and to train teachers. We have to conduct specific academic projects. We already started a project called "Escuelas de Iniciativa" in which teachers are trained, coordinated and supervised to use computers in their classrooms. This is a complete academic project including training, support from expert professionals and assessment. It is being conducted in 31 schools as a pilot project. After we finish the pilot, the project will be reviewed and deployed to other schools.

We have allocated QZAB funds for about 32.4 million dollars for specific academic projects (see appendix 2).

Implement a school repair project

A school repair project was implemented in order to prepare schools for the August 2001 semester ("Proyecto 1000"). About 80 million dollars were spent repairing physical facilities and electrical facilities. Other projects to repair electrical facilities and install window bars are planned using Children's Trust Funds, as can be seen in appendix 1. The total amount allocated is approximately 3.2 million dollars. From QZAB funds a total of 31 million dollars have been allocated to capital improvements (physical infrastructure).

Allocate funds for computer software

The previous administration made an agreement with Microsoft to get 60,000 licenses for several software packages, like Office, Encarta, Atlas, Publisher, and others. The contract included trainings and consulting services. As of January, no payments had been made for this contract (which amounts to 25 million dollars). We already made the first payment, for approximately 10 million dollars. We have allocated 20 million dollars from the Children's Trust Funds to purchase academic software (see appendix 1).

Improve central office infrastructure

When we analyzed the computer and communications infrastructure at PRDOE's central office, we realized that it was far away from the infrastructure required to support the academic and administrative projects being conducted. The cabling had been installed by non qualified internal personnel, without being certified nor following any industry standards. Almost daily a segment of the network was down. The capacity of the servers was too low and response time

was several minutes in many cases. Different types of communication devices were used (hubs, switches, bridges), causing data traffic bottlenecks.

We already conducted a bidding process to rebuild the local area network in our central offices. The project is planned to start by the third week of January and should be ready by the end of March 2002. This is a 1.2 million dollar project which will provide PRDOE with the communications infrastructure needed to provide the necessary administration and support services for the school network and other academic and administrative projects. Funds will be provided by the Children's Trust Fund (see appendix 1).

We are preparing a Request for proposal (RFP) to purchase a server farm capable of properly handling the workload of academic and administrative systems. We will be issuing the RFP by the end of January. Some of these servers will be used for the Active Directory. Total investment is expected to be about one million dollars. Funds will also be provided by the Children's Trust Fund (see appendix 1).

Help Desk support

We have recruited 13 additional persons to increase and improve Help Desk services. We have trained them to provide support to the laboratories we are already installing. Twenty four technicians were trained in Help Desk procedures and Help Desk tasks. Three technicians were trained on mobile laboratories. On line trainings are available for Office 2000, Office XP and Windows 2000 (see appendix 4).

We will continue training and hiring additional people as needed.

Final remarks

As you can see from this writing, we have been working very hard in a planned and structured way to analyze what was done in this project by the previous administration and to take the corresponding corrective actions to make this project feasible. We believe that we have focused every important aspect of the project, including network administration, support and maintenance, school equipment, school infrastructure, central office infrastructure, teacher training, academic projects and Help Desk support. We are committed to continue supporting this project by installing computers at the schools, training teachers, developing academic projects and making sure vendors do their corresponding part. A total of 331.5 million dollars in funds have been allocated from the Children's Trust Fund, from QZAB bonds and from one federal proposal on technology acquisition.

The recovery plan we started is already producing results. But we definitely need ERate funding and ERate support. Making a pause in this project, even if it is temporary, would be detrimental to its success.

Appendix 1
Children's Trust Fund Allocation

Unyes 1 yr. 2

Exhibit B

Brown & Wood LLP

Computation of Economic Life

Children's Trust
Tobacco Securitization
Issue Date 11/15/00

Asset	Placed In Service,	Economic Life,	120% Adjustment,	Placed In Service Adjustment,	Adjusted Economic Life,	Bond Financed Cost,	Weighted Cost,
REVISED DEPT. OF EDC. PROJECT							
LAN Comm. Equip. - Central Offices	8/1/01	6.00	6.00	0.7096	6.7096	600,000.00	4,025,753.42
LAN Cabling - Central Offices	8/1/01	10.00	12.00	0.7096	12.7096	600,000.00	7,625,753.42
LAN Servers and PCs - Central Offices	9/1/01	6.00	6.00	0.7945	6.7945	1,000,000.00	6,794,520.55
LAN Comm. Equip. - Regional Offices	1/1/02	6.00	6.00	1.1288	7.1288	300,000.00	2,138,630 14
LAN Cabling - Regional Offices	1/1/02	10.00	12.00	1.1288	13.1288	200,000.00	2,625,753.42
LAN Servers and PCs - Reg. Offices	1/1/02	6.00	6.00	1.1288	7.1288	250,000.00	1,782,191.78
LAN Comm. Equip. - Bldrg Lunch Prog	8/1/01	6.00	6.00	0.7096	6.7096	700,000.00	4,696,712.33
LAN Cabling - Student Lunch Prog.	8/1/01	10.00	12.00	0.7096	12.7096	400,000.00	5,083,835 62
LAN Servers and PCs - Student Lunch Pr.	9/1/01	6.00	6.00	0.7945	6.7945	550,000.00	3,736,986.30
Comp. Lab for each of 1540 of Schools	8/1/01	6.00	6.00	0.7096	6.7096	115,500,000.00	774,957,534.25
Academic Software	8/1/01	6.00	6.00	0.7096	6.7096	20,000,000.00	134,191,780 82
Laptop Computers	8/1/01	6.00	6.00	0.7096	6.7096	10,000,000.00	67,095,890 41
Comp. Lab for Tech. Career Exploration	8/1/01	6.00	6.00	0.7096	6.7096	8,400,000.00	56,360,547 95
Hum. Res. & Student Lunch Software	7/1/01	6.00	6.00	0.6247	6.6247	5,000,000.00	33,123,287 67
Microsoft License\Contract	1/15/01	4.00	4.80	0.1671	4.9671	25,000,000.00	124,178,082 19
School Renovation Program							
Enlargement of Dining Room/Cafeteria	1/15/01	30.00	36.00	0.1671	36.1671	678,700.00	24,546,626.58
Bathrooms in Special Ed Classroom	1/15/01	30.00	36.00	0.1671	36.1671	1,371,600.00	49,606,626.30
Const. of Storage Rooms	1/15/01	30.00	36.00	0.1671	36.1671	386,016.50	13,961,106.35
Const. of Bathrooms	1/15/01	30.00	36.00	0.1671	36.1671	2,776,254.07	100,461,457.47
Const. of Parking Spaces	1/15/01	30.00	36.00	0.1671	36.1671	90,650.00	3,278,549 73
Const. of Offices	1/15/01	30.00	36.00	0.1671	36.1671	4,824,450.00	174,466,477.95
Const. of Electrical Sub-Station	1/15/01	20.00	24.00	0.1671	24.1671	3,061,000.00	73,975,564.38
Const. of 20 Reservoir Tanks	1/15/01	30.00	36.00	0.1671	36.1671	1,500,000.00	54,250,684.93
Const. of Ceilings for Sports Fields	1/15/01	30.00	36.00	0.1671	36.1671	3,080,099.00	111,398,320.27
Const. of Enclosed Sports Field	1/15/01	30.00	36.00	0.1671	36.1671	709,700.00	25,667,807 40
Const. of Multi-Use Court/Field	1/15/01	30.00	36.00	0.1671	36.1671	503,500.00	18,210,146.58
Const. of Basketball Court	1/15/01	30.00	36.00	0.1671	36.1671	298,000.00	10,777,802.74
Const. of Grease Traps/Gutters	1/15/01	10.00	12.00	0.1671	12.1671	25,375.00	308,740 75
Const. of Fence	1/15/01	30.00	36.00	0.1671	36.1671	18,400.00	665,476 07
Const. and Installation of Ceilings	1/15/01	30.00	36.00	0.1671	36.1671	190,151.31	6,877,225 87
Const. and Installation of Window Bars	1/15/01	10.00	12.00	0.1671	12.1671	164,859.30	2,005,863.43
Removal of Archit. Barriers/Fences	1/15/01	30.00	36.00	0.1671	36.1671	7,000.00	253,169 86
Staircases	1/15/01	30.00	36.00	0.1671	36.1671	421,000.00	15,226,358 90
Traffic Circles	1/15/01	30.00	36.00	0.1671	36.1671	136,000.00	4,991,063 01

NYLIB1\0394\17

Appendix 2
QZAB Funds Allocation

PRDOE QZAB Funds Allocation

Curriculum development	32,400,000
Technology training	22,000,000
Technology projects (CAT)	11,000,000
Capital improvements (physical infrastructure)	31,000,000
Total	96,400,000

CERTIFICATION

Cesar A. Rey Hernández, secretary of the Department of Education of the Commonwealth of Puerto Rico (the "Department"), hereby CERTIFY as follows:

1. That I have determined that each of the schools in the public school system of the Commonwealth of Puerto Rico (collectively, the "Public School System") operated by the Department (the "Public School Facilities") is a qualified zone academy from purposes of Section 1397E of the United States Internal Revenue Code of 1986, as amended (the "Code"), by virtue of the fact that it is reasonably expected that, as of the date of issuance of the bonds described in paragraph 3 below, at least 35% of the students in each of the Public School System schools will be eligible for free or reduced-price lunches pursuant to the National School Lunch Act.

2. That, based on such determination, I hereby designate each of the schools listed on Exhibit A attached hereto as a qualified zone academy for purposes of the Code (the "Academy").

3. That I make this Certification in connection with the proposed issuance by Puerto Rico Public Finance Corporation (the "Corporation") of its $85,000,000 Series 2000 Bonds (Qualified Zone Academy Bonds) (the "Bonds") within the meaning of Section 1397E of the Code for the purpose of providing funds to pay the costs of (a) the rehabilitation and repair of the building and other facilities of some or all of the Academies, (b) the development and implementation of new academic curricula for some or all of the Academies, (c) technology training for some or all of the Academies (collectively, the "Project"), and (d) the cost of issuance of the Bonds.

CERTIFICATION

I, Pedro A. Rey Hernández, Secretary of the Department of Education of the Commonwealth of Puerto Rico (the "Department"), hereby CERTIFY as follows:

1. That I have determined that schools in the public school system of the Commonwealth of Puerto Rico (collectively, the "Public School System") are qualified zone academy schools pursuant to Section 1397E of the United States Internal Revenue Code of 1986, as amended (the "Code"), by virtue of their status as schools in which at least 35% of the students in each of the schools in the Public School System will be eligible for free or reduced-cost lunches established under the National School Lunch Act.

2. Based on such determination, I hereby designate each of the schools listed on Exhibit A hereto as a "qualified zone academy" for purposes of the Code ("Academy").

3. That I make this certification in connection with the proposed issuance by Puerto Rico Public Finance Corporation (the "Corporation") of its $85,000,000 Series 2001 Bonds (Qualified Zone Academy Bonds) (the "Bonds") within the meaning of Section 1397E of the Code for the purpose of providing funds to pay the costs of (a) the rehabilitation and repair of the building and/or facilities of some or all of the Academies, (b) the development and implementation of new academic curricula for some or all of the Academies, (c) technology training for some or all of the Academies (collectively, the "Project"), and (d) the costs of issuance of the Bonds.

Appendix 3
Federal Competitive Proposal for Technology Acquisition

Estado Libre Asociado de Puerto Rico
DEPARTAMENTO DE EDUCACIÓN

OFICINA ASUNTOS FEDERALES

JAN 2 2 2002

Sr. José Santana
Ayudante Especial
Asuntos Tecnológicos

Eileen Loiz Reyes, Lcda.
Directora

FONDOS APROBADOS PARA EL PROGRAMA "SCHOOL RENOVATION, IDEA AND TECHNOLOGY GRANT"

El programa de "School Renovation, IDEA and Technology Grant" provee fondos para que las escuelas públicas desarrollen propuestas competitivas en las siguientes áreas: renovación y reparación de escuelas, realización de actividades autorizadas bajo la Parte B - "Individuals with Disabilities Education Act" (IDEA); y para el desarrollo de proyectos de tecnología relacionados con la renovación.

De los fondos asignados al programa antes mencionado, se separó el 12.5% de los fondos para distribuirse entre los proyectos de las escuelas relacionados con la tecnología de conformidad con las disposiciones de la Ley. La cantidad que corresponde para el desarrollo de dichos proyectos asciende a $4,646,429.00.

A tales efectos, durante el mes de noviembre de 2001, se publicó un aviso para informar la disponibilidad de los fondos. (Ver Anejo I). Asimismo, durante los días 3, 4, 5, 6 y 10 de diciembre de 2001, y 18 y 19 de enero de 2002, se ofrecieron las orientaciones de cómo solicitar los fondos. Se acompaña esta evidencia. (Ver Anejo II).

De necesitar información adicional, estamos en la mejor disposición de proveerla se puede comunicar con el personal de la Unidad de Propuestas al número de teléfono 759-8910, a las extensiones 206 y 207.

ELR/ept

Anejos: (I) Aviso de prensa
(II) Hojas de Asistencia de las Orientaciones

P.O. BOX 190759, SAN JUAN, PUERTO RICO 00919-0759 · TEL.: (787) 759-8910 · FAX: (787) 751-6192

El Departamento de Educación no discrimina por razón de raza, color, sexo, nacimiento, origen nacional, condición social, ideas políticas o religiosas, edad o impedimento en sus actividades, servicios educativos y oportunidades de empleo.

DRAFT

ESTADO LIBRE ASOCIADO DE PUERTO RICO
DEPARTAMENTO DE EDUCACIÓN

AVISO

Oficina de Asuntos Federales Solicita Comentarios Públicos sobre la implantación del Programa *School Renovation, IDEA and Techonolgy Grants*.

El Departamento de Educación recibió una asignación de fondos bajo el Programa ***School Renovation, IDEA and Technology.*** El propósito de estos fondos es el desarrollo e implantación de proyectos de reparación y renovación de escuelas; servicios a niños con necesidades especiales, incluyendo la adquisición de equipo tecnológico asistivo, y la adquisición e instalación de tecnología relacionada a la renovación de los edificios escolares.

En cumplimiento con las normas aplicables al programa el Departamento de Educación le provee a los padres, educadores y todos los demás miembros interesados de la comunidad la oportunidad de someter comentarios en el uso de los fondos recibidos bajo el Programa Federal ***School Renovation, IDEA and Technology***. Los comentarios ayudarán al Departamento a delinear con precisión la otorgación y utilización de los fondos.

El Departamento distribuirá estos fondos en forma competitiva a las escuelas públicas que cualifiquen con los requisitos y propósitos del programa.

Favor de enviar sus comentarios no más tarde del 25 de febrero de 2002. Los mismos deben dirigirse a la Lcda. Eileen Loiz Reyes, Directora, Oficina de Asuntos Federales, Departamento de Educación, utilizando uno de los métodos siguientes:

1. Internet – a la siguiente dirección: Loiz E@de.gobierno.pr. Debe utilizar el término ***School Renovation, IDEA and Technology*** en la línea del asunto de su mensaje electrónico.

2. Fax – también puede someter sus comentarios por fax al (787) 751-6192

3. Por correo – dirigido a la Lcda. Eileen Loiz Reyes, Directora, Oficina de Asuntos Federales, Departamento de Educación, P. O. Box 190759, San Juan, Puerto Rico 00919-0759

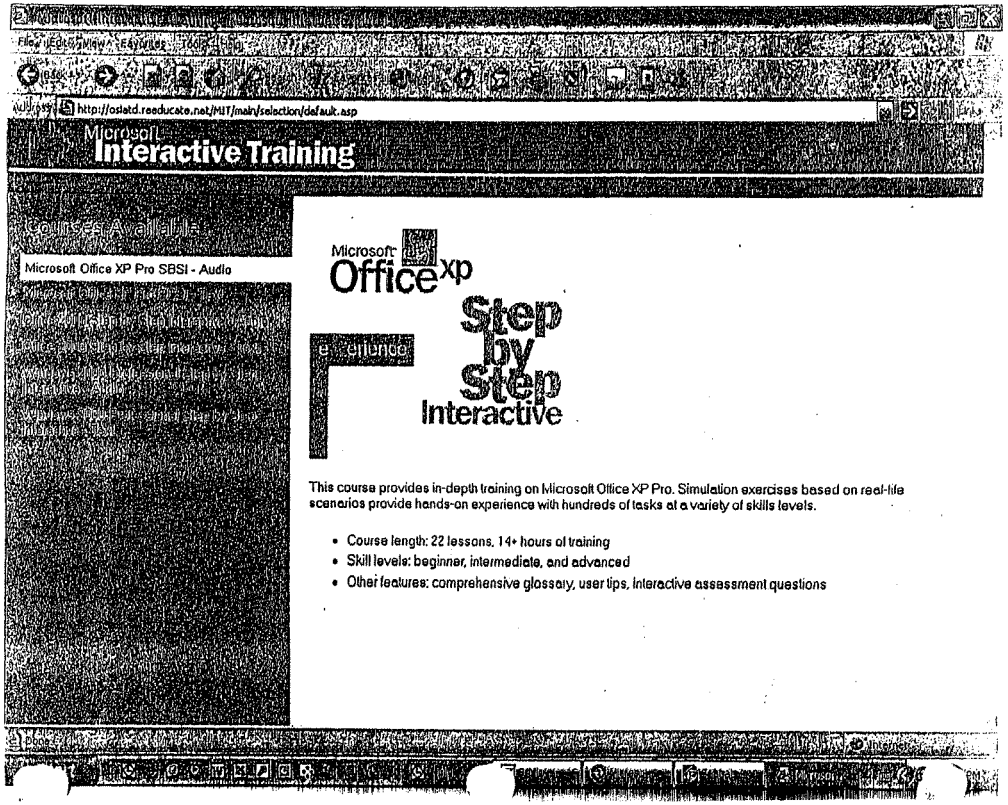
Para información adicional se puede comunicar con la Lcda. Eileen Loiz Reyes, Oficina de Asuntos Federales Departamento de Educación, P. O. Box 190759, San Juan, Puerto Rico 00919-0759. Teléfono 787-759-8910 extensiones 203 ó 303.

A fin de que puedan conocer el propósito del Programa y como el Departamento planifica otorgar los fondos, la Ley de *School Renovation, IDEA, and Technology;* la Guía Informativa sobre los fondos del Programa y el Formato para la redacción de las propuestas estarán disponibles para ser revisados en las Oficinas de las Regiones Educativas, en la Secretaría de Servicios Integrales para Personas con Impedimentos y la Oficina de Asuntos Federales a partir del 25 de enero de 2002.

César A. Rey Hernández, Ph. D.
Secretario

El Departamento de Educación no discrimina por razón de raza, color, sexo, nacimiento, origen nacional, ideas políticas o religiosas, edad o impedimento en sus actividades, servicios educativos y oportunidades de empleo.

Appendix 4
On line trainings available


http://ostatd.reeducate.net/MIT/main/selection/default.asp
Microsoft
Interactive Training
Courses Available
Microsoft Office XP Pro SBSI - Audio
Microsoft
Office xp
Step by Step Interactive
This course provides in-depth training on Microsoft Office XP Pro. Simulation exercises based on real-life scenarios provide hands-on experience with hundreds of tasks at a variety of skills levels.
• Course length: 22 lessons, 14+ hours of training
• Skill levels: beginner, intermediate, and advanced
• Other features: comprehensive glossary, user tips, interactive assessment questions

TAB 17

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

César A. Rey Hernández, Ph.D.
Secretary

Letter to Atty. Jane E. Mago, General Counsel
to the Federal Communications Commission

January 30, 2003

EXHIBIT IV

- PRDOE's update presentation to USAC of April 26, 2002

Status of School Network Project (ERate funded)

Puerto Rico Department of Education

April 26, 2002

Background details

- Previous presentation
  - Jan 15, 2002
- Integrated three sided strategy:
  - Center (network)
  - Schools
  - PRDOE (central office)
- PRDOE fund commitment
  - Children's Trust Fund

Background details

- QZAB bonds
- Local funds

USAC requests from last meeting

- Auditable report
  - Submitted
- Summary of payments made to vendors
  - Auditors still working on it
  - Not enough data found
  - Exhibit 1: Table of payments

April 2002 (Confidential) 3

Background details

- Other documents sent
  - Copy of indictment

Year 5 application submitted

Funding for year 4 still pending

- Needed to continue with recovery
- "Agreement" for one vendor cancelled

April 2002 (Confidential) 4

Three sided strategy: center

- Detailed evaluation for all schools
  - Performed last February
  - Collaborative effort using technicians from several government agencies
    - 100 groups of 2 technicians, 16 schools per group, 4 schools per day, 4 days
  - Data collected from 1,184 schools (77%)
    - Data from 25 additional schools received later

April 2002 (Confidential) 5

Three sided strategy: center

- Preliminary findings confirmed
  - Servers and comm equipment installed in inappropriate places (24%)
  - Innapropriate electrical connections (48%)
  - Innapropriate security (40.5%)
  - Lack of ventilation in cabinets (38%)
  - Lack of furniture to place the equipment
  - Very little knowledge regarding the benefits of the project
  - School directors not involved in the project

April 2002 (Confidential) 6

Three sided strategy: center

- Seek accountability from vendors
  - Jan 15: "In 2 months we went from 2 schools to 216"
  - In the following month we went from 216 schools to less than 100
    - One Internet access contract cancelled
  - But then back again to 318+ schools communicated and accessing Internet
    - Only phase 1 schools

April 2002 (Confidential) 7

Three sided strategy: center

    - Exhibit 2: Report on school status
  - New school setup in 400 schools
    - New cabinets (larger size, properly located, UPS, fans, proper electrical outlets, 12 additional drops in school library)
  - Uptime stability improving
  - Third party (Microsoft) certification
  - Effort still going on
  - Exhibit 3: Cabinet pictures

April 2002 (Confidential) 8

Three sided strategy: center

- Centralized administration/support approach
  - Has proven to be very useful, particularly for:
    - Troubleshooting, server administration and software distribution,
  - "Wake on LAN" capability required on servers

April 2002 (Confidential) 9

Three sided strategy: schools

- Provide computers to schools
  - 42 laboratories ready to be used:
    - No access to Internet in phase 2 schools due to cancellation of Internet access contract
    - Exhibit 4: Mobile lab pictures
  - 25 new fixed laboratories about to be finished (May 1)
    - Exhibit 5: Fixed lab pictures

April 2002 (Confidential) 10

Three sided strategy: schools

- 33 new labs (fixed + mobile) being installed
  - Competitive approach
- Computer bid been conducted
  - 3,000 desktop computers
  - To provide quick access to Internet
  - Temporary alternative
  - Installing laboratories takes longer (procurement time, implementation time)

April 2002 (Confidential) 11

Three sided strategy: schools

- Exhibit 6: RFP for desktop computers
- New bid for laboratories
  - 300 new laboratories
    - Mobile + fixed
- Design/implement teacher training program
  - 12,498 teachers trained as of Jan 15

April 2002 (Confidential) 12

Three sided strategy: schools

- 4,300 extra teachers trained by the end of this semester
- 3,000 teachers to be trained during summer
- Exhibit 7: Memo from Ana Helvia Quintero on professional development, Training table (by region)

April 2002 (Confidential) 13

Three sided strategy: schools

- Design/implement programs to start using technology as a teaching tool
  - Training conducted for 155 teachers from 31 "Escuelas de Iniciativa"
    - Course delivery system (Blackboard), productivity tools
  - More than 150 activities already designed
  - Mobile labs already being used
  - Exhibit 8: CENIT report, photos

April 2002 (Confidential) 14

Three sided strategy: schools

- Other activities:
  - Designed technology standards for students, teachers and administrators
  - Designed course outlines for:
    - Integration of computers in curriculum
    - Internet as a research tool
    - Comply with "No child left behind"
    - Exhibit 9: Standards, outlines
  - Title 2-d funds oriented towards our technological and academic plans

April 2002 (Confidential) 15

Three sided strategy: schools

- Implement a school repair program
  - Electrical repairs being conducted
    - 13 electrical stations
    - 150 power distribution repairs
    - Exhibit 10: Electrical needs table
  - Electrical repairs from Proyecto 1000
    - See separate report

April 2002 (Confidential) 16

Three sided strategy: PRDOE

- Build new local area network infrastructure
  - Project almost finished
    - At least 80% completed
  - Exhibit 11: LAN project purchase order and photos

April 2002 (Confidential) 17

Three sided strategy: PRDOE

- Implement new server infrastructure
  - Bid is being conducted
    - Exhibit 12: RFP for server infrastructure
  - Proposals already received (April 18)

April 2002 (Confidential) 18

Three sided strategy: PRDOE

- Establish Help desk
  - Help desk tracking software already installed
    - Exhibit 13: Help desk reports
  - 84 support technicians will be trained this summer to provide support locally to districts
    - Exhibit 14: CITED photos

April 2002 (Confidential) 19

Three sided strategy: PRDOE

- District directors being involved in the project
  - One director from each region
  - Approach to make them "project owners"
  - Meeting already held with district directors

April 2002 (Confidential) 20

Three sided strategy: PRDOE

- Project administration
  - Steering committee appointed to closely follow up on the project
    - Headed by Dra. Collazo
      - Associate Executive Secretary of Education
    - Weekly meetings
    - Follow up reports

April 2002 (Confidential) 21

Things to be addressed

- Maintenance and support
  - Increase school Help desk support
    - Train Help desk people
  - Establish centralized/distributed maintenance/service group (year 5)
- Improve stability in communication lines
- Accelerate procurement process
- Accelerate academic projects

April 2002 (Confidential) 22

Pending issues

- Recovery of Phase 2 schools
- Year 4 funding
  - Urgently needed to:
    - Install backbone for phase 1 schools
    - Pay recurring charges
    - Provide Internet access fom different places within the school
    - Etc.

April 2002 (Confidential) 23

Final remarks

- Corrective actions have continued
  - Actions consistent with strategies
  - Additional evidence available
- Significant progress accomplished
  - Regardless of contractual issues
- Project status closely watched
- All important aspects being addressed
- "Vendor pushing strategy" continues

April 2002 (Confidential) 24

TAB 18

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

dez, Ph.D.

Letter to Atty. Jane E. Mago, General Counsel
to the Federal Communications Commission

January 30, 2003

EXHIBIT V

s update presentation to USAC of October 1, 2002

Background Details

- Significant fund commitment
  - Children's Trust Fund
  - QZAB funds
  - Local funds
- Significant amount of funds already invested
  - At least 136 million

Oct 1, 2002 (Confidential) 3

Background Details

- Significant progress achieved
  - Progress supported by evidence
- USAC reaction from last meeting
  - Statutory analysis being performed
    - "It will take longer than weeks"
  - "Keep working and keep us informed"
- Issues
  - Funding for year 4 still pending
  - Year 5 application also pending
  - Form 470 for year 6

Oct 1, 2002 (Confidential) 4

Three Sided Strategy: **Center**

- Detailed evaluation for all schools
  - April 26:
    - Preliminary findings confirmed
      - S ervers and comm equipment installed in inappropriate places (24%)
      - Innapro priate electrical connections (48%)
      - Innapro priate security (40.5%)
      - Lack of ventilation in cabinets (38%)

Oct 1, 2002 (Confidential) 5

Three Sided Strategy: **Center**

- Detailed evaluation for all schools
  - Oct 1:
    - Preliminary findings already addressed in 400 schools ("Proyecto 400")
      - Ne w cabinets (larger size, properly located, UPS, fans, proper electrical outlets, 12 additional drops in school library)
      - More than 1 million dollars invested by Puerto Rico Telephone
      - E xhibit 1: School setup pictures
        - Ol dSetup1, OldSetup2, NewSetup1, NewSetup2, NewSetup3
      - B ut, additional resources needed for remaining Phase 1 schools

Oct 1, 2002 (Confidential) 6

Three Sided Strategy: **Center**

- Seek accountability from vendors
  - Jan 15:
    - In 2 months we went from 2 schools to 216
  - April 26:
    - In the following month we went from 216 schools to less than 100
      - One Internet access contract cancel led
    - But then back again to 318+ schools communicated and accessing Internet
      - Only phase 1 schools

Oct 1, 2002 (Confidential) 7

Three Sided Strategy: **Center**

- Seek accountability from vendors
  - Oct 1:

Line availability	
% availability	# of schools
95 to 100	182
80 to 94.9	297
50 to 79.9	111
0.5 to 49.9	90
0	70
Total	750

    - 479 schools with 80%+ availability

Oct 1, 2002 (Confidential) 8

Three Sided Strategy: **Center**

- Seek accountability from vendors
  - Oct 1:

Server validation	
Schools validating:	# of schools
Overall (since March 20)	591
Last week	458
Last Friday	418

Three Sided Strategy: **Center**

- Seek accountability from vendors
  - Oct 1:
    - Proyecto 400 already finished
    - Big emphasis being placed on improving line availability and server validation
      - Deta iled statistics collected and analyzed
      - E xhibit 2: Availability table

Three Sided Strategy: Center

- Centralized administration/support approach
  - April 26:
    - Has proven to be very useful, particularly for:
      - T roubleshooting, server administration and software distribution,
    - "Wake on LAN" capability required on servers

Oct 1, 2002 (Confidential) 11

Three Sided Strategy: Center

- Centralized administration/support approach
  - Oct 1:
    - Continues to prove useful for:
      - T roubleshooting, server administration and software distribution
    - Many schools remotely configured
    - New servers for school laboratories will have "Wake on LAN" capability
    - Exhibit 3: Remote administration
      - Rem oteAdmin1
      - Rem oteAdmin2

Oct 1, 2002 (Confidential) 12

Three Sided Strategy: **Schools**

- Provide computers to schools
  - April 26:
    - Laboratory installation
      - 42 laboratories ready to be used
      - 25 new fixed laboratories about to be finished (by May 1)
      - 33 new labs (fixed + mobile) being installed

Oct 1, 2002 (Confidential) 13

Three Sided Strategy: **Schools**

- Provide computers to schools
  - April 26:
    - Computer bid been conducted
      - 3,000 desktop computers
      - To provide quick access to Internet
      - Temporary alternative
      - Installing laboratories takes longer (procurement time, implementation time)
    - New bid for laboratories
      - 300 new laboratories

Oct 1, 2002 (Confidential) 14

Three Sided Strategy: Schools

- Provide computers to schools
  - Oct 1:
    - 67 laboratories already installed
      - 25 fixed + 42 mobile
    - 35 new ones being installed
      - 19 fixed + 16 mobile
    - 102 laboratories in total
    - Exhibit 4: Video on fixed laboratories
      - FixedLabsVideo
    - Exhibit 5: Pictures on mobile labs
      - Mobile1
      - Mobile2

Oct 1, 2002 (Confidential) 15

Three Sided Strategy: Schools

- Provide computers to schools
  - Oct 1:
    - 3,300 computers already ordered from special bid (2/school)
      - To provide quick access to Internet
      - Exhibit 6: Purchase order1, Purchase order2
    - New bid for laboratories already opened
      - 400 new laboratories (instead of 300)
        - Mobile + fixed
      - Proposals received on August 16
        - Exhibit 7: NewspaperAdForBid

Oct 1, 2002 (Confidential) 16

Three Sided Strategy: **Schools**

- Design/implement teacher training program
  - April 26:
    - 12,498 teachers trained as of Jan 15
    - 4,300 extra teachers trained by the end of this semester
    - 3,000 teachers to be trained during summer

Oct 1, 2002 (Confidential) 17

Three Sided Strategy: **Schools**

- Design/implement teacher training program
  - Oct 1:
    - 5,854 teachers trained last semester
    - 5,248 teachers trained during the summer
    - 23,000+ teachers trained so far
    - 4,000 extra teachers to be trained this semester
    - Exhibit 8: Teachers trained/funds spent
      - TablaTotalMaestrosAdiestrados
      - TablaPresupuestoAdiestramientoMaestros

Oct 1, 2002 (Confidential) 18

Three Sided Strategy: **Schools**

- Design/implement teacher training program
  - Oct 1:
    - New teacher survey being conducted
      - 27,455 teachers answered so far (65%)
      - Very encouraging results
    - Exhibit 9: Teacher survey results

Oct 1, 2002 (Confidential) 19

Three Sided Strategy: **Schools**

- Design/implement programs to start using technology as a teaching tool
  - April 26:
    - Training conducted for 155 teachers from 31 "Escuelas de Iniciativa"
      - Course delivery system (Blackboard), productivity tools
    - More than 150 activities already designed
    - Mobile labs already being used

Oct 1, 2002 (Confidential) 20

Three Sided Strategy: **Schools**

- Design/implement programs to start using technology as a teaching tool
  - Oct 1:
    - "Roll out" project being organized
    - On line courses being designed

Oct 1, 2002 (Confidential) 21

Three Sided Strategy: **Schools**

- Other activities:
  - April 26:
    - Designed technology standards for students, teachers and administrators
    - Designed course outlines for:
      - Integrat ion of computers in curriculum
      - Internet as a research too l
    - Title 2-d funds oriented towards our technological and academic plans

Oct 1, 2002 (Confidential) 22

Three Sided Strategy: **Schools**

- Other activities:
  - Oct 1:
    - Designed manual to guide and control the use of Internet in schools
    - Exhibit 10: Copy of manual

Oct 1, 2002 (Confidential) 23

Three Sided Strategy: **Schools**

- Implement a school repair program
  - April 26:
    - Electrical repairs being conducted
      - 13 electrical stations
      - 150 power distribution repairs
    - Electrical repairs from Proyecto 1000

Oct 1, 2002 (Confidential) 24

Three Sided Strategy: **Schools**

- Implement a school repair program
  - Oct 1:
    - Electricity in 86 additional schools will be repaired
      - B oth power plant and power distribution (cabling)
    - Seven additional million dollars will be invested from School Renovation Program
    - Exhibit 11: List of schools to be repaired

Oct 1, 2002 (Confidential) 25

Three Sided Strategy: **PRDOE**

- Build new local area network infrastructure
  - April 26:
    - Project almost finished
      - At least 80% completed
  - Oct 1:
    - Project 99% finished
      - Only some training and documentation missing.
    - Local Area Network stability significantly improved
    - Exhibit 12: LAN photos
      - OldFloorCabinet, NewFloorCabinet, BothFloorCabinets
      - OldCabling, NewCabling, NewCabling2
      - OldMainSwitch, NewMainSwitchUnderConstruction
      - OldCablingVideo

Oct 1, 2002 (Confidential) 26

Three Sided Strategy: PRDOE

- Implement new server infrastructure
  - April 26:
    - Bid is being conducted
    - Proposals already received (April 18)
  - Oct 1:
    - Implementation already started (end of July)
    - About 66% already completed
    - Exhibit 13: Server cabinet photos
      - CurrentServers2, NewServers1, NewServers2

Oct 1, 2002 (Confidential) 27

Three Sided Strategy: PRDOE

- Establish Help desk
  - April 26:
    - Help desk tracking software already installed
    - 84 support technicians will be trained this summer to provide support locally to districts
  - Oct 1:
    - 38 people in Help desk
      - 27 of them located at the regions
      - 84 support technicians were trained as Microsoft Office User Specialists (MOUS)
    - 7 new LAN managers already hired
    - Training in MCP Windows XP will be provided
    - Exhibit 14: List of Help desk personnel

Oct 1, 2002 (Confidential) 28

Three Sided Strategy: PRDOE

- District directors being involved in the project
  - April 26:
    - One director from each region
    - Approach to make them "project owners"
    - Meeting already held with district directors
  - Oct 1:
    - 84 district support technicians were trained in the design of plans to incorporate technology into the curriculum

Oct 1, 2002 (Confidential) 29

Three Sided Strategy: PRDOE

- Project administration
  - April 26:
    - Steering committee appointed to closely follow up on the project
  - Oct 1:
    - Steering committee continues to meet

Oct 1, 2002 (Confidential) 30

Things to Be Addressed

- Maintenance and support
  - April 26:
    - Increase school help desk support
      - Train help desk people
    - Establish centralized/distributed maintenance/service group (year 5)
    - Improve stability in communication lines
    - Accelerate procurement process
    - Accelerate academic projects

Oct 1, 2002 (Confidential) 31

Things to Be Addressed

- Maintenance and support
  - Oct 1:
    - Establish centralized/distributed maintenance/service group (ERATE year 5)
    - Improve availability in schools connected
    - Accelerate academic projects
- Improve coordination of complementary projects at school level
  - Electricity repairs, laboratory installation, teacher training, Proyecto 400, line recovery and technology integration project

Oct 1, 2002 (Confidential) 32

Summary of Accomplishments

- From practically no schools connected to 475+ schools connected (with good availability)
- From basically no computers to use the network to:
  - 102 laboratories installed
  - 3,300 computers ordered (2/school)
  - 400 additional labs already bided
- From very few teachers trained to:
  - 23,000+ teachers already trained
- From improperly installed communications equipment at schools to a new internal communications setup for 400 schools (Proyecto 400)

Oct 1, 2002 (Confidential) 33

Summary of Accomplishments

- From a mess of cables and switches to a new standards-based central office LAN
  - 3,500 drops
  - 18 switch/routers
- From dozens of non-manageable servers to a new central office server and storage infrastructure (under implementation)
  - 38 new servers
  - 2 terabytes of storage (2,000,000,000,000)
  - Storage area network (SAN)

Oct 1, 2002 (Confidential) 34

Summary of Accomplishments

- From 0 to 38 help desk people
- From minor technology integration efforts to one pilot technology integration project (CENIT)

Oct 1, 2002 (Confidential) 35

$$$ Already Invested

Investment summary	
Concept	Amount
Central office LAN	1.3 M
Central office servers	2.0 M
102 laboratories	8.5 M
3,300 PCs	5.6 M
Teacher training	2.0 M
Technology integration project (CENIT)	1.0 M
Proyecto 400 (PRTC)	1.0 M
Software	17.0 M
Microsoft contract	16.4 M
School repairs P1000	80.0 M
Total	134.8 M

Oct 1, 2002 (Confidential) 36

Pending Issues

- April 26:
  - Recovery of Phase 2 schools
  - Year 4 funding
    - Urgently needed to:
      - Install backbone for phase 1 schools
      - P ay recurring charges
      - P rovide Internet access from different places within the school
      - E tc.

Oct 1, 2002 (Confidential) 37

Pending Issues

- Oct 1:
  - Recovery of Phase 2 schools
    - Pilots being conducted in three schools
  - Year 4 funding:
    - Desperately needed to continue with recovery
    - Recovery process based on vendors expectations for year 4
    - Effectiveness of our "vendor pushing strategy" affected by delay in year 4 decision
  - Year 5 application
    - Funds needed to keep project operational
  - Form 470 for year 6 is due soon
  - Continuity of the recovery process is in jeopardy

Oct 1, 2002 (Confidential) 36

Final Remarks

- Corrective actions have continued
  - Actions consistent with strategies
  - Strategies already validated
  - Additional evidence available, if needed
- Significant progress accomplished
  - Regardless of contractual issues
  - Regardless of delay in Year 4 decision
  - Project status closely watched

Oct 1, 2002 (Confidential) 39

Final Remarks

- All important aspects being addressed
  - Complementary projects
  - Bidding regulations followed
- "Vendor pushing strategy" continues
  - Current vendor committed to project recovery
- PRDOE has complied with all requisites of USAC letter of Dec 5, 2001

Oct 1, 2002 (Confidential) 40

Final Remarks

- But we are running out of gas!!
  - Technology projects are highly affected by time
  - Motivation and credibility are also highly affected
  - Additional delays may kill the project
  - We understand you have to evaluate
- We respectfully request a decision!!

TAB 19

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

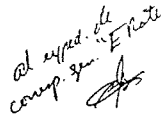
César A. Rey Hernández, Ph.D.
Secretary

Letter to Atty. Jane E. Mago, General Counsel
to the Federal Communications Commission

January 30, 2003

EXHIBIT VI

- Letter of Secretary César A. Rey to USAC of September 27, 2002 requesting immediate availability of funding for years 4 and 5 and related memoranda.



Commonwealth of Puerto Rico
DEPARTMENT OF EDUCATION

César A. Rey Hernández, Ph.D.
Secretary

September 27, 2002

Mr. George McDonald
Vice Presidente
USAC
2120 L St. NW Suite 600
Washington, DC 20037

Dear Mr. McDonald,

We received a letter from you dated December 5, 2001 announcing USAC's decision to withhold further ERate funding for Puerto Rico based on your concerns about our Department's capability to effectively provide the services for which you had been authorizing discounts for years 1, 2 and 3.

To comply with your request, we conducted a set of presentations to a committee compose of you, Mark Seifert, Tom Clines and Charles Walter. These presentations were held on February and April of this year. The last one will be made on next Tuesday October 1st, 2002. Throughout these presentations we have provided USAC:

1. A description of the state of the project when this administration took over on January 2001.
2. The reports of the preliminary findings of the initial assessment of the project that we had been conducting out our own initiative since the summer of 2001.
3. The scope for the project as determined by our administration to validate the concept and performance of the work done by the suppliers.
4. The results of the validation process of summer 2001.

P.O. BOX 190759, SAN JUAN, PUERTO RICO 00919-0759 • PHONE: (787) 759-2000 EXTS.: 2404, 4404 • FAX: (787) 250-0275

The Department of Education does not discriminate in its activities, educational services or employment opportunities on the basis of race, color, sex, age, birth, national origin, social condition, political ideas, religious beliefs or any handicap

5. The Recovery Plan designed by PRDOE to make the project viable.

6. Evidence of the outcome of the Recovery Plan on February, April and September 2002.

We have no doubt that we have specifically and properly addressed each and every concern stated in your letter of December 2001, and have fully complied with all of your requests contained therein.

The reports that we have submitted to USAC fully supports our fulfillment of your conditions for the availability of funding for years 4 and 5. The time has come for the approval of further funding. We cannot stay at a perpetual standstill.

More than 660,000 Puerto Rican children should not be penalized by being deprived from one of the very best technology projects available in our country. They have already lost too many opportunities because of the unavailability of the ERate project products. Every year lost means that 50,000 Puerto Ricans graduates from high school without the opportunity of overcome the technology divide. People or entities responsible for past misconduct within this project should continue to be investigated and, if need be, prosecuted. We will continue to provide you with the results of our own findings.

I am requesting the immediate availability of funding for years 4 and 5 in order to complete the recovery of this most important project in order to provide our people on an equal opportunity basis the educational and technological skills necessary to close the technology divide within our country. I will personally make the presentation to be held next Tuesday, October 1st, 2002 and the request for funds availability will be the primary point of our Agenda.

Thank you for the opportunity to present to USAC the results of our efforts to recover this project. We are ready to move forward and hope that so will be USAC.

Sincerely,

César A. Rey Hernández, Ph.D.
Secretary

BUFETE BENNAZAR, CSP
ABOGADOS Y NOTARIOS

APARTADO POSTAL 194000 - NÚM. 212
SAN JUAN, PUERTO RICO 00919-4000
Teléfono: (787) 754-9191
Fax: (787) 764-3101
bennazar@microjuris.com

J. Bennazar Zequeira
José R. García Pérez
Diego O. Pagán
Ayvia E. Millán Falero
rofine Albea Valentín

Asesores
Edward M. Borges
omasa del C. Vázquez
ne A. Becker Whitaker

Edificio Unión Plaza, Penthouse A
Avenida Ponce de León 416
Hato Rey, PUERTO RICO 00918

FAX TRANSMITTAL SHEET

Date: January 22, 2003

Sent to : Mr. Louis Peraertz, Esq.
Client: Departamento de Educación
Fax No.: (202) 418-2822
Telephone No.:
From: A. J. Bennazar Zequeira
Subject: P. R. Department of Education
Our file number: 7-2692

Number of pages including this one: 4

***Message*:**
Dear Louis: This will confirm that Dr. Carmen Collazo, Prof. Arnaldo Ramos and the undersigned will be meeting with General Counsel Mago, and hopefully Atty. Mark Seifert and yourself next Thursday, January 23, at your offices at 2:15 P.M.

Enclosed please find copy of my memorandum of today to Mr. George McDonald of USAC, and copy of Secretary César Rey's letter to him of September 27, 2002 which we discussed with General Counsel Mago during our visit to your offices on October 1. We will be looking forward to the FCC's position regarding our request.

Cordially,

A. J. Bennazar Zequeira

c: The Honorable César Rey
Mr. George McDonald
Dr. Carmen Collazo
Prof. Arnaldo Ramos
Dr. Irma Alicia Rodríguez

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BUFETE BENNAZAR, CSP
ABOGADOS Y NOTARIOS

APARTADO POSTAL 194000 - NÚM. 212
SAN JUAN, PUERTO RICO 00919-4000
Teléfono: (787) 754-9191
Fax: (787) 764-3101
bennazar@microjuris.com

Edificio Unión Plaza, Penthouse A
Avenida Ponce de León 416
Hato Rey, PUERTO RICO 00918

J. Bennazar Zequeira
osé R. García Pérez
Diego O. Pagán
lyvia E. Millán Falero
roline Alicea Valentín

Asesores
Edward M. Borges
omasa del C. Vázquez
ae A. Becker Whitaker

January 22, 2003

VIA TELECOPIER (202) 776-0080

Mr. George McDonald
USAC Vice President
Schools and Libraries Division
Washington, D.C.

Re: E-Rate Funding for Puerto Rico, Years 4 and 5

Dear George:

This will confirm our prior telephone conversations to the effect that next Friday, January 24, 2003 Dr. Carmen Collazo, Undersecretary of Education for Administrative Affairs, Prof. Arnaldo Ramos, Information Systems Consultant to the Secretary, and the undersigned will visit your offices at 9:00 A.M. to follow-up on our request for the availability of funding for years 4 and 5 for the public schools system of the Commonwealth of Puerto Rico.

For easy reference, enclosed please find copy of the letter dated September 27, 2002 that the Honorable César A. Rey Hernández, Puerto Rico Secretary of Education, addressed to you and which we had the opportunity to discuss in detail during our meeting on October 1, 2002. We are looking forward to USAC's response, and are hopeful that it will be positive.

Cordially,

A. J. Bennazar Zequeira

/mt
Encl.
c: Hon. César A. Rey Hernández
Jane E. Mago, Esq. (General Counsel - FCC)
Dra. Carmen Collazo
Prof. Arnaldo Ramos
Dra. Irma Alicia Rodríguez

TAB 20

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

César A. Rey Hernández, Ph.D.
Secretary

Letter to Atty. Jane E. Mago, General Counsel
to the Federal Communications Commission

January 30, 2003

EXHIBIT VII

- September 18, 2001 preliminary report to PRDOE by *ARJ Professional and Consulting Services, Inc.* with appendix.

  - Contains an independent evaluation of the RE-EDUCATE (E-Rate funded) project.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

Strictly Confidential

"REEDUCATE" NETWORK EVALUATION REPORT

Prepared by:

Adonay Ramírez Jiménez
Apartado 30170
San Juan, PR 00929-1170

September 18, 2001

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3 CONTRACTS BETWEEN THE DEPARTMENT OF EDUCATION AND THE PUERTO RICO TELEPHONE COMPANY, DRC CORPORATION, AND MICROSOFT

4 CONCLUSIONS AND RECOMMENDATIONS

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"REEDUCATE" NETWORK
EVALUATION REPORT

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DEPARTMENT OF EDUCATION
"REEDUCATE" NETWORK
EVALUATION REPORT

STRICTLY CONFIDENTIAL

I. INTRODUCTION

This report contains the results of the evaluation of the project being carried out by the Department of Education to implement a telecommunications network that will make data, voice, and video transmission possible from all schools in Puerto Rico to their central offices.

For ease of reading, this report is broken into sections and paragraphs. The sections are:

Section I.	Objectives and scope
Section II.	Results of the project evaluation
Section III	Summary of the aspects that are considered significant with respect to the contracts entered into by the Department with Puerto Rico Telephone, DRC Corporation, and Microsoft Corporation.
Section IV.	Conclusions and some suggestions regarding the action plan to be followed with respect to the project.

This section I is divided into the following paragraphs:

I.1	Background of the project: Discusses the reasons for this study.
I.2	Objectives and scope: Establishes the objectives and limitations associated with this evaluation.
I.3	Methodology: Summarizes the methodology used in conducting the evaluation.

I.1 Background of the project

The Department of Education of Puerto Rico (DE), under the auspices of the Schools and Libraries Division (Erate), is implementing a project the purpose of which is to create a telecommunications network that will make data, voice, and video transmission possible from all schools in Puerto Rico to their central offices. Implementation of this network, known as "RE EDUCATE," has been going on in phases since 1998.

The first and second phases of the project were completed in 1998-1999 and 1999-2000. They entailed installing T1 lines and communications equipment in 1540 schools and installing internal cabling between all the classrooms in the phase I schools and the site where servers will be installed. Also, three antennas (access points) were installed in each phase II school, each with the capacity to accept up to 300 connections and two servers per school, for a total of 1560.

The third phase began during the past academic year (2000-2001). It involves the installation of lines and the internal communications for some 100 schools not included in the previous phases and the acquisition of 4600 additional servers for the schools.

The fourth phase of the project is planned for this academic year (2001-2002). This phase will complete installation of the lines that could not be installed in the previous phases and will complete the internal network in the schools.

Due to the magnitude of this project, the DE felt it was necessary to objectively evaluate it in order to determine:

I.1.1. The effectiveness of the plans developed by the DE, DRC Corporation, Puerto Rico Telephone Company, and Microsoft for network implementation.

I.1.2. The administrative structure established by the DE to support this project.

I.1.3. The problems and other situations that arose during project development and implementation.

I.1.4. The degree of satisfaction of network users and the level of service.

I.1.5. How well the outside companies that are participating in project implementation are complying with the contractual commitments established between those companies and the DE.

I.2 Objectives and Scope

The objectives of this evaluation are:

I..2.1. To evaluate the work performed for project implementation by the DE and DRC Corporation, Puerto Rico Telephone, and Microsoft Corporation in accordance with the contractual commitments actually established between those companies and the DE.

I.2.2. To determine the effectiveness of the plans developed by the DE and the aforementioned companies for network implementation.

I.2.3. To identify the problems and other situations that arose during project implementation.

I.2.4. To determine the network users' degree of acceptance and satisfaction.

I.2.5. To determine the degree of the existing project documentation.

I.2.6 To determine the network's functionality and current level of service.

The evaluation included analysis of the following functions:

1. Project administration and management
2. Planning for network implementation
3. Organization and administrative structure to support implementation
4. Utilization of resources and measures of control
5. Current phase of project implementation

The evaluation also entailed the reading and analysis of the scant documentation obtained during the period of study with respect to the project, and the conducting of interviews with Department employees who, to a greater or lesser extent, participated in or have been associated with it. Interviews were also conducted with key personnel from Microsoft Corporation, DRC Corporation, and Puerto Rico Telephone Company.

The scope of this work consists of compiling, in one document, the situations that have affected or are affecting the network implementation process. It also compiles strategies and actions that have proven effective as part of the implementation.

It also includes, as a result of this evaluation process, some recommendations, presented only in the hope that the DE can use them to map out the strategies to be followed during the remaining time of the contracts with Microsoft Corporation, DRC Corporation, and Puerto Rico Telephone Company.

We should point out that this work is not an audit of the project. At no time has this option been considered as part of the scope of this study.

I.3. Methodology

The methodology used included the following phases:

Phase 1. Planning, organization, and initiation of the project.

The first phase was completed after holding several meetings with officials who are part of the management team of the Office of Information Systems and Technological Support for Teaching (OSIATD) and the Adviser to the Secretary of Education on Information Systems.

Phase 2. Evaluation of the network implementation process

The evaluation of the network implementation process, or phase 2, required a review of the resources, procedures, and approaches currently being followed as part of the network implementation process. In particular, several meetings were held with the suppliers who are participating in the project, to learn about and evaluate the strategies and action plans that they used or are following during project implementation. Also, visits were made to the schools to observe the installations of equipment and programming carried out by DRC Corporation and PRT. We talked with some principals and teachers to gauge their perception of the project and, when possible, we asked for and read the scant documentation that was provided to us during the study.

Phase 3. Reading of the contracts entered into by DE with PRT, DRC, and Microsoft Corporation.

Phase 3 was limited to reading the contracts the DE entered into with DRC Corporation, PRT, and Microsoft Corporation. The purpose was to determine the contractual commitments established and, to the extent possible, measure the project results against the commitments undertaken by those companies. Since some of the clauses are a little ambiguous or difficult to quantify or measure, part of this task rested on a subjective evaluation of the comments offered by network users, interviews with DE personnel, and an examination of related documents.

Phase 4. Analysis, presentation, and documentation of the results.

Phase 4 required the analysis and evaluation of the findings and observations made during the course of the evaluation. The conclusions and recommendations were discussed first with the Adviser to the Secretary of Education on Information Systems and OSIATD officials.

Phase 5. Preparation of the final report.

The final phase consisted of the writing and preparation of this report, which includes the results of the project evaluation.

II. EVALUATION OF THE "REEDUCATE" NETWORK IMPLEMENTATION PROCESS

This section contains the findings and observations made during the project evaluation process.

II.1 Project Administration and Management

The evaluation of project administration and management produced the following findings:

II.1.1 DE - There is insufficient evidence to demonstrate that the DE developed an internal work team with adequate separation of responsibilities and functions. Also, an action plan for project implementation allowing for effective monitoring of the tasks to be performed was not prepared. Periodic reports have not been required from the suppliers on the status of their contractual commitments, and communication with them has been mostly through telephone calls. This method of "directing" makes it possible to understand the casual or "crisis management" style that has prevailed and that seems to be the principal cause affecting project implementation.

II.1.2. Project Administration - Until June 2001, the DE did not have a project manager. One resource, who was also assigned other duties and responsibilities, acted as manager of this megaproject. The result of this action is the absence of formal procedures for management and control of the project and the absence of regular progress reports.

Effective administration would have been achieved if the DE had required periodic meetings with the suppliers and demanded the following, among other things, from them:

II.1.2.1 Work schedules. These would have made it possible to compare their progress against the schedules.

II.1.2.2 Development of standard forms and procedures for the implementation process.

II.1.2.3 Establishment of effective coordination and communication between the personnel assigned to the project by the companies and the resources [made] available by the DE.

II.1.2.4. Elimination of the recurring problems through their identification by means of daily work reports.

II.1.2.5. Requiring techniques such as "Pert charts" and "CPM" [*Translator:* acronym not found], making it possible to present the offices [sic] and activities critical for project success.

II.1.2.6 Requesting regular written reports on the status of the project.

In view of the observations made, it can be established that the suppliers of the equipment and programming were not only affected by this "crisis management" style, but were also contaminated by it. Many examples can be cited of this improvisational style and poor communications that prevailed in network implementation. For example, very few school principals know about the project and its benefits for their schools. That was corroborated during the process of implementing the project in order to provide Internet access to 100 schools in the system through the REEDUCATE network. Nor do they receive information about the date on which the suppliers will come to install the equipment. To their surprise, the suppliers come out of the blue asking for a secure room and, without further discussion, proceed to install the black boxes and the computers (as they say), creating an awkward climate between the teachers and the principal, since they sometimes select rooms that are totally inadequate -- for example, a special education room or the students' cafeteria. Moreover, OSIATD is constantly receiving telephone calls from the schools reporting the problems they are encountering with installation of the communications equipment and the computers that are going to be used as servers in the schools. Appendix 1 includes a sample of the problems reported and encountered during the validation process that was recently undertaken in attempting to provide Internet access through the network to 100 schools in the system.

II.2 Planning for network implementation

The principal findings associated with this task were:

II.2.1 Viability study for network implementation

There is no evidence that a viability study for network implementation was conducted. In a project of the scope of REEDUCATE, this document should have been the first step in conducing a careful analysis and determining the project's potential strengths and weaknesses.

II.2.2. REEDUCATE implementation plan

There is no short- or medium-term plan at the DE level for network implementation. The information we have is that the project is being implemented in phases in accordance with the fiscal years in which funds were received. In order to implement this project in an orderly, controlled fashion, and at the lowest possible cost, the DE should have prepared and required the companies participating in the project [to adhere to] a short-term implementation plan as a means of controlling the suppliers' performance. That plan should have included, at a minimum, the following:

II.2.2.1	A clear and precise statement of the strategies to be followed in order to complete network implementation
II.2.2.2	The establishment of priorities for the work in progress.
II.2.2.4 [sic]	Necessary human and financial resources.
II.2.2.5	Skills required by the personnel (of the DE and the suppliers) who would be supporting network installation.
II.2.2.6	Availability of the network for other priority DE projects and dates on which it should have been operational.

II.2.3 Schedules for the installation of equipment and programming in the schools

There is no evidence that objective and realistic schedules for installation of the equipment and programming of the network in the schools were established. Although DRC Corporation and PRT have work teams for this purpose, we have noted the absence of specific schedules for the visits and much ignorance by the schools about those visits. This is one of the reasons why project implementation is more than 18 months behind schedule.

The interesting thing is that the parties complain, but no one takes the necessary actions to resolve the problem. The DE, DRC Corporation, and PRT must sit down and have formal talks about this sensitive matter and establish the procedures and controls necessary to clear up this situation. During the evaluation of this project, we noted that the prevailing atmosphere is one of "I want to resolve [the problem] but they don't let me do the work in the schools," "in every school the Principal is a tyrant and what he says goes," "the principals don't understand the project," and so forth. It needs to be acknowledged that this perception is partially accurate. Nevertheless, DRC Corporation and PRT

should, at the outset of the project and before submitting their proposals, have evaluated the climate in which it was going to be carried out and alerted the DE to these and other situations that could affect implementation. Both companies signed contracts with the DE for many millions of dollars for the implementation of this project. Limiting itself to merely including in the contracts a clause establishing that the DE is the only party responsible for providing the physical facilities for equipment installation and network implementation does not seem to be a fair and reasonable action on its part.

II.2.4 Specific needs of the schools

In the process of conducting interviews, making visits to the schools, and studying calls received by the schools, we noted the absence of a positive attitude toward the specific needs of the schools during the process of installation of the equipment and programming. The DE has received many complaints from the school principals concerning the process that was followed. Some of these include: installations were made in rooms that should not have been used for that purpose, and then the companies had to return to move the communications cabinet and the servers. On other occasions the equipment was installed in a kindergarten classroom and installations were made in rooms with serious water leaks that damaged some of the network equipment. In other cases, installations were made in rooms with electricity problems that forced the suppliers to install electrical extension cords that crossed parts of the classrooms (sometimes over the chalkboard) and presented a danger to the students and teachers. Also, installations were made in very small rooms where there is practically no space for additional equipment or they have had to move equipment from the schools to places that are not appropriate for installation of network equipment. These situations reflect, once again, the absence of adequate planning and the poor communication that has existed among the DE, the suppliers, and the school principals. **A plan of visits to the schools prior to the visit for installation of the equipment would have made it possible for these companies to inform the DE of the physical infrastructure or electrical problems found and provided the opportunity to deal with these situations before making the installation.**

The DE should establish an effective publicity program for this project, taking into consideration, among other things:

II.2.4.1 Communicating to the schools, districts, and regions the objectives and scope of the project

II.2.4.2	Providing information on the duties and responsibilities of the schools and the suppliers of equipment and programming
II.2.4.3	Providing information on the schedules of visits to the schools
II.2.4.4	Providing information on the procedures for reporting situations during the installation of the equipment and the programming
II.2.4.2 [sic]	Providing information on the procedure for requesting maintenance of the equipment and programming
II.2.4.2 [sic]	Establishing, on an urgent basis, the procedure for requesting technical support from OSIATD.

II.2.5 Priorities for the installation of equipment and programming in the schools

The DE established as a priority installing the equipment and programming for the network in 30 schools identified as Initiative Schools. We noted that this modest goal, compared to the goal of connecting 1540 schools, had not been achieved by July 2001. This is another example of the poor planning and organization of the project.

II.2.6 Critical factors that merited special attention during project implementation

The absence of a formal implementation plan prevented the DE and the other participating companies from identifying the critical factors that should have been addressed in order to guarantee successful implementation. These work teams should learn from the past experiences and discover, on their own or together, the determining factors for complying with their contractual responsibilities and guaranteeing implementation of the network within the established time period.

Some critical factors that should have been considered are:

II.2.6.1	Infrastructure necessary at the level of the central offices, regions, districts, and schools in the DE to support the network.
II.2.6.2	Approach(es) for network administration.
II.2.6.3	Techniques for maintaining the image of the programming that will be installed in the schools.
II.2.6.4	Security system for permitting access to the network.

II.2.6.5 Costs for equipment maintenance, programming, and T1 lines once the warranty expires.

II.2.7 Integration of the network with other DE plans

We were able to read documentation on the strategies the DE has developed since January 2001 for utilization of the REEDUCATE network. These strategies, conceived by Prof. Arnaldo I. Ramos, Consultant to the Secretary on Information Systems, use a viable, realistic approach and will doubtless make it possible to integrate into the network academic projects such as distance learning and others that will help strengthen the process of teaching/learning and obtain more benefits from the network over the short and medium term. The suggested strategy consists of two phases:

- Setting up fixed and mobile laboratories in 100 pilot schools
- Establishing a viable method of administering, providing security for, and maintaining the network, using an Active Directory centralized at the DE's central office.

As of the date of this report the competitive bidding for the acquisition and installation of the laboratories is already in the process of adjudication. Also, a Request for Proposals document is being prepared for the creation of the new local network that will support REEDUCATE at the level of the DE's central offices. All that remains is to acquire the servers that make it possible to provide network security and maintenance through the Active Directory.

II.3 Organization and administrative structure to support implementation

There is no evidence of the establishment by the DE of an administrative structure with clear and specific responsibilities with regard to its functions and tasks. This structure should have considered the organization and integration, using a multidisciplinary approach, of work groups at the technical and functional level to be a critical factor.

This approach would have permitted, among other things:

II.3.1 The establishment of effective, efficient communication channels among the suppliers of the equipment and programming, the DE work team, and the personnel in charge of the schools.

II.3.2 The creation of an atmosphere of greater participation and commitment by all resources participating in the project.

II.3 The encouragement of greater tolerance of change and more willingness by network users to see it as a means of helping them achieve their individual academic objectives.

The following is the administrative structure which is recommended for continuing the implementation of this project:

Figure 1

Recommended Administrative Structure

REEDUCATE Network Project

DIRECTOR OF OSIATD

REEDUCATE PROJECT MANAGER

MICROSOFT TECHNICAL SUPPORT GROUP (6)

ADMINISTRATIVE ASSISTANT

DRC CORPORATION

COMMUNICATIONS SPECIALISTS (2)

HELP DESK (3)

PUERTO RICO TELEPHONE

USER GROUP
CITED TASK FORCE MEMBERS

II.3.3.1 The Director of OSIATD will be the DE official responsible for the project. He/she will monitor it through reports, observations in the field, and meetings with the work team and members of the school community.

II.3.3.2 Project manager - should be a consultant provided by the firm hired to administer the project. Will be responsible for project administration and implementation.

II.3.3.3 Administrative assistant. This employee is necessary because the project manager is part-time. This person will, on a day-to-day basis, receive messages from the schools, answer calls, and perform the typical office work the project requires.

II.3.3.4 "Microsoft and OSIATD technical support group" - This group will perform the technical work for the project. The members will be assigned according to the phase of the project that is being carried out. The following personnel, at a minimum, are recommended:

1. OSIATD:

   a. Telecommunications specialists (2)
   b. "Help Desk" (3)

2. MICROSOFT PERSONNEL:

   a. "Enterprise Strategy Consultants" (2)
   b. "Project Manager" (1)
   c. "Technical Account Manager" (2)

II.3.3.5 DRC Corporation personnel. This group will continue to work on the project until it fulfills its contractual responsibilities related to the installation of the equipment and programming it was hired to accomplish. Also, it will support the REEDUCATE network by rendering the service it was hired to provide, serving as ISP to enable Internet access for the schools with wireless communications infrastructures (phase II of the project).

II.3.3.6 The PRT group will continue to support the project by installing and configuring the T1 lines it is installing [sic]. It will also correct and/or re-install the communications equipment that was installed in unsuitable locations in the schools. Furthermore, it will continue to support the project through the Internet access service the DE hired it to provide for the schools with wired communications infrastructures (phase I).

II.3.3.6 [sic] "User Group" - responsible for supporting the "technical group" in the project work. Should consist of:

1. Members of the CITED Task Force at the District level.
2. DE Project Manager
3. Microsoft Project Manager.

II.3.4. Steering Committee. - The principal objective of this work group is to establish the project's direction and serve as a forum for reviewing project management and resolving conflicts. This group should be chaired by the Director of OSIATD and should consist of:

1. Adviser to the Secretary on Information Systems
2. Teaching Area representative
3. Representative of the district facilitators (leader of the user group)
4. Microsoft representative (leader of the technical group)
5. DE Project Administrator
6. Assistant to the Secretary in charge of technology

Appendix 2 includes more detailed information about the committee's functions. These should be discussed with the members as soon as the committee is formally set up.

II.4 Resource utilization and measures of control

The principal findings in connection with this task were:

II.4.1 Use of contracted resources for REEDUCATE implementation

As we have mentioned, the DE has contracted, at a cost of hundreds of millions of dollars, for the services of three companies to implement this project: Puerto Rico Telephone Company, DRC Corporation, and Microsoft Corporation. However, the evaluation of its execution [shows that it] leaves much to be desired. For example, these companies are reacting to the DE's requests and not following a short- and medium-term plan which they should have prepared in order to comply with their contractual commitments.

Moreover, the DE has not been sufficiently aggressive in demanding compliance with their commitments and effectively monitoring their day-to-day work. Some examples follow:

II.4.1.1 DRC Corporation

We do not know for certain the number of servers pending delivery or installation and configuration by this company. Although some reports have been received, this information is not included. OSIATD has evidence of the many calls received from the schools asking when the equipment will be installed.

Moreover, as we have already mentioned, the principals and teachers are very uncomfortable with the way this company is installing the servers and other equipment in the schools. The intransigence of the personnel responsible for the installation and the inappropriate selection of sites are the principal complaints being received.

II.4.1.2 Puerto Rico Telephone Company

The number of T1 lines pending installation in phases 1, 2, and 3 is not known. The numbers reflected in its reports do not agree with the installations contracted for.

Moreover, it is almost impossible to determine the number of T1 lines that are actually able to offer services and Internet access. Preliminary diagnostics carried out by the DE in August indicate that more than 40% of the lines installed are out of service. The reasons are various: PRT has not completed installation of the line or has not visited the school to configure the communications equipment; the line is not working and has not been reported to PRT; there are electricity problems in the schools that are preventing

activation of the line; the school, for whatever reason, has turned off the equipment; and so forth. Appendix 3 summarizes the principal causes of this situation.

II.4.1.3 The status of the products and services that Microsoft Corporation is supposed to deliver to the DE

In light of the report prepared by Prof. Arnaldo I. Ramos, Adviser to the Secretary on Information Systems, we can infer, as we will see later on, that Microsoft's execution of this project is far below what was expected and/or contracted for.

II.5 The project's current stage of implementation

The principal findings were as follows:

II.5.1 Current situation

At this time, the REEDUCATE network cannot meet the schools' needs. **Its condition is critical.** Thousands of servers are not working properly or not being used. The same is true of the T1 digital lines. PRT reports that there are 727 phase I schools with digital lines installed and operating. There are 737 phase II schools with lines installed and operating, and 20 more lines are being installed as part of phase III. It is also reported that 1464 phase I and II schools have Internet access. **Nothing further from the truth.** There is sufficient evidence to show that more than 50% of these lines are deactivated, others are not installed, and others are not working. This was confirmed during the project to provide Internet access to 100 schools in the system through the REEDUCATE network. Of the 100 schools selected, more than 40% do not have Internet access because of problems with the dedicated line. Another significant percentage [do not have Internet access] as a result of defective installation and configuration of the servers and problems related to the physical plant because of the place where the equipment was installed (no electricity to connect the equipment, problems with water leaks, no security in the facilities, and so forth). See appendix 1.

II.5.2 Infrastructure of the communications equipment for support of the network from the central level.

The conditions of the communications infrastructure for support of the network from the central offices are totally inadequate. Some examples follow:

II.5.2.1 Some of the servers being used are on loan.
II.5.2.2 The physical facilities at the DE for the communications area require changes on an urgent basis.

II.5.2.3	Protection for the cabling and other peripheral equipment is poor. They are exposed to accidents and damage.
II.5.2.4	There is no contingency plan to allow for continued service to the network in the event of a disaster
II.5.2.5	There is no appropriate documentation of the network that includes its technical design.
II.5.2.6	There is no complete physical inventory of the network equipment.

In light of these findings, we believe it would be extremely difficult, if not impossible, for the REEDUCATE network to be completed before June 30, 2002.

III. CONTRACTS BETWEEN THE DEPARTMENT OF EDUCATION AND THE PUERTO RICO TELEPHONE COMPANY, DRC CORPORATION, AND MICROSOFT CORPORATION.

This section evaluates the work performed by Puerto Rico Telephone, DRC Corporation, and Microsoft under the contracts executed with the DE for the implementation of this project. This was accomplished by conducting interviews with personnel from these companies and reading the contracts.

The section contains the findings and observations which, in our judgment, are of special interest to the DE. Because of the legal nature of the documents studied, at no time does the content of this section attempt to become an audit of these contracts.

Contract with DRC Corporation

III.1 Contractual commitment (DRC)

At a cost of $45,570,800.00, the DE signed Contract # 081-2001-0226 with DRC Corporation on November 14, 2000, for the provision of communications equipment, the services necessary to create a wireless network in 780 schools, and the provision of Internet service to those schools. The term of this contract was July 1, 2000 to June 30, 2001. In December 2000 the parties agreed to amendment # 081-2001-0226-A of this contract. The amended clauses were as follows:

III.1.1 Clause seven:

This clause changed the payment for the services from $45,570,800.00 to $43,487,248.00.

III.1.2 Clause eleven

This clause amended section F of the contract to extend the Internet services until June 30, 2004.

Comments

- Internet services are provided by various companies in Puerto Rico. This amendment prevented these companies from competing to offer said services and will keep them from competing until July 2005. It also prevents the DE from receiving economic benefits

as a result of obtaining a lower cost for the service, because **it cannot call for tenders for these services until July 2005.**

III.1.3 Clause fourteen

This clause is amended to contract for the Internet services for four years if eRate funds are available.

Comments

- The amendment to the contract was signed in December 2000 (the signature on the amendment does not specify the day), on the eve of a change of administration in Puerto Rico. While this action was legal, it does not typify an environment of sound management.
- A legal opinion on these contract amendments should be requested.

III.2 Scope of the Services (DRC)

The scope of the services to be offered by DRC is found on pages 1 and 2 of the contract and on page 2 of the amendment to the contract. Since the list of communications equipment and services is quite long, we have included those pages of the contract and page 2 of the amendment to the contract as appendix 4.

Comments

- As of July 31, 2001, DRC Corporation had not delivered to the schools all the communications equipment included in the contract. Nor had it completed installation of the T1 lines in the 780 schools or offered them the Internet services. Reports provided by this company indicate that approximately 300 schools have Internet access through the network. **This is not entirely true.** DRC defines "Internet access" as the digital line being active, the servers being configured, and the schools having the ability to access the Internet over one of them. The problem is that when they finish configuring the servers they leave them with a password that only they know (they say that this is to ensure that the configuration is not damaged). **So, how can the school have Internet access if it doesn't even have a PC configured to have the service? Worse still, how can DRC invoice for Internet access service to these schools?**

- Moreover, note that it is being accepted that more than 50% of the schools that are under its contract do not have Internet service. **The amendment to the contract establishes that the service to the schools would be provided between July 1, 2000 and June 30, 2001.** In this time period, DRC did not offer service to the schools covered by the contract. **Nor has it done so as of the date of this report**.

- The amount that has been paid to DRC for the services provided is unknown. Nor is it known whether invoices are being received for the Internet services to the schools and whether they are being paid. If this were the case, the DE and DRC would be committing an extremely serious violation of federal regulations. **The DE should conduct a financial audit immediately to address this matter.**

- The contract established that the installation of the communications equipment and the configuration of the servers was to have been completed by July 31, 2001. For various reasons, some attributable to the DE, this task was not completed. The question that should be asked is the following: under what contract is DRC working on this part? If under the December 2000 amendment, then this company would have until June 2004 to complete the project. This is another matter on which a legal opinion should be requested immediately.

III.3 Measures of execution and control (DRC)

As of the date of this report there is no evidence of the establishment of measures for monitoring the company's execution of its contractual obligations. Nor have we been able to obtain plans for project implementation that include schedules of visits to the schools, forms, or reports for the certification and acceptance of the T1 lines by the DE and certification and acceptance of the configuration of the servers. The company has submitted some internal use documents with the signature of some official from the schools they have visited. This document cannot be accepted as a certification. These officials are not technically qualified to certify a line or the configuration of a server. Their signature proves only that the DRC personnel visited the school and left or installed some computers.

Comments

- For this project, the DE did not establish measures of control to ensure effective monitoring.

- The DE has not conducted a formal review of this project. For example, we have no knowledge of the DE establishing a post-implementation plan for the services offered by DRC in the schools to assess the quality of the work performed.

- There are very few reports from DRC on the progress achieved in project implementation. DRC reports that it has the project documentation in its office. It is the DE that should have this type of documentation.

III.4 Costs (DRC)

Despite the amendment to the contract that permitted a cost reduction of approximately 4.6%, the total cost of $43,487,248.00 seems extremely high. Confirming this opinion is very difficult because of the way in which the contract was drawn up. It includes clauses for the acquisition and installation of equipment. It also includes others for Internet service. Since it is impossible to identify the unit cost, comparisons with the market price of the products cannot be made.

Comments

- The DE should have prepared a Request for Proposals (RFP) with the functional and technical requirements of the network and circulated it in order to receive quotes from different suppliers. By not doing this, it deprived itself of an excellent opportunity to request a total solution for creation of the network (turnkey solution) that would have enabled it to obtain the services at a lower cost while establishing the controls necessary to demand more responsibility from the company to which the project was awarded.

- In the absence of an invitation to tender, the DE should have requested a detailed breakdown of the costs for the services to be provided as a result of this contracting process.

III.5 Terms of the Contract and other conditions (DRC)

The contract does not include clauses that enable the DE to take action against DRC for poor performance. Clause TWELVE establishes only that the contract may be canceled by mutual consent of the parties through written notification stating the reasons for the cancellation. However, it does not include any type of penalty for poor service. Quite the opposite, the contract grants

thirty additional days to the company to correct irregularities and, if the contract is still cancelled, DRC must be paid for services rendered up to the date of contract termination.

Comments

- The contract terms and the conditions for its extension for a four-year period benefit only DRC.
- The contract does not establish the warranty period for the equipment that DRC is installing in the schools. Nor is there information on the cost of maintenance or replacement of that equipment after expiration of the warranty. This leaves the DE in a very awkward position with respect to maintenance of the equipment.

Contracts with PRT

Contract # 081-99-0161 for the purchase of communications equipment

III.1 Contractual commitment (PRT)

At a cost of $31,122,910.00, the DE signed contract # 081-99-0161 with PRT on October 26, 1998 for the acquisition and installation of communications equipment for 758 schools in the system and for the creation of a private digital telecommunications network.

The term of the contract was one year beginning on the date on which the DE received the funds from "Universal Service Administration" and PRT received Form 536 (date unknown) from the DE. In April 1999 the parties agreed to amendment # 081-99-0161-A of that contract. The amended clauses were:

III.1.1. Clause 1 "Equipment"

This contract clause was amended to replace Exhibit "A" of the PRT proposal to the DE for the creation of a private telecommunications network. The amendment changes the type of network to a public ATM network.

III.1.2 Clause 2 "Delivery and installation"

Section 2.5 of this clause was amended to change the date for completion of equipment installation to September 30, 1999.

Section 2.6 was amended to add a paragraph for the cancellation of the contract as of July 1, 1999 in the event that the Federal funds allocated to this project expired on June 30, 1999.

Section 2.7 was amended to establish that the equipment would be installed at the physical facilities of the schools throughout the Island and [in] the DE central offices.

Section 2.8 was abolished.

Section 2.9 was added to the contract amendment to exempt PRT from any penalty resulting from a third party failing to comply with its assigned tasks under the project.

III.1.3. Clause 3 "Price"

Section 3.1 was amended to change the project cost from $31,122,910.00 to $10,863,557.00.

III.1.4. Clause 4 "Terms"

Section 4.1 was amended to change the payment plan of this contract.

Section 4.2 was amended to establish the procedure for certifying and sending the invoices corresponding to 90% of the project's cost to Universal Service Fund.

III.1.5 Clause 7 "Maintenance during warranty period"

Sections 7.1 and 7.2 were eliminated from this clause

III.1.6 Clause 8 "General Provisions"

Section 8.5 was amended to apply Executive Order OE-1991-24 dated June 18, 1991 to the contract.

Comments

- We have not been able to obtain information on the exhibits mentioned in the sales contract and the amendments thereto. However, we note that the document does not contain clauses specifying the procedure(s) to be followed for installation of the communications equipment in the schools. As we have already said in this report, there have been many complaints by

the school principals about the way in which PRT has carried out this process. The Department should have required a detailed plan, as part of the contract, for the installation of this equipment, with clear and precise specifications of the installation site.

- From a reading of the contract and the amendments thereto we have noted that PRT ensured that its particular interests would be protected. This is not the case for the DE.

Contract # 081-99-0162 for transport services and Internet access.

On October 29, 1998, the DE signed [with] PRT, at a cost of $7,123,248.00, transport contract # 081-99-0162 for installation in the schools and the DE central offices of the following:

- An (OC3) fiber-optic [sic] for establishing connectivity with the DE, as described in Exhibit A-1 dated February 5, 1999.
- 758 (T1) lines to connect 758 schools to the PRT network.
- A dedicated port at the T1 level to provide Internet access to 758 schools.

The term of this contract is open, and the DE must pay PRT $557,926.00 each month plus a fee of $428,136.00 for installation of the equipment that had to be paid the first month of rent ???? [sic]. In April 1999 the parties agreed to amendment # 081-99-0162-A of that contract. The amended clauses were:

III.1.1 Clause 1 "PRT will furnish the following:"

This clause is amended to change the network from a private network to a public ATM network.

Installation of the private fiber-optic [sic] is changed to an OC3 ATM.

The installation of 758 private T1 lines is changed to758 T1 ATM.

III.1.2 Clause 2 "Fixed monthly rent"

This clause was amended to add that the fixed monthly rent would be on an "individual case basis" (ICB) for the PRT public ATM network.

III.1.3 Clause 3 "Monthly rent"

This clause was amended to change the monthly rent for payment of the contract. This amendment increased the cost of the network to $17,374,754.00

III.1.4. Clause 7 "Time for network installation"

This clause was amended to establish September 30, 1999 as the time for installation of the network transport services if the funds were extended to September 30, 1999.

III.1.5 Clause 8 "Starting date of transport services"

This clause was amended to include a provision for canceling the contract in the event that the funds were not extended beyond June 30, 1999.

III.1.6 Clause 9 "Maintenance Service"

This clause was amended to include the following definitions:

III.1.6.1 "Major breakdown" - total failure of transport. A service response time of two hours in the metropolitan area and four hours on the rest of the Island was established.

III.1.6.2 "Minor Outage" 50% of the network out of service at the level of the schools in a given district and [a response time of] four hours was established for service in the metropolitan area and eight hours on the rest of the Island.

III.1.7. Clause 10 "Preparation of the physical facilities in the schools for installation of the T1 lines"

This clause was amended to reduce from four to two weeks the time which the DE will have to prepare the physical facilities in the schools before the date on which the transport service will be installed. Also, a paragraph was added exempting PRT from any penalty for work by third companies that has not been completed and may cause delays in the provision of the transport service.

III.1.8 "General Provisions"

Section 8.5 was amended to apply Executive Order OE-1991-24 of June 18, 1991 to the contract.

Comments

- It is worthy of note that the DE has entered into a contract for the provision of Internet services to 758 schools without having prepared a request for proposal which, in the long run, would have permitted it to reduce the cost for this service.

- It is noted that the amendments to this contract are intended to benefit PRT. For example:

  The DE should not have accepted the definition of "minor breakdown" established in the amendment to clause No. 9. The purpose of the network is to serve as an instrument of technological support for academic programs. How can a wait for service of up to four hours in the metropolitan area and eight hours on the rest of the Island be acceptable?

  Nor should the DE have accepted the reduction from four to two weeks for preparation of the physical facilities for provision of the transport services in the schools. Given the idiosyncratic nature of the schools, this amendment was to the detriment of the DE.

III.2 Scope of the Services (PRT)

The scope of the services to be offered by PRT is included on pages 1 to 4 of the contract and on pages 2 and 3 of the amendment to the contract. These pages of the contract and of the amendments to the contract are included in Appendix 5 of this report. It is important to point out that we have not been able to obtain the Exhibits mentioned in the contract and the amendments to the contract for reading and review. The comments that follow are limited to the content of the contract and the amendments thereto.

Comments

- In the summer of 2001 the DE initiated a project to provide Internet access via the ATM network to 100 schools in the system. This effort confirmed that practically no school had this service. **However, the contract with PRT establishes that the transport service and Internet access should have been completed on September 30, 1999. What has the DE done in this respect?**

- As of the date of this report, the physical installation of the 758 T1 lines of the network is not completed. The question is: under what contract is PRT completing this network? **This is a sensitive matter that deserves special attention.**

- While we have not been able to obtain evidence, we do have information to the effect that PRT is invoicing for the Internet access service to the schools. How can this be possible if the majority of its T1 lines are deactivated or out of order? PRT alleges that the lines which the DE is reporting as deactivated or out of order are for the most part the result of the schools turning off the communications equipment. This situation has been confirmed through the validation project and in many cases this is true. The DE should take the appropriate actions to correct it. Only in this way will it be able to demand compliance from PRT. Moreover, although the equipment is activated, Internet access cannot be offered in the schools because microcomputers are not available. **This situation has very serious legal implications which the DE must address promptly.**

- The cabinets which PRT is installing to accommodate the communications equipment have no fan to cool down the internal environment. For the network to be functional, the communications equipment and the T1 must be activated at all times, and this is causing high temperatures in the cabinet that are damaging the communications equipment. Many reports are being received from the schools to the effect that the equipment has been damaged and even burned. This situation shows once again the lack of adequate planning to take into account the preparation of specifications addressing the particular features of the rooms in the school system. Since this was not done, PRT was allowed to select the communications equipment to be used in the network which, as one can see, is not the best strategy. If the DE wanted to raise an issue about the absence of fans in the cabinets, I do not believe it would have sufficient arguments to prevail. It must rely on the good will of PRT to address the situation.

III.3 Measures of execution and control (PRT)

As of the date of this report there is no evidence of the establishment by the Department of measures for monitoring the company's execution of its contractual obligations. Nor have we been able to obtain plans for project implementation that include schedules of visits to the schools, forms, or reports for the certification and acceptance of the T1 lines and the communications equipment purchased from PRT. The company has submitted some internal use documents with the signature of some official from the schools they have visited. This document cannot be accepted as a certification. These officials are not technically qualified to certify a line or the configuration of a piece of equipment. Their signature proves only that the PRT personnel visited the school and installed a piece of equipment.

Comments

- For this project, the DE did not establish measures of control to ensure effective monitoring.
- The DE has not conducted a formal review of this project. For example, we have no knowledge of the DE having established a post-implementation plan for the services offered by PRT in the schools in order to assess the quality of the work performed. This plan should include a schedule of visits to the schools by DE personal to certify the T1 lines and the equipment that PRT has installed.
- There are very few reports from PRT on the progress achieved in project implementation. PRT reports that it has the project documentation in its office. It is the DE that should have this type of documentation.

III.4 Costs (PRT)

The total cost of this project seems extremely high. Confirming this opinion is very difficult because of the way in which the contract was drawn up. It includes clauses for the acquisition and installation of equipment. It also includes others for transport and Internet access. Since it is impossible to identify the unit cost for those services, comparisons with the market price of the products cannot be made.

Comments

- The DE should have prepared a Request for Proposals (RFP) with the functional and technical requirements of the network and circulated it in order to receive quotes from different suppliers. By not doing this, it deprived itself of an excellent opportunity to request a total solution for creation of the network (turnkey solution) that would have enabled it to obtain the services at a lower cost while establishing the controls necessary to demand more responsibility from the company to which the project was awarded.
- In the absence of an invitation to tender, the DE should have at least requested a detailed breakdown of the costs for the equipment and services to be provided as a result of this contracting process.

III.5 Terms of the Contract and other conditions (PRT)

The contract does not include clauses that enable the DE to take action against PRT for poor performance. Clause NINE establishes only that the contract may be canceled through written notification thirty days in advance of the cancellation date. However, it does not include any type of penalty for poor service.

Comment

- With respect to the warranty on communications equipment, PRT establishes in the contract that it is for one year after acceptance by the DE. However, there is no information on the cost of maintenance or replacement of that equipment after expiration of the warranty. This leaves the DE in a very awkward position with respect to maintenance of the equipment.

Contracts with Microsoft Corporation

Professor Arnaldo I. Ramos performed an excellent evaluation of the contract between this company and the DE last February. His authorization to include part of that evaluation in this report was requested.

III.1 Contractual commitment (Microsoft)

In March 2000, the (DE) and the Office of Management and Budget (OMB) signed a contract with Microsoft Corporation for the design, management, and implementation of the Department of Education's technological infrastructure. Specifically, this contract concerns the infrastructure for the installation of 2000 servers and 60,000 computers along with the necessary programming. The DE was to have purchased the products. The contract became effective on April 1, 2000, and terminates on March 15, 2004 (or when the work is completed) and is for the amount of $24.7 million. This amount also includes the cost of specific numbers of licenses for various programs (specified below) and various consulting services (also specified below).

III.2. Scope of the Services (Microsoft)

The contract is divided into four parts:

III.2.1 Production of the following deliverables:

III.2.1.1	Project administration
III.2.1.2	Design of the architecture of the servers' domains
III.2.1.3	Guides for the infrastructure part of the previous network design (specified in b), including specifications for lines and routers.
III.2.1.4	Pilot implementation and testing of the designs
III.2.1.5	Design and implementation of a strategy for installing and providing maintenance for the installed programming
III.2.1.6	Training for 1600 school facilitators
III.2.1.7	Training for 101 district facilitators
III.2.1.8	Design of the support infrastructure ("Help desk")
III.2.1.9	Training for the "Help desk" personnel

III.2.2 Delivery of the following software licenses and equipment:

III.2.2.1	60,000 Standard desktop configurations (Windows, BackOffice, Client Access, Office Professional)
III.2.2.2	60,000 Microsoft Encarta
III.2.2.3	60,000 Microsoft World Atlas
III.2.2.4	60,000 Microsoft Publisher
III.2.2.5	60,000 Microsoft Press Electronic Books
III.2.2.6	2,000 BackOffice Server
III 2.2.7	Upgrades for the above products
III.2.2.8	280 CDs with Computer Based Training (CBT) for all computer and server programs.

III.2.2.9 50 subscriptions to Microsoft TechNet and to Microsoft Developer Network.

III.2.2.10 280 CDs with the documentation for all the programs and the servers.

III.2.2.11 50 kits of all Microsoft products on CD ROM available at the time.

III.2.2.12 200 slots in technical training courses.

III.2.2.13 A monthly technology conference.

III.2.2.14 Delivery of the 37,000 laptops for the teachers.

III.2.3 The services of two people ("Enterprise Strategy Consultants") for three years to perform the following work (and other work assigned by the DE) for the administrative systems (some 10,080 hours after completion of the original 47,040 hours).

III.2.3.1 Design of the architecture for the organization and support for Microsoft products.

III.2.3.2 Planning of the migration from the legacy systems to the new technology.

III.2.3.3 Design and planning of the network

III.2.3.4 Designation and training of a person who knows the DE's operations and can be the contact with Microsoft.

III.2.3.5. Technical support services (Premier) for three years, including a person ("Technical Account Manager") to administer that support.

III.2.4 Technical support services (Premier) for three years, including a TAM.

III.3 **Measures of execution and control (Microsoft)**

III.3.1 It is not clear from the contract whether it is based on hours worked or on products. After discussions of the matter with Microsoft, they agreed

that the contract is for deliverables, except in the case of the "Technical Account Manager."

Comment

- The DE did not establish as part of the contract clear and precise measures for the control and performance of this contract.

III.3.2 Contractual responsibility. Microsoft's responsibility for decisions and approaches such as the following is not clear in the contract:

III.3.2.1	Number of servers installed in each school.
III.3.2.2	Manner in which the network will be administered.
III.3.2.3	Design of the communications network.
III.3.2.4	Manner in which the Internet services will be acquired.
III.3.2.5	Integration of the network segments for phase 1 and phase 2.
III.3.2.5 [sic]	Effectiveness of the training offered.
III.3.2.4 [sic]	Effectiveness of the support infrastructure.

Comment

- Another example of the contract's lack of clauses regarding the scope of the contracted services and measures of control that make it possible to compare the execution of the work performed with the scope of the contracted services.

III.3.3 Project administration

Comment

- Microsoft has taken a passive and reactive role in the management of the project. It has tried merely to make sense of the DE's decisions rather than being proactive, anticipating problems, and influencing the decisions made by the DE and the other companies that are involved. Integrating products and services provided by different companies into the infrastructure desired by the DE

requires a great deal of prior planning and ongoing monitoring of the decisions made and the work carried out. If this does not happen, the decisions and the work will be at variance with the desired goal.

- Management of the project has also been deficient with respect to the preparation of work plans, their monitoring, and coordination with the other companies.

- Quality control in the project is almost nonexistent on the part of Microsoft. Among other things, there are no quality reviews performed on a regular basis, and if they are performed they are not turned over to the DE.

- **Training for 1600 school facilitators**. The school facilitators are teachers who will be in charge of the technical matters in each school, in addition to conducting their regular classes. Six hundred ninety-two of these facilitators were trained last summer in the "CLAs" [*Translator:* acronym not found] of various preselected districts. Each person received three consecutive weeks of training. **This training was carried out at the wrong time**. The participants have not been able to practice what they learned because all the servers have not been installed and they are not working. Moreover, the training was not specially designed for the DE, but is the same as the Microsoft curriculum. In other words, the training did not include specific information on the configuration and the approaches followed at the DE.

- **Training for 101 district facilitators**. A total of 162 district facilitators were trained to provide technical support to the schools on a full-time basis. It is assumed that they will have a high level of knowledge in order to do this. These people were selected from among existing personnel in the districts and are not necessarily people with technical training. The training of these facilitators, which was highly technical, was provided during **12 consecutive weeks** last summer using the CLAs of various districts and some trailers. **These people have not been able to practice what they learned because the servers had not been installed and they are not working**. Moreover, the training was not specially designed for the DE but is the same as the Microsoft curriculum. In other words, the training did not include specific information on the configuration and the approaches followed at the **DE**. We do not know how many of these people, if any, have been certified in Microsoft, which was intended to be used as a measure of the effectiveness of the training.

- Design of the support infrastructure ("**Help desk**"). This product has not yet been completed.

III.3.4 Evaluation of Enterprise Strategy Consultants services

- **Comment**

The ESCs were not very productive and their functions have been rather discreet. Instead of being proactive, establishing communication channels, accepting responsibility, analyzing, and planning, as provided in the contract, the attitude has been more one of learning and experimenting. Moreover, we must accept that the DE has not participated actively in the work that these ESCs have been doing, which has affected their productivity.

III.3.5 Evaluation of technical support services and the Technical Account Manager

The Technical Account Manager (TAM) is responsible for specifying the way in which Microsoft will provide the technical support. He or she is also responsible for administering this service. It is assumed that this person is physically located at the DE. Under the established procedure, the problems are reported to OSIATD, where they try to resolve them. If Microsoft's participation is necessary, OSIATD will refer the case to the TAM, who, in turn, will consult with the respective Microsoft personnel and make sure that the problem is resolved. Under the same contract, Microsoft will provide the support services required for those problems up to 150 incidents per year.

Comments

- Microsoft has not maintained a clear separation between the personnel assigned to work on different parts of the project. In other words, in some cases they have used personnel who provide services on an hourly basis (such as the ESCs and the TAM) for work related to specific products. This situation is beneficial to Microsoft, since it reduces the number of people it has to keep on the project.

- Much of the work performed by Microsoft is general in nature (objectives, manuals, vision, and so forth), not operational. This reduces the practical utility of its work.

III.4 Costs (Microsoft)

The cost of this contract is $24,723,320.00

It is assumed that the payments will be made on the following dates:

Payment number	Amount	[illegible]
1	$9.719.630	Made
2	$6.724.030	January 2001
3	$4.139.830	January 2002
4	$4.139.830	January 2003

III.4.1 Evaluation of delivery of licenses

There is a second contract for acquisition of Microsoft program licenses for the computers and servers purchased by the DE. It was handled as an amendment to the existing contract for licenses between the OMB and Microsoft. It was also signed last March by the Department of Education and the Office of Management and Budget (OMB), for a term of four years (until March 2004).

Many of the licenses were used on the 37,500 laptops already delivered to the teachers, so just 15,000 of the total of 60,000 licenses remain. Funds will have to be identified to purchase the licenses required for the other computers the DE will eventually purchase for the students.

Comments

- The products and services provided by this company must be reviewed, and payments should be made only for the products provided.
- For a contract of almost 25 million dollars, the company has not worked efficiently and productively for the DE.
- As of the date of this report, there is no work plan prepared by Microsoft for the project.
- Measures of control are non-existent. In fact, we do not know for certain the work hours of the personnel assigned to the project, the work they are performing, or the completed products.

Moreover, while some products and services have been delivered to the DE, many consist of conceptual documents.

All these situations involving poor utilization of resources rest on the absence of an effective, integrated plan for the implementation of REEDUCATE. **Without this instrument, it will be very**

difficult to establish the controls that are necessary to effectively monitor the tasks whic h these companies are contractually obligated to perform in connection with the project.

III.5 Terms of the Contract and other conditions (Microsoft)

The contract does not include clauses that enable the DE to take action against Microsoft for poor performance.

Comments

- In a contract for approximately 25 million dollars, the absence of clauses allowing for evaluation of the contractor's work and clauses serving as a guide to actions to be taken in the event of breach or poor performance is inconceivable.

- The DE should assign personnel to this project in order to ensure an effective transfer of knowledge when this contract is terminated. Not taking this action swiftly means that Microsoft will continue to have a great advantage for continuing to offer its costly services to the DE.

- This contract should be monitored, with emphasis on the production of services that have practical utility for the DE.

IV. CONCLUSIONS AND RECOMMENDATIONS

The DE is at an important decision point with respect to the REEDUCATE network. Swift, concrete actions need to be taken to change the damaged and poorly-planned course of action that it has used over the past three years for this project, and that is keeping the network in a critical situation.

Based on the evaluation, and starting from the premise that the DE has decided to continue with network implementation, we have included in this section some recommendations considered necessary for taking control of this important project and ensuring its success.

IV.1 Recommendations

IV.1.1 The DE should conduct a financial audit of this project. The way in which the project has been managed, the billing received and paid by the DE to the companies, and the informality with which the project has been managed mean that this action should be taken immediately. Up to June 30, perhaps the lack of funds could be used to justify not performing that audit. At this date, not doing it is inexcusable.

IV.1.2 The DE should take full control of the network and assume complete responsibility for its operation. We cannot continue under the assumption that the companies that are participating in the project are responsible for the control and operation of the network. To achieve this goal, the DE management team should continue to make decisions that support this strategy.

IV.1.3 Changes should be made to the organizational structure of OSIATD, its salary scale, budgets, and training. Only in this way will the DE be able to develop a solid, self-sufficient work team to support the network.

IV.1.4 Restrict efforts to validate the project to the 100 schools identified for the CENIT project. In this way it will be possible to change the implementation approaches and strategies before expanding the project to the other schools. For this project to be successful, the communications equipment and the T1 lines of the selected schools must have been tested and be working, if possible, 100% of the time. This task cannot be left in the hands of third parties. The DE should make sure that, in the schools as well as at PTR, DRC, and Microsoft, the necessary adjustments are made so that this service will be offered with no more excuses and delays.

IV.2 Create the administrative structure recommended in this report to support the project. Without this work team it will be extremely difficult to make substantial progress in network implementation.

This work team's priority tasks are:

IV.2.1 Ask Microsoft to prepare a strategy to reinforce the DE's equipment (server) infrastructure. This should include the number, the use, and the capacities of the servers, a storage strategy (e.g., storage area network), a backup strategy, a printing strategy, and a strategy for physical organization, operation, and administration of the equipment. That is why we are paying them for an infrastructure consultant. As I understand it, this has already been requested of Microsoft and they are working on it.

IV.2.2 Accelerate the acquisition and implementation of the servers for the DE's Active Directory.

IV.2.3 Establish effective communication channels among OSIATD, the regions, the school districts, and the schools, placing emphasis on communication with the principals. They should be introduced to the project and the benefits for their schools and the children of Puerto Rico. We recognize that, in the implementation of high-tech projects, there is a natural resistance to change on the part of the future users. However, it is unacceptable for a principal to flatly refuse to permit installation of the communications equipment on the school premises and for the installers to have to return without being able to do their work.

IV.2.4 Coordinate the appointment of a project coordinator at the school level. This person should be the contact person for the group in charge of the network at the central and school levels.

IV.2.5 Select the schools that will participate in the initiative laboratories project.

IV.2.6 Coordinate and visit the schools to analyze the physical, electrical, and safety conditions and make recommendations to the OSIATD management team that will enable them to quickly take affirmative actions related to their physical and electrical infrastructures.

IV.2.7 Coordinate and supervise the installation of the Technological Initiative Centers (CENIT).

IV.3 Action plan for continuing project administration.

The figure that follows is a graphic representation of the steps that are recommended for administration of this project. Some of them have already been implemented, for example, the establishment of policies regarding control of the network operations at the central level, aspects related to security, such as the creation of an Active Directory at the level of the DE central offices, and the approach for providing maintenance to REEDUCATE. Attempts have been made to implement others with little success, for example, effective monitoring of the execution of the work contracted for with the companies participating in the project. However, the goal is to use this plan as a guide for continuation of project administration.

Figure 2

Action plan for the administration of REEDUCATE

[*Translator*: graphic not reproduced]

I. Require the suppliers participating in the project to comply with the contracts

II Require work plans and other products specified in the contracts

III Continuous monitoring of the companies' performance. Approve and request changes in writing.

IV Establish a high level of commitment to the project on the part of the DE's senior management.

V Establish and approve medium- and long-term strategic and tactical plans.

VI Take control of REEDUCATE

VII Establish changes and/or new policies with respect to the use of the network and require their implementation

I. Require the suppliers participating in the project to comply with the contracts

Each supplier's contractual commitments should be reviewed with it. For those that have not completed their work, a completion schedule should be established, renegotiating past-due dates if necessary. For those commitments that have not been carried out and which, for whatever reason, do not seem necessary at this time, an equitable agreement should be reached.

II. Require work plans and other products specified in the contracts

It has been very difficult, during project evaluation, to obtain documentation of the project e.g., proposals, work plans, and so forth. If that information is not obtained internally, the DE should formally request copies of the proposals and any other document that is part of the contracts. In addition, the DE should ask these companies to prepare and formally submit short-term work plans and reports showing the status of the projects they are carrying out.

III. Provide continuous monitoring of the companies' performance. Approve and request changes in writing.

Provide ongoing monitoring of the tasks that are being carried out by the companies and provide information promptly on reports that have not been received or are not satisfactory to the DE. Discuss the cases that, in the judgment of the DE, do not meet the contractual requirements or are substandard. If necessary, the situations should be taken to other forums in order to achieve the expected results.

IV. Establish a high level of commitment to the project on the part of the DE's senior management.

The DE's senior management should demonstrate a high level of commitment to REEDUCATE and affirmatively support the courses of action that must be taken to move the project forward.

V. Establish, approve, and disseminate the medium- and long-term strategic and tactical plans.

The plans that describe the new strategies for network implementation over the short and medium term should be disseminated to the DE community, giving special attention to ensuring that the information reaches the schools. Moreover, OSIATD should prepare a short-term plan for continuing with network implementation that includes the objectives, strategies to be followed, tasks to

be carried out, and implementation schedules. Once it is approved, all the parties should commit to adhering to it. Only in this way will it be possible to reverse the critical situation in which the network finds itself. This plan should be reviewed periodically and adjusted on the basis of the experience garnered.

VI. Take control of REEDUCATE

The short-term plan will make it possible to take to control of the network. It should establish the tasks to be accomplished and clearly assign responsibility for their completion to the parties involved in the project. OSIATD should promptly recruit the personnel necessary to support this network and and provide them with training immediately. It should also, and with the same urgency, address the situations within its internal jurisdiction that affect project implementation. The personnel involved in this project should be qualified individuals who can make a real contribution to its implementation. These personnel should be provided all possible support for satisfactory project execution.

VII. Establish changes and/or new policies with respect to the use of the network and require their implementation.

The steering committee the creation of which is recommended as part of REEDUCATE's administrative structure should be the body responsible for preparing the policy changes and developing new policies related to use of the network. It should also be responsible for recommending organizational changes that may help achieve better use of the network.

TAB 21

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

César A. Rey Hernández, Ph.D.
Secretary

Letter to Atty. Jane E. Mago, General Counsel
to the Federal Communications Commission

January 30, 2003

EXHIBIT VIII

- Executive Summary of the report by *ARJ Professional and Consulting Services, Inc.*
  - "RE-EDÚCATE" infrastructure audit

DEPARTMENT OF EDUCATION
COMMON WEALTH OF PUERTO RICO

EXECUTIVE SUMMARY
REEDUCATE INFRASTRUCTURE AUDIT
March 11, 2002[1]

I. INTRODUCTION

The Puerto Rico Department of Education (PRDE) is in the process of implementing the communications infrastructure required to provide, among other things, data, voice, video transmission and internet access to all schools in Puerto Rico. This project in known as the ReEdúçATe network. All these efforts began on 1998 using Schools and Libraries Division (ERate) funding.

A preliminary evaluation was performed on September 18, 2001. Due to the size and complexity of this project it was decided to conduct a thorough evaluation in order to obtain more detailed information regarding the network conditions. This evaluation was conducted during the month of February, 2002.

This report contains an executive summary of the results of the evaluation process.

II. OBJECTIVES OF THE EVALUATION

A. Evaluate the condition of the communications equipment at each of the 1,540 schools.

B. Evaluate the condition of the infrastructure (equipment location, security, electricity, usage, etc).

C. Obtain a physical inventory of all the equipment.

The whole process had a big constraint: the evaluation should not take longer than four working days using a government taskforce consisting of 200 people.

III. EVALUATION RESULTS

A. Project administration.

1. Schools visited

---

[1] This evaluation was performed after several recovery measures had already been implemented during 2001.

The evaluation process was completed for 1,184 schools. This number represents 77% from the total of schools.

2. Schools not visited

The evaluation process was not completed at 357 schools due to several reasons, mostly because it was not possible to visit these schools in the time frame assigned to the project.

B. Infrastructure evaluation.

A questionnaire was developed to obtain the information. This document contained a total of 46 questions. This document is attached as exhibit A. Following is a summary of the evaluation results:

1. Proper equipment security

The evaluation shows that 59.5% of the schools evaluated responded that the school had adequate security for the equipment.

2. Equipment susceptible to damage due to contact with water

24% percent of the schools audited reported that the equipment is located in areas that exposed the equipment to possible damages due to contact with rainfall water (ceiling filtrations, proximity to unprotected windows, etc.)

3. Electrical facilities

48% of the evaluated schools reported to confront electrical problems that adversely affect network service.

4. Communication equipment properly connected (Server, video, UPS, routers, switches, HDCL, etc.)

On average 80% of the evaluated schools reported that the above mentioned equipment is properly interconnected. On the other hand, only 59% reported to have the servers powered-on on a regular basis.

It was noticeable that only 24% of Phase II schools reported that the access points were connected to an electrical outlet. In other words, only 24% of Phase II schools would have been able to supply network access to computer equipment that was not directly

connected to the communications cabinet, in the event that communication line was active.

5. Communications cabinet with proper ventilation

   Of the evaluated schools, 62% reported that the communications cabinet had adequate ventilation.

6. Network infrastructure wiring

   54% percent of the evaluated schools reported to have classrooms with network wiring. This is a reasonable methodology validation question considering that this type of wiring is required for all Phase I schools and that these schools represents half of the Puerto Rico's education system schools.

7. Schools with microcomputers to access the internet

   33% of the evaluated schools reported to possess at least two microcomputers to provide internet access.

8. Schools with internet access

   144 schools reported to have internet access. This represents 12.5% of the evaluated schools.

IV. CONCLUSIONS

1. The overall evaluation objectives were met.

2. The physical infrastructure conditions require urgent action in order to solve the identified issues. (electrical, security, furniture for the equipment, etc).

3. There is an urgent need to establish a preventive maintenance schedule. The audit comments consistently identified equipment with dust and installed in the classroom or library floor.

4. The long delay to obtain internet access has created insecurity in the schools community in relation to the efficiency and effectiveness of the network.

5. The availability of microcomputers to provide access to Internet is below expectations. This seems to be one of the main causes of the poor execution of the network.

6. The answer to the questions that were included in the questionnaire demonstrates more favorable conditions for the schools of phase II of the project than for phase 1 schools.

TRANSLATED BY CRS FOR ENERGY AND COMMERCE COMMITTEE STAFF

DEPARTMENT OF EDUCATION
FREE ASSOCIATED STATE OF PUERTO RICO

PRELIMINARY REPORT
REEDUCATE NETWORK AUDIT

I. INTRODUCTION

The Department of Education of Puerto Rico (DE), thanks to the sponsorship of the "Schools and Libraries Division" (ERate), is implementing a project aimed at creating a telecommunications network that will allow data, voice and video transmission from all schools in Puerto Rico to the main office. This network, known as "REEDUCATE" has been implemented in phases beginning in 1998.

The first and second phases of the project were completed in 1998-1999 and 1999-2000. During these phases, T1 lines and communications equipment were installed in 1,540 schools, internal wiring was installed between classrooms in the schools and the site where computers were installed to act as servers. Three antennae ("wide points") were also installed in each second-phase school, each one with the capacity to receive 300 connections and two servers per school, for a total of 1,560.

The third phase began during the (2000-2001) school year. This phase included installation of internal communications lines in 100 schools not included in the earlier phases and the acquisition of 4,600 additional servers for the schools.

The fourth phase of the project is planned for the current fiscal year (2001-2002). This phase will include completion of installation of the lines that could not be installed during the earlier phases and completion of the schools' internal networks.

Due to the size and scope of this project, the DE has deemed it necessary to perform an audit of the project and take a physical inventory of the network communications equipment installed in each of the system's schools.

This report contains the results of the audit of this project, performed in February of 2002.

II. OBJECTIVES

A. Evaluate the condition of the network communications equipment installed in the 1,540 DE schools.

B. Evaluate the condition of the installation infrastructure in the schools (location of equipment, access to electrical sources, security aspects, etc.)

C. Take a physical inventory of all network equipment.

D. Audit all 1,540 schools in a period of no more than four business days.

III. PROJECT IMPLEMENTATION STRATEGY

The strategy recommended was:

A. Project Management

An administrator was designated to manage all phases of the project. This administrator coordinated and/or performed tasks such as the following:

1. Organization and coordination of the project with DE.

2. Design of the administrative structure for carrying out the audit.

3. Coordination of recruiting efforts with the office of Management and Budget (OGP) and the other government agencies involved in the project.

4. Coordination of the preparation of a questionnaire designed to collect the information generated by the audit.

5. Selection of electronic tabulation method for responses to the questionnaire used in the audit.

6. Procedures for performing the audit.

7. Procedures for receiving information upon completion of the audit.

8. Data tabulation.

9. Preparation of a report containing the results of the audit.

B. Administrative structure for project management

The administrative support structure for this project was the following:

1. A team of 200 technicians was recruited, in coordination with OGP, from different government agencies and the DE to form one hundred (100) groups made up of two (2) technicians, who were assigned the task of visiting 16 schools in a period of four (4) business days.

2. A work group was created in the main office of the DE, made up of five technicians whose main function was to provide telephone support and resolve any situation the auditors might encounter in the field.

3. Eleven centers were established for the collection of information generated by the audit. One center for each school district and one at the main office.

C. Implementation

The implementation process included the following activities, among others:

1. Orientation and training of audit personnel.

   On February 15, 2002 two orientation sessions were held at the State Elections Commission's new facilities. These sessions provided orientation to two groups of over one hundred people regarding the procedures to follow to perform the ReEdúcate audit. In addition, 100 work groups were formed to make visits to the 1,540 schools and the materials necessary to perform the tasks were distributed.

2. Inventory and evaluation of ReEdúcate infrastructure.

   Between February 19th and 22nd of 2002, both tasks were carried out concurrently in all system schools. The groups created in the Department's main offices and regions provided ongoing support to the 200 auditors, and resolved

specific situations that arose during the process.

D. Results tabulation

1. The data from the ReEdúcate evaluation were collected on an optical form (OCR) that allowed for fast and accurate data tabulation.

2. Two types of tabulations were performed. The first provides a graphic representation of the total responses for each question on the questionnaire. The second presents the answers to the questionnaire for the two main phases (phase I and phase II) of the ReEdúcate project that has been implemented.

IV. RESULTS OF THE EVALUATION OF REEDUCATE

A. Event management

1. Auditor groups

   During the period of the process, 91 of the 100 groups assigned successfully performed the work. There were nine school districts to which it was impossible to assign auditors.

2. Schools visited

   Evaluations and inventories of the physical equipment that make up the ReEdúcate network were performed in 1,184 of the system's schools. This represents 77% of the total number of DE schools. The goal was for each group to visit 16 schools. The results show that the average number of schools visited per group was 14.

3. Schools not visited

   A total of 357 schools were not visited between February 19th and 22nd of 2002. This represents 23% of the total schools in the system. The reduction in the number of schools visited per group and the nine districts that were not assigned auditors are the causes of this outcome. However, as of the date of this report, these nine districts are being visited by the

technology specialists located in those school districts. Appendix A includes a report containing the schools visited and not visited in each region.

B. Evaluation of ReEdúcate Infrastructure

1. Physical inventory on network communications equipment.

   A physical inventory of the communications network equipment was taken using a form specially designed for that purpose, paid for with funds from Erate. This physical inventory will give DE a clear picture of exactly what equipment each school has that is part of the network, and will allow DE to verify the information against an electronic inventory of the equipment that DE has.

2. Condition of the infrastructure for the internal installations in ReEdúcate schools.

   A questionnaire composed of 46 questions was used to evaluate the internal condition of the network equipment in schools. A copy of the questionnaire is attached as Appendix B. Due to the practical limitations of describing in writing the results of each of the questions, we will focus on the results whose significance merit special attention. However, Appendix C includes two reports that present the results of this study in graphic form. The first presents the results on the basis of the total answers per question. The second presents the answers to the questions on the questionnaire related to the phases of the project. A CD is also included with this study that includes the results by phase and total responses for each question. It should be noted that data from questionnaires from 32 schools were not included in the tabulation of results. These forms were received without responses to the questions.

   2.1 Condition of the physical infrastructure of the schools in which ReEdúcate communications equipment is installed.

      2.1.1 Room with bars to protect the equipment

The evaluation determined that 59.5% of the total schools tabulated (1,152) have the network communications equipment installed in rooms with proper security.

2.1.2 Installation of equipment in areas vulnerable to humidity or exposed to rain.

Twenty-four percent of the schools tabulated answered that they have the equipment installed or stored in areas prone to humidity or exposed to rain.

2.1.3 Electrical problems that may effect ReEdúcate equipment.

The results of the evaluation demonstrate that 48% of the schools have problems with electricity that can negatively affect the functioning of the communications equipment. This condition is confirmed by the response to other questions on the questionnaire that reveal that there is a great deal of equipment without power, other equipment connected with very long electrical extensions in order to reach an outlet, etc.

3. Components of communications equipment properly connected.

The questions on the questionnaire relating to this topic are aimed at determining if the communications equipment (servers, monitors, UPS, routers, switches, HDCL, etc.) are properly connected to each other. The responses to these questions demonstrate that 80% of the schools have the equipment properly connected. However, to the question of whether the servers are connected to a power source (not turned off), only 59% of the schools answered affirmatively. Curiously, answers to the same question in relation to the translators of Phase 2 schools showed that only 24% of that equipment is turned on.

4. Communications equipment in cabinets with fans.

Schools have been reporting problems with ReEdúcate communications equipment due to the inability to access the Internet. In the majority of cases it has been determined that

the situation is due to damage to some of the equipment cards located in the communications cabinet. The responses to this question demonstrate that only 62% of schools have equipment in cabinets with fans.

5. Rooms with structured wiring.

   Fifty-four percent of schools visited responded that they have rooms with structured wiring to connect networked microcomputers. This percentage is reasonable given the fact that all phase I schools require this type of wiring.

6. Schools with two microcomputers for Internet access.

   Thirty-three percent of schools visited indicated that they have at least two microcomputers for Internet access. This situation is even more critical than reflected by the data from this survey. This is due to the fact that the majority of the schools that responded that they do have PCs may have been referring to the equipment loaned by the suppliers for the sole purpose of verifying Internet access.

7. Schools with Internet access.

   A total of 144 of the schools responded that they do have access to the Internet. This number represents 12.5% of the total schools tabulated.

V. CONCLUSIONS

A. In general terms, the project objectives were met.

B. The condition of the physical infrastructure of the schools where the ReEdúcate communications equipment is installed call for urgent attention. Especially with regard to electrical installations, furniture for equipment installation and security.

C. A preventive maintenance plan must be established as soon as possible for the network communications equipment. The results of the evaluation identified equipment covered in dust, not well cared for, and installed on classroom floors.

D. There is a generalized lack of awareness of the benefits that the ReEdúcate network can provide to schools.

E. The long wait for Internet access service has created insecurity in the school community with regard to the efficiency and effectiveness of the network.

E. The availability of microcomputers to provide Internet access is much lower than expected. This seems to be one of the main causes of the poor performance of ReEdúcate.

F. The responses to the questions that were included on the questionnaire to evaluate the internal environment in which the equipment and program infrastructure is installed in the schools, shows more favorable conditions for the schools involved in phase II of the project.

APPENDIX A

Report of Schools Visited and Not Visited

Appendix A
ReEdúcate Network Audit
Report of Schools Visited and Not Visited
(by School District)

REGION	NOT VISITED	VISITED	GRAND TOTAL
ARECIBO	46	128	174
BAYAMON	14	166	180
CAGUAS	51	129	180
FAJARDO	29	71	100
HUMACAO	7	139	146
MAYAGUEZ	58	107	165
MOROVIS	21	77	98
PONCE	40	148	188
SAN GERMAN	63	47	110
SAN JUAN	28	172	200
GRAND TOTAL	357	1,184	1,541

APPENDIX B

Questionnaire for ReEdúcate Network Audit

Microsoft
Consulting Services

Department of Education of
Puerto Rico

Questionnaire for the **ReEducATe**
Network Audit

Version 1.2
February 7, 2002

Written by:
Microsoft Consulting Services

[in English:]
Feb-7-02 3:19:14 PM
Confidential unpublished work.
This document contains information of a proprietary nature. All information contained herein shall be kept in confidence and shall be for the original recipient's use only. Any unauthorized reproduction by any other party shall constitute an infringement of copyright.
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4. Instrument Number Box - the auditor writes the number of the instrument used. This number is fixed and invariable and will be combined with the number 9705. Then he will completely fill in the corresponding circles.

5. School Number Box - the auditor writes the number of the school. This number is five digits and is found on the list of visits that was provided during training under the code column. The number should never begin with zero (0) or eight (8).

6. Grade, Identification Number and Social Security Number boxes will not be completed.

7. Age Group Box - the auditor writes the group number, which is the individual code assigned to each team of auditors. Three digits will be used left to right (i.e. 1 = "001," 20 = "020"). Then he will completely fill in the corresponding circles.

8. Sex, Organization, Day, Month and Year boxes will not be completed.

9. ABC Box - the auditor will proceed to write the date of the visit/audit in the format: DDMMYYY (i.e. 12-Feb-2002 = 120202). Then he will completely fill in the corresponding circles.

Once the auditor answers the informative part of the form, he will proceed to answer the questions on the questionnaire. Each question is numbered. The question number corresponds to the answer number on the M1 form. All questions should be answered.

8. Does the communications equipment have a "HUB" or "SWITCH" connected to the "ROUTER"?

A. Yes B. No

9. Is the communications equipment connected to a "UPS" system to regulate voltage and maintain power in the event of a power failure?

A. Yes B. No

10. Is the communications equipment installed in a cabinet that protects it (black box)?

A. Yes B. No

11. Indicate the number of cabinets (black boxes) at the schools (there is a main cabinet with the communications equipment. However, there may be additional cabinets or other rooms or other floors, ask the principal or person in charge):

A. 0 B. 1 C. 2 or more

12. Does the cabinet that contains the communications equipment have a fan for proper equipment ventilation?

A. Yes B. No

13. Is the communications equipment connected to one another?

A. Yes B. No

14. Is the wiring between the "HUB" or "SWITCH" and the "ROUTER" "UTP" level 5?

A. Yes B. No

SERVERS

15. Indicate the number of existing servers (remember there may be servers located in black boxes):

A. 0 B. 1 C. 2 D. 3 E. 4

CONNECTIONS, WIRING AND ANTENNAE

PHASE I (Wired Schools)

26. Does the classroom or communications area have structured wiring installed?

A. Yes B. No C. Not Applicable

27. Do the academic rooms assigned have at least 3 connection ports each to access the ReEducATe Network?

A. Yes B. No C. Not Applicable

28. Indicate the number of rooms with a connection to access the ReEducATe Network:

A. 0 B. 1 C. 2 to 4 D. 5 or more E. Not Applicable

29. Indicate the average number of connection ports per room:

A. 0 B. 1 to 4 C. 5 to 8 D. 9 or more E. Not Applicable

30. Are the connection ports wired and connected to the communications equipment?

A. Yes B. No C. Not Applicable

PHASE II (Wireless Schools)

31. Are there one or more translators installed in the school?

A. Yes B. No C. Not Applicable

32. Indicate the number of translators installed at the school:

A. 0 B. 1 to 3 C. 4 to 6 D. 7 or more E. Not Applicable

33. Do the antennae or translators have an electrical connection nearby?

A. Yes B. No C. Not Applicable

34. Are the antennae or translators on?

A. Yes B. No C. Not Applicable

44. In the case of wired schools, are the workstations connected to the Network communications ports?

A. Yes B. No C. Not Applicable

45. Was an inventory of the school's ReEducATe equipment taken?

A. Yes B. No

TAB 22

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

César A. Rey Hernández, Ph.D.
Secretary

Letter to Atty. Jane E. Mago, General Counsel
to the Federal Communications Commission

January 30, 2003

EXHIBIT IX

- PRDOE's update presentation to USAC: Status of School Network Project (E-Rate funded) of January 23, 2003

Status of School Network Project (ERate Funded)

Puerto Rico Department of Education
Visit # 4
Jan 23, 2003

Background Details

- Previous presentations
  - Jan 15, 2002
  - April 26, 2002
  - Oct 1, 2002
- Integrated three sided strategy
  - Center (network)
  - Schools
  - PRDOE (central office)

Background Details

- Oct 1:
  - Significant fund commitment
  - Significant amount of funds already invested
  - Significant progress achieved
    - Progress supported by evidence

Jan 23, 2003 (Confidential) 3

Background Details

- Jan 23:
  - Fund commitment and investment has continued
  - Recovery has continued
    - Significant progress achieved
    - Progress supported by evidence
  - A warning on recovery
    - Recovery will level soon
    - Recovery may become negative, if funding is not released immediately

Jan 23, 2003 (Confidential) 4

Background Details

- Jan 23:
  - Issues
    - Funding for years 4 and 5 is still pending
    - Form 471 for year 6 is due soon
  - Important facts
    - We are close to 40% recovery of the project, without any ERATE funds
      - 79% recovery, if based only on phase 1 schools
    - We understand that in the last two years PRDOE has invested in the project as a whole, as much money as the one disbursed by USAC in all previous years
      - We have supported our commitment with dollars ($)

Jan 23, 2003 (Confidential) 5

Three Sided Strategy: **Center**

- Seek accountability from vendors
  - Oct 1:

Line availability	
% availability	# of schools
95 to 100	182
80 to 94.9	297
50 to 79.9	111
0.5 to 49.9	90
0	70
Total	750

    - 479 schools with 80%+ availability

Jan 23, 2003 (Confidential) 6

Three Sided Strategy: **Center**

- Seek accountability from vendors
  - Jan 23:
    - Significant progress regarding line availability!

Line availability	
% availability	# of schools
95 to 100	269
80 to 94.9	236
50 to 79.9	154
0.5 to 49.9	59
0	32
Total	750

    - 505 schools with 80%+ availability
      - An increase of 26 schools
    - 87 additional schools in category 1 (95%+ availability)
      - An increase of 49%

Jan 23, 2003 (Confidential) 7

Three Sided Strategy: **Center**

- Seek accountability from vendors
  - Oct 1:

Server validation	
Schools validating:	# of schools
Overall (since March 20)	591
Last week	458
Last Friday	418

Jan 23, 2003 (Confidential) 8

Three Sided Strategy: Center

- Seek accountability from vendors
  - Jan 23:

Server validation	
Schools validating:	# of schools
Overall (since March 20)	698
Last week	620
Last Friday	620

  - 600+ schools validating!
  - An increase of 200+ schools (48%)
    - We are doing our job at the school level

Jan 23, 2003 (Confidential) 9

Three Sided Strategy: Center

- Centralized administration/support approach
  - Oct 1:
    - Continues to prove useful for:
      - Troubleshooting, server administration and software distribution
    - Many schools remotely configured
    - New servers for school laboratories will have "Wake on LAN" capability
    - Exhibit 3: Remote administration
      - RemoteAdmin1
      - RemoteAdmin2

Jan 23, 2003 (Confidential) 10

Three Sided Strategy: Center

- Centralized administration/support approach
  - Jan 23:
    - Continues to prove successful, particularly for:
      - Troubleshooting, server administration and software distribution
    - Remote configuration of schools successfully performed, as required
    - SchoolManagementSystem
    - SchoolManagementSystemLive

Jan 23, 2003 (Confidential) 11

Three Sided Strategy: Schools

- Provide computers to schools
  - Oct 1:
    - 67 laboratories already installed
      - 25 fixed + 42 mobile
    - 35 new ones being installed
      - 19 fixed + 16 mobile
    - 102 laboratories in total
    - Exhibit 4: Video on fixed laboratories
      - FixedLabsVideo
    - Exhibit 5: Pictures on mobile labs
      - Mobile1
      - Mobile2

Jan 23, 2003 (Confidential) 12

Three Sided Strategy: Schools

- Provide computers to schools
  - Jan 23:
    - 103 laboratories already installed
      - 44 fixed + 59 mobile
    - 65 new ones already ordered
      - 17 fixed + 48 mobile
    - Another bid for laboratories was conducted
      - Mobile laboratories option awarded
    - New bid is being conducted for fixed labs
      - Proposals will be received by Jan 27
      - NewspaperAdForNewBid

Jan 23, 2003 (Confidential) 13

Three Sided Strategy: Schools

- Provide computers to schools
  - Oct 1:
    - 3,300 computers already ordered from special bid (2/school)
      - To provide quick access to Internet
      - Exhibit 6: Purchase order1, Purchase order2
    - New bid for laboratories already opened
      - 400 new laboratories (instead of 300)
        - Mobile + fixed
      - Proposals received on August 16
        - Exhibit 7: NewspaperAdForBid

Jan 23, 2003 (Confidential) 14

Three Sided Strategy: **Schools**

- Provide computers to schools
  - Jan 23:
    - 3,300 computers from special bid (2/school) already received and in the process of being installed

Jan 23, 2003 (Confidential) 15

Three Sided Strategy: **Schools**

- Design/implement teacher training program
  - Oct 1:
    - 5,854 teachers trained last semester
    - 5,248 teachers trained during the summer
    - 23,000+ teachers trained so far
    - 4,000 extra teachers to be trained this semester
    - Exhibit 8: Teachers trained/funds spent
      - TablaTotalMaestrosAdiestrados
      - TablaPresupuestoAdiestramientoMaestros

Jan 23, 2003 (Confidential) 16

Three Sided Strategy: **Schools**

- Design/implement teacher training program
  - Jan 23:
    - About 4,000 extra teachers trained last semester
    - 26,936 total teachers already trained (64%)
    - 4,000 extra teachers to be trained this semester
    - TeachersTrainedDec2002

Jan 23, 2003 (Confidential) 17

Three Sided Strategy: **Schools**

- Design/implement programs to start using technology as a teaching tool
  - Oct 1:
    - "Roll out" project being organized
    - On line courses being designed

Jan 23, 2003 (Confidential) 18

Three Sided Strategy: **Schools**

- Design/implement programs to start using technology as a teaching tool
  - Jan 23:
    - $8.3M committed to technology integration projects (additional funding)
    - Projects being conducted
      - Mul timedios1
      - T alentosos1
      - A dventure1
      - P lanMejoramiento1
      - Television1
      - Municipios1

Jan 23, 2003 (Confidential) 19

Three Sided Strategy: **Schools**

- Implement a school repair program
  - Oct 1:
    - Electricity in 86 additional schools will be repaired
      - B oth power plant and power distribution (cabling)
    - Seven additional million dollars will be invested from School Renovation Program
    - Exhibit 11: List of schools to be repaired

Jan 23, 2003 (Confidential) 20

Three Sided Strategy: Schools

- Implement a school repair program
  - Jan 23:
    - Most electrical repairs already bidded
    - Several repairs already underway
      - Keep in mind we are talking about building full power plants for 86 schools

Three Sided Strategy: PRDOE

- Build new local area network infrastructure
  - Oct 1:
    - Project 99% finished
      - Only some training and documentation missing
    - Local Area Network stability significantly improved
    - Exhibit 12: LAN photos
      - OldFloorCabinet, NewFloorCabinet, BothFloorCabinets
      - OldCabling, NewCabling, NewCabling2
      - OldMainSwitch, NewMainSwitchUnderConstruction
      - OldCablingVideo

Three Sided Strategy: PRDOE

- Build new local area network infrastructure
  - Jan 23:
    - Project successfully completed
    - NewMainSwitchArea3, NewMainSwitchArea8

Jan 23, 2003 (Confidential) 23

Three Sided Strategy: PRDOE

- Implement new server infrastructure
  - Oct 1:
    - Implementation already started (end of July)
    - About 66% already completed
    - Exhibit 13: Server cabinet photos
      - CurrentServers2, NewServers1, NewServers2
  - Jan 23:
    - Project successfully completed
    - NewServerInfrastructure1, NewServerInfrastructure3

Jan 23, 2003 (Confidential) 24

Three Sided Strategy: PRDOE

- Establish Help desk
  - Oct 1:
    - 38 people in Help desk
      - 27 of them located at the regions
      - 84 supp ort technicians were trained as Microsoft Office User Specialists (MOUS)
    - 7 new LAN managers already hired
    - Training in MCP Windows XP will be provided
    - Exhibit 14: List of Help desk personnel

Jan 23, 2003 (Confidential) 25

Three Sided Strategy: PRDOE

- Establish Help desk
  - Jan 23:
    - 43 Help desk technicians
      - 29 of them located at the regions to support schools
      - 14 of them located at central site
    - Very effective contribution, particularly improving school validation
      - He lpDeskPersonnelDec2002

Jan 23, 2003 (Confidential) 26

Three Sided Strategy: **PRDOE**

- Project administration
  - Oct 1:
    - Steering committee continues to meet
  - Jan 23:
    - Steering committee continues to meet

Things to Be Addressed

- Oct 1:
  - Maintenance and support
    - Establish centralized/distributed maintenance/service group (ERATE year 5)
  - Improve availability in schools connected
  - Accelerate academic projects
  - Improve coordination of complementary projects at school level
    - Electricity repairs, laboratory installation, teacher training, Proyecto 400, line recovery and technology integration project

Carta al Fiscal Pedro G. Goyco
3 de octubre de 2002
Pagina 2

Agradeceré nos indique el curso que se sigue con la investigación de la red de comunicaciones del Departamento de Educación. Adjunto le estamos enviando los documentos necesarios.

Agradeciendo su atención a este asunto, queda de usted.

Cordialmente,

César A. Rey Hernández, Ph. D.
Secretario

Anejos

Recibida hoy 4 oct 2002
Fiscal Especial General

729-2195- fiscal Cales
2113-
475-4330 - Ismenia Acosta

Things to Be Addressed

- Jan 23:
  - We are successfully addressing the following:
    - Improve availability in schools connected
    - Implement academic projects
  - We still have to work on:
    - Maintenance and support
      - Establish centralized/distributed maintenance/service group (ERATE year 5)
    - Improve coordination of complementary projects at school level
      - Electricity repairs, laboratory installation, teacher training, Proyecto 400, line recovery and technology integration project

Jan 23, 2003 (Confidential) 29

Summary of Accomplishments

- From practically no schools connected to 600+ schools validating (505 with 80%+ availability)
- From basically no computers to use the network to:
  - 103 laboratories installed
  - 65 additional labs ordered
  - 3,300 computers being installed (2/school)
  - 400 additional labs already bidded
- From very few teachers trained to:
  - 27,000+ (64%) teachers already trained
- From improperly installed communications equipment at schools to a new internal communications setup for 400 schools (Proyecto 400)

Jan 23, 2003 (Confidential) 30

Summary of Accomplishments

- From a mess of cables and switches to a new standards-based central office LAN
  - 3,500 drops
  - 18 switch/routers
- From dozens of non-manageable servers to a new central office server and storage infrastructure
  - 38 new servers
  - 2 terabytes of storage (2,000,000,000,000)
  - Storage area network (SAN)

Jan 23, 2003 (Confidential) 31

Summary of Accomplishments

- From 0 to 43 help desk people
  - 29 located at regional offices
- From minor technology integration efforts to several major technology integration projects
- From minor electrical repairs to 86 major electrical repair projects

Jan 23, 2003 (Confidential) 32

Final Remarks

- Corrective actions have continued
  - Actions consistent with strategies
  - Strategies already validated
- Significant progress accomplished
  - Regardless of contractual issues
  - In spite of delay in Year 4,5 decision
  - Without additional ERATE funds
- Project status closely watched

Jan 23, 2003 (Confidential) 33

Final Remarks

- All important aspects being addressed
  - Complementary projects
  - Bidding regulations followed
- "Vendor pushing strategy" continues
  - But it has been very hard to keep players motivated
- We have far exceeded all requisites of USAC letter of Dec 5, 2001

Jan 23, 2003 (Confidential) 34

Final Remarks

- We have exhausted our capability to continue developing the project without additional ERATE funding
  - Technology projects are highly affected by time
  - Motivation and credibility are also highly affected
  - Additional delays may kill the project
  - As time goes by, probability of success goes down
- In the absence of immediate release of years 4, 5 funding, PRDOE will have no choice but to reexamine the viability and continuity of the entire project

TAB 23

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

César A. Rey Hernández, Ph.D.
Secretary

Letter to Atty. Jane E. Mago, General Counsel
to the Federal Communications Commission

January 30, 2003

EXHIBIT X

- Senate of Puerto Rico's *Government Integrity Committee* subpoena dated February 28, 2002 to the PRDOE regarding procurement procedures, including E-Rate program.

  Submission letter to the Senate by the PRDOE dated 19 March, 2002

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

César A. Rey Hernández, Ph.D.
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Submission letter to the Senate by the PRDOE dated March 19, 2002

El Capitolio
P.O. Box 9023431
San Juan, PR 00902-3431

787-724-3446
787-723-1965

Commonwealth of Puerto Rico
GOVERNMENT INTEGRITY COMMITTEE
SENATE OF THE COMMONWEALTH OF PUERTO RICO

OFFICIAL SUBPOENA FOR INVESTIGATION AND/OR DOCUMENT REQUEST

The GOVERNMENT INTEGRITY COMMITTEE OF THE SENATE OF THE COMMONWEALTH OF PUERTO RICO, pursuant to Senate Resolution 361 (SR 361), approved on November 12, 2001, which orders an exhaustive investigation of the process of invitations to tender in the departments, agencies, municipios, and public corporations, orders:

Hon. César Rey Hernández
Secretary
Department of Education
Commonwealth of Puerto Rico

to appear, personally or through a duly authorized representative, to answer questions at the Committee's Technical Office of Investigation located at the headquarters of the Joint Committee on Special Reports of the Comptroller, Avenida Ponce de León #150 Altos, Puerta de Tierra, San Juan, Puerto Rico. This appearance is for the purpose of meeting with Attorney Raúl Mariani Franco, Legal Adviser, on March 19, 2002 at 2:00 p.m. Please bring the following documents with you.

1. Copy of all checks issued in favor of Avant Technologies, Computer Gallery, PR Industrial Manufacturing Operations Adquisition [sic] Corporation, Unisys Puerto Rico, and Habibe Computer Corporation as a result of invitation to tender number RFB 98-01.

2. Copy of all documents related to the purchase of 100,000 additional computers which was canceled. (Reference to these 100,000 computers appears on Form 470 for year 4 of the E-Rate program)

3. All Forms 486 ("Receipt of Services Confirmation Form") submitted to USAC for years 1, 2, 3, and 4 of the E-Rate Program.

4. All Forms 472 ("Billed Entity Applicant Reimbursement") for each of the Department of Education's suppliers under the E-Rate Program in years 1, 2, 3, and 4.

5. Copy of all checks and/or payments made by the Department of Education or USAC to each of the suppliers for services rendered under the E-Rate Program for years 1, 2, 3, and 4.

6. Copy of all contracts between the Department of Education and the Corporation or "Software Design School Cabling" for 1996, 1997, 1998,

[*Translator*: text appears to be missing]

the infrastructure necessary to establish a computer network between the Department and the public schools of Puerto Rico.

9. Prepare a list specifying, for each public school in Puerto Rico, the following information:

a. number of students
b. number of teachers and/or lecturers
c. number of administrative employees
d. number of active and functional computers by school
e. number of active and functional computers projected for today's date under the Department of Education's plans
f. current capacity of each school to connect to the Internet and the type of access (56K or T1) that each one has
g. estimated date on which the school will be functionally capable of connecting to the Internet
h. list of the inventory of computer and telecommunications equipment installed in each school
I. of the equipment listed above, specify which is functioning perfectly at this time and which is damaged or unused

All copies should be duly certified. If some or all of that which is requested does not exist, please provide a certification to that effect.

If you fail to appear for this appointment or refuse to make a statement and/or produce the requested evidence, you are advised that the General Court of Justice may be asked to issue a subpoena ordering you to appear and make a statement and/or produce the requested evidence. Any failure to comply with the order issued by the Honorable Court shall be punishable as contempt [of court] pursuant to Articles 31 to 35 of the Political Code of Puerto Rico (2 L.P.R.A. §§ 151-154(a)).

A copy of SR 361 is included with this subpoena. If you have any questions, please contact Miss Maria del C. Wiscovitch, Executive Director of the Government Integrity Committee.

Issued under my signature in San Juan, Puerto Rico, today, February 28, 2002.

[Illegible signature]
Cirio Tirado Rivera
Chairman

An exact copy of this OFFICIAL SUBPOENA FOR INVESTIGATION AND/OR DOCUMENT REQUEST was delivered to Evelyn Soto on March 1, 2002 at 10:30 a.m. in [illegible], Puerto Rico.

[Signature] Evelyn Soto
Recipient's signature

[logo] Commonwealth of Puerto Rico
Department of Education

Office of Information Systems and Technological Support for Teaching (OSIATD)
Office of the Director

March 19, 2002

Government Integrity Committee
Senate of the Commonwealth of Puerto Rico

OFFICIAL SUBPOENA FOR INVESTIGATION AND/OR DOCUMENT REQUEST

The undersigned, Principal Information Sciences Officer and Director of the Office of Information Systems and Technological Support for Teaching, being the authorized representative of the Secretary of Education of the Commonwealth of Puerto Rico, Dr. César A. Rey Hernández, hereby deliver to this Honorable Committee the documents requested in the foregoing subpoena.

Number 1:
Source: Documents produced by the Assistant Secretary of Finance of the Department of Education
Number 2:
Source: documents compiled in the information available in the OSIATD files
Number 3:
Source: documents compiled in the information available in the OSIATD files. Does not include year 4 because eRate funds have not been allocated for that year.
Number 4:
This requested form is not applicable since, under eRate, the Department of Education does not make payments to suppliers that are reimbursable by the program.
Number 5:
Source: documents compiled in the information available in the OSIATD files. Does not include year 4 because eRate funds have not been allocated for that year.
There is no record of payments made by USAC to the suppliers, since they conduct these payment transactions without our participation.
Number 6:
Source: documents compiled in the information available in the OSIATD files include 1998 and 1999. No record is available for 1996, 1997, and 2000.

Prof. Aníbal Cruz-Pérez, MA SE
Principal Information Systems Officer - Director OSIATD

[logo] Commonwealth of Puerto Rico
Department of Education

Office of Information Systems and Technological Support for Teaching (OSIATD)
Office of the Director

Number 7:

Source: Documents compiled in the information available in the OSIATD files. Includes SDSC years 1999 and 2000. The information on DRC and PRT is being identified and collected. We request additional time to complete this task.

Number 8:

Source: Documents compiled in the information available in the OSIATD files. Includes copy of the Arthur Andersen audit for year 1 and copy of the results of our project to validate schools' connection to the REEDUCATE network between July and September 2001.

Number 9

Source: Documents compiled in the information available in the OSIATD file[s]. We are providing a table with the information requested in sections **a, b, c, and f**. The information requested in sections **d, e, g, and I** is being collected in a joint effort of the Department of Education, OMB, and various other government agencies through an audit of information systems that has been in the coordination stage since October 2001 and became operational on February 15, 2002. Of a total of 1558 schools that are active at this time, 1184 have been visited and their telecommunications infrastructure has been audited. The report on the inventory of desktop and laptop computers has been prepared [for] 710 schools, with 848 to go. The information from these reports is being entered into our information system so that reports can be prepared that will provide a basis for responding to sections **d, e, g, and I**. We request additional time to complete this task.

I certify that the aforementioned documents are exact copies of the documents available in our files or that have been provided to us by the concerned departments.

Aníbal Cruz-Pérez, MA SE

Prof. Aníbal Cruz-Pérez, MA SE
Principal Information Systems Officer - Director OSIATD

El Capitolio
P.O. Box 9023431
San Juan, PR 00902-3431

787-724-3446
787-723-1965

Estado Libre Asociado de Puerto Rico
COMISIÓN DE INTEGRIDAD GUBERNAMENTAL
SENADO DEL ESTADO LIBRE ASOCIADO DE PUERTO RICO

CITACIÓN OFICIAL PARA INVESTIGACION Y/O REQUERIMIENTO DE DOCUMENTOS

La COMISIÓN DE INTEGRIDAD GUBERNAMENTAL DEL SENADO DEL ESTADO LIBRE ASOCIADO DE PUERTO RICO, al amparo de la Resolución del Senado 361 (R. del S. 361), aprobada el 12 de noviembre de 2001, que ordena una investigación exhaustiva sobre el proceso de subastas en los departamentos, agencias, municipios y corporaciones públicas, ordena a:

Hon. César Rey Hernández
Secretario
Departamento de Educación
Estado Libre Asociado de Puerto Rico

a comparecer personalmente o a través de un representante debidamente autorizado para contestar preguntas, a la Oficina Técnica de Investigación de la Comisión, ubicada en la sede de la Comisión Conjunta sobre Informes Especiales del Contralor, localizada en la Avenida Ponce de León #150 Altos, Puerta de Tierra, San Juan, Puerto Rico. La comparencia es a los fines de reunirse con el licenciado Raúl Mariani Franco, Asesor Legal, **el día 19 de marzo de 2002, a las 2:00 p.m.** Deberá traer consigo los documentos que se detallan a continuación.

1. Copia de todo cheque emitido a Avant Technologies, Computer Gallery, PR Industrial Manufacturing Operations Adquisition Corp., Unysis Puerto Rico y Habibe Computer Corp., como resultado de la subasta número RFB 98-01.

2. Copia de todo documento relacionado a la compra de 100,000 computadoras adicionales que fue cancelada. (Referencia a estas 100,000 computadoras aparece en la Forma 470 para el año 4 en el programa "E-Rate")

3. Todas las Formas 486 ("Receipt of Services Confirmation Form") sometidas a USAC para los años 1, 2, 3 y 4 del Programa "E-Rate".

4. Todas las Formas 472 ("Billed Entity Applicant Reimbursement") para cada uno de los proveedores del Departamento de Educación bajo el Programa "E-Rate" en los años 1, 2, 3 y 4.

5. Copia de todo cheque y/o pago efectuado por el Departamento de Educación o USAC a cada uno de los proveedores por servicios prestados bajo el Programa "E-Rate" para los años 1, 2, 3 y 4.

6. Copia de todo contrato entre el Departamento de educación y la Corporación o entidad "Software Design School Cabling" para los años 1996, 1997, 1998,

la infraestructura necesarias para establecer una red de informática entre el Departamento y las escuelas públicas del país.

9. Preparar un listado que detalle para cada escuela pública en el país la siguiente información:
   a. número de estudiantes
   b. número de maestros y/o profesores
   c. número de empleados administrativos
   d. número de computadoras activas y funcionales por escuela
   e. número de computadoras activas y funcionales que se proyectaba tener a la fecha actual bajo los planes del Departamento de Educación
   f. capacidad de cada escuela para conectarse actualmente a la Internet y el tipo de acceso (56K ó T1) que cada una tiene
   g. fecha estimada en que la escuela estará funcionalmente hábil para conectarse a la Internet
   h. listado del inventario de equipo de computadora y telecomunicaciones instalado en cada escuela
   i. indicar qué equipo del enumerado en el apartado anterior, está funcionando perfectamente al presente y cuál de éstos equipos está dañado o sin utilizarse, especificando lo que corresponda.

Todas las copias deberán estar debidamente certificadas. De no existir lo solicitado (todo en parte), favor de así certificarlo.

De usted no comparecer a dicha cita, o negarse a declarar y/o producir la evidencia requerida, se le apercibe que se podrá solicitar al Tribunal General de Justicia que expida una citación para que comparezca y declare y/o produzca la evidencia solicitada. Cualquier desobediencia a la orden dictada por el Honorable Tribunal será castigada como desacato, según se dispone en los Artículos 31 al 35 del Código Político de Puerto Rico (2 L.P.R.A. §§ 151-154(a)).

Copia de la R. del S. 361 se incluye con la presente Citación. Para cualquier pregunta, favor de dirigirse a la Srta. María del C. Wiscovitch, Directora Ejecutiva de la Comisión de Integridad Gubernamental.

Dado bajo mi firma en San Juan, Puerto Rico, hoy 28 de febrero del 2002.

Cirilo Tirado Rivera
Presidente

Copia fiel y exacta de esta CITACIÓN OFICIAL PARA INVESTIGACION Y/O REQUERIMIENTO DE DOCUMENTOS se entregó a Evelyn Soto, el 1-marzo-02, a las 10:30 (a.m./p.m.), en San Juan, Puerto Rico.

Firma del receptor

Anejo R

Estado Libre Asociado de Puerto Rico
Departamento de Educación

Oficina de Sistemas de Información y Apoyo Tecnológico a la Docencia (OSIATD)
Oficina del Director

19 de marzo de 2002

Comisión de Integridad Gubernamental
Senado del Estado Libre Asociado de Puerto Rico

CITACIÓN OFICIAL PARA INVESTIGACIÓN Y/O REQUERIMIENTO DE DOCUMENTOS

El que suscribe, Oficial Principal de Informática y director de la Oficina de Sistemas de Información y Apoyo Tecnológico a la Docencia, en representación autorizada del Secretario de Educación del Estado Libre Asociado de Puerto Rico, Dr. César A. Rey Hernández, hago entrega a esta honorable comisión de los documentos solicitados en la citación que antecede.

Número 1:
Procedencia: Documentos producidos por la Secretaría Auxiliar de Finanzas de Departamento de Educacion.

Número 2:
Procedencia: Documentos recopilados en la información disponible en los archivos de OSIATD

Número 3:
Procedencia: Documentos recopilados en la información disponible en los archivos de OSIATD. No incluye año 4 por motivo de que para ese año no han sido adjudicados fondos ERate aún.

Número 4:
Esta forma solicitada no es aplicable pues, bajo ERate, el Departamento de Educacion no efectúa pagos a los suplidores que sean reembolsables por el programa.

Número 5:
Procedencia: Documentos recopilados en la información disponible en los archivos de OSIATD. No incluye año 4 por motivo de que para ese año no han sido adjudicados fondos ERate aún.
No hay record de pagos efectuados por USAC a los proveedores, pues ellos realizan estas transacciones de pago sin nuestra intervención.

Número 6:
Procedencia: Documentos recopilados en la información disponible en los archivos de OSIATD incluyen 1998 y 1999. No hay record disponible para los años 1996, 1997 y 2000.

Prof. Aníbal Cruz-Pérez, MA SE
Oficial Principal de Informática - Director OSIATD

Estado Libre Asociado de Puerto Rico
Departamento de Educación

Oficina de Sistemas de Información y Apoyo Tecnológico a la Docencia (OSIATD)
Oficina del Director

Número 7:

Procedencia: Documentos recopilados en la información disponible en los archivos de OSIATD. Incluye compañía SDSC años 1999 y 2000. La información sobre DRC y PRT está en etapa de identificación y recopilación. Solicitamos tiempo adicional para completar esta tarea.

Número 8:

Procedencia: Documentos recopilados en la información disponible en los archivo de OSIATD. Incluye copia de la Auditoría de Arthur Andersen para año 1 y copia de los resultados de nuestro proyecto de validación de conexión de escuelas en la red REEDUCATE entre julio y septiembre de 2001.

Número 9

Procedencia: Documentos recopilados en la información disponible en los archivo de OSIATD. Estamos entregando una tabla con la información solicitada en las secciones **a, b, c y f**. La información solicitada en las secciones **d, e, g e i** esta siendo recopilada en un esfuerzo conjunto del Departamento de Educacion, OGP y otras varias agencias gubernamentales mediante una auditoría de sistemas de información que se está coordinando desde octubre de 2001 y se comenzó a operacionalizar el 15 de febrero de 2002. De un total de 1,558 escuelas activas en este momento, se han visitado y auditado la infraestructura de telecomunicaciones a 1,184. El informe de inventario de computadoras de escritorio y portátiles ha sido preparado 710 escuelas, faltando por recibir 848. Los datos de estos informes están en proceso de entrada a nuestro sistema de información para poder preparar los informes que darán base para contestar las secciones **d, e, g** e **i**. Solicitamos tiempo adicional para completar esta tarea.

Certifico que los documentos mencionados son copias fieles y exactas de los documentos disponibles en nuestros archivos o que nos han sido suministrados por las secretarías concernidas.

Aníbal Cruz-Pérez, MA SE

Prof. Aníbal Cruz-Pérez, MA SE
Oficial Principal de Informática - Director OSIATD

César Miranda
Secretario de la Gobernación

Dr. César Rey Hernández
Secretario
Departamento de Educación

Resumen ejecutivo sobre la segunda visita a USAC Washington, DC, Abril 26, 2002

Introducción

Una delegación del Departamento de Educación visitó las oficinas de Universal Services Administration Coprporation (USAC) en Washington DC, el viernes 26 de abril de 2002. La delegación estuvo compuesta por:

Dra. Carmen Collazo – Secretaria Asociada de Educación

Prof. Aníbal Cruz - Oficial Principal de Informática del DE

Prof. Amaldo Ramos – Consultor en asuntos de informática para el Secretario

Lcdo. Juan Antonio Bennazar – Asesor Legal del DE para el programa ERate

Uno de los propósitos de esta visita fue darle seguimiento a la primera reunión sobre el estado de los proyectos ERate del Departamento de Educación en Puerto Rico, celebrada el pasado 15 de enero de 2002. Otro de los propósitos fue proveerle seguimiento a la asignación de fondos para el año 4, la cual está pendiente ante USAC. El grupo de representantes del programa ERate estuvo compuesto por:

Mark G. Seifert – Federal Communications Commission

George Mc Donald – Vicepresidente USAC

Tom Cline – Oficna del Inspector General del Departamento de Educación Federal

Charles Walter – Oficial de USAC

La primera reunión se efectuó a petición nuestra, como consecuencia de los hallazgos en dichos proyectos hechos por nuestra administración durante el año 2001 y de la solicitud de información sobre el proyecto hecha por USAC. En esa ocasión el Departamento de Educación presentó los resultados de los análisis efectuados en este proyecto, las estrategias y los proyectos definidos para lograr su recuperación. También presentó la asignación de fondos hecha para el proyecto. A petición de USAC, el Departamento sometió luego un documento auditable con la información presentada en dicha visita. La visita realizada evitó, entre otras cosas, que USAC exigiera la devolución de los fondos utilizados.

En la segunda visita repasamos las estrategias y presentamos los logros alcanzados en los proyectos que forman parte de la estrategia de recuperación. Nos concentramos en presentar y evidenciar un progreso continuo en dichos proyectos y en solicitar la aprobación de los fondos para el año 4, de manera que el progreso alcanzado pudiese continuar.

Estrategia

La estrategia presentada en ambas visitas consiste de llevar a cabo actividades en cada una de las siguientes tres partes:

- **Centro.** Esta parte consiste de las labores y proyectos relacionados con la red en sí, como la evaluación detallada del proyecto, exigir responsabilidad a los suplidores, la instalación de las líneas de comunicación y la implantación del enfoque para administrar y apoyar la red.

- **Escuelas.** Esta parte consiste de las labores y proyectos relacionados con la habilitación de las escuelas para que puedan hacer buen uso de la parte del centro. Incluye labores como la adquisición e instalación de computadoras, el diseño y la implantación de programas de adiestramiento a maestros, el diseño e implantación de programas para utilizar la tecnología en el salón de clases y la reparación de la infraestructura eléctrica de las escuelas.

- **Oficinas centrales.** Esta parte consiste de las labores y proyectos relacionados con la implantación de la infraestructura necesaria en las oficinas centrales para apoyar, operar y administrar el proyecto. Incluye labores como la reconstrucción de la red interna ("enterprise network") del Departamento, la instalación de una infraestructura de servidores ("server farm") y almacenamiento ("storage area network"), el establecimiento de una infraestructura de apoyo ("help desk") y el establecimiento de una infraestructura de administración ("steering comité") para el proyecto.

Esta estrategia fue muy bien vista por los participantes de la reunión, entre otras cosas porque atiende todos los aspectos del proyecto de una manera integrada.

Logros

Los logros más importantes que fueron presentados en esta segunda visita son los siguientes:

- **Centro**

  1. Conexión a la red de 318 escuelas durante el periodo de febrero a abril de 2002

  2. Evaluación detallada de la infraestructura eléctrica, física y de telecomunicaciones en 1184 escuelas (77%)

  3. Confirmación (mediante la evaluación detallada) de los hallazgos preliminares presentados en enero pasado

4. Validación de la corrección del enfoque de administración y apoyo centralizado

- **Escuelas**

1. Instalación de 42 laboratorios (de computadoras y equipo audiovisual) móviles y 25 laboratorios fijos

2. Inicio del proceso de instalación de 33 nuevos laboratorios de computadoras

3. Inicio del proceso de adquisición de 3,000 computadoras como una medida temporera para implantar el acceso a la red Internet.

4. Inicio del proceso para adquirir 300 laboratorios de computadoras y equipo audiovisual

5. Adiestramiento de 4,300 maestros durante el presente semestre (adicionales a los 12,498 adiestrados hasta diciembre de 2001)

6. Compromiso de adiestrar 3,000 maestros adicionales durante el verano

7. Diseño de más de 150 actividades académicas utilizando la tecnología por parte de los maestros del proyecto CENIT

8. Diseño de estándares para el uso de la tecnología por parte de estudiantes, maestros y administradores

9. Diseño de cursos para integrar la tecnología en el currículo y para utilizar Internet como una herramienta de investigación

10. Inicio de la construcción de subestaciones eléctricas en 13 escuelas y de la reconstrucción de la distribución eléctrica en 150 escuelas

- **Oficinas centrales**

1. Reconstrucción de la red interna del Departamento. Este proyecto está en un 80% de terminación.

2. Implementación de una infraestructura de servidores ("server farm") y de almacenamiento ("storage area network")

3. Establecimiento de una infraestructura de apoyo ("help desk") para los usuarios internos y para las escuelas

4. Envolvimiento de los directores de distrito en el proyecto

5. Desarrollo de centros para apoyar los proyectos de tecnología a nivel de distrito escolar (CITED)

6. Implantación del enfoque de alinear los programas de fondos federales para tecnología con los objetivos tecnológicos y académicos del Departamento de Educación

Nuestro informe fue acogido con mucho entusiasmo por el comité de Washington. Felicitaron a la delegación por los esfuerzos realizados para recuperar el proyecto. Solicitaron les supliéramos copias de los modelos de los instrumentos y metodologías utilizadas por el DE para las auditorias y recopilación de información, de los borradores de los modelos de integración de la tecnología al currículo y de los informes de progreso para la recuperación de la infraestructura. Particularmente les llamó la atención el enfoque integral de la estrategia de recuperación y la definición que le dimos a una escuela recuperada.[1]

Nuestra delegación presentó la necesidad urgente de continuar la recuperación del proyecto dentro del itinerario más corto posible y la necesidad de los fondos del año 4 para así lograrlo. Se solicitó la pronta decisión sobre la adjudicación de fondos ($40 millones) para ese año. También se presentó una solicitud para la asignación de fondos de emergencia adicionales (de las partidas de sobrantes del programa) para completar la recuperación de las escuelas con infraestructura inalámbrica de la fase 2.

La representación de ERate se comprometió a defender la recuperación de nuestro proyecto ante la FCC y otros foros pertinentes. No se comprometieron en ese momento con la asignación de fondos para año 4, pues todavía tienen que evaluar aspectos estatutarios y reglamentarios del proyecto. Estos aspectos están vinculados a las responsabilidades del DE y los suplidores de servicios durante la pasada administración.

Nuestra parte se comprometió a continuar los esfuerzos de recuperación del proyecto enfatizando las siguientes labores:

1. Continuar con la conexión de las escuelas de la fase 1
2. Producir un plan de recuperación para rehabilitar y conectar escuelas con infraestructura inalámbrica de la fase 2.
3. Aumentar la disponibilidad de medios de acceso al Internet (PCs y/o laboratorios) en las escuelas con conexión operacional.
4. Validar los borradores de estándares tecnológicos, cursos de integración de tecnología en las salas de clase y políticas de uso de tecnología en el DE.
5. Implantar apoyo tecnológico a nivel de los distritos escolares mediante los centros CITED
6. Adiestrar en la producción de planes tecnológicos a nivel de escuela y distritos escolares.

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[1] El Departamento de Educación definió una escuela recuperada como una en la que se dan las siguientes tres cosas: línea de comunicación disponible, arreglo ("setup") de la escuela reconstruido y al menos una computadora accesando el Internet. Esta definición es una orientada al usuario y puede diferir de la definición que le den los suplidores.

7. Expandir la disponibilidad del "Help Desk" a los usuarios en las escuelas conectadas operacionalmente.

La próxima reunión de seguimiento se solicitará para fines de agosto 2002 y nuevamente se basará en los logros obtenidos hasta esa fecha.

CONFIDENTIAL

Resumen de la visita a USAC realizada por le Lcdo. Juan A. Bennazar y Aníbal Cruz-Pérez el 19 de septiembre de 2002.

Nos reunimos a las 9:30 AM del 19 de septiembres de 2002 con el Sr. George McDonald, Vice presidente de USAC en sus oficinas de Washington DC.

Inicio de la reunión:

- Nos recibió bajo el enfoque previo de felicitarnos por el trabajo que estamos haciendo, que somos los "good guys", y que la decisión de hacer disponible los fondos no está en su ámbito de decisión.
- Manifestó que la alternativa de "perdonar a los que habían actuado mal" y liberar los fondos era una decisión difícil por ser los primero en un gran caso como este y que esa decisión sentaría precedente en como tratar casos como este.

Explícitamente le informamos que:

- No fuimos a solicitar que se perdone a los malos administradores del proyecto. Nuestro enfoque es que los responsables rindan cuenta de sus actos.
- Fuimos a informar que el Secretario estará contestando a USAC que hemos cumplido con los requerimiento de la carta de diciembre de 2001 en todos sus aspectos.
- El asunto legal puede resolverse independientemente del asunto del financiamiento prospectivo del proyecto para salvarlo y hacerlo funcionar.
- Hemos atendido y cumplido con todos los requerimientos solicitados en la carta de diciembre de 2001.
    - A esto, McDonald contestó que era correcto. A un cuestionamiento nuestro basado en que el Secretario del DE contestaría oficialmente su carta por escrito, él contestó que confirmaría que eso es correcto y que gozamos de la confianza de USAC para continuar adelante con el proyecto.
- Que nuestro proyecto ha llegado al final de esta fase de recuperación con los fondos que tenemos disponibles. Para completar las fases restantes necesitamos la disponibilidad de fondos de años 4 y 5.
- La Gobernadora de Puerto Rico está requiriendo de nuestra oficina los resultados del proyecto y no tenemos más información o resultados que los ya presentados.
- De no haber resultados en el campo de la administración y operación de nuestra oficina, se trasladará el esfuerzo a la oficina política del gobierno. En esta oficina nosotros no tenemos ninguna injerencia o control.
- Hay elecciones congresionales dentro de mes y medio que podrían ser utilizadas por el sector político para promover nuestra causa.
- Una contestación de NO CONTESTAR EN ESTA MOMENTO es para nuestros efectos una negativa. La no inyección de los fondos disponibles para años 4 y 5 es equivalente a liquidar el proyecto.
    - Mencionamos el esfuerzo que está haciendo PRT sin facturar hasta el momento, la obsolescencia de los equipos y que cada año

que pasa 50,000 estudiantes pierden la oportunidad de adiestrarse en las destrezas necesarias para el nuevo paradigma tecnológico.

- Como CIO de este departamento era mi responsabilidad proveer al Secretario, la Gobernadora y al País las alternativas necesarias para la continuidad del proyecto, con o sin ERate. Sobre ese aspecto llevábamos trabajando las últimas 7 semanas.

Acuerdos negociados:

- McDonald acepta que hemos cumplido con los requerimientos de la carta de dic 2001 y así lo hará saber a cualquier interesado.
- Recibirá una carta del Secretario a esos efectos antes de que efectuemos la visita.
- Se escribirá una carta a la Sra. Jane Mago sobre la agenda de asuntos a tratar. Esa agenda girara en torno a:
    - hemos cumplido con USAC y tenemos la evidencia para demostrarlo.
    - los niños de Puerto Rico no deben ser discriminados por las acciones negativas de ciertos funcionarios y empresas de la administración anterior.
    - No disponer de los fondos del proyecto en este momento es una condena de facto al fracaso y terminación del proyecto ERate.

FREE ASSOCIATED STATE OF PUERTO RICO
DEPARTMENT OF EDUCATION

PRELIMINARY REPORT
REEDÚCATE NETWORK AUDIT

Prepared by:
ARJ Professional & Consulting Services, Inc.
March 11, 2002

TAB 24

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

César A. Rey Hernández, Ph.D.
Secretary

Letter to Atty. Jane E. Mago, General Counsel
to the Federal Communications Commission

January 30, 2003

EXHIBIT XI

Puerto Rico's "BLUE RIBBON COMMITTEE's" request to the PRDOE to produce documents regarding transactions with several providers of goods and services, including specifically *DRC Corporation*.

[logo]
Independent Citizens' Committee for
the Evaluation of Government Transactions

January 30, 2002

[handwritten: Blue ribbon. Delivered to Dr. C. Collazo] [illegible signature]

PERSONAL AND CONFIDENTIAL

Attorney Ana Matilde Nin
Legal Advisor
Secretary of Education
Department of Education
Hato Rey, Puerto Rico

BY HAND

Dear Ms. Nin:

With respect to carrying out the assignment set forth in the Executive Order, Bulletin No. 2001-06, which establishes the Independent Citizens' Committee for the Evaluation of Government Transactions, we request the cooperation of the Office of the Secretary in obtaining copies of the following documents.

Special Education Program:

- Copy of the standards, guidelines, regulations, or procedures established by the Department for the allocation of funds for 1994 - 2000 and a copy of the legislation under which the funds were allocated.
- List of the Departmental units that would receive funds under this program.

P.O. Box [illegible]
San Juan, Puerto Rico
[illegible]
Telephone: [illegible]
Fax: [illegible]

- Copy of the proposals and modifications thereof submitted to the Department for the Special Education Program. Copy of the evaluations of the proposals, including the name, address, and list of persons or officials who performed them.

[left margin: illegible handwriting]

- Copy of the Directory of Service Providers for the Program and copy of the list of entities which actually offered services.

- Copy of the contracts, agreements, or acknowledgments signed by the service providers and the Department or signed by Department personnel that are associated with the Program.

- Copy of the payments made by the Department to the service providers, including copy of the invoices or documents justifying the payment.

- Copy of the audits, [records of] monitoring [activity], reports, or evaluations of the service providers by personnel of the Department, the Office of the Comptroller, or an outside body.

"DRC" and "DRC Corporation Systems Integrators"

- Copy of the standards, guidelines, regulations, or procedures established by the Department for the allocation of funds and a copy of the legislation under which the funds were allocated.

- Copy of the proposals and modifications thereof submitted to the Department. Copy of the evaluations of the proposals, including the name, address, and title of persons or officials who performed them.

[left margin, handwritten: José Santana]

- Copy of the contracts, agreements, or acknowledgments signed by the Department and "DRC" or "DRC Systems Integrators,"

  or signed by the Department personnel that are associated with this corporation.

- Copy of the payments made by the Department to "DRC" or to its suppliers, including copy of the invoices or justifications for the payment.

- Copy of the audits, [records of] monitoring [activity], reports, or evaluations of "DRC" [and] its suppliers by personnel of the Department, the Office of the Comptroller, or an outside body.

[left margin, handwritten: José Santana]

OMEP:

- Copy of the authorization from the legislature and OMB to use the funds for school repair and maintenance.

- The guidelines, standards, or procedures established for the use of these funds.

- The proposals received and the evaluation[s] thereof.

- The contracts signed and payments issued.

- The audits, [records of] monitoring [activity], reports, or evaluations on this matter.

[left margin, handwritten: Miguel Ríos]

Plan for books:

- Financial aid contract signed by the Department of Education and the Fideicomiso del Niño [Children Trusteeship] under which $78 million was allocated to the Department.

[left margin: illegible handwriting]

[left margin: illegible handwriting]

- Copy of the proposals submitted by the Department for the use of these funds.
- The payments made
- The evaluations of this Program.

H.R. Systems: [handwritten] illegible

- The list of contracts signed by this corporation and the Department.
- Copy of the proposals submitted and the evaluations thereof.

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We appreciate your cooperation and diligence in providing the requested documents and any other related document[s]. These may be sent as they are located. Please contact our office if you have any questions.

Cordially,
[handwritten; illegible]
[handwritten: for] Brenda N. León Suárez
Executive Director

Translated by Wendy Griswold at the request of the Congressional Research Service, January 30, 2004.

TAB 25

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

César A. Rey Hernández, Ph.D.
Secretary

Letter to Atty. Jane E. Mago, General Counsel
to the Federal Communications Commission

January 30, 2003

EXHIBIT XII

- November 4, 2002 letter of the Hon. Pedro G. Goyco Amador, Chief Prosecuting Attorney of the Commonwealth of Puerto Rico's Department of Justice to USAC regarding investigation of DRC Corporation, former supplier to PRDOE, and related correspondence.

al expd. de
corresp. remitida
al Estado

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF JUSTICE
OFFICE OF THE CHIEF PROSECUTING ATTORNEY
P.O. BOX 9020192, SAN JUAN, PR 00902-0192

Hon. Pedro G. Goyco Amador
Chief Prosecuting Attorney

Tel: (787) 729-2400 / 729-3159
Fax: (787) 729-2592

November 4, 2002

Mr. George Mc'Donald
Vice President
Schools and Libraries Division
UNIVERSAL SERVICE ADMINISTRATIVE
CORPORATION (USAC)
2120 L. Street, N.W., Suite 600
Washington, D.C. 20037, U.S.A.

RE: DRC CORPORATION

Dear Mr. Mc'Donald:

As you are aware, the Puerto Rico Department of Education (PRDOE) has requested that we investigate possible improper or illegal use of funds by the above referenced entity during the years 1998, 1999 and 2000 when it provided goods and services to the PRDOE to connect public schools in Puerto Rico to the internet as part of a project funded with resources provided by the FCC, popularly known as "E-Rate" funds. We understand that for the particular program in question, the Schools and Libraries Division of USAC is in charge of authorizing and disbursing the E-Rate funds.

As part of our review and analysis of the documents and information submitted to us by the PRDOE, we wish to examine the invoices or certifications submitted by the above referenced vendor to USAC with supporting documentation, as well as evidence of the payments made, including, if possible, cancelled checks, receipts,

and any voucher of internal memorandum generated in the process of authorizing and making the payments to said vendor. We understand that this process was handled directly by USAC and thus wish to know if these documents and records are available and can be provided to us, confidentially, in furtherance of our investigation.

We have been contacted by the General Counsel's Office of the FCC, as they are very interested in this process. Naturally, since we are dealing with federal funds, we assume that the U.S. Department of Justice may have perhaps begun to conduct its own investigation, although at this time we have not been notified of any.

With our anticipated thanks for your attention to this matter, we remain,

Cordially yours,

Pedro G. Goyco Amador
Puerto Rico Chief Prosecutor

C: Hon. César A. Rey

Dra. Irma Alicia Rodríguez

A. J. Bennazar Zequeira, Esq.

Mr. Mark G. Seifert, Esq. (FCC)

NOV-04-02 16:07 FROM:DIV ION LEGAL ID:78 ;74919 PAGE

Confirmation Report - Memory Send

Time : Nov-04-2002 04:20pm
Tel line : 7252450
Name : OFIC.INVESTIGACIONES Y PROC.CRIMINAL

Job number : 574
Date : Nov-04 04:18pm
To : 912027780080
Document pages : 002
Start time : Nov-04 04:18pm
End time : Nov-04 04:20pm
Pages sent : 002
Status : OK
Job number : 574 *** SEND SUCCESSFUL ***

[redacted]

November 4, 2002

Mr. George Mc'Donald
Vice President
Schools and Libraries Division
UNIVERSAL SERVICE ADMINISTRATIVE
CORPORATION (USAC)
2120 L Street, N.W., Suite 600
Washington, D.C. 20037, U.S.A.

RE: DRC CORPORATION

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As part of our review and analysis of the documents and information submitted to us by the PRDOE, we wish to examine the invoices or certifications submitted by the above referenced vendor to USAC with supporting documentation, as well as evidence of the payments made, including, if possible, cancelled checks, receipts,

Estado Libre Asociado de Puerto Rico
DEPARTAMENTO DE EDUCACIÓN

César A. Rey Hernández, Ph.D.
Secretario

31 OCT. 2002

Hon. Pedro G. Goyco Amador
Fiscal General de Puerto Rico

ASUNTO: PROGRAMA FONDOS "E- RATE"

Honorable Fiscal Goyco:

Con relación a su comunicación en el día de hoy, le informo que con relación al programa para conectar las escuelas públicas del país a la internet con fondos provenientes del programa federal conocido como "E-Rate" el Departamento de Educación del Estado Libre Asociado de Puerto Rico no emitía pagos provenientes de dichos fondos federales directamente a los suplidores.

Los fondos conocidos popularmente en Estados Unidos como "E- Rate" los genera la Comisión Federal de Comunicaciones (FCC, por sus siglas en inglés) y los distribuye a programas que cualifiquen para recibir dichos fondos a través de una corporación que es una agencia del gobierno federal que se llama Universal Service Administrative Company ("USAC"), con sede en 2120 L Street, N.W., Suite 600, Washington, D.C. 20037. Dentro de la estructura de USAC, la División de Escuelas y Bibliotecas ("Schools and Libraries División") que dirige el señor George McDonald, recibe las certificaciones y facturas de los suplidores y autoriza la emisión de los pagos directamente a éstos. En dicho trámite no interviene nuestro Departamento. Por tanto, entendemos que la documentación relativa a las facturas o certificaciones que DRC Corporation sometió a USAC así como los documentos para el procesamiento de los pagos de éstas, deben obrar en los archivos de USAC.

P.O. BOX 190759, SAN JUAN, PUERTO RICO 00919-0759 • TEL.: (787) 759-2000 EXTS.: 2404, 4404 • FAX: (787) 250-0275

E. Departamento de Educación no discrimina por razón de raza, color, sexo, nacimiento, origen nacional, condición social, ideas políticas o religiosas, edad o impedimento en sus actividades, servicios educativos y oportunidades de empleo.

Mediante copia de la presente, estoy notificando al señor McDonald de su solicitud, con el ruego de que brinde a usted y al Departamento de Justicia de Puerto Rico toda la cooperación posible en apoyo de esta importante investigación.

Muy atentamente,

César A. Rey Hernández, Ph. D.
Secretario

c: Sr. George McDonald (USAC)
Dra. Irma A. Rodríguez Avilés
Lcdo. A. J. Bennazar Zequeira

Oct-30-2002 03:37pm From-OFIC.INVE' 'ACIONES Y PROC.CRIMINAL 7292460 T-160 P.001/001 F-471

ESTADO LIBRE ASOCIADO DE PUERTO RICO
DEPARTAMENTO DE JUSTICIA
OFICINA DEL FISCAL GENERAL DE PUERTO RICO
APARTADO 9020192, SAN JUAN, PR 00902

Hon. Pedro G. Goyco Amador
Fiscal General

Tel.: (787) 729-2400 / 729-2199
Fax (787) 977-2245

30 de octubre de 2002

Hon. César A. Rey Hernández
Secretario
DEPARTAMENTO DE EDUCACIÓN
Apartado Postal 190759
San Juan, Puerto Rico 00919-0759

ASUNTO: DRC Corporation/Utilización de Fondos "E-Rate"

Estimado señor Secretario:

La presente es con relación a la carta que usted nos remitió con fecha 3 de octubre de 2002 y los documentos anejos a la misma, en torno a las investigaciones que diversas agencias están llevando a cabo sobre posible uso indebido o ilegal de los fondos para el Programa "E-Rate" adjudicados a Puerto Rico durante los años 1998-2000.

Para poder investigar el asunto mas a fondo, interesamos examinar las facturas o certificaciones del suplidor de referencia, así como los pagos que se le hicieron, incluyendo, si posible, cheques cancelados, recibos y cualquier memorando interno o documento de trámite para la autorización de los pagos a dicho suplidor.

Con nuestro agradecimiento por su cooperación, quedo de usted,

Muy atentamente,

Pedro G. Goyco Amador
Fiscal General

Ct: Dra. Irma Alicia Rodríguez
Lcdo. A. J. Bennazar Zequeira

Carta al Fiscal Pedro G. Goyco
3 de octubre de 2002
Página 2

Agradeceré nos indique el curso que se sigue con la investigación de la red de comunicaciones del Departamento de Educación. Adjunto le estamos enviando los documentos necesarios.

Agradeciendo su atención a este asunto, queda de usted.

Cordialmente,

César A. Rey Hernández, Ph. D.
Secretario

Anejos

Recibida hoy 4 oct 2002
Fiscal Especial General

729-2195- fiscal Cales
2113-
475-4330 - Ismenia Acosta

DEPARTAMENTO DE EDUCACIÓN

OFICINA DEL SECRETARIO

3 de octubre de 2002

Fiscal Pedro G. Goyco
Departamento de Justicia
San Juan, Puerto Rico

Honorable Fiscal Goyco:

Le estamos enviando copia de documentos en torno a varias investigaciones que realizan en el Departamento de Educación diferentes agencias de investigación y la Legislatura del país.

El día 30 de enero de 2002, la Comisión Independiente de Ciudadanos para Evaluar Transacciones Gubernamentales (Blue Ribbon), solicitó documentos necesarios para proceder con investigaciones de varias dependencias del Departamento de Educación. En particular aparece la compañía de suplidores que fue subvencionada a través de fondos E-RATE. (Véase Anejo A)

El día 25 de febrero de 2002, le sometimos a petición de la Oficina del Fiscal Especial Independiente, facturas a favor de la Compañía DRC. (Véase Anejo B) Además, le estamos enviando copia de los resúmenes ejecutivos que hemos presentado ante la Oficina de Universal Services Administration Corporation (USAC) por razones de cuestionamiento de labor realizada en la red de comunicaciones del Departamento de Educación por la anterior administración. En estos informes se indica los resultados del proceso de evaluación ante los señalamientos de USAC. (Véase Anejo C) Los resúmenes responden a las presentaciones de los meses de enero, abril y octubre de 2002.

Por otro lado, en marzo de 2002 la Comisión de Integridad Gubernamental, presidida por el Hon. Cirilo Tirado, recabó información en torno al status de tecnología y red de comunicaciones subvencionada por fondos E-RATE. (Véase Carta Anejo D).

P.O. BOX 190759, SAN JUAN, PUERTO RICO 00919-0759 • TEL.: (787) 759-2000 EXTS.: 2404, 4404 • FAX: (787) 250-0275

El Departamento de Educación no discrimina por razón de raza, color, sexo, nacimiento, origen nacional, condición social, ideas políticas o religiosas, edad o impedimento en sus actividades, servicios educativos y oportunidades de empleo

ARTHUR ANDERSEN

May 30, 2001

Arthur Andersen LLP
1345 Avenue of the Americas
New York NY 10105-0032

Ms. Cheryl Parrino
Chief Executive Officer
Universal Service Administrative Company
538 D'Onofrio Drive
Suite 201
Madison, WI 53719

Re: Request to Allow Access to Our Working Papers

Dear Ms. Parrino:

We have been engaged by Universal Service Administrative Company (USAC) to perform agreed-upon procedures of selected beneficiaries of the Schools and Libraries Support and Mechanism for Funding Year One, in accordance with U.S. generally accepted auditing standards.

The working papers prepared in connection with the above work are the property of Arthur Andersen LLP and contain, among other things information about the beneficiaries, their application support and the results of the agreed-upon procedures performed. In connection with the Federal Communications Commission ("FCC") Part 54 Rules, the FCC pursuant to authority given to it by law or regulation, has requested us to allow access to those working papers and we will provide such access under our supervision. You acknowledge that we have no responsibility to you if such access results in any claims against USAC or the beneficiary. Furthermore, upon request we may provide copies of selected working papers, and the FCC may decide to distribute the copies or information contained therein to others, including governmental agencies. Please note that the working papers constitute and reflect work performed or information obtained by us in our capacity as independent auditor. They contain privileged and confidential information of USAC and the beneficiary and our firm, and we expressly reserve all rights with respect to disclosures to third parties. Accordingly, we request confidential treatment under the Freedom of Information Act or similar laws and regulations when requests are made for the working papers or information contained therein or any documents created containing information derived therefrom. We further request that written notice be given us before distribution of the information in the working papers (or copies thereof) to others, including other governmental agencies, except when such distribution is required by law or regulations.

We will be glad to discuss this matter is greater detail.

Very truly yours,

Arthur Andersen LLP

Copy to:
Kate Moore

CONFIDENTIAL

E-500 '4

Memo

ARTHURANDERSEN

To	The Files
From	John Swieringa/Natasha A. Link
Date	August 25, 2000
Subject	Competitive Bidding Processes for Contracts at Puerto Rico Department of Education

Tel
Fax

Purpose:
The purpose of this memo is to document the competitive bidding processes for contracts, specific to Funding Year One of the Schools and Libraries Program, at The Puerto Rico Department of Education based upon the information provided by Kivio Peguero Cello, Director of The Office of Information Technology

Source:
Contracts and bids provided by the Puerto Rico Department of Education Legal Department under a signed letter of transmittal.

Scope:
The scope is limited to a review of contracts associated with work performed during Funding Year One of the Schools and Libraries Program specific to Application Number 44575.

Background:
- The original telecommunications infrastructure for the Puerto Rico Department of Education was to join the Government initiative called PR STAR NET. The Government initiative was to create a telecommunications infrastructure for all municipal buildings in Puerto Rico.
- Specifically, PR STAR NET was an initiative to create a Wide Area Network ("WAN") which would connect all municipal buildings inclusive of government, education, and other agencies.
- The Form 470 was completed under the assumption that the schools would be provided with internet connectivity via the government network. Therefore, a great portion of the work performed at the schools was to be bundled in a contract for the provision of PR STAR NET. The contract for PR STAR NET was issued for competitive bidding by the government.
- The Department of Education completed an FCC Form 470 and placed it on the Schools and Libraries Division ("SLD") website to comply with program guidelines for competitive bidding.
- During this period of time in early 1998, the government decided that the Department of Education would not participate in PR STAR NET. Therefore, the Puerto Rico Department of Education turned to bids which were received as a result of the Form 470 posting.
- We learned that the FCC Form 470 served as the RFP for the work performed and was posted accordingly.
- We found that the Puerto Rico Board of Education received two bids in response to the Form 470.

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Date August 25, 2000
Subject Competitive Bidding Processes for
Page 2 of 4

- The Puerto Rico Telephone Company ("PRTC") submitted a bid which would meet all networking needs inclusive of telecommunications equipment (i.e. hubs, routers), telecommunications services (i.e. internet access via dedicated T1) via PRTC's Virtual Private Network ("VPN"), and internal wiring for all the 760 schools identified in the FCC Form 470.
- We noted that PRTC is the only service provider in Puerto Rico capable of providing the requested services. Specifically, PRTC is the only company which has a VPN which covers the island of Puerto Rico. Therefore, we noted that no other vendors in Puerto Rico would have a basis upon which to submit a bid for the services requested. Through inquiry, Kivio Peguero confirmed that PRTC was the only vendor large enough to meet the Department of Education's needs.
- The PRTC bid was based upon the following pricing:
  - $31,122,910 for the provision of telecommunications equipment and labor.
  - $428,136 for one-time expenses for the provision of telecommunications services.
  - $557,926 monthly rent for the provision of telecommunications services.
  - $17 million (estimated) for internal wiring at 760 schools (as per Kivio Peguero – we could not find information on wiring pricing in the bid documentation provided for us to review – additional information was requested but not provided)
- Additionally, DRC Corporation ("DRC") submitted a bid for only the internal wiring portion of the Form 470.
- The DRC bid was based upon a total cost of $13,107,332 inclusive of materials, equipment, and labor. We noted that the DRC bid was based upon unit pricing for equipment and materials, however, the bid did not include a unit cost per school. In addition, we noted that the DRC bid included $8,698,764 for labor charges which did not provide any unit cost details.
- The Department of Education's Office of Information Technology Services, specifically Kibio Peguero, reviewed the bids received from PRTC and DRC.
- The procedures followed for receiving bids (per Kibio Peguero) for the E-rate program were as follows:
  - The bids were received into the Information Technology Office of the Department of Education by the Secretary.
  - The sealed bids were then passed on to a Special Committee established by the Secretary of Education of Puerto Rico.
  - This committee opene the bids in a meeting and they were read alound to all of the committee members.
  - The committee then evaluated the bids and decided that they would accept the PRTC bid for the telecommunication services, but would use DRC for the wiring portion due to a lesser cost of $4,000,000.
- The result was that the DRC bid for internal wiring was awarded because the bid price of $13M was far less expensive than the $17 million that Kibio Peguero had indicated was the bid amount for internal wiring submitted by the PRTC.

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Date August 25, 2000
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Page 3 of 4

- For the telecommunications services and equipment, the PRTC bid was the only one received. Therefore, PRTC was awarded the contract for telecommunications services and the provision of telecommunications equipment.

Audit Steps Performed:

1. We reviewed the FCC Form 470, which served as a Request for Proposal. We noted that the FCC Form 470 was dated March 13, 1998 within the prescribed window.
2. We reviewed the following contracts to ensure that the contract date was not within the 28 day posting period, with exceptions - as noted per alternate procedures performed per #3-6 below).
   - PRTC Transport Service Agreement
   - PRTC Amendment to Transport Service Agreement
   - PRTC Sales Contract
   - PRTC Amendment to Sales Contract
   - DRC Agreement
3. We noted that the contract with DRC was signed but not dated. We performed alternate procedures to gain comfort that the contract date was not within the 28-day posting period . We noted that the bid which was attached as an appendix was dated April 8, 1998 and that the law firm for the Department of Education dated the contract as being prepared on 10/15/98.
4. Additionally, the PRTC Sales Contract and the Transport Service Agreement signatures were not dated by the Department of Education, however, the vendor signed both of the agreements on 10/26/98. According to Olga Birrel Cardona, Director of the Legal Division, the commitment letter had not been received by the Department of Education by the date of review of the contract 10/15/98. The reason that the date was not put on the contract prior to this is that (we were advised) the Government of Puerto Rico does not permit a contract to be formalized until there are committed funds for the project. Thus the starting date of the contract automatically begins the date the funding letter was issued, which is the day that the funds for the project became available. Exception noted.
5. Additionally, the PRTC Sales Contract and Transport Service Agreement signatures were not dated by the Department of Education, however, the vendor signed both of the agreements on 10/26/98. Exception noted.
6. We reviewed the aforementioned contracts to ensure that they were for the provision of eligible services as defined by SLD, noting no exceptions.
7. We inquired as to how the contract was awarded for DRC as a result of the competitive bidding process. Per discussion with Kivio Peguero, we learned that DRC was selected based upon The Department of Education's understanding that they were capable of performing the work enumerated in the their bid. The ability of DRC to perform was assessed following discussion sessions between DRC and The Board of Education. Additionally, DRC was selected because they were the lowest bidder.

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Date August 25, 2000
Subject Competitive Bidding Processes for
Page 4 of 4

8. We inquired as to how the contracts were awarded for PRTC telecommunications equipment and services. Per discussion with Kivio Peguero, we learned that PRTC was the only vendor to respond to the FCC 470 posting for telecommunications equipment and services.

JWS/NAL

AMENDMENT TO AGREEMENT
between the
Puerto Rico Department of Education
and
DRC CORPORATION

In the city of San Juan, Puerto Rico on this day of December of the year 2000, appear:----------

As PARTY OF THE FIRST PART: The Department of Education of the Commonwealth of Puerto Rico represented in this acto by its Secretary, Professor Victor Fajardo, of legal age, married, executive and resident of Guaynabo, Puerto Rico, hereinafter referred to as **THE DEPARTMENT.**----------

As PARTY OF THE SECOND PART: DRC CORPORATION, a corporation organized under the Laws of the Commonwealth of Puerto Rico, employer identification number 660-48-1545, herein represented by its President, Mr. Santos Diaz, of legal age, married, executive and resident of Carolina, Puerto Rico, herein known as **DRC.HE SECOND PARTY..**----------

-----Both parties witness to being duly authorized to this Amendment to Agreement and will attest accordingly when and wherever necessary.----------

-----This Amendment to Agreement shall be dated as of December 13, 2000 between THE DEPARTMENT and DRC----------

----------WITNESSETH----------

-----WHEREAS, THE DEPARTMENT and DRC signed an Agreement dated November 14, 2000, to provide products and services (hereinafter "Agreement").-------

-----WHEREAS, the School and Libraries Division/USAC denied federal funding for a portion of the Internet-access services, these are Proxy Services, and the Control Server Services.----------

-----WHEREAS, the Department of Education acknowledges the non-approval of such funds and agrees to amend the Agreement reducing the total amount of the Agreement.----------

-----Now Therefore, in consideration of the promises and the mutual agreements herein contained, the parties hereto agree as follows:----------

-----Amend Clauses SEVENTH, ELEVENTH and FOURTEENTH of the Agreement dated November 14, 2000 so that they read as follows:----------

-----SEVENTH: The parties agree that the payment method will be the following:-----

----------ONE: THE DEPARTMENT will pay DRC the total amount of Forty Three Million Four Hundred Eighty Seven Thousand Two Hundred Forty Eight Dollars ($43,487,248.00) for services rendered under the terms of this contract. Detailed description of products and services to be rendered as attached as Exhibit I, and made to form part of this Agreement. ----------

-----ELEVENTH: This contract will be in effect from the first day of July 2000 until the 30th day of June 2001. Notwithstanding the aforementioned, the internet access services provided here under the "Clauses and Conditions", First Clause, Specifically Section F, shall continue to be provided to THE DEPARTMENT until the 30th day of June 2004, provided that E-Rates funds are available.----------

-----FOURTEENTH: The internet services to be provided by DRC to THE DEPARTMENT, will remain in place for a four (4) year term, provided that E-Rate funds are available.----------

-----IN WITNESS WHEREOF the parties hereto execute this Amendment to Agreement in San Juan, Puerto Rico, on the ____ day of December of 2000.----------

PROF. VICTOR FAJARDO
SECRETARY
DEPARTMENT OF EDUCATION
"THE DEPARTMENT"

MR. SANTOS DIAZ DIAZ
PRESIDENT
DRC CORPORATION
"DRC"

DEPARTAMENTO DE EDUCACION
Sometido por: Kivio Peguero Cuello
Fecha:
Con cargo a:
Revisado en División Legal
Por:
Fecha:

AGREEMENT
between the
Puerto Rico Department of Education
and
DRC CORPORATION

In the city of San Juan, Puerto Rico on this 1[illegible] day of November of the year 2000, appear:----------

As PARTY OF THE FIRST PART: The Department of Education of the Commonwealth of Puerto Rico represented in this act by its Secretary, Prof. Victor Fajardo, of legal age, married, and resident of Guaynabo, Puerto Rico, hereinafter referred to as THE DEPARTMENT.----------

As PARTY OF THE SECOND PART: DRC Corporation, a Corporation organized under the Laws of the Commonwealth of Puerto Rico, employer identification number 660-48-1545, herein represented by its President, Mr. Santos Diaz Diaz, of legal age, married, executive and resident of Carolina, Puerto Rico, hereinafter referred to as DRC.----------

Both parties witness to being duly authorized to execute this AGREEMENT and will attest accordingly when and wherever necessary.----------

WITNESSETH

WHEREAS, THE DEPARTMENT in the exercise of the powers granted it by the Constitution and laws of the Commonwealth of Puerto Rico wishes to contract the services of DRC.----------

WHEREAS DRC has the capacity and experience necessary to perform the tasks and obligations to be undertaken under the terms of this agreement.----------

NOW THEREFORE and in consideration of the mutual covenants contained herein DRC agrees to provide THE DEPARTMENT the services hereinafter described subject to the following:----------

CLAUSES AND CONDITIONS

----FIRST: DRC will provide and install the following services:----------

---------A: A wireless infrastructure for the new schools of the Department of

EXHIBIT
A

Education, and any of the original 780 schools that require additional capacity, that will include the following equipment and services:----------

1. 350 WavePoint-II Access Points with 525 2.4 Ghz antennns among the 780 schools.----------
2. 20000 PC Frequency Radio and Antenna Systems for the user transmission at these 780 schools.----------
3. 300 UTP Cat 5 drops for the connection to the ATM infrastructure.----------
4. All installation and configuration services.----------

--------A: DRC will provide and install HP NetServer servers, and IBM Netfinity Servers for a total of 4600 servers.----------

--------B: DRC will provide and install, 965 HP SureStore DAT 24 x 6e Autoloader DDS3 Drives and 575 IBM x 120/240 DDS4 Autoloader Drives for a total of 1540 schools of the Department of Education. ----------

--------C: DRC will provide and install Operating System Software with 55000 client licenses on the 4600 Servers. ----------

--------D: DRC will provide and install 100 HP ProCurve hubs (12 ports) at the 100 new and/or original 780 Schools.----------

--------E: DRC will install, test and connect to the schools a total of 4600 servers, (1) Triplite Omnismart 1050 and/or APC Smart UPS 1050.----------

--------F: DRC will provide Internet Access and services to the 780 schools and for up to 54,227 users. The Internet Access and services are detailed in Exhibit I. (See copy of detailed description of products and services to be rendered included herein as Exhibit I.) ----------

----THE DEPARTMENT will be responsible for providing the adequate power supply to operate the system and equipment provided by DRC under the terms of this contract.----------

----DRC Corporation will be responsible for daily clean-ups of working area, materials provided onsite, and for tools used. DRC Corporation will adhere and

comply with any rules and regulations established and these shall be presented and defined at the initial planning meeting on the project management team.----------

-----SECOND: DRC hereby agrees to make the necessary research and submit all pertinent documentation for the successful execution of the tasks to be performed under this agreement.----------

-----THIRD: Personnel from DRC will coordinate and meet with the authorized representatives of THE DEPARTMENT or with representatives of any governmental agency of the Government of Puerto Rico designated to assure the fairness of the public policies and the proceedings of this contract when applicable. Furthermore the THE DEPARTMENT agrees to the obligations specified in the proposal.----------

-----FOURTH: DRC states herein that no personnel from the Department of Education have financial interest in this contract.----------

-----FIFTH: DRC certifies as to its personal circumstances as required by Article 177 of the Political Code, as amended; clause A, paragraph 18, and Annex III, clause B, sections 4 and 5 of Circular Number 1300-31-92, issued by the Secretary of The Treasury on June 24, 1992.----------

--------(x) DRC certifies that it renders services under contract to other agencies of the Government of Puerto Rico and that the same are authorized by law and present no conflict with this contract.----------

-----SIXTH: DRC recognizes that in the discharge of its professional responsibilities it has a duty of loyalty to the Agency, and that this includes not having interests adverse to those of THE DEPARTMENT. These adverse interests include the representation of clients who have, or could have, opposing interests to those of THE DEPARTMENT. This duty, moreover, includes the continuous obligation of disclosing to the Agency all circumstances of its relationship with clients or third parties or any other interest which could influence the Agency at the moment of executing this contract or during its term.----------

-----The retained party represents conflicting interests when, in benefit of another client, it must promote something that may result in opposition to its obligations

towards another previous, actual or potential client. It also represents conflicting interests when its conduct is described as such in the recognized ethical standards of its profession or in the laws and regulations of the Commonwealth of Puerto Rico.---------

----In contracts with associations and firms it will be considered a violation of this prohibition were any of its directors, associates, or employees to engage in the conduct herein described. The retained party will prevent even the appearance of conflicting interests.----------

----The retained party understands the monitoring power of the Chief of Agency, in relation to the compliance of the prohibitions herein contained. Where the Chief of Agency believes that there exist, or have existed conflicting interests with the retained party, he will notify in writing these findings to the retained party and his intention to terminate the contract within thirty (30) days. Within this period of time, the retained party may request a meeting with the said Chief of Agency to present his arguments on the findings of conflict of interests, and this meeting will be granted in any event. Were this meeting not to be requested within the stipulated time, or were the controversy not to be satisfactorily resolved during the meeting, this contract shall be terminated.----------

----SEVENTH: The parties agree that the payment method will be the following:----

--------ONE: **THE DEPARTMENT** will pay **DRC** the total amount of **Forty five Million Five Hundred Seventy Thousand Eight Hundred Dollars ($45,570,800.00)** for services rendered under the terms of this contract. Detailed description of products and services to be rendered as attached as Exhibit I, and made to form part of this agreement.----------

--------TWO: Payments to DRC services shall be carried out from the E Rate funds.----------

--------THREE: Payments to DRC shall be made by **THE DEPARTMENT** upon receipt of certified invoices and such payments will be received by the **DRC** not later than thirty (30) days upon receipt of said invoices.----------

———FOUR: DRC will invoice THE DEPARTMENT after each of the successful completion of each of the services designated under "Clauses and Conditions", specifically FIRST Clause, Section A through F.———

----EIGHTH: In accordance to Circular Letter number 1300-26-95 of June 19, 1995, and the Puerto Rico Income Tax Law of 1954, as amended, DRC hereby certifies that it has a total exemption certificate issued by the Department of Treasury so that no withholding of seven percent (7%) of the payments will be effected.———

----No withholding nor discounting of fees shall be effected upon DRC for Federal Social Security purposes. DRC shall be responsible for filing and paying its Federal Social Security Taxes and for any amount due as a result of income earned under the terms of this contract. THE DEPARTMENT will notify the Income Tax Office as to payments and reimbursements made to DRC.———

----NINTH: DRC accepts that THE DEPARTMENT may retain from payments made to DRC those amounts which may correspond to debts associated with income tax, real property and personal property taxes (CRIM), duties, unemployment insurance, temporary disability, social security payments for drivers,license fees, interest debt, dividends, rent and any other similar obligations owed by DRC to the Government of Puerto Rico.———

----TENTH: DRC certifies and guarantees that at the time of this contract's execution it has filed its income tax returns during the five (5) years prior to this contract. DRC also certifies that it currently has a debt with the Department of the Treasury of the Commonwealth of Puerto Rico that is being contested and disputed. It further agrees that if the dispute is resolved in favor of the certification of the debt, THE DEPARTMENT is hereby authorized to retain from payments due to DRC, the agreed amount of the debt. THE DEPARTMENT can only do this after a written notice is rendered to DRC.———

----It further certifies that it does not owe any property or real estate taxes, or taxes due to Unemployment Insurance, Temporary Disability and Social Security for drivers.———

-----It is expressly recognized that these are essential conditions for this contract and if the preceding certification is not correct in whole or in part, this will be sufficient cause for THE DEPARTMENT to cancel this contract.----------

-----ELEVENTH: This contract will be in effect from the first day of July 2000 until the 30th day of June 2001. THE DEPARTMENT may contract DRC, for three (3) additional years, to provide the services designated under "Clauses and Conditions", specifically, First Clause, Section F, provided that E-Rates funds are available.---------

-----TWELFTH: This Contract may be terminated at any time by mutual consent of both parties. THE DEPARTMENT may terminate this contract prior to its expiration date, by written notification to DRC thirty (30) days prior to the intended date of termination, stating the reasons for its termination. At THE DEPARTMENT'S discretion, DRC will be allowed no more than thirty (30) days from the date of the mailing to remedy the conditions outlined in the notice to the satisfaction of THE DEPARTMENT'S representative. In the event of termination, THE DEPARTMENT'S liability for payments to DRC will be limited to services/materials provided prior to the date of cancellation per notice of termination. DRC will have no right to additional compensation, except that earned up to the date of termination.------

-----DRC accepts that the final execution of this contract is conditioned to the availability of the funds requested by THE DEPARTMENT from School and Libraries Division of USAC for this purpose. DRC agrees not to commence rendering services until it has received written confirmation in writing to this purpose from THE DEPARTMENT; except internet connection services which may be rendered from July 1st 2000.----------

-----THIRTEENTH: This Contract may be amended at any time by mutual written consent of both parties. Any amendment thereof, must be signed by authorized representatives of both parties.----------

-----FOURTEENTH: The internet services to be provided by DRC to THE DEPARTMENT, will remain in place for a one (1) year term with an optional three

(3) year renewal term, provided that E-Rate funds are available. The fees to be paid during this renewal will be negotiated by the appearing parties.----------

-----FIFTEENTH: In the event of any dispute or disagreement about the validity of this Contract and any of its terms or provisions, as well as the rights and duties of the parties to this Contract, is governed by the laws of the Commonwealth of Puerto Rico and all applicable local laws and regulations.----------

-----SIXTEENTH: Negligence or non-compliance with the terms of this contract or improper conduct by DRC will constitute sufficient cause to terminate the same without the requirement of prior notice. If THE DEPARTMENT decides to terminate this contract DRC will abstain from performing any further acts unless its inaction would cause harm to THE DEPARTMENT or imply improper professional conduct, in which case it will notify THE DEPARTMENT of the action taken.--------

-----SEVENTEENTH: All addenda mentioned herein are made integral part of this contract.----------

-----In witness whereof the parties above mentioned execute this contract in San Juan, Puerto Rico on this 14 day of November, 2000.----------

PROF. VICTOR FAJARDO
SECRETARY
DEPARTMENT OF EDUCATION
"THE DEPARTMENT"

MR. SANTOS DIAZ DIAZ
PRESIDENT
DRC CORPORATION
"DRC"

Revisado por:
Servicios Legales

03/12/02 15:27 ☎787 721 8820 J.F.NEVARES ASOC

MODELO DC-00-05 (NOVIEMBRE 1999)
REVISIÓN JUNIO 1998 (REV OCTUBRE 1999)
REGLAMENTO NÚM. 33 DEL 28 DE ENERO DE 1998
REGULATION NO. 33 OF JANUARY 28, 1998

ESTADO LIBRE ASOCIADO DE PUERTO RICO
Commonwealth of Puerto Rico
OFICINA DEL CONTRALOR
Office of the Comptroller
San Juan, Puerto Rico

CERTIFICACIÓN
CERTIFICATION

SOBRE OTORGAMIENTO DE CONTRATO, ESCRITURA O DOCUMENTO RELACIONADO
REGARDING THE EXECUTION OF CONTRACTS, DEEDS AND OTHER RELATED DOCUMENTS

/1/ Código de Entidad (Entity Code) 1 2 0 1

/2/ Número del Contrato (Contract Number) _ _ _ _ - _ _ _ _ - _

/3/ Fecha de Otorgamiento (dd/mm/aa) (Date of execution (dd/mm/yy)) 1 4 - 1 1 - 0 0

/4/ Cuantía Total (Total Amount) 4 5 , 5 7 0 , 8 0 0 . - 0 0 E-RATE Funds

/5/ Código del Tipo de Contrato (Contract Type Code) _ _

/6/ Exento (Exempt) _

/7/ Orden (Aprobación o dispensa de algún organismo del Gobierno) (Contract Type Code) _____

/8/ Vigencia desde (dd/mm/aa) (Contract Number) 0 1 - 0 7 - 2 0 0 0 Hasta (dd/mm/aa) 3 0 - 0 6 - 2 0 0

/9/ Seguro Social Personal o Patronal (Social Security Number) 6 6 0 - 4 8 - 1 5 4 5

/10/ Contratista(s) (Contractor) DRC CORPORATION

/11/ Representante(s) de la(s) Entidad(es) Gubernamental(es) (Government Representative(s)) Departamento de Educación

Se somete la presente certificación en cumplimiento con la Carta Circular promulgada por el Contralor de Puerto Rico y en cumplimiento con el Reglamento Núm. 33 Sobre Registro de Contratos, escrituras y Documentos Relacionados y Envío de Copiasd a la Oficina del Contralor. Esta debe ser remitida a la Oficina del Contralor. (This certification is submitted in compliance with the instructions issued by the Comptroller of Puerto Rico and in accordance with Regulation No. 33, regarding the Registration of Contracts, Deeds and Other Related Documents and the Mailing of such Copies to the Comptroller's Office by the government entity.)

Los suscribientes certificamos haber otorgado hoy el contrato descrito en este documento.
The undersigned certify having that the contract described in this document was executed on this date.

/12/ En (ciudad) San Juan, Puerto Rico, hoy (dd/mm/aa) (Puerto Rico, today (dd/mm/yy)) 1 4 - 1 1 - 0 0

/13/ Firma(s) Contratista(s): (Signature of the Contractor(s))

Firma (Signature)

Santos Díaz Díaz
Letra de molde (print)

DRC CORP.
Firma (Signature)

Letra de molde (print)

/14/ Firma(s) Funcionario(s) Gubernamental(es): (Signature of the Government Official(s))

Firma (Signature)

VICTOR FAJARDO
Letra de molde (print)

Firma (Signature)

Letra de molde (print)

*Ver instrucciones al dorso (see instructions on the reverse side of this form)

TAB 28

PUBLIC NOTICE

Federal Communications Commission
445 12th St., S.W.
Washington, D.C. 20554

News Media Information 202 / 418-0500
Fax-On-Demand 202 / 418-2830
TTY 202 / 418-2555
Internet: http://www.fcc.gov
ftp.fcc.gov

DA 03-1731

WIRELINE COMPETITION BUREAU SEEKS COMMENT ON A PETITION BY PUERTO RICO DEPARTMENT OF EDUCATION TO RELEASE FUNDS ASSOCIATED WITH SCHOOLS AND LIBRARIES UNIVERSAL SERVICE SUPPORT MECHANISM FOR FUNDING YEARS 2001 AND 2002

PLEADING CYCLE ESTABLISHED

CC Docket No. 02-6

Release Date: May 16, 2003

Comment Date: May 28, 2003 **Reply Comment Date: June 4, 2003**

The Wireline Competition Bureau (Bureau) seeks comment on the Request for Relief of Puerto Rico Department of Education (PRDOE) to authorize commitment and disbursement of funds for funding years 2001 and 2002.[1]

In the fall of 2000, the Universal Service Administrative Company (USAC) determined from a beneficiary audit that there were irregularities with PRDOE's E-rate funding commitments for funding year 1998.[2] Subsequent investigations revealed problems with funding years 1999-2000.[3] Since that determination, USAC has made no further disbursements on funding years 1998, 1999, and 2000.[4] Pending completion of the investigations, USAC has held PRDOE's applications for funding year 2001 and funding year 2002 without action.

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[1] Letter from Dr. Cesar Rey Hernandez, Secretary, Puerto Rico Department of Education to Jane Mago, General Counsel, Federal Communications Commission, dated January 30, 2003 (*Request for Relief*).

[2] *Request for Relief* at 4 & Exhibit I (Appendix B of Arthur Andersen Audit Report, dated October 17, 2001).

[3] Subsequent investigations, including analysis by PRDOE, have revealed additional problems with PRDOE's applications and/or E-rate projects for funding years 1998, 1999, and 2000, including competitive bidding violations, unaccounted for or missing equipment, Internet service to schools with no computers, and payments for service that was not provided or only partially provided. *See, e.g., Request for Relief* at Exhibit 3, Attachment at 4.

[4] *Request for Relief* at Exhibit II (Letter from George McDonald, USAC to PRDOE, dated December 5, 2001).

In the fall of 2000, general elections resulted in a change of administration for the Commonwealth of Puerto Rico. The new administration instituted an independent review of the status of PRDOE's E-rate projects.[5] PRDOE asserts that it received a preliminary report in September 2001 and a final report in March 2002 from its independent consultant regarding the status of its E-rate program, and has undertaken corrective measures. A number of vendors provided service to PRDOE during funding years 2001-2002, but have not received payment.

Meanwhile, in December 2001, USAC requested additional information from PRDOE. In January 2002, PRDOE responded to the request. PRDOE made additional presentations to USAC in April 2002 and October 2002. Subsequently, PRDOE formally requested that the Commission authorize USAC to release funding for funding years 2001 and 2002.[6]

In its Request for Relief, PRDOE pledges to continue to cooperate with investigations of funding years 1998-2000.[7] It indicates that since so much time has elapsed since submitting its request for funding years 2001 and 2002, it may need to request service substitutions if those funds are released and that it will review those requests to ensure compliance with program rules. It commits to periodically retain an external independent professional firm to evaluate the operational aspects of its E-rate projects and future use of E-rate funds.[8] PRDOE also states that it is committed to complying with all applicable local and federal laws.[9]

In the spring of 2003, the Commission was notified that a losing bidder challenged PRDOE's award of its funding year 2003 contract in Puerto Rico.[10] Specifically, the losing bidder alleged that an employee of a company associated with the winning bid was involved in PRDOE's selection process.[11] SLD is currently investigating these allegations to determine if any program rules were violated.

We seek comment on PRDOE's Request for Relief and whether, in light of ongoing investigations for funding years 1998, 1999, 2000, and 2003, issuing such an order authorizing USAC to commit and disburse funds for funding years 2001 and 2002 would be consistent with the public interest. We seek comment on what actions, if any, the Commission should take to

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[5] *See PRDOE Request for Relief* at 2.

[6] *See Request for Relief.*

[7] *See id.* at 5-6.

[8] *Id.* at 6.

[9] *Id.* at 6.

[10] *Puerto Rico Telephone Company, Inc. v. Junta de Subastas Central-Departamento de Educacion*, Solicitud de Reconsideración de Adjudicion de Subasta (Junta de Revision Administrativa Deparamento de Educación , filed February 14, 2003).

[11] *Id.* at 17-19

ensure that funds are awarded and spent appropriately.

Pursuant to sections 1.415 and 1.419 of the Commission's rules, 47 C.F.R. §§ 1.415, 1.419, interested parties may file comments on or before May 23, 2003, and reply comments on or before May 30, 2003. Comments may be filed using the Commission's Electronic Comment Filing System (ECFS) or by filing paper copies.[12]

Comments filed through the ECFS can be sent as an electronic file via the Internet to <http://www.fcc.gov/e-file/ecfs.html>. Generally, only one copy of an electronic submission must be filed. If multiple docket or rulemaking numbers appear in the caption of this proceeding, however, commenters must transmit one electronic copy of the comments to each docket or rulemaking number referenced in the caption. In completing the transmittal screen, commenters should include their full name, U.S. Postal Service mailing address, and the applicable docket or rulemaking number. Parties may also submit an electronic comment by Internet e-mail. To get fling instructions for e-mail comments, commenters should send an e-mail to <ecfs@fcc.gov>, and should include the following words in the body of the message, "get form <your e-mail address>." A sample form and directions will be sent in reply.

Parties who choose to file by paper must file an original and four copies of each filing. If more than one docket or rulemaking number appears in the caption of this proceeding, commenters must submit two additional copies for each additional docket or rulemaking number. Filings can be sent by hand or messenger delivery, by commercial overnight courier, or by first-class or overnight U.S. Postal Service mail (although we continue to experience delays in receiving U.S. Postal Service mail). The Commission's contractor, Vistronix, Inc., will receive hand-delivered or messenger-delivered paper filings for the Commission's Secretary at 236 Massachusetts Avenue, N.E., Suite 110, Washington, D.C. 20002. The filing hours at this location are 8:00 a.m. to 7:00 p.m. All hand deliveries must be held together with rubber bands or fasteners. Any envelopes must be disposed of before entering the building. Commercial overnight mail (other then U.S. Postal Service Express Mail and Priority Mail) must be sent to 9300 East Hampton Drive, Capitol Heights, MD 20743. U.S. Postal Service first-class mail, Express Mail, and Priority Mail should be addressed to 445 12th Street, SW, Washington, D.C. 20554. All filings must be addressed to the Commission's Secretary, Marlene H. Dortch, Office of the Secretary, Federal Communications Commission.

Parties also must send three paper copies of their filing to Sheryl Todd, Telecommunications Access Policy Division, Wireline Competition Bureau, Federal Communications Commission, 445 12th Street, S.W., Room 5-B540, Washington, D.C. 20554. In addition, commenters must send diskette copies to the Commission's copy contractor, Qualex International, Portals II, 445 12th Street, S.W., Room CY-B402, Washington, D.C. 20054.

Pursuant to section 1.1206 of the Commission's rules, 47 C.F.R. § 1.1206, this proceeding will be conducted as a permit-but-disclose proceeding in which *ex parte* communications are permitted subject to disclosure.

For further information, contact Greg Lipscomb, Telecommunications Access Policy Division, Wireline Competition Bureau at (202) 418-7400, TTY (202) 418-0484.

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[12] *See Electronic Filing of Documents in Rulemaking Proceedings*, 63 Fed. Reg. 24121 (1998).

TAB 29

RUSH!

DE
COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

César A. Rey Hernández, Ph.D.
Secretary

May 14, 2003

Cristina Lambert
Vicepresident/General Manager
Network Services
Puerto Rico Telephone Company

Dear Mrs. Lambert:

On April 16, 2003 we received your letter dated April 14, 2003. In it you expressed Puerto Rico Telephone Company's (PRTC's) position with reference to the recall of 277 microcomputers which were loaned by PRTC to the Department of Education (DOE), as part of Project 400.

Based on the information received from the persons in charge of this project, I consider it necessary to clarify several parts of your letter.

1. The authorization for the disbursement of funds associated with Years 4 and 5 by the FCC and SLD was never established as an objective for Project 400. The purpose of this project was to attempt an improvement to Phase I, assigned to PRTC since 1998, which, when we assumed the administration of the DOE in January, 2001, was in critical conditions and practically without providing the service contracted with PRTC for the Internet access in 758 schools.

   In fact, the situation was so critical that during the summer of 2001, the DOE initiated a project to provide Internet access through the network, to 100 schools of Phase I. This effort permitted confirmation of the following:

   a. Practically, no schools of Phase I existed with Internet access service. This, in spite of the fact that the contract with PRTC for Year 1 established

P.O. BOX 190759, SAN JUAN, PUERTO RICO 00919-0759 TEL.: (787) 759-2000, EXTS. 2404, 4404 FAX: (787) 250-0275
The Department of Education does not discriminate for reasons of race, color, sex, birth, national origin, social condition, political or religious beliefs, age or impediment in its activities, educational services and job opportunities.

Mrs. Cristina Lambert
May 14, 2003
Page 2

that transport and access services to Internet for this phase should have been completed by September 1999.

b. The physical installation of the 758 lines (T1) of the network was not completed.

In response to the failure of the iniative for the 100 schools is that PRTC is required to present a plan of recuperation for Internet access to the schools of Phase I. On October 30, 2001, PRTC presented the DOE with a recuperation plan to handle four hundred schools of Phase I., which was identified as "Project 400". In said plan, PRTC recognized the critical condition of the ReEducATe network in terms of infrastructure and telecommunications and, in another document, they offered to extend the recuperation services to the rest of the Phase I schools.

2. The microcomputers loaned by PRTC maintain the Windows ME Operating System. Said operating system was never changed. The images of Windows ME were installed in these microcomputers with the purpose of configurating the parameters of communication we needed in advance.

3. The autovalidation system developed by Microsoft, at the DOE's request and in response to a funcitonality requested by the DOE, was never installed in the microcomputers. Said system was installed and has remained installed only in network servers located in the schools. This information can be verified with the Dreyfous and Associates personnel , who participated as subcontractors of PRTC in the latter part of Project 400.

4. We do not agree with PRTC's affirmation that the methodology for measuring the transport service availability was established by Microsoft. The autovalidation system and other tools that are being utilized to generate availability statistics have been initiatives of the DOE.

The microcomputers loaned by PRTC have had no impact on the daily statistics maintained by the DOE (autovalidation and communication up to the router). As stated before, the autovalidation system has never been installed in the microcomputers connected to the ReEducATe network. Said system has been installed exclusively to the servers of the network.

According to PRTC, the DOE must not begin the process of returning the equipment until one of two conditions are met as requested by PRC:

"1. The DOE must reveal the SLD audit results which motivated the need to perform Project 400 to correct and check the program's functioning with the intention of saving the E-Rate program in Puerto Rico or, in case that the audit has not been carried out, until it is carried on and the results of the same are revealed."

Regarding the aforementioned petition, I must point out that the DOE has no authority to disclose present or future audits which have not been originated by the Department. If one was carried out or there are plans for an audit by SLD, it would correspond to said entity to disclose the results.

"2. The DOE must certify that Project 400's objective was reached which will evidence the DOE to issue an invitation to bid for Year 6."

Mrs. Cristina Lambert
May 14, 2003
Page 3

We do not understand this second condition. To clarify it, we make reference to the ReEducATe Project meeting minutes of February 26, 2003, in which this second condition was quoted as follows:

"... or until the Department certifies that Project 400 was a success and that due to this project there shall be a release of funds by E-rate."

In the first place, to this date, we have no knowledge that SLD has made any decision to "release" the funds corresponding to years 4 and 5. Even if the funds were to be released, we cannot certify that said action obeys the results of Project 400 as suggested by PRTC. It has to do with an administrative decision by SLD and by the FCC. In second place, our data shows that since September 2002, the network has stabilized proportionately in the schools of Project 400 as well as in the schools which are not a part of said project. So, based in our data, we cannot conclude that the network's stabilization was due to Project 400.

When PRTC made the decision of lending the equipment, the conditions for its return were not defined. The conditions that PRTC tries to establish at this time for the return of the equipment are unacceptable to the Department of Education.

I have given instructions to have the microcomputers picked up, inspected and safeguarded in the warehouses belonging to the DOE. The equipment shall remain in storage until PRTC notifies us that they will receive them. We will not be responsible if the equipment turns deteriorated or obsolete during storage.

The DOE recognizes PRTC's effective participation on Project 400 and the assistance rendered with the loan of the 277 microcomputers. We trust that PRTC understand that it is not reasonable nor proper to stipulate or impose "conditions" that were never agreed.

Cordially,

César A. Rey Hernández, Ph. D.
Secretary

Cf: Mr. José Santana
Mr. Adonai Ramírez

PRT Telefonica de Puerto Rico

Jon Slater
President and CEO

March 26, 2003

BY HAND

The Honorable César Rey
Secretary
Department of Education
Tres Monjitas Industrial Park
Hato Rey, Puerto Rico

Dear Mr. Secretary:

Puerto Rico Telephone Company ("PRT") has worked hand-and-hand with the Department of Education ("Department") to construct, support, and establish the Re-edúcate Network, which provides Puerto Rico's schoolchildren with the benefits of modern telecommunications and Internet services. PRT has continued to provide these services without compensation for the last eighteen months. This situation requires prompt action by the Department.

The Department applied for, and received, funding under the FCC's Schools and Libraries Program ("FCC"). Under its proposals for Years IV and V, the Department will be responsible for 10 percent of the Network's costs and the FCC for 90 percent. Although PRT has continued to provide service for 726 public schools in Puerto Rico, PRT has not been paid. At present, the Department and the FCC debt amounts to approximately $26,283,170 for Years IV and V, which include telecommunications transport, maintenance services and Internet service. PRT cannot shoulder this burden alone.

We are heartened by the Department's continued public acknowledgment of both PRT's efforts and the great benefit to the students the Re-edúcate Network provides to over seven hundred schools. Unfortunately, the FCC has decided to freeze the funds for Years IV and V because of accountability problems with other carriers serving the Department schools. Regrettably, this has the effect of punishing the innocent parties, PRT and Puerto Rico's schoolchildren. We cannot continue down the present course much longer, and, therefore, we implore you to work with the FCC and PRT to find a mutually beneficial solution to provide payment to PRT and to guarantee the continued use of the schools' network.

Very truly yours,

cc: Jane Mago, Federal Communications Commission

PO Box 360998 San Juan, Puerto Rico 00936-0998 Tels. 793-1818 / 793-1819

Vice President and General Manager
Wireline Services

February 15, 2002

Mr. Anibal Cruz
O.S.I.A.T.D. Director
Departament of Education
P.O. Box 190759
San Juan, PR 00919-0759

Personal Delivery

RE: Re-Educate

Dear Mr. Cruz:

The Department of Education owes PRT a substantial amount of money related to the goods and services provided during the fourth year of the above referenced program.

The Department's representatives have stated that they have not certified these statements for payment because the schools have not been able to validate Internet access through the Microsoft automatic program. As you know, this is dependent on many factors for which PRT was not contracted to do and for which it has no control.

PRTC has complied in full with its obligations under the terms of the contract awarded, delivering the goods and services it has committed to. However, in order for you to validate PRT compliance as you would like, in the context of Internet access, other components of the system, including computers, servers, internal wiring, connectors and electricity must be utilized, and they have not been available.

PRT has tested the components it has supplied and has validated the system's performance, correcting, in the process, those problems it has found, even substituting or replacing components it was not responsible for. As of this date, PRT has been able to show that the system is operational, testing the access to the Internet, at the point of demarcation in the different schools, using its computers. In addition, USAC has conducted an audit and has certified the work done by PRT in Phase I.

PRT has also developed and is in the process of implementing a plan to place its computers at 400 schools at the points of demarcation, in order to allow the department to showcase Internet access in the schools by February 28. However, the department now wants PRT to place its computers in classrooms or other locations within the schools, and to do so, PRT would have to utilize equipment and wiring installed or belonging to other contractors, and the department has been unable to provide a release for the use of the equipment and wiring. Moreover, the equipment might or might not be operational.

P.O. Box 360998 San Juan, Puerto Rico 00936-0998

Mr. Aníbal Cruz
Page 2
February 15, 2002

PRT is willing and desires to assist the Department in showing that the "Re-educate" project works and would be a tremendous asset to the schools and the community of Puerto Rico. However, in order for PRT to incur the additional expenses needed to implement its plan, it needs to have a written, binding commitment from the Department that once a plan is approved and implemented, the Department will award the backbone of Phase IV to PRT or pay all amounts due for additional expenses incurred in supplying, replacing or repairing work for which other contractors are responsible.

Time is of the essence since we have been advised that funds must be requested from the federal government and allocated prior to June 2002 or they will be lost, if an extension is not requested by the Department of Education and granted. If the loss of funds were to occur, the Department would still be liable to PRT for services rendered.

We look forward to working with the Department of Education and SLD for the success of the Education Project in Puerto Rico. Thank you in advance for your prompt attention to this matter.

Sincerely,

Cristina Lambert

bc: Messrs. Jon Slater
José E. Arroyo, Esq.
José L. Cruz, Ph.D.
John García, Esq.
Arnaldo Díaz

TAB 30

Commonwealth of Puerto Rico
DEPARTMENT OF EDUCATION

RECEIVED
MAY 3 0 2003
BY: AW
cc: MARK, SCOTT

César A. Rey Hernández, Ph.D.
Secretary

May 22, 2003

Mr. Jon Slater
President and CEO
PRT-Telefónica de Puerto Rico
P.O. Box 360998
San Juan, Puerto Rico 00936-0998

Re: E-rate Program Request for Funding Years 4 and 5

Dear Mr. Slater:

This is in response to your letter dated March 26, 2003 and with further reference to our meeting of last Thursday, May 15 at the Department. We indeed recognize that PRT-Telefónica de Puerto Rico has worked with our Department to establish the ReEducate program to provide our students with internet services. We appreciate and look forward to the continued support of PRTC to this project. However, some statements made in your letter need clarification.

It is not correct to say that the PRDOE has received any funding under the Schools and Libraries Division (SLD), since the E-Rate funds are paid directly by USAC to the service providers. We have, indeed, applied for funding for program Years 4 and 5, but since the outset of our administration USAC has refrained from authorizing the disbursement of the requested funds. Thus, we are not insensitive to the fact that PRTC has not been paid for services rendered to the program during the past two years.

You will recall that 90% of the contract payments will be made by USAC directly to vendors and 10% by the PRDOE. The amount to be ultimately paid to PRTC will have to be determined based on the school's service availability, as I explained during our meeting, as documented by PRTC and corroborated by our validation system..

P.O. BOX 190759, SAN JUAN, PUERTO RICO 00919-0759 • PHONE: (787) 759-2000 EXTS.: 2404, 4404 • FAX: (787) 250-0275

The Department of Education does not discriminate in its activities, educational services or employment opportunities on the basis of race, color, sex, age, birth, national origin, social condition, political ideas, religious beliefs or any handicap.

As you are aware, in December, 2001 USAC wrote to us a letter stating that before they can authorize any further disbursements of E-Rate funds, they requested our written response to certain questions concerning this Department's capability to handle and develop the program. On January 15, 2002, we responded to each and every request in a document that was hand-delivered to USAC at their office by senior officials of this Department.

We have periodically supplemented our information presentations to USAC and have continued to demand in writing the immediate release of funds for the Years 4 and 5 stages of the program, but inexplicably, to date USAC has neither approved the disbursements nor provided any written response to our reiterated requests. We have received consistent verbal assurances both from USAC personnel and from Atty. Jane Mago, General Counsel of the FCC, that USAC and the FCC are satisfied with our responses of January 15, 2002 and subsequent updates, and that the disbursement of funds "will be authorized". But the fact remains that, to date, those verbal assurances have not materialized into any concrete action. We have not even obtained a written reaction to our formal demands for release of funds dated January 15 and September 27, 2002 addressed to USAC, and January 30, 2003 addressed to the FCC. We are not aware of any valid, legal or administrative reason why the funds for Years 4 and 5 cannot be released, and will continue to insist with USAC and the FCC.

Last January, Executive Undersecretary of Education, Dr. Carmen A. Collazo was personally assured by Atty. Mago that the FCC Commissioners were going to receive from her a recommendation that they authorize immediate release of funding for Years 4 and 5. Instead, our legal counsel received telephone communication from USAC and the FCC's Legal Division to the effect that the FCC had received *ex-parte* communications, from parties who requested not to be identified, suggesting lack of impartiality and improper handling of our Department's procurement process for Year 6 funding.

Unfortunately, this type of behind-the scenes maneuvering only complicates the process and further delays the release of the funds. As you are well aware, upon assuming the position of Secretary of Education, I ordered a restructuring of the Department's procurement process and established a system of bidding administered by our Bidding Board *("Junta de Subastas Central")* which has recently mustered judicial review, precisely in connection with the adjudication of the Year 5 bid to PRTC. Please refer to the Opinion and Order of the Circuit Court of Appeals of the Commonwealth of Puerto Rico *(Tribunal de Circuito de Apelaciones)* in the case of Centennial de Puerto Rico v. Junta de Subasta Central del Departamento de Educación, Civil No. KLRA

2002-0500. As you will note, the Court of Appeals upheld the procedure by which PRT was awarded the Year 5 contract, by the same bidding board and following the same process utilized to award Year 6.

This Department is very appreciative of PRTC-Telefónica de Puerto Rico's services and support in connection with the REEDUCATE program and we are sure that your company will continue to participate in the bids to provide services for the future years. We need and appreciate your cooperation. We will also be grateful if you can join our efforts in convincing USAC and the FCC that there is absolutely no valid legal or administrative reason to continue to withhold release of funding for Years 4 and 5.

Cordially,

César A. Rey Hernández, Ph.D.
Secretary

c: The Honorable César Miranda
Secretary of Governance-Commonwealth of P.R.

The Honorable Aníbal Acevedo Vilá
Puerto Rico Resident Commissioner

Dr. Dalia Rodríguez
Advisor
La Fortaleza

Salvador Antonetti, Esq.
Advisor
La Fortaleza

Jane E. Mago, Esq.
General Counsel-FCC

Mr. George McDonald
USAC Vice-President-SLD

Estado Libre Asociado de Puerto Rico
DEPARTAMENTO DE EDUCACIÓN
OFICINA DEL SECRETARIO
P.O. BOX 190759
SAN JUAN, PUERTO RICO 00919-0759

MAY 28 '03

Mr. George McDonald
USAC Vice President
School and Library Division
2120 L Street, NW Suite 600
Washington, DC 20037

20037X1538 34

TAB 31

PRT
Puerto Rico Telephone

Cristina Lambert

Vicepresident/General Manager
Network Services

June 6, 2003

Dr. César A. Rey Hernández
Secretary
Department of Education
P.O. Box 100759
San Juan, PR 00919-0759

Dear Mr. Secretary:

I make reference to your letter dated May 14, 2003; hand-delivered May 27, 2003. Your letter expresses the position of the Department of Education regarding our communication of April 14, 2003, with reference to the return of the 277 microcomputers loaned by Puerto Rico Telephone Company, Inc. (PRTC) to the Department of Education (DOE) as part of Project 400.

As pointed out in your communication, PRTC did not impose conditions over the equipment loaned which at that time was crucial in demonstrating the feasibility of the Re-Educate Network through "Project 400". Precisely, the DOE's urgency in completing this program was pointed out by you in your letter of January 30, 2003, addressed to Jane E. Mago, Esq., of the FCC. PRTC's collaboration with the DOE , even when payment for services rendered has not been received, demonstrates without doubt, PRTC's good faith and its unmistakable commitment with the program's success.

We are surprised with your statement that the loaned computers did not have an impact in the network statistics or on the DOE's request to SLD to release funds for the years 4 and 5. Surely, the excellent results obtained through "Project 400" and others performed by PRTC, at the request of the DOE, has been previously recognized by the DOE by including them as part of the justification for the release of the federal funds.

As a minimum, we would have expected that the DOE would have reciprocated our good faith by agreeing to our request as stated in our previous communication, which in no way, we believe is improper nor unreasonable. Nevertheless, with the DOE's insistence in abandoning the loaned equipment to its fate, we are hereby informing you that we will initiate the pick up of the equipment according to the plan outlined in our letter of April 14.

We cannot end this communication without clarifying you about its incorrect or incomplete information offered by the persons you indicate are in charge of the project. To avoid entering into a sterile debate, we hereby proceed to clarify the most important points about PRTC's responsibility for Phase I, project 400 and the 100 schools project for the summer.

Responsibility of PRTC since 1998

The E-Rate establishes that once the funds are released, the project's operational responsibility is shared between the institution requesting it and the service providers. With this point clarified, let us define the responsibilities of each one of the parties according to what was agreed in Phase I.

Contrary to what is stated in your letter, the Phase I implantation's responsibility was not totally assigned to PRTC. Our company only was in charge of the transport and of the equipment associated with it up to the demarcation point (Router and Hub). DRC was the company responsible for the extension of the service from the demarcation point, through the structured cables to the end users. The DOE was responsible of providing computers with the necessary capability for the Internet service utilization. In particular, the DE had the responsibility of providing the hardware (LAN card), the software programs and the electrical circuit, which are non-eligible services for receiving discounts under the E-Rate program. The DE certified in its Form 470 that it would provide said equipment for Phase I.

On the other hand, we must clarify that the number of T1 lines which initially was established at 758 was later reduced to due to situations such as the following:

a. The DOE did not opportunely carry out the necessary permits to install the lines at schools considered historic monuments.
b. Various schools were closed.
c. Other schools could not be completed due to technical problems.

Phase I has been the subject of audits, both on a federal and on a local level; in neither ot them there are findings against PRTC. On the contrary, PRTC has fully complied with its contractual obligation up to the demarcation point. The findings against DRC and DOE in extending the service to the end user were the cause for the so-called "critical condition" of the project to which reference is made in your letter.

PRTC, in its commitment with Puerto Rico's public education progress, has gone beyond its contractual responsibility with the DOE. This is evidenced in "Project 400" and in the "100 schools " in which PRTC participated actively.

Project "100 Schools"

Project "100 schools" was an initiative of the DOE's new administration in the summer of 2001 to provide access to Internet to 100 schools of Phase I as well as of Phase 2. Regarding this project, we have Mr. Adonai Ramírez's own report cleary establishing that the lack of Internet service was the result of the lack of computers and other associated equipment in the schools, unapproppriate electrical circuits and infrastructure problems. Clearly, the Internet service would be interrupted after the demarcation point due to lack of these elements which were not the responsibility of PRTC. Phase I is a shared responsibility between the Department, DRC and PRTC. PRTC has provided transport service and Internet up to the demarcation point as established in our contract. To extend the service to the end user, the Department had to have the computers available as well as structured cabling duly connected. These resources were not available.

Project 400

Project 400 was defined by the then director of OSIATD, Mr. Aníbal Cruz, as a project to demonstrate the federal government the availability of Internet service to the end user, in those schools with the greater infrastructure problems. This is clearly shown in the presentations carried on by your personnel to SLD as well as to the FCC. Thanks to PRTC's participation and investment in project 400, the DE was able to demonstrate the federal agencies with a significant increase in the availability of lines and in Internet service – central elements in your arguments in support for the request of the release of the funds.

We trust that this information is useful when future references are made regarding the Re-Educate project and in the adjudication of responsibilities to the same.

With no further matter, I remain,

Cordially,

(Signed)

Cristina Lambert

C: José E. Arroyo, Esq.
John García, Esq.
Mr. José Santana
Mr. Adonai Ramírez

Jon Slater
President and CEO

June 13, 2003

HAND DELIVERED

The Honorable César Rey
Secretary
Department of Education
Tres Monjitas Industrial Park
Hato Rey, Puerto Rico

Dear Mr. Secretary:

We thank the Department of Education ("Department") for the opportunity to serve hundreds of public schools in Puerto Rico on your behalf through the Reeducate Phase I network. For five years, PRT and the Department have effectively served as partners in the federal E-Rate program. As you are aware, funding for Year V ends on June 30, 2003. Unless some further agreement is reached prior to that date, PRT has no recourse but to disconnect the Reeducate service and render final invoices.

In light of this, the Department has two options available for assuring the continuation of service through PRT. We would be pleased to continue to provide service beyond June 30 through a new agreement that must contemplate the specific appropriation of Department's funds or the Department can place an order for service through PRT's publicly available tariff.

We again thank you for selecting PRT as your E-Rate provider for five years, and look forward to working with you again in the future.

Cordially,

c. César R. Miranda, Esq.
Chief of Staff

PO Box 360998 San Juan, Puerto Rico 00936-0998, Tels. 793-1818 / 793-1819

PRT
Puerto Rico Telephone

Cristina Lambert

Vicepresident/General Manager
Network Services

June 6, 2003

Dr. César A. Rey Hernández
Secretary
Department of Education
P.O. Box 100759
San Juan, PR 00919-0759

Dear Mr. Secretary:

I make reference to your letter dated May 14, 2003; hand-delivered May 27, 2003. Your letter expresses the position of the Department of Education regarding our communication of April 14, 2003, with reference to the return of the 277 microcomputers loaned by Puerto Rico Telephone Company, Inc. (PRTC) to the Department of Education (DOE) as part of Project 400.

As pointed out in your communication, PRTC did not impose conditions over the equipment loaned which at that time was crucial in demonstrating the feasibility of the Re-Educate Network through "Project 400". Precisely, the DOE's urgency in completing this program was pointed out by you in your letter of January 30, 2003, addressed to Jane E. Mago, Esq., of the FCC. PRTC's collaboration with the DOE , even when payment for services rendered has not been received, demonstrates without doubt, PRTC's good faith and its unmistakable commitment with the program's success.

We are surprised with your statement that the loaned computers did not have an impact in the network statistics or on the DOE's request to SLD to release funds for the years 4 and 5. Surely, the excellent results obtained through "Project 400" and others performed by PRTC, at the request of the DOE, has been previously recognized by the DOE by including them as part of the justification for the release of the federal funds.

As a minimum, we would have expected that the DOE would have reciprocated our good faith by agreeing to our request as stated in our previous communication, which in no way, we believe is improper nor unreasonable. Nevertheless, with the DOE's insistence in abandoning the loaned equipment to its fate, we are hereby informing you that we will initiate the pick up of the equipment according to the plan outlined in our letter of April 14.

We cannot end this communication without clarifying you about its incorrect or incomplete information offered by the persons you indicate are in charge of the project. To avoid entering into a sterile debate, we hereby proceed to clarify the most important points about PRTC's responsibility for Phase I, project 400 and the 100 schools project for the summer.

Responsibility of PRTC since 1998

The E-Rate establishes that once the funds are released, the project's operational responsibility is shared between the institution requesting it and the service providers. With this point clarified, let us define the responsibilities of each one of the parties according to what was agreed in Phase I.

Contrary to what is stated in your letter, the Phase I implantation's responsibility was not totally assigned to PRTC. Our company only was in charge of the transport and of the equipment associated with it up to the demarcation point (Router and Hub). DRC was the company responsible for the extension of the service from the demarcation point, through the structured cables to the end users. The DOE was responsible of providing computers with the necessary capability for the Internet service utilization. In particular, the DE had the responsibility of providing the hardware (LAN card), the software programs and the electrical circuit, which are non-eligible services for receiving discounts under the E-Rate program. The DE certified in its Form 470 that it would provide said equipment for Phase I.

On the other hand, we must clarify that the number of T1 lines which initially was established at 758 was later reduced to due to situations such as the following:

a. The DOE did not opportunely carry out the necessary permits to install the lines at schools considered historic monuments.
b. Various schools were closed.
c. Other schools could not be completed due to technical problems.

Phase I has been the subject of audits, both on a federal and on a local level; in neither ot them there are findings against PRTC. On the contrary, PRTC has fully complied with its contractual obligation up to the demarcation point. The findings against DRC and DOE in extending the service to the end user were the cause for the so-called "critical condition" of the project to which reference is made in your letter.

PRTC, in its commitment with Puerto Rico's public education progress, has gone beyond its contractual responsibility with the DOE. This is evidenced in "Project 400" and in the "100 schools " in which PRTC participated actively.

Project "100 Schools"

Project "100 schools" was an initiative of the DOE's new administration in the summer of 2001 to provide access to Internet to 100 schools of Phase I as well as of Phase 2. Regarding this project, we have Mr. Adonai Ramírez's own report cleary establishing that the lack of Internet service was the result of the lack of computers and other associated equipment in the schools, unapproppriate electrical circuits and infrastructure problems. Clearly, the Internet service would be interrupted after the demarcation point due to lack of these elements which were not the responsibility of PRTC. Phase I is a shared responsibility between the Department, DRC and PRTC. PRTC has provided transport service and Internet up to the demarcation point as established in our contract. To extend the service to the end user, the Department had to have the computers available as well as structured cabling duly connected. These resources were not available.

Project 400

Project 400 was defined by the then director of OSIATD, Mr. Aníbal Cruz, as a project to demonstrate the federal government the availability of Internet service to the end user, in those schools with the greater infrastructure problems. This is clearly shown in the presentations carried on by your personnel to SLD as well as to the FCC. Thanks to PRTC's participation and investment in project 400, the DE was able to demonstrate the federal agencies with a significant increase in the availability of lines and in Internet service – central elements in your arguments in support for the request of the release of the funds.

We trust that this information is useful when future references are made regarding the Re-Educate project and in the adjudication of responsibilities to the same.

With no further matter, I remain,

Cordially,

(Signed)

Cristina Lambert

C: José E. Arroyo, Esq.
John García, Esq.
Mr. José Santana
Mr. Adonai Ramírez

PRT Telefonica de Puerto Rico

Jon Slater
President and CEO

June 13, 2003

HAND DELIVERED

The Honorable César Rey
Secretary
Department of Education
Tres Monjitas Industrial Park
Hato Rey, Puerto Rico

Dear Mr. Secretary:

We thank the Department of Education ("Department") for the opportunity to serve hundreds of public schools in Puerto Rico on your behalf through the Reeducate Phase I network. For five years, PRT and the Department have effectively served as partners in the federal E-Rate program. As you are aware, funding for Year V ends on June 30, 2003. Unless some further agreement is reached prior to that date, PRT has no recourse but to disconnect the Reeducate service and render final invoices.

In light of this, the Department has two options available for assuring the continuation of service through PRT. We would be pleased to continue to provide service beyond June 30 through a new agreement that must contemplate the specific appropriation of Department's funds or the Department can place an order for service through PRT's publicly available tariff.

We again thank you for selecting PRT as your E-Rate provider for five years, and look forward to working with you again in the future.

Cordially,

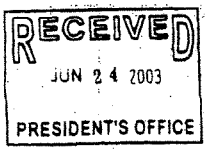
c. César R. Miranda, Esq.
Chief of Staff

PO Box 360998 San Juan, Puerto Rico 00936-0998, Tels. 793-1818 / 793-1819

TAB 32

Commonwealth of Puerto Rico
DEPARTMENT OF EDUCATION

César A. Rey Hernández, Ph.D.
Secretary



June 23, 2003

Mr. Jon Slater
President and CEO
PRTC - Telefónica de Puerto Rico
PO Box 36098
San Juan, PR 00936-0998

Ref: Internet connectivity for Public Schools (Reedúcate Program)

Dear Mr. Slater:

This is in response to your letter to the undersigned of June 13, 2003, as well as with further reference to my letter to you of May 22, 2003, our meeting of May 15 and our several prior contacts by telephone or through our respective staff members. I also wish to incorporate by reference my letter of May 22 to Ms. Cristina Lambert of PRTC concerning some of the work performed and services rendered by PRTC to our Reedúcate Program during the past 5 years.

The tone of your letter notwithstanding, I invite you to examine the issues concerning the work and services PRTC has provided or is providing to the Reedúcate Project with the broader scope that the importance of the project's goals deserve.

Admittedly, the time frame for "funding year 5" in terms of USAC's chronology of to make E-Rate Funds available to qualified school districts is designed to expire on June 30, 2003. However, whether PRTC has performed all the work and provided at an acceptable level of quality all the services it has been contracted to supply for program years 1, 2, 3, 4 and 5 remains to be corroborated. Thus, PRTC would be well advised to conduct a more candid self evaluation of the work it has performed and the services it has rendered during the five years that we have "effectively served as partners" as stated in your letter. The prospect that you claim PRTC is now facing of conducting a unilateral, uncoordinated disconnection cannot be seen as an isolated element, but quite the contrary. The situation we are facing today is inevitably intertwined with PRTC's acts and

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omissions, achievements and shortcomings, strategies and judgement calls throughout this 5-year partnership. This includes your recent attempt to discredit the adjudication of the year 6 procurement process based on insinuations of impropriety by our bidding board that you know or should have known, are meritless. Thus, PRTC is no innocent bystander to the present state of affairs. And we certainly take exception of your claim of having "no recourse" but to unilaterally disconnect, without the slightest attempt to coordinate a good faith transition with our Department and the next provider.

If PRTC truly values its partnership with our Department it should recognize that it has other options. You and I discussed several during our meeting of May 15. Likewise, we at the Department have more options than those suggested in your letter. Rest assured that we are evaluating all of them.

Cordially,

César A. Rey-Hernández, Ph.D.
Secretary

CC: Hon. Sila M. Calderón
Hon. Cesar A. Miranda
Jane A. Mago, FCC

Jon Slater
President and CEO

June 25, 2003

Dr. César A. Rey Hernández
Secretary
Department of Education
PO Box 100759
San Juan, PR 00919-0759

HAND DELIVERED

Dear Mr. Secretary:

I make reference to your letter dated June 23, 2003, in reply to mine of June 13. While my letter solely addresses the issue of service beyond June 30, 2003, your reply included issues as to past performance by PRT in the program and the pending adjudication of Year 6.

With reference to the latter, because of the pendency of administrative procedures before the Bids Review Board of the P.R. Department of Education (PRDOE) it would be highly improper for us to discuss that issue. PRT rejects any attempt by the PRDOE to influence PRT's actions because of its challenge to the Year 6 adjudication.

Concerning our past performance, the enclosed matrix describes the duties and obligations of the different parties to the Re-educate Program within the past years. Most of the problems and lack of performance were not related to services performed by PRT; but to the lack of computers, trained personnel, problems in electrical infrastructure and air conditioning difficulties within the schools premises, which are all outside the scope from the services contracted to PRT.

PRT has fully complied with its contractual obligations for all the services provided for Years 1, 2, 3, 4 and 5. From your letter it appears that your advisors have neglected to inform you that the failures or shortcomings, if any, of the Re-educate program have been adjudicated, by both local and federal audits, to the negligence of the Department of Education and/or to service providers other than PRT.

Your assertions as to our past performance are surprising when you have publicly stated that at present there are more than 600 fully operational schools thanks to our actions, beyond the scope of our obligations, with an investment of over $1 million and with computers provided by us, so that you could showcase the program.

PO Box 360998 San Juan, Puerto Rico 00936-0998 Tels. 793-1816 / 793-1819

Finally, addressing the issue of our letter of June 13, 2003, the fact of the matter is that we have no contract or authorization either from or with the local or federal authorities to continue rendering services beyond June 30, 2003. Our letter of June 13, 2003 precisely addressed our desire to dialogue, and to make you aware of the situation to be able to coordinate for the provision of services beyond Year 5 without interrupting service. As of this date, we have not been presented with a legally viable alternative, in addition to the ones we have presented in our June 13, 2003 letter.

We reiterate our desire to seek a solution to this situation.

Sincerely,

Jon Slater

Enclosures

xc: Hon. Sila M. Calderón
Hon. César A. Miranda
Jane Mago, FCC

FEBRUARY 5, 2002

REEDUCATE NETWORK

PROJECT RESPONSIBILITIES

YEAR	Phase I (760 schools) PRT	Phase I (760 schools) DRC	Phase II (780 schools) PRT	Phase II (780 schools) DRC	Phase III (103 new locations) PRT
1 (1998-99)	Internet Service Transport Services	Internal Connections	—	—	—
2 (1999-00)	*Internet Service* *Transport Services*	—	—	Bundled Internet Service (Wireless Infrastructure, Transport Services[1], Internet Services, Servers)	—
3 (2000-01)	*Internet Service* *Transport Services*	Servers	—	Internet Service	—
4 (2001-02)	*Internet Service* *Transport Services*	Backbone	—	Internet Service	—
5 (2002-03)	Transport Services Internet Service Technical Support Value Added Options	—	Transport Services Internet Service Technical Support Value Added Options	—	Transport Services Internet Service Internal Connections Technical Support Value Added Options

DISCUSSION POINTS

- As a contributing member to the SLD fund, PRT is well aware of the impact technology can have in the education al process and the difference having a committed technology partner can make in leading the technology adoption process among teachers, parents, and students.
- **Phase I/Phase II Schools:** PRT is fully committed to the success of the Reeducate Network. The best example is the recuperation plan currently in place for 400 Phase I schools, under which, PRT is assuming all costs associated with providing all the elements and connections required for one full-functioning Internet capable classroom per school. A parallel infrastructure is being developed for this purpose. In order to extend the scope of the recuperation plan to other Phase I and Phase II schools, a new technology plan must be developed under which PRDE must ensure PRT the following:
  - access to previous years' 471 forms and attachments
  - access to most recently approved SLD technology plan
  - information regarding funding availability for services not funded by SLD
  - submit service/provider substitutions assigning PRT the SPIN # for Year 4 funding
  - provide PRT relief (responsibility waiver) from work assigned to DRC.
  - collaborate in the technology plan development/provide operational support work alongside PRT to obtain SLD approval for the new technology plan

[1] Telecommunications services leased from PRT.

PRTCH000618

TAB 34

DE
COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

OFFICE OF THE SECRETARY

(SEAL STAMP
RECEIVED
ILLEGIBLE MONTH & YEAR; DAY 3
PRESIDENT'S OFFICE)

August 29, 2003

Mr. John Slater
President
Puerto Rico Telephone
P.O. Box 360998
San Juan, Puerto Rico 00936-0998

RE: PRTC v. Department of Education
Civil No. KAC-03-4433 (906)

Dear Mr. Slater:

I confirm receipt of your letter dated August 28 of the present year. I agree with you that our Department has had many difficulties with the invoicing that your company has submitted to us with reference to the network connection to the schools, for years 2001, 2002 and up to June 30, 2003, when service was suspended. This, in great manner, obeys to your company's insistence in invoicing global amounts based on the proposals and not in the services actually rendered. I will refer to the letter dated April 3, 2003 which Mr. Arnaldo Díaz of PRTC, sent to the then acting director of OSIATD, Mr. José Santana González and the latter's answer to said letter, dated May 2, 2003.

To this date, your company has not produced evidence of the services rendered which can be confirmed. This is essential to determine the amount to be paid, since the Department cannot pay based on proposals, and can only pay based on services that were actually received. As you will recall, these services had serious quality problems and months transpired before the majority of schools were effectively connected to the network. So much so, that during the years 2001 and 2002, we had to repeatedly request PRTC to take corrective measures. On this particular, you may refer to my letter to Mrs. Cristina Lambert, Vicepresident and General Manager of PRTC, dated May 14, 2003.

On the other hand, your company's reaction to the Departmen's claims about quality, the consistency, the documentation and verification of the service has not been the best one. During the last year and a half, PRTC has tried to undermine the credibility of our Department with allegations of rightness and genuineness of our bid procedures and has involved us in an intense and prolonged litigation based on insinuations of impropriety which at this point, you know or should know, lack merit. Last June 30, after the Internet access for the schools was unilaterally disconnected, your company filed

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the case of reference with the Court. As recent as last July 18, you sent us a communication demanding immediate payment for an amount different to those claimed in the complaint and inconsistent with the invoices presented, threatening with the disconnection of our Central Office switchboard.

In view of the state of events, we consider prudent that as long as the litigations that PRTC has promoted against the Department continue active, our future communications should be relayed through our respective attorneys.

Cordially,

César A. Rey Hernández, Ph. D.
Secretary

C: Honorable César R. Miranda
Dr. Dalia Rodríguez
Dr. Irma Alicia Rodríguez
A.J. Bennazar Zequeira, Esq.

Estado Libre Asociado de Puerto Rico
DEPARTAMENTO DE EDUCACIÓN

OFICINA DEL SECRETARIO

RECEIVED
PRESIDENT'S OFFICE

29 de agosto de 2003

Sr. John Slater
Presidente
Telefónica de Puerto Rico
Apartado Postal 360998
San Juan, Puerto Rico 00936-0998

RE: PRTC v. Departamento de Educación
Civil Núm. KAC-03-4433(906)

Estimado señor Slater:

Acuso recibo de su carta del 28 de agosto del año en curso. Coincido con usted en que nuestro Departamento ha tenido muchas dificultades con la facturación que su empresa nos ha sometido, relativa a la conexión de las escuelas a la red informática, para los años 2001, 2002 y hasta el 30 de junio de 2003, cuando se suspendió el servicio. Ello obedece, en gran medida, a la insistencia de su empresa en pretender facturar cantidades globales basadas en las propuestas y no en el servicio realmente prestado. Le refiero a la carta de 3 de abril de 2003 que el señor Arnaldo Díaz, de PRTC, dirigió al entonces director interino de OSIATD, señor José Santana González, y la contestación de éste, fechada 2 de mayo de 2003.

Al día de hoy, su empresa no ha producido evidencia de los servicios prestados que puedan ser corroborados. Ello es imprescindible para determinar la cuantía a pagarse, ya que el Departamento no puede pagar a base de propuestas, sino a base de los servicios que realmente se recibieron. Como usted recordará, estos servicios tuvieron serios problemas de calidad, y transcurrieron meses en los que la mayoría de las escuelas no estaban efectivamente conectadas a la red. Tanto así que, durante los años 2001 y 2002, tuvimos que requerir, reiteradamente, que la PRTC tomara medidas correctivas. Sobre este particular puede referirse a la carta del suscribiente a la señora Cristina Lambert, Vicepresidenta y Gerente General de la PRTC, de 14 de mayo de 2003.

Por otro lado, la reacción de su empresa a los reclamos del Departamento sobre la calidad, la consistencia, la documentación y verificación del servicio no ha sido la mejor. Durante el último año y medio, la PRTC ha intentado menoscabar la credibilidad de nuestro Departamento con imputaciones sobre la rectitud y pureza de nuestros procedimientos de subasta, y nos ha enfrascado en una intensa y prolongada litigación basada en insinuaciones de impropiedad que, a estas alturas, ustedes saben o deberían saber que carecen de mérito. El pasado 30 de junio, luego de desconectar unilateralmente el acceso de las escuelas a la Internet, su empresa presentó ante el

Tribunal el pleito de referencia. Tan reciente como el pasado 18 de julio, usted nos cursó una comunicación exigiendo el pago inmediato de una cuantía distinta a las reclamadas en la demanda e inconsistente con las facturas presentadas, bajo amenaza de desconexión del cuadro telefónico de nuestra Oficina Central.

En vista de este estado de cosas, consideramos que lo más prudente, mientras continúen activos los litigios que PRTC ha promovido contra el Departamento, que nuestras comunicaciones futuras se tramiten por conducto de nuestros respectivos abogados.

Atentamente,

César A. Rey Hernández, Ph.D.
Secretario

c: Honorable César R. Miranda
Dra. Dalia Rodríguez
Dra. Irma Alicia Rodríguez
Lcdo. A. J. Bennazar Zequeira

TAB 35

Goldman Antonetti & Cordova
Attorneys and counselors at Law

Francisco de Jesus Schuck, Partner

April 5, 2001

Mrs. Ana Matilde Nin
Advisor
Office of the Secretary of Education
Education Department
Hato Rey, Puerto Rico

Dear Ana Matilde:

Attached (is a) letter from Mrs. Sonia M. Melendez, Vice President of Technical Operations and Training of the DRC Corporation.

The letter with its attachments is self-explanatory. It urges, nevertheless, that we schedule a meeting with the technicians and consultants from the Education Department to discuss the growing problem of the refusal of Lucent Technologies in relation to the return of the 20,000 boards. You will note that Lucent bases its refusal on the terms of the purchasing contract. They also indicate that the boards were designed with specifications for this project.

DRC wishes to collaborate with the Department as much as possible. Notwithstanding, the problem of the boards causes some debt for our client that has to be heeded. Therefore we want to look for a solution that is compatible with the budget realities that you currently have.

I would appreciate your letting me know when we can meet on this or whatever else you wish to discuss.

Cordially,

Francisco de Jesus Schuck

Attachments

cc: Mr. Santos Diaz
Ms. Sonia M. Melendez

APR-05-01 15:31 From: T-257 P.01/01 Job-022

GOLDMAN ANTONETTI & CORDOVA, P.S.C.
ATTORNEYS AND COUNSELORS AT LAW
AMERICAN INTERNATIONAL PLAZA
FOURTEENTH FLOOR
250 MUÑOZ RIVERA AVENUE
HATO REY, PUERTO RICO 00918

FRANCISCO DE JESÚS SCHUCK
PARTNER
(787) 759-4151

POST OFFICE BOX 70364
SAN JUAN, PUERTO RICO 00936-8364
TELEPHONE: (787) 759-8000
TELECOPIER: (787) 767-0999
FDEJESUS@GACLAW.COM
HTTP://WWW.GACLAW.COM

5 de abril de 2001

Sra. Ana Matilde Nín
Consultora
Oficina del Secretario de Educación
Departamento de Educación
Hato Rey, Puerto Rico

Estimada Ana Matilde:

Adjunto carta de la Sra. Sonia M. Meléndez, Vice Presidente de Operaciones Técnicas y Adiestramiento de DRC Corporation.

La carta con sus anejos se explica por sí sola. Urge, sin embargo, programar una reunión con los técnicos y consultores del Departamento de Educación para discutir el problema que surge de la negativa de Lucent Tecnologies en relación con la devolución de las veinte mil (20,000) tarjetas. Notarás que Lucent basa su negativa en los términos del contrato de compra. También expresan que la tarjetas fueron diseñadas con especificaciones para ese proyecto.

DRC desea colaborar con el Departamento en todo aquello que sea posible. No obstante, el problema de las tarjetas presenta una deuda para nuestro cliente que tiene que ser atendida. Por eso deseamos buscar una solución que sea compatible con las realidades presupuestarias que ustedes tienen en este momento.

Agradeceré me dejes saber cuándo podemos reunirnos para este o cualquier otro propósito que ustedes deseen discutir.

Cordialmente,

Francisco de Jesús Schuck

Anejos

c Sr. Santos Díaz
Sa. Sonia M. Meléndez

DRC Corpoation, Systems Integrators

April 3, 2001

Mr. Jose Santana
Interim Director, Information Systems
Department of Education
Free State of Puerto Rico

Dear Ms. Santana:

On March 23, 2001, in a meeting between the Department of Education and the DRC Corporation, we agreed with the Department to send documents and/or to take specific steps concerning distinct equipment requests of the Department of Education. As a follow-up, we are providing you with a summary of the results of our actions:

1. Letter from Hewlett Packard (HP) and from IBM Corporation certifying the pre-installation of the licenses for W2000 and Exchange on the 4,600 servers pertaining to 2000-2001.
   a. We attach the HP letter.
   b. The certifying letter has been requested from Mrs. Sofia Diaz of the IBM Corporation.
   c. We attach the Microsoft authorization for HP and IBM to pre-install the licenses.
2. Steps with Lucent Technologies to return 20,000 boards pertaining to 2000-2001. You will note that Lucent is defending itself for declining the return of the 20,000 boards based on the terms and conditions of the work order. In our conversation with the representative of this company we were informed that these boards were manufactured specifically for this project.
   a. We include a copy of our correspondence with Lucent Technologies.

Subsequent to our last meeting, we want to reiterate our desire to offer our complete cooperation, including installation of the boards. To that effect, we seek a meeting to discuss this subject and any other matter that you wish to bring to our attention.

Attentively,

Sonia M. Melendez, CDP CNA
Vice President, Technical Operations and Training

DRC
CORPORATION
SYSTEMS INTEGRATORS
Tel. (787) 723-7621
Fax (787) 723-7610

3 de abril de 2001

Sr. José Santana
Director Interino, Sistemas de Información
Departamento de Educación
Estado Libre Asociado de Puerto Rico

Estimado señor Santana:

El pasado 23 de marzo de 2001, en reunión sostenida entre el Departamento de Educación y DRC Corporation, acordamos con el Departamento de enviar documentos y/o hacer gestiones específicas con distintos suplidores de equipos para el Departamento de Educación. A continuación le proveemos una breve relación sobre el resultado de nuestras gestiones:

1. Carta de Hewlett Packard (HP) y de IBM Corporation certificando la pre-instalación de las licencias de W2000 y de Exchange en los 4600 servidores pertenecientes al año 2000-2001.
    a. Adjuntamos la carta de HP.
    b. Se solicitó de la Sra. Sofía Díaz de IBM Corporation la carta de certificación. Adjuntamos el "Statement of Work" que firmamos con IBM para obtener la pre-instalación.
    c. Adjuntamos la autorización de parte de Microsoft para que HP y IBM pudieran pre-instalar las licencias.
2. Gestión con Lucent Technologies para devolver veinte mil (20,000) tarjetas pertenecientes al año 2000-2001. Observará que Lucent se ampara en los términos y condiciones de la orden de compra para declinar la devolución de las 20 mil tarjetas. En nuestra conversación con los representantes de esta compañía se nos informó que estas tarjetas fueron manufacturadas específicamente para este proyecto.
    a. Incluimos copia de nuestra correspondencia con Lucent Technologies.

Según nuestra pasada reunión deseamos reiterar nuestro deseo de brindar toda nuestra cooperación, incluyendo la instalación de las tarjetas. A esos efectos solicitamos una reunión para discutir este tema y cualquier otro que usted quiera traer a nuestra atención.

Atentamente,

Sonia M. Meléndez, CDP CNA
Vicepresidente Operaciones Técnicas y Adiestramientos

C Lic. Francisco de Jesús Schuck

\Anejos

DRC
ORPORATION
TEMS INTEGRATORS
(787) 723-7621
(787) 723-7610

March 23, 2001

Mr. José Rubén Monroy
Lucent Technologies

RE: Petition from the DE

Dear Monroy

This is to inform you that last Friday, March 23rd we met with personnel of the Department of Education to discuss some issues regarding the E-Rate Project. During the meeting the DE mentioned their intention to return all 20,000 recently acquired 11Mbps PC cards and their adapters. These cards were ordered last year by the DE (past administration) under the E-Rate year 2000 program.

Due to economic problems in the DE, at this moment they do not have the funds to purchase additional PCs, as planned by the past administration. Presently the DE, has 60,000 existing PCs. They also have 56,000 8Mbps PC cards acquired in year 1999. Since no additional PC's will be provisioned, they do not need the 20,000 new PC cards now.

As required by our customer, we request from Lucent Technologies to check and look for alternatives you can provide in order to help the DE with their situation.

Please feel free to contact me at any time for any information you might need regarding this Project at (787) 723-7621 or (787) 370-7161.

Sincerely,

Miguel Velez
Dir. Infrastructure Dept.

C: Santos Diaz
Francisco de Jesus

DRC Center. #1608 Ponce de León Ave.. Suite 500. Santurce. P.R.. 00909

Lucent Technologies
Bell Labs Innovations

Lucent Technologies Caribbean
and Latin American Sales Inc
PMB #39
400 Kalaf Street
San Juan, PR 00918

Tel 787-641-2602
Fax 787-641-2603

Friday, March 30, 2001

Mr. Miguel Velez
Director Infrastructure Department
DRC Corporation
1608 Ponce De Leon Ave, Suite 500
Santurce, P.R. 00909

Reference: Your letter dated March 23rd entitled "Petition from the DE"

Dear Miguel:

We regret to inform you that our sales terms and conditions for the recent sale of 11Mbps PC card, shipped as requested are final. As you can understand, Lucent Technologies can not accept the return of any product associated with this transaction. There were many conditions placed upon our company in order to meet your requirements which we completely satisified. We are now awaiting payment, your response in this regard would be deeply appreciated.

If you need aditional information don't hesitate to contact me at any moment.

Sincerely,

Jose Ruben Monroy
Channel Manager
Caribbean Region
Cc: Santos Diaz
Sonia Melendez

[redacted]

TAB 36

EQUIPOS ALMACENADOS EN DRC CORPORATION PROPIEDAD DEL DEPARTAMENTO DE EDUCACION

	QTY	DESCRIPCION	PALETAS/CAJAS	PRECIO	EXTENSION	
C-1646	54,056	WL TURBO 11MB BRONCE 848323713	143 PALETAS	$ 320.00	$ 17,297,920.00	± $233MM
C-1643	7,904	WL TURBO 11MB SILVER 848441481	20 PALETAS	$ 320.00	$ 2,529,280.00	
	11,545	WL TURBO 11MB GOLD 848441556	30 PALETAS	$ 320.00	$ 3,694,400.00	
	20,552	848072559 ISA ADAPTER C-1644	50 PALETAS		$ -	INCLUIDO EN PRECIO
2,784 OVER	53,760	ISA ADAPTER	1,344 CAJAS		$ -	DE DE TARJETAS
C-1648	800	WIRE MANAGEMENT	66 CAJAS	$ 27.00	$ 21,600.00	
	701	HP TECLADOS D8597A	87X8+5			CONDUCE # 0084
C-1649	28,920	JUMPER CABLE 7' C037-007-0	240 CAJAS	$ 3.00	$ 86,760.00	
C-1646	55,560	JUMPER CABLE 3' C037-PK-A-3	253 CAJAS	$ 3.00	$ 166,680.00	
C-1650	81,500	JUMPER CABLE 10' C037-010-0	803 CAJAS	$ 3.75	$ 305,625.00	
					$ 24,102,265.00	

TOTAL 74,312
- 77,096
2784
OVER

- Ajuste 768 menos conduce # 0069 X 768

BAYAMON, PUERTO RICO

PAG. 03

PROGRAMA: Equipo

FECHA: 11 de julio del 2003.

# CONTROL	O.COMPRA	DESCRIPCION	COSTO	CANTIDAD	OBSERVACIONES
1580	CRD-00-003	KEYBOARD (TECLADO)		66	" "
1581	" "	I.B.M. PRINTER		1	
1643	CRD-02-618	WL TURBO 11 MB SILVER (PALETA QUE SE ESTA DESPACHANDO) 24 c/u	-1 unid.	7,040	MATERIALES RECOGIDOS EN DRG CORPORATION SYSTEMS INTEGRATORS
1644	" "	ISA ADPTER	-2 unid	77,096	RECOGIDO POR INSTRUCCIONES DE LA SRA. MARIA C. RIVERA CRUZ.
1645	" "	SILVER WORD CARD		384	SECRETARIA AUXILIAR DE SERVICIO AUXILIARES.
1646	" "	WL TURBO 11 MB BRONCE		54,056	-1 unid.
1647	" "	JUMPER 3"		55,660	
1648	" "	WIRE MANAGMENT		680	
1649	" "	JUMPER 7"		28,920	
1650	" "	JUMPER 10"		81,500	
1651	" "	TECLADO HP		701	
1652	" "	WL TURBO 11 MB GOLD (TARJETAS DE 11 MB) -1 unid.		11,545	
1556	CRD-2002-620	COMPUTADORAS USADAS 36-falta sistema operativo 11-dañadas		6 PALETAS	JUNTA DE PLANIFICACION
1637	CRD-2002-628	BUSINESS FRONS FACTORY JOB-NO. 31015 2- 9596 "CONTINUOS 4PTS-TAR FORMS		2 PALETAS	72 cjs X 650 c/u-97,500
0169	97-008	FOLLETOS PARA CIEGOS		308 cajas	PROGRAMA DE BIBLIOTECAS ESCOLARES SAN JUAN.
1559	CRD-99-003	MURALES (CARTON)		96	PROGRAMA DE BELLAS ARTES 2 PALETAS

FIRMA DEL GUARDALMACEN

FIRMA PERSONA LIBRO INVENTARIO
CENTRO DE RECIBO Y DISTRIBUCION
5/agosto/2003

SR. CARLOS M. MALAVE IRIZARRY, DIRECTOR EJECUTIVO

CERTIFICO QUE LAS CANTIDADES FISICAS DE ESTE INVENTARIO SON CORRECTA Y ESTAN BAJO MI CUSTODIA.

rm 474

FRN #297491

SPI 01-26-00 29100020

NECSPI01-26-0029100020

Applicant ID: 84329

84329

Approval by OMB

3060 - 0856

Univ Libraries

ead instructions before completing.

ed Average Burden Hours Per Response: 1.5 hours
mpleted by Service Providers)

SERVICE PROVIDER Invoice Form

willfully making false statements on this form can be punished by fine or forfeiture, under the Communications Act, 47 U.S.C. Secs. 502, 503(b), or fine or ment under Title 18 of the United States Code, 18 U.S.C. Sec. 1001.

TO INDIVIDUALS: Section 69.619 of the Federal Communications Commission's rules requires the fund administrator to review bills for services and to determine the f universal service support to be disbursed to service providers. All service providers that have signed a contract or have tariffs in effect under which they provide d service to eligible schools and libraries who have received a Funding Commitment Decisions Letter from the fund administrator are required to submit this Service nvoice Form to obtain universal service support for the amount of the discounts provided to eligible schools and libraries. This Service Provider Invoice Form informs dministrator of the amount of the discounts provided to eligible schools and libraries and for which the service provider seeks universal service support. The collection ition stems from the Commission's authority under Section 254 of the Communications Act of 1934, as amended, 47 U.S.C. § 254.

y may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

is authorized under the Communications Act of 1934, as amended, to collect the personal information we request in this form. We will use the information you provide ine whether approving this application is in the public interest. If we believe there may be a violation or potential violation of a FCC statute, regulation, rule or order, ication may be referred to the Federal, state, or local agency responsible for investigating, prosecuting, enforcing or implementing the statute, rule, regulation or order. cases, the information in your application may be disclosed to the Department of Justice or a court or adjudicative body when (a) the FCC; or (b) any employee of the c) the United States Government, is a party in a proceeding before the body or has an interest in the proceeding.

e a past due debt to the federal government, the taxpayer identification number and other information you provide may also be disclosed to the Department of the Financial Management Service, other federal agencies and/or your employer to offset your salary, IRS tax refund or other payments to collect that debt. The FCC may ide this information to these agencies through the matching of computer records when authorized.

not provide the information requested on the form, your application may be returned without action or your application may be delayed.

oing Notice is required by the Privacy Act of 1974, Pub. L. No. 93-579, December 31, 1974, 5 U.S.C. § 552, and the Paperwork Reduction Act of 1995, Pub. L. No. 4 U.S.C. § 3501, *et seq.*

porting burden for this collection of information is estimated to average 1.5 hours per response, including the time for reviewing instructions, searching existing data gathering and maintaining the data needed, completing, and reviewing the collection of information. Send comments regarding this burden estimate or any other f this collection of information, including suggestions for reducing the reporting burden to the Federal Communications Commission, Performance Evaluation and Management, Washington, D.C. 20554.

rvice Provider Name (30 characters maximum) DATA RESEARCH COMM. (DRC CORPORATIVO)

rvice Provider Identification Number (SPIN) (9 characters maximum) 143012599

ntact Name (30 characters maximum) RAFAEL RIVERA

ntact Telephone Number (14 digits maximum) (787) 723-7621, EXT. 260

oice Number (25 characters maximum) 2050003

oice Date to SLD (mmddyyyy) 01/25/2000

tal Invoice Amount (sum of Column (14) - 14.2 digits maximum) 5,894,532.00

(8)	(9)	(10)	(11)	(12)	(13)	(14)
CC Form 471 Application Number (10 digits) (from Funding Commitment Decisions Letter)	Funding Request Number (FRN) (10 digits) (from Funding Commitment Decisions Letter)	Bill Frequency (Monthly, Quarterly, Annually, One-time, Other)	Customer Billed Date (mmyyyy)	Shipping Date to Customer or Last Day of Work Performed (mmddyyyy)	Total (Undiscounted) Amount for Service per FRN (14.2 digits max.)	Discount Amount Billed to SLC (14.2 digits max.)
			For each FRN, there should be an entry in Column (11) or Column (12) but not both			
49802	296610	Monthly				
49802	297481	Monthly	01/2000		6,549,480.00	5,894,532.00

DRC Center Building, 5th Floor
Ponce de León Ave. #1608
Santurce, P.R. 00909
P.O. Box 70202, San Juan, P.R. 00936
Tel. (787) 723-7621 / Fax (787) 723-7610

PAGE: 1
INVOICE NUMBER: 00S0003-IN
CUSTOMER P.O.: E-Rate Funds
CUSTOMER NUMBER: 01-DEDU002
DATE: 01/25/00
TERMS: NO TERMS

BILL TO:

DEPARTAMENTO DE EDUCACION
CENTRO DE COMPUTOS 4TO PISO
P.O.BOX 190759
S.J. PR 00919-0759

CONTACT:Kivio Peguero

QTY.	CODE	DESCRIPTION	PRICE	AMOUNT
		Total Waveland 90 %		
		Waveland Cards		
	/M	18,984 units @ $310.50		5894,532.00

WE HEREBY CERTIFY THAT THIS INVOICE HAS NOT BEEN PAID.

AUTHORIZED SIGNATURE

MAKE CHECK TO: DRC CORP.
P.O. BOX 70202
SAN JUAN, P.R. 00936

INVOICE ARE DUE UPON RECEIPT.

SUBTOTAL:	5894,532.00
FREIGHT:	.00
6.6 TAXES:	.00
TOTAL:	5894,532.00

E-Rate Goods and Services Paid to DRC for FRN #297481

Quantity	Description	Unit Cost	E-Rate Unit Cost	Total Project Costs	Local Match	E-Rate Funds Disbursed
2,332	Lucent WavePoint Type II Access Point and Installation & Configuration	1,390.00	1,544.44	3,241,480.00	324,148.00	2,917,332.00
4,045	PCMCIA Cards for Wavepoints	260.00	234.00	1,051,700.00	105,170.00	946,530.00
758	UTP 4 Pair CAT5 Materials, Run and Termination	130.00	117.00	98,540.00	9,854.00	88,686.00
778	HP Procurve Hub	495.00	445.50	385,110.00	38,511.00	346,599.00
35,240	WaveLAN/AT, 2.4Ghz, 1/2 size, ISA Card and Installation & Configuration	345.00	310.50	12,157,800.00	1,215,780.00	10,942,020.00
	DRC Invoice 2050003 was not included with SPI 84329			6,549,480.00	654,948.00	5,894,532.00
				23,484,110.00	2,348,411.00	21,135,699.00

487

DRC Invoice Summary
FRN #297481

Paid Amount	Bank Sent Date	Payment Type	SLD Invoice Number	Service Provider Invoice	Discription of Goods and Services		Total Project Costs	Local Match	E-Rate Portion
Source: Disbursement Documents					Source: DRC Invoice and FCC Form 474				
638,289.00	25-Feb-00	Check	83872	2050001	382 WavePoints	1,390.00	530,980.00		
					623 PCMCIA Cards for Wavepoints	260.00	161,980.00		
					125 UTP CAT 5 Drops	130.00	16,250.00		
					Total		709,210.00	70,921.00	638,289.00
5,894,532.00	06-Apr-00	Check	84329	2050003	Invoice not included with FCC Form 474		6,549,480.00	654,948.00	5,894,532.00
664,583.13	29-Jun-00	Check	112830	00S0068	398 WavePoints	1,390.00	553,220.00		
					714 PCMCIA Cards	260.00	185,640.00		
					128 UTP CAT 5 Drops	130.00	16,640.00		
							755,500.00	75,550.00	679,950.00
901,458.00	06-Jul-00	Check	104796	00S0054	543 Wavepoint II	1,390.00	754,770.00		
					948 PCMCIA Cards	260.00	246,480.00		
					181 UTP CAT 5 Drops	130.00	23,530.00		
							1,024,780.00	102,478.00	922,302.00
338,765.85	06-Jul-00	Check	93706	00S0028-IN	778 HP Procurve hub	495.00	385,110.00	38,511.00	346,599.00
773,001.22	06-Jul-00	Check	95316	00S0034	466 Lucent Wavepoint II	1,390.00	647,740.00		
					803 PCMCIA Cards	260.00	208,780.00		
					171 UTP CAT 5 Drops	130.00	22,230.00		
							878,750.00	87,875.00	790,875.00
900,314.46	06-Jul-00	Check	98870	00S0039-IN	543 Lucent Wavepoint II	1,390.00	754,770.00		
					957 PCMCIA Cards	260.00	248,820.00		
					153 UTP CAT 5 Drops	130.00	19,890.00		
							1,023,480.00	102,348.00	921,132.00
9,370,133.10	06-Jul-00	Check	99671	00S0043	17,620 Waveland 1/2 Size	310.00	5,462,200.00		
					17,620 Waveland 1/2 Size	310.00	5,462,200.00		
							10,924,400.00	1,092,440.00	9,831,960.00
1,324,597.25	08-Sep-00	Check	132883	00S0043 Rev.	35,240 Installations	35.00	1,233,400.00	123,340.00	1,110,060.00
20,805,674.01							23,484,110.00	2,348,411.00	21,135,699.00

C Form 474

FRN # 297481

SPI 04-03-00 33900008

NECSPI04-03-0033900008

FY 01

Approval by OMB

3060 - 0856

Universal Service for Schools and Libraries

Applicant ID: 99671

99671

ase read instructions before completing.

Average Burden Hours Per Response: 1.5 hours

leted by Service Providers)

SERVICE PROVIDER INVOICE Form

ons willfully making false statements on this form can be punished by fine or forfeiture, under the Communications Act, 47 U.S.C. Secs. 502, 503(b), or fine or isonment under Title 18 of the United States Code, 18 U.S.C. Sec. 1001.

ICE TO INDIVIDUALS: Section 69.619 of the Federal Communications Commission's rules requires the fund administrator to review bills for services and to determine the unt of universal service support to be disbursed to service providers. All service providers that have signed a contract or have tariffs in effect under which they provide ntied service to eligible schools and libraries who have received a Funding Commitment Decisions Letter from the fund administrator are required to submit this Service ider Invoice Form to obtain universal service support for the amount of the discounts provided to eligible schools and libraries. This Service Provider Invoice Form informs und administrator of the amount of the discounts provided to eligible schools and libraries and for which the service provider seeks universal service support. The collection formation stems from the Commission's authority under Section 254 of the Communications Act of 1934, as amended, 47 U.S.C. § 254.

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FCC is authorized under the Communications Act of 1934, as amended, to collect the personal information we request in this form. We will use the information you provide termine whether approving this application is in the public interest. If we believe there may be a violation or potential violation of a FCC statute, regulation, rule or order application may be referred to the Federal, state, or local agency responsible for investigating, prosecuting, enforcing or implementing the statute, rule, regulation or order. tain cases, the information in your application may be disclosed to the Department of Justice or a court or adjudicative body when (a) the FCC; or (b) any employee of the ; or (c) the United States Government, is a party in a proceeding before the body or has an interest in the proceeding.

u owe a past due debt to the federal government, the taxpayer identification number and other information you provide may also be disclosed to the Department of the sury Financial Management Service, other federal agencies and/or your employer to offset your salary, IRS tax refund or other payments to collect that debt. The FCC may provide this information to these agencies through the matching of computer records when authorized.

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Service Provider Name (30 characters maximum)	DATA RESEARCH COMM. (DRC CORPORATIVO)
Service Provider Identification Number (SPIN) (9 characters maximum)	143012599
Contact Name (30 characters maximum)	RAFAEL RIVERA
Contact Telephone Number (14 digits maximum)	(787) 723-7621, EXT. 260
Invoice Number (25 characters maximum)	0050043
Invoice Date to SLD (mmddyyyy)	03/31/2000
Total Invoice Amount (sum of Column (14) - 14.2 digits maximum)	$10,942,020.00

SERVICE PROVIDER Invoice Form

(8) FCC Form 471 Application Number (10 digits) (from Funding Commitment Decisions Letter)	(9) Funding Request Number (FRN) (10 digits) (from Funding Commitment Decisions Letter)	(10) Bill Frequency (Monthly, Quarterly, Annually, One-time, Other)	(11) Customer Billed Date (mmyyyy)	(12) Shipping Date to Customer or Last Day of Work Performed (mmddyyyy)	(13) Total (Undiscounted) Amount for Service per FRN (14.2 digits max.)	(14) Discount Amount Billed to SLC (14.2 digits max.)
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149802	297481	Monthly	03/2000		12,157,800.00	10,942,020.00

FCC Form 474 – June 1999

DRC Center Building, 5th Floor
Ponce de León Ave. #1608
Santurce, P.R. 00909
P.O. Box 70202, San Juan, P.R 00936
Tel. (787) 723-7621 / Fax (787) 723-7610

PAGE: 1
INVOICE NUMBER: 00S0043-IN
CUSTOMER P.O.: E-RATE FUNDS
CUSTOMER NUMBER: 01-DEDU002
DATE: 03/31/00
TERMS: NO TERMS

BILL TO:

DEPARTAMENTO DE EDUCACION
CENTRO DE COMPUTOS 4TO PISO
P.O.BOX 190759
S.J. PR 00919-0759

CONTACT:KIVIO PEGUERO

QTY.	CODE	DESCRIPTION	PRICE	AMOUNT
		TOTAL WAVELAN 90% WAVELAND AT 2.4 GHZ 1/2 SIZE		
	/M	17,620 UNITS @ $310.50		5471,010.00
		WAVELAND AT 2.4 GHZ 1/2 SIZE		
	/M	17,620 UNITS @ $310.50		5471,010.00
		FRN 297481		

WE HEREBY CERTIFY THAT THIS INVOICE HAS NOT BEEN PAID.

AUTHORIZED SIGNATURE

MAKE CHECK TO: DRC CORP.
P.O. BOX 70202
SAN JUAN, P.R. 00936

SUBTOTAL: 10942,020.00
FREIGHT: .00
6.6 TAXES: .00
TOTAL: 10942,020.00

'CC Form 474

FRN # 297481

Do not write in this space.

Approval by OMB

3060 - 0856

Universal Service for Schools and Libraries

Estimated Average Burden Hours Per Response: 1.5 hours

'lease read instructions before completing.

(To be completed by Service Providers)

SERVICE PROVIDER Invoice Form

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. **Service Provider Name** (30 characters maximum)	DATA RESEARCH COMM. (DRC).
. **Service Provider Identification Number** (SPIN) (9 characters maximum)	143012599
. **Contact Name** (30 characters maximum)	RAFAEL RIVERA
. **Contact Telephone Number** (14 digits maximum)	(787) 723 - 7621 EXT. 260
. **Invoice Number** (25 characters maximum)	00 S0043 REV.
. **Invoice Date to SLD** (mmddyyyy)	3/31/00
. **Total Invoice Amount** (sum of Column (14) - 14.2 digits maximum)	$1,324,597.25

SERVICE PROVIDER Invoice Form

(8) FCC Form 471 Application Number (10 digits) (from Funding Commitment Decisions Letter)	(9) Funding Request Number (FRN) (10 digits) (from Funding Commitment Decisions Letter)	(10) Bill Frequency (Monthly, Quarterly, Annually, One-time, Other)	(11) Customer Billed Date (mmyyyy)	(12) Shipping Date to Customer or Last Day of Work Performed (mmddyyyy)	(13) Total (Undiscounted) Amount for Service per FRN (14.2 digits max.)	(14) Discount Amount Billed to SLC (14.2 digits max.)
			For each FRN, there should be an entry in Column (11) or Column (12) but not both.			
149802	297481		03/2000		1,471,774.72	1,324,597.25

SLC
SCHOOLS AND LIBRARIES CORPORATION

SCHOOLS and LIBRARIES INVOICE LINE REVIEW

Invoice: 99671 | Rev Type: Required Review | Updated: 04/04/2000 6:20:25 PM | Assigned: 04/05/2000 8:24:01 A

Line: 3E+05 | FRN: 297481 | Requested Amount: $9,370,133.10 | FRN Actual Payment Amount: 19,481,076.76

PIA: MATHEW APPLETON | Completed ☑ | Completed By: ncorlet | Date: 06/29/2000 9:49:18 A

Manager: JOSEPH PELLICANE | Completed ☑ | Completed By: mmarcu | Date: 06/29/2000 10:27:31 A

Oracle Action: PASS

#45: This invoice is billing for 35,240 Units [@$310.50 each] of WaveLAN ISA Cards. Per the Eligibilty Matrix, The WaveLAN ISA Card is conditionally eligible, in that it is entirely eligible if located in the Access Point. If located in or used for the PC/ Workstation, then the NIC portion is to be allocated out of the total price of the card at $8.23.
Based on Guy LoPresti's review the SP is providing the Units per PC rather than per Access Point .
I reduced the cost per unit from
$310.50 to $302.27 X 35,240.00 Units = $10,651,994.00

#29: FY2 FRN on Watch due to 1] FNL Issued in Error [cat / serv] and 2] Ineligible services or products

Per e-mail from John Carey, this invoice, should also be reduced by 2.26% to bring it closest to the

ncorlet | 06/29/2000 9:49:13 AM

Edit Rules
29
45

Invoice: 99671 | Rev Type: Required Review | Updated: 06/28/2000 6:01:11 PM | Assigned: 06/29/2000 8:10:45 A

Line: 3E+05 | FRN: 297481 | Requested Amount: $9,370,133.10 | FRN Actual Payment Amount: 19,481,076.76

PIA: MATHEW APPLETON | Completed ☑ | Completed By: ncorlet | Date: 06/29/2000 9:49:28 A

Manager: MARK SCHACHTER | Completed ☑ | Completed By: mschach | Date: 06/29/2000 11:09:30 A

Oracle Action: PASS

#45: This invoice is billing for 35,240 Units [@$310.50 each] of WaveLAN ISA Cards. Per the Eligibilty Matrix, The WaveLAN ISA Card is conditionally eligible, in that it is entirely eligible if located in the Access Point. If located in or used for the PC/ Workstation, then the NIC portion is to be allocated out of the total price of the card at $8.23.
Based on Guy LoPresti's review the SP is providing the Units per PC rather than per Access Point .
I reduced the cost per unit from
$310.50 to $302.27 X 35,240.00 Units = $10,651,994.00

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Per e-mail from John Carey, this invoice, should also be reduced by 2.26% to bring it closest to the

ncorlet | 06/29/2000 9:49:25 AM

Edit Rules
29
45

FUNDS FOR LEARNING, LLC

BRINGING TECHNOLOGY TO THE CLASSROOM

FAX TRANSMITTAL

To: Matt Varughis	Date: August 25, 2000
Firm: S:D	
Fax Number: 973-884-8378	Number of Pages Including Cover: 5
From: Shari Talley	Phone: (405) 341-4140 Email: stalley@fundsforlearning.com
Re: DRC Corporation Documentation	CC:
☐ Urgent ☒ For Review ☐ Please Comment ☒ Please Reply ☐ Please Recycle	

If you do not receive all of the pages or have received this fax in error, please call the above person at the number indicated. Thank you.

FUNDS FOR LEARNING, LLC
www.fundsforlearning.com

2111 Wilson Blvd,
Suite 700
Arlington, VA 22201
(703) 351-5070
(703) 351-6218 (fax)

229 N. Broadway
Edmond, OK 73034
(405) 341-4140
(405) 341-4140 (fax)

FUNDS FOR LEARNING
BRINGING TECHNOLOGY TO THE CLASSROOM

To: Matt Varughis

From: Shari Talley

Date: August 25, 2000

Re: DRC Corporation (Explanation)

The following documentation pertains to our discussions regarding FRN 297481 and a reduction in payment to the vendor, DRC Corporation. Please note that though the pre-discounted cost of the WaveLAN 2.4 Ghz ½ size on the Proposal Detail was $310/ea., the installation and configuration costs were $35/ea., bringing the **total** cost to $345/ea.

When the 90% discount was applied to the total unit cost, it equals $310.50, the amount billed to USAC. The invoice reflects the product plus installation and configuration combined.

In addition, I am sending you a copy of the invoice for the remaining 10%. This verifies that the unit price reflected in the SPIF *was* discounted and should have been paid without further reduction (with the exception, of course, of the percentage of the agreed upon $500,000 reduction for the entire FRN determined last May).

Call me to discuss when this payment can be made to DRC (405-341-4140). Thank you for all your help with this, Matt.

Wireless Infrastructure for 780 Schools

PROPOSAL DETAIL

March 24,1999

Proposal "B"

COMMUNICATION COMPONENTS AND CABLING SERVICES

Vendor	Description	QTY	Sell Price	Extended Sell Price
Materials Equipment				
LUCENT Technologies	WavePOINT Type II Access Point	2,340	$ 1,110.00	$ 2,597,400.00
LUCENT Technologies	WaveLAN/PCMCIA, 2.4 Ghz	4,680	$ 260.00	$ 1,216,800.00
LUCENT Technologies	WaveLAN/AT, 2.4Ghz, 1/2 size, ISA Card	54,227	$ 310.00	$ 16,810,370.00
LUCENT Technologies	Outdoor Omnidirectional Antennas (maximum two per school if needed)	UNIT	INCLUDED	INCLUDED
	TOTAL MATERIAL			$ 20,624,570.00
Services				
DRC	WavePOINT Type II Access Point Installation & Configuration	2,340	$ 280.00	$ 655,200.00
DRC	WaveLAN/AT, 2.4Ghz, Installation and Configuration	54,227	$ 35.00	$ 1,897,945.00
DRC	UTP 4 Pair CAT 5 Materials, Run and Termination	780	$ 130.00	$ 101,400.00
	TOTAL LABOR			$ 2,654,545.00
	TOTAL SERVICE			$23,279,115.00

310
35
345 x 90
310.58

PREPARED BY DRC CORPORATION
DRC Center, #1608 Ponce de Leon Ave. Suite 500,Santurce P.R., 00909
Tel. (787) 723 - 7621 , Fax (787) 723 - 7610

DRC CORPORATION

DRC Center Building, 5th Floor
Ponce de León Ave. #1608
Santurce, P.R. 00909
P.O. Box 70202, San Juan, P.R. 00936
Tel. (787) 723-7621 / Fax (787) 723-7610

PAGE: 1
INVOICE NUMBER: 00S0043-IN
CUSTOMER P.O.: E-RATE FUNDS
CUSTOMER NUMBER: 01-DEDU002
DATE: 03/31/00
TERMS: NO TERMS

BILL TO:

DEPARTAMENTO DE EDUCACION
CENTRO DE COMPUTOS 4TO PISO
P.O.BOX 190759
S.J. PR 00919-0759

CONTACT:KIVIO PEGUERO

QTY.	CODE	DESCRIPTION	PRICE	AMOUNT
		TOTAL WAVELAN 90% WAVELAND AT 2.4 GHZ 1/2 SIZE		
	/M	17,620 UNITS @ $310.50		5471,010.00
		WAVELAND AT 2.4 GHZ 1/2 SIZE		
	/M	17,620 UNITS @ $310.50		5471,010.00
		FRN 297481		

WE HERIBY CERTIFY THAT THIS INVOICE HAS NOT BEEN PAID.

AUTHORIZED SIGNATURE

MAKE CHECK TO: DRC CORP.
P.O. BOX 70202
SAN JUAN, P.R. 00936

INVOICE ARE DUE UPON RECEIPT.

SUBTOTAL: 10942,020.00
FREIGHT: .00
6.6 TAXES: .00
TOTAL: 10942,020.00

08/25/2000 15:42 4053417008 FUNDSFORLEARNING PAGE 05
08/25/00 FRI 14:35 FAX SHOOK HARDY 001
08/25/2000 FRI 10:05 FAX 7877230022 DRC CORPORATION

DRC CORPORATION

DRC Center Building, 8th Floor
Ponce de León Ave. #1606
Santurce, P.R. 00909
P.O. Box 70202, San Juan, P.R. 00936
Tel. (787) 723-7621 / Fax (787) 723-7510

PAGE: 1
INVOICE NUMBER: 00S0042-IN
CUSTOMER P.O.: E-RATE FUNDS
CUSTOMER NUMBER: 01-DEDU002
DATE: 03/31/00
TERMS: NO TERMS

BILL TO:

DEPARTAMENTO DE EDUCACION
CENTRO DE COMPUTOS 4TO PISO
P.O.BOX 190759
S.J. PR 00919-0759

CONTACT:KIVIÓ PEGUERO

QTY.	CODE	DESCRIPTION	PRICE	AMOUNT
		TOTAL WAVELAN CARDS 10% WAVELAND AT 2.4 GHZ 1/2 SIZE		
	/M	35,240 UNITS @ $34.50		1215,780.00
		FRN 297481		

WE HEREBY CERTIFY THAT THIS INVOICE HAS NOT BEEN PAID.

AUTHORIZED SIGNATURE

MAKE CHECK TO: DRC CORP.
P.O. BOX 70202
SAN JUAN, P.R. 00936

INVOICE ARE DUE UPON RECEIPT.

SUBTOTAL: 1215,780.00
FREIGHT: .00
6.6 TAXES: .00
TOTAL: 1215,780.00

DRC Invoice Summary
FRN #490145

Paid Amount	Bank Sent Date	Payment Type	SLD Invoice Number	Service Provider Invoice	Discription of Goods and Services	Total Project Costs	Local Match	E-Rate Portion
Source: Disbursement Documents					Source: DRC Invoice and FCC Form 474			
					400 HP E800 Servers Pentium III 800MHZ, 9.1 GB SCSI Drive, 32x CD, 10/100 TX PCI Adapter 128MB RAM, 15" Monitor, 56K Modem (Cost Each $2,195 - E-Rate Share each $1,909.65)	878,000.00	114,140.00	763,860.00
					2,300 IBM Netfinity X Series 220 Servers Pentium III 800MHZ 9.1 GB Wultra 160 SCSI Drive, 32X CD 10/100TX PCI Adapter, 128MB RAM, 15" Monitor, 56K Modem (Cost Each $2,195 - E-Rate Share each $1,909.65)	5,048,500.00	656,305.00	4,392,195.00
					100 HP DAT24X6E Ext Autoloader Tape Drive (Cost Each $2,195 - E-Rate Share each $1,909.65)	219,500.00	28,535.00	190,965.00
					575 IBM 120/240 DDS-4 Autoloader (Cost Each $2,195 - E-Rate Share each $1,909.65)	1,262,125.00	164,076.25	1,098,048.75
					3,680 Triplite Omnisource 1050 UPS (Cost Each $275 - E-Rate Share each $239.25)	1,012,000.00	131,560.00	880,440.00
					1 - Operational Software for 4600 Server with 5500 Client Licenses	1,000,000.00	130,000.00	870,000.00
8,195,508.75	29-Mar-01	Check	174836	01S0001-IN		9,420,125.00	1,224,616.25	8,195,508.75
					350 Wavepoint II Access Points (Cost Each $1,190 - E-Rate Share each $1,035.30)	416,500.00	54,145.00	362,355.00
					20,000 Waveland IEEE Turbo 11MB ISA/PCI PC Card (Cost Each $320 - E-Rate Share each $278.40)	6,400,000.00	832,000.00	5,568,000.00
5,930,355.00	29-Mar-01	Check	174837	01W0001-IN		6,816,500.00	886,145.00	5,930,355.00
					226 HP E60 Servers Pentium III 550MHZ, 9.1 GB Ultra/Wide SCSI Drive, 32x CD, 10/100 TX PCI Adapter 128MB RAM, 15" Monitor, 56K Modem (Cost Each $2,195 - E-Rate Share each $1,909.65)	496,070.00	64,489.10	431,580.90
					200 HP DAT24X6E Ext Autoloader Tape Drive (Cost Each $2,195 - E-Rate Share each $1,909.65)	439,000.00	57,070.00	381,930.00
813,510.90	04-Apr-01	Check	197572	01S0014-IN		935,070.00	121,559.10	813,510.90

DRC Invoice Summary
FRN #490145

Paid Amount	Bank Sent Date	Payment Type	SLD Invoice Number	Service Provider Invoice	Discription of Goods and Services	Total Project Costs	Local Match	E-Rate Portion
Source: Disbursement Documents					Source: DRC Invoice and FCC Form 474			
38,976.00	17-Apr-01	Check	201962	01V0023-IN	Server Installation Labor - 154 Schools	44,800.00	5,824.00	38,976.00
87,696.00	17-Apr-01	Check	201961	01V0025-IN	Operational Software Installation - 154 Schools	100,800.00	13,104.00	87,696.00
					100 Wavepoint Type II Access Point Installation and Configuration (Cost Each $370, E-Rate Cost $321.90	37,000.00	4,810.00	32,190.00
					20,000 Waveland IEEE Turbo 11MB ISA/PCI PC Card Installation Cost each $35, E-Rate Cost $30.45	700,000.00	91,000.00	609,000.00
					100 UTP CAT5 Material, Run & Termination (Cost Each $150, E-Rate Cost $130.50)	15,000.00	1,950.00	13,050.00
654,240.00	11-Jun-01	Wire Transfer	208196	01W0023-IN		752,000.00	97,760.00	654,240.00
127,946.55	11-Jun-01	Wire Transfer	215730	01S0046-IN	67 HP DAT24X6E Ext. Autoloader Tape Drive (Cost Each $2,195 - E-Rate Share each $1,909.65)	147,065.00	19,118.45	127,946.55
64,119.00	11-Jun-01	Wire Transfer	215731	01S0048-IN	268 Triplite Omnisource 1050 UPS (Cost Each $275 - E-Rate Share each $239.25)	73,700.00	9,581.00	64,119.00
47,850.00	11-Jun-01	Wire Transfer	216338	01S0066-IN	200 Triplite Omnisource 1050 UPS (Cost Each $275 - E-Rate Share each $239.25)	55,000.00	7,150.00	47,850.00
190,965.00	11-Jun-01	Wire Transfer	216339	01S0064-IN	100 HP DAT24X6E Ext. Autoloader Tape Drive (Cost Each $2,195 - E-Rate Share each $1,909.65)	219,500.00	28,535.00	190,965.00
381,930.00	11-Jun-01	Wire Transfer	216342	01S0062-IN	200 HP E60 Servers Pentium III 800MHZ, 9.1 GB Ultra/Wide SCSI Drive, 32x CD, 10/100 TX PCI Adapter 128MB RAM, 15" Monitor, 56K Modem (Cost Each $2,195 - E-Rate Share each $1,909.65)	439,000.00	57,070.00	381,930.00
328,459.80	11-Jun-01	Wire Transfer	216343	01S0050-IN	172 HP E60 Servers Pentium III 800MHZ, 9.1 GB Ultra/Wide SCSI Drive, 32x CD, 10/100 TX PCI Adapter 128MB RAM, 15" Monitor, 56K Modem (Cost Each $2,195 - E-Rate Share each $1,909.65)	377,540.00	49,080.20	328,459.80
401,026.50	11-Jun-01	Wire Transfer	216346	01S0056-IN	210 HP E60 Servers Pentium III 800MHZ, 9.1 GB Ultra/Wide SCSI Drive, 32x CD, 10/100 TX PCI Adapter	460,950.00	59,923.50	401,026.50

DRC Invoice Summary
FRN #490145

Paid Amount	Bank Sent Date	Payment Type	SLD Invoice Number	Service Provider Invoice	Discription of Goods and Services	Total Project Costs	Local Match	E-Rate Portion
Source: Disbursement Documents					Source: DRC Invoice and FCC Form 474			
					128MB RAM, 15" Monitor, 56K Modem (Cost Each $2,195 - E-Rate Share each $1,909.65)			
200,513.25	11-Jun-01	Wire Transfer	216347	01S0058-IN	105 HP DAT24X6E Ext. Autoloader Tape Drive (Cost Each $2,195 - E-Rate Share each $1,909.65)	230,475.00	29,961.75	200,513.25
511,786.20	11-Jun-01	Wire Transfer	216348	01S0044-IN	268 HP E60 Servers Pentium III 800MHZ, 9.1 GB Ultra/Wide SCSI Drive, 32x CD, 10/100 TX PCI Adapter 128MB RAM, 15" Monitor, 56K Modem (Cost Each $2,195 - E-Rate Share each $1,909.65)	588,260.00	76,473.80	511,786.20
50,242.50	11-Jun-01	Wire Transfer	216377	01S0060-IN	210 Triplite Omnisource 1050 UPS (Cost Each $275 - E-Rate Share each $239.25)	57,750.00	7,507.50	50,242.50
59,812.50	11-Jun-01	Wire Transfer	215238	01S0042-IN	250 Triplite Omnisource 1050 UPS (Cost Each $275 - E-Rate Share each $239.25)	68,750.00	8,937.50	59,812.50
328,459.80	11-Jun-01	Wire Transfer	215244	01S0032-IN	172 HP E60 Servers Pentium III 550MHZ, 9.1 GB Ultra/Wide SCSI Drive, 32x CD, 10/100 TX PCI Adapter 128MB RAM, 15" Monitor, 56K Modem (Cost Each $2,195 - E-Rate Share each $1,909.65)	377,540.00	49,080.20	328,459.80
82114.95	11-Jun-01	Wire Transfer	215246	01S0034-IN	43 HP DAT24X6E Ext. Autoloader Tape Drive (Cost Each $2,195 - E-Rate Share each $1,909.65)	94,385.00	12,270.05	82,114.95
41,151.00	11-Jun-01	Wire Transfer	215253	01S0036-IN	172 Triplite Omnisource 1050 UPS (Cost Each $275 - E-Rate Share each $239.25)	47,300.00	6,149.00	41,151.00
477,412.50	11-Jun-01	Wire Transfer	215256	01S0037-IN	250 HP E60 Servers Pentium III 550MHZ, 9.1 GB Ultra/Wide SCSI Drive, 32x CD, 10/100 TX PCI Adapter 128MB RAM, 15" Monitor, 56K Modem (Cost Each $2,195 - E-Rate Share each $1,909.65)	548,750.00	71,337.50	477,412.50
238,706.25	11-Jun-01	Wire Transfer	215277	01S0040-IN	125 HP DAT24X6E Ext. Autoloader Tape Drive (Cost Each $2,195 - E-Rate Share each $1,909.65)	274,375.00	35,668.75	238,706.25
					Server Installation Labor - 254 Schools	86,200.00	11,206.00	74,994.00
					Operational Software Installation - 254 Schools	193,950.00	25,213.50	168,736.50

DRC Invoice Summary
FRN #490145

Paid Amount	Bank Sent Date	Payment Type	SLD Invoice Number	Service Provider Invoice	Discription of Goods and Services	Total Project Costs	Local Match	E-Rate Portion
Source: Disbursement Documents					Source: DRC Invoice and FCC Form 474			
243,730.50	21-Jun-01	Wire Transfer	219396	01S0054-IN		280,150.00	36,419.50	243,730.50
274,989.60	25-Jun-01	Wire Transfer	220544	01S0028-IN	144 HP DAT24X6E Ext. Autoloader Tape Drive (Cost Each $2,195 - E-Rate Share each $1,909.65)	316,080.00	41,090.40	274,989.60
71,296.50	25-Jun-01	Wire Transfer	220541	01S0030-IN	298 Triplite Omnisource 1050 UPS (Cost Each $275 - E-Rate Share each $239.25)	81,950.00	10,653.50	71,296.50
149,292.00	25-Jun-01	Wire Transfer	220540	01V0039-IN	Server Installation Labor - 141 Schools	52,800.00	6,864.00	45,936.00
					Operational Software Installation - 141 Schools	118,800.00	15,444.00	103,356.00
						171,600.00	22,308.00	149,292.00
569,075.70	25-Jun-01	Wire Transfer	220546	01S0026-IN	298 HP E60 Servers Pentium III 800MHZ, 9.1 GB Ultra/Wide SCSI Drive, 32x CD, 10/100 TX PCI Adapter 128MB RAM, 15" Monitor, 56K Modem (Cost Each $2,195 - E-Rate Share each $1,909.65)	654,110.00	85,034.30	569,075.70
134,589.00	12-Jul-01	Wire Transfer	226038	01V0076-IN	Server Installation Labor - 190 Schools	47,600.00	6,188.00	41,412.00
					Operational Software Installation - 190 Schools	107,100.00	13,923.00	93,177.00
					June 2001 Charges	154,700.00	20,111.00	134,589.00
1,909.65	12-Jul-01	Wire Transfer	226048	01S0081-IN	1 HP DAT24X6E Ext. Autoloader Tape Drive (Cost Each $2,195 - E-Rate Share each $1,909.65)	2,195.00	285.35	1,909.65
82,114.95	12-Jul-01	Wire Transfer	216376	01S0052-IN	43 HP DAT24X6E Ext. Autoloader Tape Drive (Cost Each $2,195 - E-Rate Share each $1,909.65)	94,385.00	12,270.05	82,114.95
41,151.00	24-Jul-01	Wire Transfer	216345	01S0054-IN	172 Triplite Omnisource 1050 UPS (Cost Each $275 - E-Rate Share each $239.25)	47,300.00	6,149.00	41,151.00
478.50	24-Jul-01	Wire Transfer	226051	01S0083-IN	2 Triplite Omnisource 1050 UPS (Cost Each $275 - E-Rate Share each $239.25)	550.00	71.50	478.50
3,819.30	24-Jul-01	Wire Transfer	226096	01S0079-IN	2 HP E60 Servers Pentium III 800MHZ, 9.1 GB Ultra/Wide SCSI Drive, 32x CD, 10/100 TX PCI Adapter 128MB RAM, 15" Monitor, 56K Modem (Cost Each $2,195 - E-Rate Share each $1,909.65)	4,390.00	570.70	3,819.30

DRC Invoice Summary
FRN #490145

Paid Amount	Bank Sent Date	Payment Type	SLD Invoice Number	Service Provider Invoice	Discription of Goods and Services	Total Project Costs	Local Match	E-Rate Portion
Source: Disbursement Documents					Source: DRC Invoice and FCC Form 474			
109,150.20	01-Oct-01	Wire Transfer	245574	01W0069-IN	258 Wavepoint Type II Access Point Installation and Configuration (Cost Each $370, E-Rate Cost $321.90	95,460.00	12,409.80	83,050.20
					200 UTP CAT5 Material, Run & Termination (Cost Each $150, E-Rate Cost $130.50)	30,000.00	3,900.00	26,100.00
						125,460.00	16,309.80	109,150.20
					8 HP E800 Servers Pentium III 800MHZ, 9.1 GB Ultra/Wide SCSI Drive, 32x CD, 10/100 TX PCI Adapter 128MB RAM, 15" Monitor, 56K Modem (Cost Each $2,195 - E-Rate Share each $1,909.65)	17,560.00	2,282.80	15,277.20
					2 HP DAT24X6E Ext. Autoloader Tape Drive (Cost Each $2,195 - E-Rate Share each $1,909.65)	4,390.00	570.70	3,819.30
19,096.50	01-Oct-01	Wire Transfer	245525	01S0100-IN		21,950.00	2,853.50	19,096.50
218,141.63	01-Oct-01	Wire Transfer	245527	01V0105-IN	Server Installation Labor - 277 Schools	77,150.00	10,029.50	67,120.50
					Operational Software Installation - 277 Schools	173,587.51	22,566.38	151,021.13
					September 2001 Charges	250,737.51	32,595.88	218,141.63
112,534.50	10-Oct-01	Wire Transfer	236916	01V0096-IN	Server Installation Labor - 131 Schools	39,800.00	5,174.00	34,626.00
					Operational Software Installation - 131 Schools	89,550.00	11,641.50	77,908.50
					July 2001 Charges	129,350.00	16,815.50	112,534.50
					12 HP E800 Servers Pentium III 800MHZ, 9.1 GB Ultra/Wide SCSI Drive, 32x CD, 10/100 TX PCI Adapter 128MB RAM, 15" Monitor, 56K Modem (Cost Each $2,195 - E-Rate Share each $1,909.65)	26,340.00	3,424.20	22,915.80
					3 HP DAT24X6E Ext. Autoloader Tape Drive (Cost Each $2,195 - E-Rate Share each $1,909.65)	6,585.00	856.05	5,728.95
					16 Triplite Omnisource 1050 UPS (Cost Each $275 - E-Rate Share each $239.25)	4,400.00	572.00	3,828.00
32,472.75	02-Jan-02	Wire Transfer	249172	01S0108-IN		37,325.00	4,852.25	32,472.75

DRC Invoice Summary
FRN #490145

Paid Amount	Bank Sent Date	Payment Type	SLD Invoice Number	Service Provider Invoice
Source: Disbursement Documents				
243,447.75	02-Jan-02	Wire Transfer	249289	01V0121-IN
21,560,072.48				

Discription of Goods and Services	Total Project Costs	Local Match	E-Rate Portion
Source: DRC invoice and FCC Form 474			
Server Installation Labor - 304 Schools	86,100.00	11,193.00	74,907.00
Operational Software Installation - 304 Schools	193,725.00	25,184.25	168,540.75
September 2001 Charges	279,825.00	36,377.25	243,447.75
	24,781,692.51	3,221,620.03	21,560,072.48

505

Jan-23-01 01:17P FRN #490145 P.08

SPI 174837

DRC CORPORATION
Business Information

PAGE: 1
INVOICE NUMBER: 01W0001-TN
CUSTOMER P.O.: 01-DEDU001
CUSTOMER NUMBER: 01/16/01
DATE: NO TERMS
TERMS:

DRC Center Building, 5th Floor
Ponce de León Ave. #1608
Santurce, P.R. 00909
P.O. Box 70202, San Juan, P.R. 00936
Tel. (787) 723-7621 / Fax (787) 723-7610

BILL TO:

DEPARTAMENTO DE EDUCACION
CENTRO DE COMPUTOS 4TO PISO
P.O.BOX 190759
S.J. PR 00919-0759

CONTACT:

QTY.	CODE	DESCRIPTION	PRICE	AMOUNT
350	WAVE	WAVEPOINT TYPE II ACCESS POINT	1,035.30	362,355.00
20000	WAVEL	WAVELAN IEEE TURBO 11MB	278.40	5568,000.00
		ISA /PCI PC CARD		

WE HEREBY CERTIFY THAT THIS INVOICE HAS NOT BEEN PAID.

AUTHORIZED SIGNATURE

MAKE CHECK TO: DRC CORP.
P.O. BOX 70202
SAN JUAN, P.R. 00936

SUBTOTAL:	5930,355.00
FREIGHT:	.00
6.6 TAXES:	.00
TOTAL:	[illegible]

Jan-23-01 01:17P P.09

DRC CORPORATION
SYSTEMS INTEGRATORS

P.O. BOX 70202, SAN JUAN, P.R. 00936
(787) 723-7621

1030

SHIPMENT

Customer: Departamento de Educación
Date: 12/22/00
Address: Hato Rey

Customer P.O. Number: E Rate 2000
Complete ☑
Partial ☐
DRC P.O. Number: 2000539 / 20.00540

Equipment List

Line	Qty.	Item. No.	Serial No.	Description
1	175	848558235		Access point 1000
2	175	848413845		Remote outdoor router RSU licen...
3	x 12,000	848441556		11MB Gold wi-fi IEEE Antenna
4	x 8,000	848441481		11MB Silver wi-fi IEEE Antenna
5	175	848591111		ROR Access point & license Key
6	x 20,000	848072559		Orinoco ISA adapter

Delivered by: [illegible] Romero
Date: 12/22/00

Received by (in print): Jose L Gonzalez
Date:

Recipient Signature: [illegible]

FCC Form 474

SPI 05-03-01 61800111

NECSP105-03-01610001 11

FRN #490145

Approval by OMB

3060 - 0856

FY 01

Applicant ID: 208196

208196

Univ braries

Please read instructions before completing.

Average Burden Hours Per Response: 1.5 hours
leted by Service Providers)

SERVICE PROVIDER Invoice Form

Persons willfully making false statements on this form can be punished by fine or forfeiture, under the Communications Act, 47 U.S.C. Secs. 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. Sec. 1001.

NOTICE TO INDIVIDUALS: Section 69.619 of the Federal Communications Commission's rules requires the fund administrator to review bills for services and to determine the amount of universal service support to be disbursed to service providers. All service providers that have signed a contract or have tariffs in effect under which they provide discounted service to eligible schools and libraries who have received a Funding Commitment Decisions Letter from the fund administrator are required to submit this Service Provider Invoice Form to obtain universal service support for the amount of the discounts provided to eligible schools and libraries. This Service Provider Invoice Form informs the fund administrator of the amount of the discounts provided to eligible schools and libraries and for which the service provider seeks universal service support. The collection of information stems from the Commission's authority under Section 254 of the Communications Act of 1934, as amended, 47 U.S.C. § 254.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

The FCC is authorized under the Communications Act of 1934, as amended, to collect the personal information we request in this form. We will use the information you provide to determine whether approving this application is in the public interest. If we believe there may be a violation or potential violation of a FCC statute, regulation, rule or order, your application may be referred to the Federal, state, or local agency responsible for investigating, prosecuting, enforcing or implementing the statute, rule, regulation or order. In certain cases, the information in your application may be disclosed to the Department of Justice or a court or adjudicative body when (a) the FCC; or (b) any employee of the FCC; or (c) the United States Government, is a party in a proceeding before the body or has an interest in the proceeding.

If you owe a past due debt to the federal government, the taxpayer identification number and other information you provide may also be disclosed to the Department of the Treasury Financial Management Service, other federal agencies and/or your employer to offset your salary, IRS tax refund or other payments to collect that debt. The FCC may also provide this information to these agencies through the matching of computer records when authorized.

If you do not provide the information requested on the form, your application may be returned without action or your application may be delayed.

The foregoing Notice is required by the Privacy Act of 1974, Pub. L. No. 93-579, December 31, 1974, 5 U.S.C. § 552, and the Paperwork Reduction Act of 1995, Pub. L. No. 104-13, 44 U.S.C. § 3501, *et seq.*

Public reporting burden for this collection of information is estimated to average 1.5 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, completing, and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing the reporting burden to the Federal Communications Commission, Performance Evaluation and Records Management, Washington, D.C. 20554.

1. **Service Provider Name** (30 characters maximum)	Data Research comm. (DRC Corporation)
2. **Service Provider Identification Number (SPIN)** (9 characters maximum)	143012599
3. **Contact Name** (30 characters maximum)	Omar Monteagudo
4. **Contact Telephone Number** (14 digits maximum)	(787) 723-7621 ext. 239
5. **Invoice Number** (25 characters maximum)	01W0023-IN
6. **Invoice Date to SLD** (mmddyyyy)	04/27/01
7. **Total Invoice Amount** (sum of Column (14) - 14.2 digits maximum)	654,240.00

SERVICE PROVIDER Invoice Form

	(8) FCC Form 471 Application Number (10 digits) (from Funding Commitment Decisions Letter)	(9) Funding Request Number (FRN) (10 digits) (from Funding Commitment Decisions Letter)	(10) Bill Frequency (Monthly, Quarterly, Annually, One-time, Other)	(11) Customer Billed Date (mmyyyy)	(12) Shipping Date to Customer or Last Day of Work Performed (mmddyyyy)	(13) Total (Undiscounted) Amount for Service per FRN (14.2 digits max.)	(14) Discount Amount Billed to SLC (14.2 digits max.)
				For each FRN, there should be an entry in Column (11) or Column (12) but not both			
1	203292	490145	Monthly	04-2001		752,000.00	654,240.00
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							

DRC CORPORATION
SYSTEMS INTEGRATORS

DRC Center Building, 5th Floor
Ponce de León Ave. #1608
Santurce, P.R. 00909
P.O. Box 70202, San Juan, P.R. 00936
Tel. (787) 723-7621 / Fax (787) 723-7610

PAGE: 1
INVOICE NUMBER: 01W0023-IN
CUSTOMER P.O.:
CUSTOMER NUMBER: 01-DEDU00
DATE: 04/27/01
TERMS: NO TERMS

NO ACTION REQUIRED

BILL TO:

DEPARTAMENTO DE EDUCACION
CENTRO DE COMPUTOS 4TO PISO
PO BOX 190759
SAN JUAN PR 00919-0759

QTY.	CODE	DESCRIPTION	PRICE	AMOUNT
		WIRELESS COMPONETS INSTALLATION LABOR		
100	WAVE	WAVEPOINT TYPE II ACCESS POINT INSTALLATION & CONFIGURATION	321.90	32,190.00
20000	WAVEL	WAVELAND IEEE TURBO 11MB ISA ISA/PCI PC CARD	30.45	609,000.00
100	UTPPC	UTP CAT5 MATERIALS RUN & TERMINATION	130.50	13,050.00
		FUNDING REQUEST NUMBER: 490145		

WE HEREBY CERTIFY THAT THIS INVOICE HAS NOT BEEN PAID.

AUTHORIZED SIGNATURE

MAKE CHECK TO: DRC CORP.
P.O. BOX 70202
SAN JUAN, P.R. 00936

SUBTOTAL :	654,240.00
FREIGHT :	-
6.6 TAXES :	-
TOTAL :	654,240.00

E-RATE 2K Project
Internal Connection

DEPARTAMENTO DE EDUCACION

April 30, 2001

TRITO	CODIGO	ESCUELA	DIR_FISICA	ZIP_DIRE	ZONA	DIRECTOR	FAX	NIVEL	GRADO	TELEFONO	Ref	AP1000	AP1000 PTP	PCMCIA (11Mbps)
ELONET	10785	AGUSTIN BALSEIRO	CARR 684 KM15 BO PALMAS ALTAS BARCELONETA PR	00617	RURAL	ROBERTO FONTANEZ	846-4742	ELEMENTAL	K-6	846-4742	1		1	7
ELONET	10835	DR FRANCISCO VAZQUEZ (SU MAGUEYES)	CARR 140 KM 3 HM 3 BO MAGUEYES BARCELONETA PR	00618	RURAL	ROSA ACEVEDO MALDONADO		SEGUNDA UNIDAD	K-9	846-3171	1	1		10
RIDA	16287	FRANCISCO FRIAS MORALES	CALLE RAMON TORRES FLORIDA PR	00650	URBANA	MIGUEL VIDAL VAZQUEZ		INTERMEDIO	7-9	822-2263	1	1		10
ATI	12039	MICAELA ESCUDERO	KM 44 HM 4 BO CAMPO ALEGRE MANATI PR	00674	RURAL	ROSALINA SANTIAGO		ELEMENTAL	K-6	889-3106	1	1		3
IATI	12047	AUGUSTO COHEN	CARR 616 SECTOR LA LUISA MANATI PR	00674	RURAL	CARMEN SANTIAGO		ELEMENTAL	K-5	884-6519	1	1		5
NATI	17350	PETRA CORRETJER DE O'NEILL	CARR 670 KM 2 HM 7 MANATI PR	00612	URBANA	SANTOS SERRANO SERRANO		SUPERIOR	10-12	854-6601	1	1		12

NO ACTION REQUIRED

TI	17418	JUAN S MARCHAND	CARR 685 SECTOR LOS RABANOS BO BOQUILLAS MANATI PR	00674	RURAL	EVELYN ALFONSO		INTERMEDIO	7-9		1	1		16
DO	13334	SU MARTA LAFONTAINE	CARR 613 KM 3 HM 2 BO CAONILLAS, UTUADO PR	00641	RURAL	KILSA MONTALVO RIVERA		SEGUNDA UNIDAD	K-9	894-0000	1	1		8
DO	13391	BERNARDO GONZALEZ (SALTO ABAJO)	CARR 10 KM 56 HM 3 BO SALTO ABAJO, UTUADO PR	00641	URBANA	LUZ NEREIDA MONTERO	894-2524	SEGUNDA UNIDAD	K-9	894-2524	1	2		9
MON I	70144	EPIFANIO FERNANDEZ VANGA	CALLE 8 A URB SANTA MONICA BAYAMON PR	00956	URBANA	DOMITILA MIRANDA		ELEMENTAL	K-6	785-8373	1	1		5
MON I	70219	PAPA JUAN XXIII	CALLE ISLA NENA ESQ AO URB VILLA RICA BAYAMON PR	00961	URBANA	GLADYS ORTIZ ROMAN		SECUNDARIO	7-12	785-3449	1	1		10
AMON II	70276	MIGUEL MELENDEZ MUÑOZ	SECTOR LA ALDEA CARR 840 KM 1 HM 1, BAYAMON PR	00957	URBANA	HAYDEE NUÑEZ MORALES	799-6500	SECUNDARIO	7-12	799-7300	1	1		8

NO ACTION REQUIRED

MON II	70433	CARLOS ORAMA PADILLA	CALLE 10 URB MAGNOLIA GARDENS BAYAMON PR	00956	URBANA	CELIA I. RODRIGUEZ	785-5630	ELEMENTAL	K-3	785-5630	1	1		7
MON II	70490	JOSE ANTONIO DAVILA	CARR 167 KM 5 SALIDA BAYAMON A COMERIO BAYAMON PR	00956	URBANA	CARMEN ROSARIO		INTERMEDIO	7-9	785-2292	1	1		12
MON II	70581	LUIS PALES MATOS	CALLE 11 ESQ 17 URB SANTA ROSA BAYAMON PR	00960	URBANA	CARLOS E PERALES REYES		SECUNDARIO	7-12	786-4275	1	1		5
AÑO	70714	PUENTE BLANCO	CARR 167 KM 8 CATAÑO PR	00950	URBANA	BENEDICTA MALDONADO	275-3150	ELEMENTAL	K-8	788-1856	1	1		6
AÑO	70722	HORACE MANN	CALLE BARBOSA NUM 190 CATAÑO PR	00692	URBANA	AIDA L. CONCEPCION		ELEMENTAL	K-3	788-1966	1	1		6
AÑO	70763	RAFAEL CORDERO	CALLE MARGINAL AVE LOS CAÑOS CATAÑO PR	00960	URBANA	VIRGINIA PABON		ELEMENTAL	PK-6	788-1557	1	1		9

NO ACTION REQUIRED

ÑO	70805	ONOFRE CARBALLEIRA	AVE LAS NEREIDAS CATAÑO PR	00957	URBANA	LUIS FELIPE DIAZ DIAZ	788-3911	INTERMEDIO	7-9	788-8975	1	1		10
ÑO	70821	TEODORO ROOSEVELT	PARCELAS WILLIAM FUENTES BO PALMAS, CATAÑO PR	00963	URBANA	SONIA RIVERA	788-6425	ELEMENTAL	K-6	788-8430	1	1		8
AÑO	73668	MERCEDES GARCIA DE COLORADO	AVE FLOR DEL VALLE FINAL URB LAS VEGAS, CATAÑO PR	00962	URBANA	ALFONSO BACHILLER		INTERMEDIO	7-9	788-4025	1	1		7
ADO	71134	LUISA M VALDERRAMA (SAN ANTONIO)	CARR 696 KM 1 HM 6 BO HIGUILLAR, DORADO PR	00693	RURAL	ANA M DAVILA		ELEMENTAL	K-6	796-2224	1	1		7
ADO	71175	ELEMENTAL MAGUAYO	CARR 659 KM 26 HM 3 BO MAGUAYO, DORADO PR	00646	RURAL	VACANTE		ELEMENTAL	K-6	796-3223	1	1		6
AYNABO	75705	RAFAEL MARTINEZ NADAL	CALLE MURGA GUAYNABO PR	00971	URBANA	EVELYN IRIZARRY		INTERMEDIO	7-9	720-3356	1	1		6

NO ACTION REQUIRED

NABO	75804	JUAN A MIRANDA	AVE LOS FRAILES LLANOS GUAYNABO PR	00957	URBANA	PERFECTO O. TRABAL		INTERMEDIO	7-9	790-8198	1	1		6
'NABO	75838	MARGARITA JANER PALACIOS	CARR ALEJANDRINO FINAL GUAYNABO PR	00949	URBANA	SARA E. RODRIGUEZ		SUPERIOR	10-12	720-2217	1	1	1	16
ANJITO	71209	JOSE ARCHILLA CABRERA	CARR 825 KM 0 HM 1 SECTOR LA VEGA BO ACHIOTE, NARANJITO PR	00794	URBANA	JOSE R RIVERA MERCADO		ELEMENTAL	K-6	869-3230	1	1		7
ANJITO	71357	SU PEDRO FERNANDEZ	CARR 152 KM 10 HM 5 BO CEDRO ARRIBA, NARANJITO PR	00794	RURAL	OLGA ROSADO TORRES		SEGUNDA UNIDAD	K-9	869-4787	1	2		9
ALTA	71381	NICOLAS SEVILLA	CALLE 1 URB JARDINES DE TOA ALTA TOA ALTA PR	00953	URBANA	DALILA CARDONA RAMIREZ		SUPERIOR	10-12	870-2570	1	2		8
ALTA	71464	HERACLIO RIVERA COLON	CARR 165 KM 5 HM 3 BO QUEBRADA CRUZ TOA ALTA PR	00953	RURAL	ANTONIA CINTRON		ELEMENTAL	K-6	870-3406	1	1		5

NO ACTION REQUIRED

ALTA	71472	MANUEL VELILLA	CARR 861 KM 5 HM 9 BO PIÑAS, TOA ALTA PR	00957	RURAL	ELADIO MENDEZ		ELEMENTAL	K-6	797-3558	1	1		6
BAJA	71514	ADOLFINA IRIZARRY	CARR ESTATAL 854 TOA BAJA PR	00949	URBANA	CARMEN SOL CRUZ ROMAN		SUPERIOR	10-12		1	1		5
BAJA	71548	JOSE NEVAREZ LOPEZ	CALLE 165 RAMAL 165 BO SAN JOSE TOA BAJA PR	00953	RURAL	CARLA SANTOS TORRES	870-1855	ELEMENTAL	K-6	870-5246	1	1		6
BAJA	71589	ANTONIA SAEZ IRIZARRY	CARR 863 KM 0 HM 9 BO PAJAROS, TOA BAJA PR	00949	RURAL	CARMEN E. AYALA		ELEMENTAL	K-6	780-5975	1	1		11
BAJA	71605	MARIA LIBERTAD GOMEZ	PASEO AZALEA 1 20A SECCION LEVITTOWN, TOA BAJA PR	00959	URBANA	MIRIAM COLON		INTERMEDIO	7-9	784-0125	1	1		6
BAJA	71670	PEDRO ALBIZU CAMPOS	AVE. BOULEVARD 4TA SECC. LEVITTOWN, TOA BAJA PR	00783	URBANA	LUZ Z. AGOSTO		SUPERIOR	10-12	784-4605	1	2		11

NO ACTION REQUIRE

AJA	71704	SU FRANCISCA DAVILA SEMPRIT	CARR 866 AVE. PRINCIPAL BO SABANA SECA, TOA BAJA PR	00949	RURAL	MILAGROS CRUZ	784-3455	SEGUNDA UNIDAD	K-9	784-3455	1	2		17
VANAS	31161	ESTEBAN PABON GARCIA (LAS 400)	CARR 185 KM 15 PARCELAS LAS 400 CANOVANAS PR	00729	RURAL	AIDA JIMENEZ	876-7280	ELEMENTAL	K-6	876-7280	1	1		4
VANAS	33563	JUANA RODRIGUEZ MUNDO	CALLE ADONIS URB LOIZA VALLE CANOVANAS PR	00729	URBANA	MANUEL QUIÑONES	876-4828	SEGUNDA UNIDAD	K-9	876-4828	1	1		5
RDO	34348	JOSEFINA FERRERO	AVE A ESQ B URB MONTE BRISAS FAJARDO PR	00738	URBANA	HORACIO RIVERA	863-3917	INTERMEDIO	7-9	863-6770	1	2		8
RDO	34769	ROSA PASCUALA PARIS	CALLE 23 URB FAJARDO GARDENS FAJARDO PR	00738	URBANA	BELEN FIGUEROA	863-8520	ELEMENTAL	PK-6	863-8520	1	1		6
GRANDE	32078	CAROLA	CALLE 3 BO CAROLA RIO GRANDE PR	00745	RURAL	IRIS CRUZ	887-5151	ELEMENTAL	K-6	887-5150	1	1		6

NO ACTION REQUIRED

)ZAL	70854	RAFAEL MARTINEZ NADAL	CALLE BOU COROZAL PR	00783	URBANA	ENCARNACION VAZQUEZ		ELEMENTAL	K-3	859-2720	1	1		8
)ZAL	70862	ABRAHAM LINCOLN	CALLE BOU COROZAL PR	00783	URBANA	CARMEN D ROLON	859-1855	ELEMENTAL	4-6	859-3007	1	1		10
)ZAL	70870	MANUEL BOU GALI	CARR 891 KM 13 HM 2 COROZAL PR	00783	URBANA	JOSE D ALBINO		INTERMEDIO	7-9	859-2270	1	1	2	11
OZAL	70888	EMILIO R DELGADO@	CARR 159 KM13 COROZAL PR	00783	URBANA	JESUS M ROSADO		SUPERIOR	10-12	859-4699	1	2		13
:OZAL	70961	JOSE FERNANDEZ RUBIAL	CARR 805 KM 2 HM 45 BO NEGRO COROZAL PR	00783	RURAL	MARIA MEDIAVILLA RAMOS		ELEMENTAL	K-6	859-7288	1	1		4
ROZAL	71035	SU JULIAN MARRERO	CARR 164 KM 14 BO PALMAREJO COROZAL PR	00783	RURAL	JOSE M. MARRERO	859-9061	SEGUNDA UNIDAD	K-9	859-3027	1	1	1	20

NO ACTION REQUIRED

OZAL	71050	SU NICOLAS RODRIGUEZ	CARR 568 KM 30 HM 1 BO PADILLA COROZAL PR	00783	RURAL	GILBERTO OTERO	859-3250	SEGUNDA UNIDAD	K-6	859-3250	1	1		16
OZAL	71068	SU DEMETRIO RIVERA	CARR 802 BO PALMARITO COROZAL PR	00783	RURAL	DORCA I. VAZQUEZ RIVERA	859-4111	SEGUNDA UNIDAD	K-9	859-4111	1	2		9
OVIS	12245	FRANCISCO RIVERA CLAUDIO	CARR 159 KM 1 HM 0 MOROVIS PR	00687	URBANA	EGBERTO RODRIGUEZ	862-4985	INTERMEDIO	7-9	862-8217	1	2		8
ROVIS	12278	FRANQUEZ	CARR 155 KM 2 HM 1RAMAL 534 BO FRANQUEZ, MOROVIS PR	00687	RURAL	HERIBERTO RODRIGUEZ	862-1323	ELEMENTAL	K-6	862-2460	1	2		6
ROVIS	12377	JAIME A COLLAZO DEL RIO	CARR 159 KM 0 HM 7 AVE COROZAL BO PUEBLO, MOROVIS PR	00687	URBANA	RENE MARRERO	862-2300	SUPERIOR	10-12	862-2300	1	2	1	12
ROVIS	12419	SU DAVID COLON VEGA	CARR 617 KM 3 HM 1 RAMAL 6616 BO MOROVIS SUR, MOROVIS PR	00687	RURAL	ANA LYDIA OTERO		SEGUNDA UNIDAD	K-9	862-2835	1	1	1	12

NO ACTION REQUIRED

OVIS	17186	BARAHONA (INTERMEDIA)	CARR 633 KM 4 HM 7 BO BARAHONA MOROVIS PR	00687	RURAL	FRANCISCO ABREU		INTERMEDIO	7-9	862-1716	1	2		6
ALTA	71746	RAFAEL HERNANDEZ	CALLE 4 URB SANTA ANA VEGA ALTA PR	00692	URBANA	GESINA CASTRO	883-1025	ELEMENTAL	K-6	883-1025	1	1		4
ALTA	71761	APOLO SAN ANTONIO	CALLE LUIS MUÑOZ RIVERA VEGA ALTA PR	00692	URBANA	OLGA TORRES		INTERMEDIO	7-9	883-3130	1	3		14
ALTA	71779	LADISLAO MARTINEZ	CALLE C URB LAS COLINAS VEGA ALTA PR	00692	URBANA	MATILDE MERCADO		SUPERIOR	10-12	883-5105	1	1		5
ALTA	71837	SU FRANCISCO FELICIE MARTINEZ	CALLE 2 KM 3 HM 5 BO BREÑAS VEGA ALTA PR	00692	RURAL	GLORIA MOLINA	883-8164	SEGUNDA UNIDAD	K-9	883-4535	1	1		6
BAJA	71894	LINO PADRON RIVERA	CALLE JULIAN ACOSTA VEGA BAJA PR	00612	URBANA	AWILDA DENIS DIAZ		SUPERIOR	10-12	858-2110	1		1	17

NO ACTION REQUIRED

A BAJA	71902	CENTRO COMUNAL	CARR 670 KM 6 HM 5 BO ALGARROBO VEGA BAJA PR	00694	RURAL	IRIS Z HERNANDEZ	858-1763	ELEMENTAL	K-6	858-1763	1	1		4
A BAJA	75267	JUAN QUIRINDONGO MORELL	CALLE Q FERNAL URB EL ROSARIO VEGA BAJA PR	00694	URBANA	NILDA FONTAN		SUPERIOR	10-12	858-0859	1	2		10
CE I	51987	ROMAN BALDORIOTY DE CASTRO	89 CALLE MAYOR CANTERA PONCE PR	00731	URBANA	ZOILA TIRU RUIZ		ELEMENTAL	4-6	843-2235	1	1		5
OLINA I	60343	JOSE SEVERO QUIÑONES	CALLE ULISES ORTIZ ESQ JOSE DE DIEGO URB SEVERO QUIÑONES. CAROLINA PR	00986	URBANA	IVONNE CASTRO		ELEMENTAL	K-6	769-3280	1	1		6
OLINA I	60392	CRUZ SALGUERO TORRES	CALLE ORQUIDEA PARC BUENAVENTURA CAROLINA PR	00979	RURAL	MARIA T CASADO		ELEMENTAL	K-6	769-3458	1	1		6
OLINA I	61853	SU ANGEL P MILLAN ROHENA	CARR 857 KM 0 HM 9 BO CANOVANILLAS CAROLINA PR	00979	RURAL	ALTAGRACIA RODRIGUEZ		SECUNDARIO	7-12	276-0120	1	1		6

NO ACTION REQUIRE

ROLINA I	65367	MARTIN GONZALEZ	CALLE 46 URB METROPOLIS CAROLINA PR	00983	URBANA	JORGE L SOTO	257-3890	INTERMEDIO	7-9	257-3890	1	1		6
ROLINA I	66480	PETRA ROMAN VIGO	CARR 485 KM 3 HM 4 BO SAN ANTON CAROLINA PR	00979	URBANA	MARIA DEL CARMEN ORTIZ	769-3255	INTERMEDIO	7-9	769-3255	1	1		6
OLINA II	65268	DR RAMON MELLADO PARSONS	CALLE 5 FINAL URB SABANA GARDENS CAROLINA PR	00983	URBANA	ELBA SERRANO	752-4420	ELEMENTAL	K-6	752-4420	1	1		6
OLINA II	66209	LUZ AMERICA CALDERON	18 AVE CENTRAL BOULEVARD VILLA CAROLINA CAROLINA PR	00983	URBANA	MARTA A ROSA		SUPERIOR	10-12	768-4044	1	3		8
JUAN I	63024	MANUEL ELZABURU Y VIZCARRONDO	CALLE MADISON RES LAS MARGARITAS SANTURCE PR	00949	URBANA	CARLOS H REYMUNDI	728-2892	INTERMEDIO	7-9	726-0125	1	1		8
JUAN I	63149	REPUBLICA DEL PERU	CALLE LOIZA FINAL SANTURCE PR	00969	URBANA	MIGDALIA PEREZ	727-2327	INTERMEDIO	7-9	726-1432	1	1		6

NO ACTION REQUIRED

JUAN I	64758	MARIA MARTINEZ DE PEREZ	CALLE JUPITER ESQ VENUS SANTURCE PR	00983	URBANA	VACANTE		ELEMENTAL	K-6	726-7835	1	1		5
JUAN III	62489	DRA ANTONIA SAEZ	CALLE AMALIA ROLDAN URB COUNTRY CLUB, RIO PIEDRAS PR	00921	URBANA	PABLO PANTOJAS	769-3534	ELEMENTAL	K-6	769-3534	1	1		7
JUAN III	62497	DR JOSE N GANDARA	CALLE URDIALES EMBALSE SAN JOSE RIO PIEDRAS PR	00921	URBANA	VIVIANA AVILA	763-9459	INTERMEDIO	7-8	763-0950	1	1		4
JUAN III	62521	FELIPE GUTIERREZ	CALLE ARISTIDES CHAVIER VILLA PRADES RIO PIEDRAS PR	00921	URBANA	LUZ MARRERO	767-5395	ELEMENTAL	K-6	767-5395	1	1		9
JUAN III	62802	DR JOSE CELSO BARBOSA	4 CALLE ROBLES INTERIOR RIO PIEDRAS PR	00969	URBANA	ARTURO R EISELE	751-3489	INTERMEDIO	7-9	751-6250	1	1		4
JUAN III	62919	SABANA LLANA	CALLE JUAN REYES BO SABANA LLANA RIO PIEDRAS PR	00926	URBANA	CARMEN I ESTEVA		INTERMEDIO	7-9	767-2438	1	1		5

JUAN III	62950	RAMON VILA MAYO	AVE GANDARA ESQ BRUMBAUGH RIO PIEDRAS PR	00921	URBANA	MYRNA RODRIGUEZ	767-1258	SUPERIOR	10-12	765-5320	1	1		8
JUAN III	65557	VILLA GRANADA (INTERMEDIA)	CALLE ASTURIAS ESQ LINARES URB VILLA GRANADA, RIO PIEDRAS PR	00926	URBANA	LARRY FERNANDEZ	751-5934	INTERMEDIO	7-9	751-1016	1	1		4
JUAN III	66225	CARMEN GOMEZ TEJERA	CALLE 15 FINAL URB MONTE CARLO RIO PIEDRAS PR	00921	URBANA	RAUL MENDOZA	762-7437	ELEMENTAL	PK-6	762-7437	1	1		6
JILLO D	69039	ANDRES VALCARCEL	CALLE ANDRES VALCALCER FINAL TRUJILLO ALTO PR	00977	URBANA	NERIS RIVERA	748-4195	INTERMEDIO	7-9	761-1060	1	1		6
JILLO D	69047	MEDARDO CARAZO	CALLE LA CRUZ FINAL TRUJILLO ALTO PR	00928	URBANA	ANN M. MOCKFORD		SUPERIOR	10-12	760-6575	1		2	10
JILLO D	69112	JESUS SILVA	CALLE AZUCENA URB VILLA BLANCA BO LAS CUEVAS, TRUJILLO ALTO PR	00926	RURAL	NILDA FERNANDEZ	748-3980	ELEMENTAL	K-6	761-0565	1	1	1	8

NO ACTION REQUIRED

E-RATE 2K Project
Internal Connection

DEPARTAMENTO DE EDUCACION

April 30, 2001

JILLO)	69145	JESUS T PIÑERO	CARR 848 KM 0 HM 1 BO LAS CUEVAS TRUJILLO ALTO PR	00976	RURAL	CLOTILDE CLAUDIO DE JESUS	761-0900	ELEMENTAL	K-6	761-0900	1	2		8
												100	11	678

NO ACTION REQUIRE

TAB 39

PUERTO RICO TELEPHONE COMPANY
SCHOOLS AND LIBRARIES PROGRAM
RE-EDUCATE

Year 4
(July 1, 2001 to June 30, 2002)

Invoice #	Invoice Date	Month Billed	Amount	FRN
ATM				
	7/31/01		1,092,000.00	490148 T-1
	8/30/01		1,092,000.00	490148 T-1
	9/30/01		1,092,000.00	490148 T-1
	10/30/01		1,092,000.00	490148 T-1
	11/14/02		1,092,000.00	490148 T-1
	12/30/02		1,092,000.00	490148 T-1
	1/30/02		1,092,000.00	490148 T-1
	2/28/02		1,092,000.00	490148 T-1
	3/31/02		1,092,000.00	490148 T-1
	4/30/02		1,092,000.00	490148 T-1
	5/31/02		1,092,000.00	490148 T-1
	6/30/02		1,092,000.00	490148 T-1
Total			**13,104,000.00**	
OC-3 Port				
	7/31/01	$	12,506.00	490148 OC-3
	8/30/01	$	12,506.00	490148 OC-3
	9/30/01	$	12,506.00	490148 OC-3
	10/30/01	$	12,506.00	490148 OC-3
	11/14/02	$	12,506.00	490148 OC-3
	12/30/02	$	12,506.00	490148 OC-3
	1/30/02	$	12,506.00	490148 OC-3
	2/28/02	$	12,506.00	490148 OC-3
	3/31/02	$	12,506.00	490148 OC-3
	4/30/02	$	12,506.00	490148 OC-3
	5/31/02	$	12,506.00	490148 OC-3
	6/30/02	$	12,506.00	490148 OC-3
Total		$	**150,072.00**	
MAINTENANCE				
	7/31/01	$	78,183.00	490148 Maintenance Contract
	8/30/01	$	78,183.00	490148 Maintenance Contract
	9/30/01	$	78,183.00	490148 Maintenance Contract
	10/30/01	$	78,183.00	490148 Maintenance Contract
	11/14/02	$	78,183.00	490148 Maintenance Contract
	12/30/02	$	78,183.00	490148 Maintenance Contract
	1/30/02	$	78,183.00	490148 Maintenance Contract
	2/28/02	$	78,183.00	490148 Maintenance Contract
	3/31/02	$	78,183.00	490148 Maintenance Contract
	4/30/02	$	78,183.00	490148 Maintenance Contract

PUERTO RICO TELEPHONE COMPANY
SCHOOLS AND LIBRARIES PROGRAM
RE-EDUCATE

Year 4
(July 1, 2001 to June 30, 2002)

Invoice #	Invoice Date	Month Billed		Amount	FRN	
	5/31/02		$	78,183.00	490148	Maintenance Contract
	6/30/02		$	78,183.00	490148	Maintenance Contract
Total			$	**938,196.00**		
INTERNET						
529555	7/30/01		$	125,000.00	490151	Internet
529556	8/30/01		$	125,000.00	490151	Internet
529557	9/30/01		$	125,000.00	490151	Internet
529558	10/30/01		$	125,000.00	490151	Internet
529559	11/14/01		$	125,000.00	490151	Internet
531472	1/30/02		$	125,000.00	490151	Internet
531476	12/30/02		$	125,000.00	490151	Internet
535060	2/28/02		$	125,000.00	490151	Internet
540252	4/30/02		$	125,000.00	490151	Internet
540253	3/31/02		$	125,000.00	490151	Internet
540262	5/31/02		$	125,000.00	490151	Internet
540937	6/30/02		$	125,000.00	490151	Internet
Total			$	**1,500,000.00**		
Total Services Amount				**15,692,268.00**		

PUERTO RICO TELEPHONE COMPANY
FACTURACION DE RE-EDUCATE AÑO 4

año 4	SLC SERVICE PROVIDER 89%				DEPARTAMENTO DE EDUCACION 11%				TOTAL 100%			
	ATM	OC-3 PORT	MANTENIMIENTO	INTERNET	ATM	OC-3 PORT	MANTENIMIENTO	INTERNET	ATM	OC-3 PORT	MANTENIMIENTO	INTERNET
julio 01	971,880.00	11,130.34	69,582.87	111,250.00	120,120.00	1,375.66	8,600.13	13,750.00	1,092,000.00	12,506.00	78,183.00	125,000.00
agosto 01	971,880.00	11,130.34	69,582.87	111,250.00	120,120.00	1,375.66	8,600.13	13,750.00	1,092,000.00	12,506.00	78,183.00	125,000.00
septiembre 01	971,880.00	11,130.34	69,582.87	111,250.00	120,120.00	1,375.66	8,600.13	13,750.00	1,092,000.00	12,506.00	78,183.00	125,000.00
octubre 01	971,880.00	11,130.34	69,582.87	111,250.00	120,120.00	1,375.66	8,600.13	13,750.00	1,092,000.00	12,506.00	78,183.00	125,000.00
noviembre 01	971,880.00	11,130.34	69,582.87	111,250.00	120,120.00	1,375.66	8,600.13	13,750.00	1,092,000.00	12,506.00	78,183.00	125,000.00
diciembre 01	971,880.00	11,130.34	69,582.87	111,250.00	120,120.00	1,375.66	8,600.13	13,750.00	1,092,000.00	12,506.00	78,183.00	125,000.00
enero 02	971,880.00	11,130.34	69,582.87	111,250.00	120,120.00	1,375.66	8,600.13	13,750.00	1,092,000.00	12,506.00	78,183.00	125,000.00
febrero 02	971,880.00	11,130.34	69,582.87	111,250.00	120,120.00	1,375.66	8,600.13	13,750.00	1,092,000.00	12,506.00	78,183.00	125,000.00
marzo 02	971,880.00	11,130.34	69,582.87	111,250.00	120,120.00	1,375.66	8,600.13	13,750.00	1,092,000.00	12,506.00	78,183.00	125,000.00
abril 02	971,880.00	11,130.34	69,582.87	111,250.00	120,120.00	1,375.66	8,600.13	13,750.00	1,092,000.00	12,506.00	78,183.00	125,000.00
mayo 02	971,880.00	11,130.34	69,582.87	111,250.00	120,120.00	1,375.66	8,600.13	13,750.00	1,092,000.00	12,506.00	78,183.00	125,000.00
junio 02	971,880.00	11,130.34	69,582.87	111,250.00	120,120.00	1,375.66	8,600.13	13,750.00	1,092,000.00	12,506.00	78,183.00	125,000.00
TOTAL	11,662,560.00	133,564.08	834,994.44	1,335,000.00	1,441,440.00	16,507.92	103,201.56	165,000.00	13,104,000.00	150,072.00	938,196.00	1,500,000.00

TOTAL AÑO 4 $ 15,692,268.00

PRTCH001391

PRT
Telefónica de Puerto Rico

REMITA PAGO A: CUENTASMISCELANEAS
P.O. BOX 71401
SAN JUAN,P.R.00936-8501

SUC SERVICE PROVIDER INVOICE
P.O. BOX 7026
LAWRENCE, KS 66044-7026

Favor identificar el pago con su número de cuenta e incluir la copia de la factura.
Please identify remittance with your account number and include the invoice copy.

Número de Cuenta / Account Number	Número de Cliente / Customer Number	Fecha / Date	Número de Factura / Invoice Number	IMPORTE / Amount
1190-0200-900-200-000	008882038100	06/24/2003	546147	

OUR CHARGE FOR THE MAINTENANCE CONTRACT MOO-5684..... 69,582.87

MONTH OF DECEMBER 2001

728 NORSTAR PASSPORT 4740
728 NORSTAR PASSPORT 4430
728 XILAN SWITCH
1 NORTEL PASSPORT 6480 I
INSTALLED AT DEPARTMENT
OF EDUCATION CENTRAL SITE.....$78,183.00

LESS 11% TO BE PAID BY DOE.....$ 8,600.13

TOTAL.....$69,582.87
==========

$ 69,582.87
PAGUE ESTE IMPORTE
Pay this Amount

DEPTO FACTURACION

PRTCH001392

PRT
Telefónica de Puerto Rico

SOLICITA PAGO A: CUENTASMISCELANEAS
P.O. BOX 71401
SAN JUAN,P.R.00936-8501

SLC SERVICE PROVIDER INVOICE
P.O. BOX 7026
LAWRENCE, KS 66044-7026

Favor Identificar el pago con su número de cuenta e incluir la copia de la factura.
Please identify remittance with your account number and include the invoice copy.

Número de Cuenta / Account Number	Número de Cliente / Customer Number	Fecha / Date	Número de Factura / Invoice Number	IMPORTE / Amount
1190-0200-900-200-050	0080203100	06/09/2003	545876	

OUR CHARGE FOR TELECOMMUNICATIONS SERVICES..... 971,880.00

MONTH OF JULY 2003

728 T1 ATM LINES.....$1,092,000.00
BILLING CODE 9215 - $1,500 PER ATM T1
(SEE LIST ATTACHED)

SUB TOTAL.....$1,092,000.00

LESS 11% TO BE PAID BY DOE..... 120,120.00

TOTAL TO BE PAID BY SLD.....$ 971,880.00
==========

$ 971,880.00

PAGUE ESTE IMPORTE
Pay this Amount

DEPTO FACTURACION

PRTCH001416

PRT
Telefónica de Puerto Rico

REMITA PAGO A: CUENTASMISCELANEAS
P.O. BOX 71401
SAN JUAN,P.R.00936-8501

SLC SERVICE PROVIDER INVOICE
P.O. BOX 7026
LAWRENCE, KS 66044-7026

Favor identificar el pago con su número de cuenta e incluir la copia de la factura.
Please identify remittance with your account number and include the invoice copy.

Número de Cuenta / Account Number	Número de Cliente / Customer Number	Fecha / Date	Número de Factura / Invoice Number	IMPORTE / Amount
1190-0200-900-200-000	008882038100	06/09/2003	545975	

OUR CHARGE FOR TELECOMMUNICATIONS SERVICES..... 11.130.34

MONTH OF JULY 2001
ATM OC-3 PORT.....$12,506.00

SUB TOTAL.....$12,506.00

LESS 11% TO BE PAID BY DOE.....$ 1,375.66

TOTAL TO BE PAID BY SLD.....$11,130.34
==========

11,130.34
PAGUE ESTE IMPORTE / Pay this Amount

DEPTO FACTURACION

PRTCH001480

PRT
fónica de Puerto Rico

LIMITA PAGO A: CUENTAS MISCELANEAS
P.O. BOX 71431
SAN JUAN, P.R. 00936-2501

SBC SERVICE PROVIDER INVOICE
P.O. BOX 7026
LAWRENCE, KS 66044-7026

Favor identificar el pago con su número de cuenta e incluir la copia de la factura.
Please identify remittance with your account number and include the invoice copy.

Número de Cuenta / Account Number	Número de Cliente / Customer Number	Fecha / Date	Número de Factura / Invoice Number	IMPORTE / Amount
1100-0200-906-200-000	0088820038100	06/20/2003	535995	

OUR CHARGE FOR INTERNET SERVICE..... 111,250.00

MONTH OF JULY 2001

INTERNET SERVICES.....$125,000.00

LESS 11% TO BE PAID BY DOE.....$ 13,750.00

TOTAL TO BE PAID BY SLD.....$111,250.00

$ 111,250.00
PAGUE ESTE IMPORTE / Pay this Amount

DEPTO FACTURACION

PRTCH001504

PUERTO RICO TELEPHONE COMPANY
FACTURACION DE RE-EDUCATE AÑO 5

año 5	SLC SERVICE PROVIDER 89%				DEPARTAMENTO DE EDUCACION 11%				TOTAL 100%			
	ATM	OC-3 PORT	MANTENIMIENTO	INTERNET	ATM	OC-3 PORT	MANTENIMIENTO	INTERNET	ATM	OC-3 PORT	MANTENIMIENTO	INTERNET
julio 02	974,550.00	11,130.34	77,875.00	222,500.00	120,450.00	1,375.66	9,625.00	27,500.00	1,095,000.00	12,506.00	87,500.00	250,000.00
agosto 02	974,550.00	11,130.34	77,875.00	222,500.00	120,450.00	1,375.66	9,625.00	27,500.00	1,095,000.00	12,506.00	87,500.00	250,000.00
septiembre 02	974,550.00	11,130.34	77,875.00	222,500.00	120,450.00	1,375.66	9,625.00	27,500.00	1,095,000.00	12,506.00	87,500.00	250,000.00
octubre 02	974,550.00	11,130.34	77,875.00	222,500.00	120,450.00	1,375.66	9,625.00	27,500.00	1,095,000.00	12,506.00	87,500.00	250,000.00
noviembre 02	974,550.00	11,130.34	77,875.00	222,500.00	120,450.00	1,375.66	9,625.00	27,500.00	1,095,000.00	12,506.00	87,500.00	250,000.00
diciembre 02	974,550.00	11,130.34	77,875.00	222,500.00	120,450.00	1,375.66	9,625.00	27,500.00	1,095,000.00	12,506.00	87,500.00	250,000.00
enero 03	974,550.00	11,130.34	77,875.00	222,500.00	120,450.00	1,375.66	9,625.00	27,500.00	1,095,000.00	12,506.00	87,500.00	250,000.00
febrero 03	974,550.00	11,130.34	77,875.00	222,500.00	120,450.00	1,375.66	9,625.00	27,500.00	1,095,000.00	12,506.00	87,500.00	250,000.00
marzo 03	974,550.00	11,130.34	77,875.00	222,500.00	120,450.00	1,375.66	9,625.00	27,500.00	1,095,000.00	12,506.00	87,500.00	250,000.00
abril 03	974,550.00	11,130.34	77,875.00	222,500.00	120,450.00	1,375.66	9,625.00	27,500.00	1,095,000.00	12,506.00	87,500.00	250,000.00
mayo 03	974,550.00	11,130.34	77,875.00	222,500.00	120,450.00	1,375.66	9,625.00	27,500.00	1,095,000.00	12,506.00	87,500.00	250,000.00
junio 03	974,550.00	11,130.34	77,875.00	222,500.00	120,450.00	1,375.66	9,625.00	27,500.00	1,095,000.00	12,506.00	87,500.00	250,000.00
TOTAL	11,694,600.00	133,564.08	934,500.00	2,670,000.00	1,445,400.00	16,507.92	115,500.00	330,000.00	13,140,000.00	150,072.00	1,050,000.00	3,000,000.00

TOTAL AÑO 5 **$ 17,340,072.00**

PRTCH001574

PUERTO RICO TELEPHONE COMPANY
TO RECORD B.A. UNIVERSAL SERVICES (EST.)
(5013Y) JULY/01 - JUNE/03

FECHA	A/R SCHOOL & LIB. DISC. 1190-0200 900 200-000	A/R EQUIP. SALES 1410-0025 900 307-000	MTCE. REV CONTR. PBX 5280-0110 800 307-000	RENT REV ATM 5040-0108 800 224-000	MTCE. REV CONTR. PBX 5280-0110 800 307-000	RENT REV ATM 5040-0108 800 224-000	DR.	CR.	
7/31/01	1,311,434.27	195,861.45	(132,597.67)	(1,374,798.05)			1,507,395.72	(1,507,395.72)	
8/31/01	1,314,044.27	196,351.45	(115,359.97)	(1,198,884.30)	(17,237.70)	(179,113.75)	1,510,395.72	(1,510,395.72)	
9/30/01	1,314,044.27	196,351.45	(115,359.97)	(1,198,884.30)	(17,237.70)	(179,113.75)	1,510,395.72	(1,510,395.72)	
10/31/01	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
11/30/01	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
12/31/01	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
1/31/02	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
2/28/02	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
3/31/02	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
4/30/02	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
*5/31/2002	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	*1410-0025-900-307-000
*6/30/2002	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	* 1410-0025-900-307-000
7/31/02	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
8/31/02	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
9/30/02	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
10/31/02	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
11/30/02	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
12/31/02	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
1/31/03	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
2/28/03	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
3/31/03	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
4/30/03	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
5/31/03	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
6/30/03	1,110,044.27	196,351.45	(115,359.97)	(994,884.30)	(17,237.70)	(179,113.75)	1,306,395.72	(1,306,395.72)	
TOTAL	27,250,452.48	4,712,044.80	(2,785,878.98)	(24,860,536.95)	(396,467.10)	(4,119,616.25)	31,962,497.28	(31,962,497.28)	

534

PRTCH001575

TAB 40

PUERTO RICO TELEPHONE COMPANY
SCHOOLS AND LIBRARIES PROGRAM
RE-EDUCATE

Year 5
(July 1, 2002 to June 30, 2003)

Invoice #	Invoice Date	Month Billed	Amount	FRN
ATM				
	7/31/02		1,095,000.00	490148 T-1
	8/30/02		1,095,000.00	490148 T-1
	9/30/02		1,095,000.00	490148 T-1
730	10/30/02		1,095,000.00	490148 T-1
	11/14/02		1,095,000.00	490148 T-1
	12/30/02		1,095,000.00	490148 T-1
	1/30/03		1,095,000.00	490148 T-1
	2/28/03		1,095,000.00	490148 T-1
	3/31/03		1,095,000.00	490148 T-1
	4/30/03		1,095,000.00	490148 T-1
	5/31/03		1,095,000.00	490148 T-1
Total			**12,045,000.00**	
	7/31/01		$ 12,506.00	490148 OC-3
	8/30/01		$ 12,506.00	490148 OC-3
	9/30/01		$ 12,506.00	490148 OC-3
	10/30/01		$ 12,506.00	490148 OC-3
	11/14/02		$ 12,506.00	490148 OC-3
	12/30/02		$ 12,506.00	490148 OC-3
	1/30/02		$ 12,506.00	490148 OC-3
	2/28/02		$ 12,506.00	490148 OC-3
	3/31/02		$ 12,506.00	490148 OC-3
	4/30/03		$ 12,506.00	490148 OC-3
	5/31/03		$ 12,506.00	490148 OC-3
Total			**$ 137,566.00**	
MAINTENANCE				
	7/31/01		$ 87,500.00	490148 Maintenance Contract
	8/30/01		$ 87,500.00	490148 Maintenance Contract
	9/30/01		$ 87,500.00	490148 Maintenance Contract
	10/30/01		$ 87,500.00	490148 Maintenance Contract
	11/14/02		$ 87,500.00	490148 Maintenance Contract
	12/30/02		$ 87,500.00	490148 Maintenance Contract
	1/30/02		$ 87,500.00	490148 Maintenance Contract
	2/28/02		$ 87,500.00	490148 Maintenance Contract
	3/31/02		$ 87,500.00	490148 Maintenance Contract

PUERTO RICO TELEPHONE COMPANY
SCHOOLS AND LIBRARIES PROGRAM
RE-EDUCATE

Year 5
(July 1, 2002 to June 30, 2003)

Invoice #	Invoice Date	Month Billed		Amount	FRN
	4/30/03		$	87,500.00	490148 Maintenance Contract
	5/31/03		$	87,500.00	490148 Maintenance Contract
Total			$	962,500.00	

PUERTO RICO TELEPHONE COMPANY
SCHOOLS AND LIBRARIES PROGRAM
RE-EDUCATE

Year 5
(July 1, 2002 to June 30, 2003)

Invoice #	Invoice Date	Month Billed	Amount	FRN	
INTERNET					
	7/30/02		$ 250,000.00	490151	Internet
	8/30/02		$ 250,000.00	490151	Internet
	9/30/02		$ 250,000.00	490151	Internet
	10/30/02		$ 250,000.00	490151	Internet
	11/14/02		$ 250,000.00	490151	Internet
	12/30/02		$ 250,000.00	490151	Internet
	1/30/03		$ 250,000.00	490151	Internet
	2/28/03		$ 250,000.00	490151	Internet
	3/30/03		$ 250,000.00	490151	Internet
	4/30/03		$ 250,000.00	490151	Internet
	5/31/03		$ 250,000.00	490151	Internet
Total			**$ 2,750,000.00**		

Total Services Amount **15,895,066.00**

PRT
Telefónica de Puerto Rico

REMITA PAGO A: CUENTASMISCELANEAS
P.O. BOX 71491
SAN JUAN,P.R.00936-8501

SLC SERVICE PROVIDER INVOICE
P.O. BOX 7026
LAWRENCE, KS 66044-7026

Favor identificar el pago con su número de cuenta e incluir la copia de la factura.
Please identify remittance with your account number and include the invoice copy.

Número de Cuenta	Número de Factura	Fecha	Número de Factura	IMPORTE
1190-0200-900-200-000	008882038100	06/24/2003	546047	

OUR CHARGE FOR TELECOMMUNICATIONS SERVICES..... 11,130.34

MONTH OF JULY 2002

ATM OC-3 PORT.....$12,506.00

SUB TOTAL.....$12,506.00

LESS 11% TO BE PAID BY DOE.....$ 1,375.66

TOTAL TO BE PAID BY SLD.....$11,130.34

PAGUE ESTE IMPORTE
Pay this Amount

DEPTO FACTURACION

PRTCH001691

PRT
Telónica de Puerto Rico

REMITA PAGO A: CUENTASMISCELANEAS
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Please identify remittance with your account number and include the invoice copy.

Número de Cuenta / Account Number	Número de Cliente / Customer Number	Fecha / Date	Número de Factura / Invoice Number	IMPORTE / Amount
1190-0200-900-200-000	008862038100	06/24/2003	546130	

OUR CHARGE FOR THE MAINTENANCE CONTRACT MOO-5681..... 77,875.00

MONTH OF JULY 2002

730 NORSTAR PASSPORT 4740
730 NORSTAR PASSPORT 4430
730 XILAN SWITCH
1 NORTEL PASSPORT 6480 I
INSTALLED AT DEPARTMEST
OF EDUCATION CENTRAL SITE.....$87,500.00

LESS 11% TO BE PAID BY DOE.....$ 9,625.00

TOTAL.....$77,875.00
==========

77,875.00
PAGUE ESTE IMPORTE
Pay this Amount

DEPTO FACTURACION

PRTCH001603

PRT
Telónica de Puerto Rico

REMITA PAGO A: CUENTASMISCELANEAS
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SAN JUAN,P.R.00936-8501

SLC SERVICE PROVIDER INVOICE
P.O. BOX 7026
LAWRENCE, KS 66044-7026

Favor identificar el pago con su número de cuenta e incluir la copia de la factura.
Please identify remittance with your account number and include the invoice copy.

Número de Cuenta / Account Number	Número de Cliente / Customer Number	Fecha / Date	Número de Factura / Invoice Number	IMPORTE / Amount Enclosed
1190-0200-900-200-000	008882038100	06/24/2003	546071	

OUR CHARGE FOR INTERNET SERVICE..... 222,500.00

MONTH OF JULY 2002

INTERNET SERVICES.....$250,000.00

LESS 11% TO BE PAID BY DOE.....$ 27,500.00

TOTAL TO BE PAID BY SLD.....$222,500.00

PAGUE ESTE IMPORTE / Pay this Amount: $ 222,500.00

DEPTO FACTURACION

PRTCH001579

PRT
Telefónica de Puerto Rico

REMITA PAGO A: CUENTASMISCELANEAS
P.O. BOX 71401
SAN JUAN,P.R.00936-8501

SLC SERVICE PROVIDER INVOICE
P.O. BOX 7026
LAWRENCE, KS 66044-7026

Favor identificar el pago con su número de cuenta e incluir la copia de la factura.
Please identify remittance with your account number and include the invoice copy.

Número de Cuenta / Account Number	Número de Cliente / Customer Number	Fecha / Date	Número de Factura / Invoice Number	IMPORTE / Amount
1190-0200-900-200-000	008882038100	06/24/2003	546096	

OUR CHARGE FOR TELECOMMUNICATIONS SERVICES..... 974,550.00

MONTH OF JULY 2002

730 T1 ATM LINES.....$1,096,000.00
BILLING CODE 9215 - $1,500 PER ATM T1
(SEE LIST ATTACHED)

SUB TOTAL.....$1,095,000.00

LESS 11% TO BE PAID BY DOE.....$ 120,450.00

TOTAL TO BE PAID BY SLD.....$ 974,550.00

$ 974,550.00
PAGUE ESTE IMPORTE
Pay this Amount

DEPTO FACTURACION

PRTCH001627

TAB 41

School Network Project (FCC/USAC Funded)

Puerto Rico Department of Education
August 21, 2003

Table of contents

- PRDOE facts
- Project description
- What did we do?
  - Evaluated the project
  - Started project recovery
  - Sought accountability from vendors
  - Made full disclosure to USAC/FCC
- Accomplishments
- Final remarks

PRDOE facts

- One large school district
  - 600,000+ students
  - 44,000 teachers
  - 30,000 administrative employees
  - 1,540 schools
    - All over main island + two smaller islands
  - 2.5 billion dollar budget (annual)

Project description: Objectives

- Island wide school network
  - For all 1,540 schools
  - Covering main island plus two other islands
- Project scope
  - To allow school access to Internet
  - To access centrally located applications (library services, on-line courses)
- Funding requests
  - Funds requested for six years
  - Funds approved for only the first three years

Project description: Funding summary

Phase	Year	Requested	Approved	Disbursed
1	98-99	51,970,821	51,358,534	(*)
2	99-00	72,062,062	63,199,754	(*)
3	00-01	102,071,046	61,996,478	(*)
4	01-02	43,570,463	(Pending)	
5	02-03	25,897,383	(Pending)	
6	03-04	36,481,072	(Pending)	
Total		**332,052,847**	**176,541, 766**	

(*) Since USAC made payments directly to vendors, we do not know how much was actually disbursed, and to what extent disbursements were made in agreement with products and services provided. We do know that the project was not operational as of January 2001.

What did we do?

Project description: Year 1

- Year 1: 1998-99 (Phase 1)
  - 760 schools
  - Communication lines
  - Communication equipment
  - Internal connections (structured cabling)

Back

545

Project description: Year 2

- Year 2: 1999-00 (Phase 2)
  - 780 schools
  - Communication lines
  - Communication equipment
  - Internal connections (wireless)
  - 2 servers per school

Back

Project description: Year 3

- Year 3: 2000-01
  - 100 additional schools
  - 4,600 additional servers

Back

Project description: Year 4

- Year 4: 2001-02
  - First year under our administration
    - New administration as of Jan 7, 2001
    - Only ten calendar days to file form 471
  - Approach followed
    - Do not change technical approaches
    - Avoid new tasks until evaluation is performed
    - Apply for funds to:
      - Finish already started tasks ("fill the holes")
      - Pay recurring charges
        - Equipment maintenance, line rent, Internet access

Back

Project description: Year 5

- Year 5: 2002-03
  - Internet service
  - Telecomm transport services
  - Telephone service
  - Equipment maintenance

Back

Project description: Year 6

- Year 6: 2003-04
  - Internet service
  - Telecommunications transport services
  - Telephone services
  - Equipment maintenance
  - New communication points
  - LAN drops for additional rooms

Back

What did we do?

1. Evaluated the project
   - Preliminary
   - Detailed (for a sample of 100 schools)
2. Designed and started a project recovery plan following an integrated three sided strategy
   - Center (network)
   - Schools
   - PRDOE (central office)

548

What did we do?

3. Sought accountability from vendors

4. Made full disclosure to USAC/FCC on project status

Accomplishments

Evaluate the project

- Preliminary evaluation results
  - Real status of the project at each school
    - Unknown
  - Infrastructure needed at PRDOE
    - Inappropriate
  - Network design
    - Inexistent
  - Approach to manage network
    - Undefined

549

Evaluate the project

- Preliminary evaluation results
  - Electrical and security infrastructure
    - Deficient
    - Many $$$ needed to repair it
  - Contracting and procurement process
    - Local procurement processes were not followed
    - Multiyear contracts were made
  - Computers available to use the network
    - Very few
    - Purchase of 100,000 computers successfully protested by bidders

Back

Evaluate the project

- Detailed evaluation results (for a sample of 100 schools)
  - More than 50% comm lines not operational
    - Either not activated or out of service
  - Servers and comm equipment were installed in inappropriate places
  - Inappropriate central office infrastructure
  - No project plans prepared
  - No evaluation of vendor performance
  - No RFPs prepared
  - Ineffective technical trainings were conducted
  - School directors not involved in the project

Back

550

Recover the project

- Integrated three-sided strategy
  - At the center
    - Extend detailed evaluation to all schools
    - Design/test approach to provide administration and support
    - Seek accountability from vendors
  - At schools
    - Provide computers using laboratories
      - Lower electrical and security requirements
    - Design/implement teacher training program

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Recover the project

- Integrated three-sided strategy
  - At schools
    - Design/implement programs to start using technology as a teaching tool
    - Implement a school repair program
    - Allocate funds for productivity and content software
  - At PRDOE
    - Build new LAN infrastructure
    - Implement new server infrastructure
    - Establish Help desk

Back

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551

Seek accountability from vendors

- Took control of the project
  - Hired a project manager
  - Started to conduct weekly project meetings
- Maintained line-availability statistics on a daily basis

Back

Full disclosure to USAC/FCC

- Four USAC/FCC presentations
  - Jan 15, 2002
  - April 26, 2002
  - Oct 1, 2002
  - Jan 23, 2003
- Accomplishments properly supported with evidence

Back

552

Accomplishments: as of May/03

- From practically no schools connected to 600+ schools connected
  - AvailabilityStats
  - SchoolManagementSystem
- From basically no computers to use the network to:
  - 103 laboratories installed
  - 65 additional labs ordered
  - 3,300 computers being installed (2/school)
  - 400 additional labs already bidded
  - FixedLabs
  - MobileLabs

Accomplishments: as of May/03

- From very few teachers trained to:
  - 27,000+ (64%) teachers already trained
  - TeacherTrainingStats
- From improperly installed communications equipment at schools to a new internal communications setup for 400 schools (Proyecto 400)
  - OldSchoolSetup
  - NewSchoolSetup1, NewSchoolSetup2

553

Accomplishments: as of May/03

- From a mess of cables and switches to a new standards-based central office LAN
  - 3,500 drops
  - 18 switch/routers
  - OldWiringCloset, OldCabling
  - NewWiringCloset, NewCabling

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Accomplishments: as of May/03

- From dozens of non-manageable servers to a new central office server and storage infrastructure
  - 38 new servers
  - 2 terabytes of storage (2,000,000,000,000)
  - Storage area network (SAN)
  - OldServers
  - NewServers

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554

Accomplishments: as of May/03

- From 0 to 43 help desk people
  - 29 located at regional offices
    - HelpDeskPeople
- From minor technology integration efforts to several major technology integration projects
  - LettersOfApproval1, LettersOfApproval2, LettersOfApproval3
- From minor electrical repairs to 86 major electrical repair projects
  - ElectricityRepairs

Final remarks

- Significant progress accomplished
  - Regardless of contractual issues
  - In spite of delay in Year 4, 5 decision
  - Without additional ERATE funds
- Significant amount of local funds invested
- We far exceeded all requisites of USAC letter of Dec 5, 2001 (computers, software, training, electrical repairs)

BUT, ...

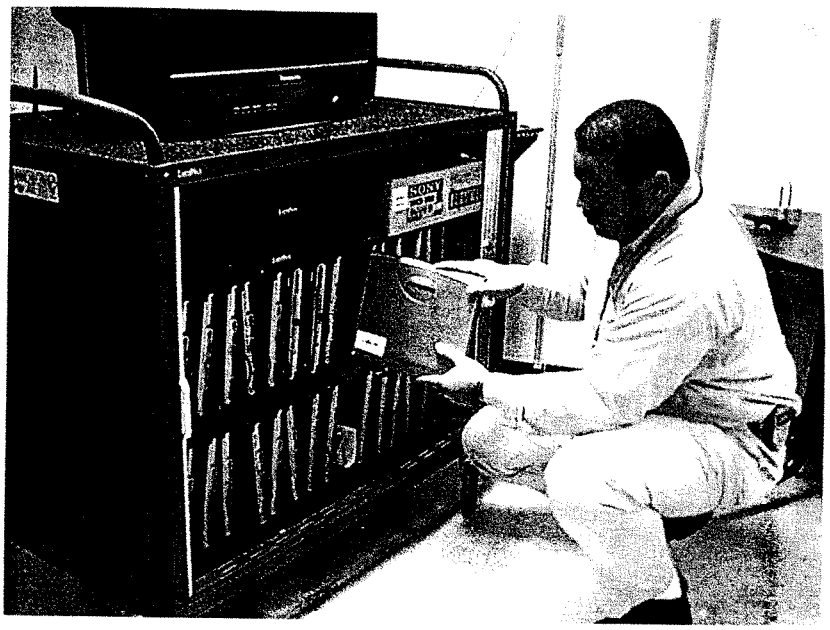
Final remarks

- We have exhausted our capability to continue developing the project without additional ERATE funding
  - Technology projects are highly affected by time
  - Motivation and credibility are also highly affected
  - Additional delays may kill the project
  - As time goes by, probability of success goes down

Final remarks

- In the absence of immediate release of years 4, 5 funding, PRDOE will have no choice but to reexamine the viability and continuity of the entire project
- Delay in funds release has already affected the project
  - Obsolescence and lack of maintenance are eating up recovery
  - Vendor suspended communication service as of June 30, 2003

Mobile labs



Teacher Training Stats

ESTADO LIBRE ASOCIADO DE PUERTO RICO
DEPARTAMENTO DE EDUCACIÓN
DIVISIÓN DE INNOVACIONES Y TECNOLOGÍA EDUCATIVA

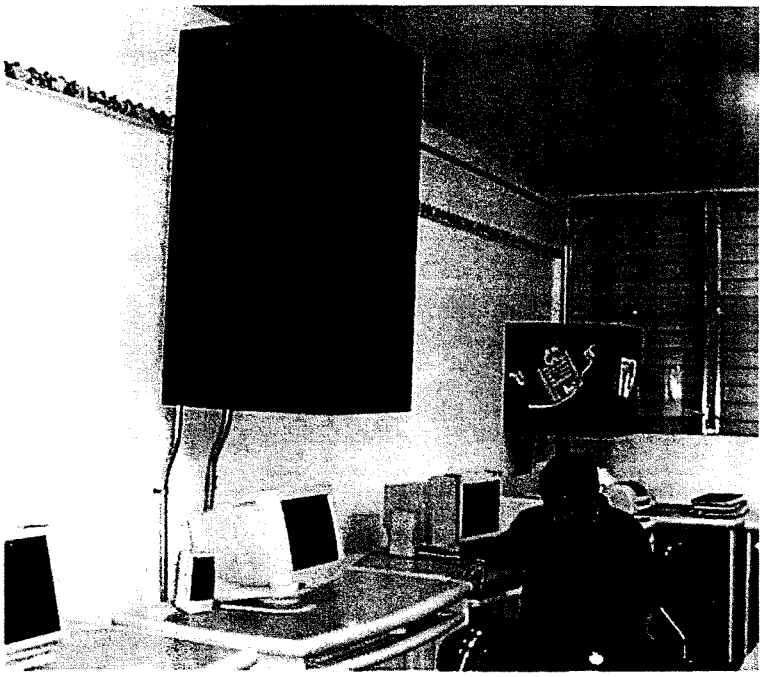
INFORME DE LA CANTIDAD DE MAESTROS QUE HAN TOMADO TALLERES EN LA INTEGRACIÓN DE LA COMPUTADORA AL CURRÍCULO ESCOLAR

Región	Verano 2001	octubre 01-febrero 02	marzo - mayo 2002	Verano 2002	agosto dic 2002	TOTAL
Arecibo	1122	848	1069	1230	775	5038
Bayamón	471	892	897	465	505	3230
Caguas	651	611	636	702	455	2782
Fajardo	338	523	523	321	192	1897
Humacao	674	722	552	445	342	2735
Mayagüez	474	574	574	576	334	2534
Morovis	563	255	255	490	125	1688
Ponce	769	611	462	427	295	2564
San Germán	597	402	402	553	*86	2040
San Juan	670	489	489	73	469	2190
TOTAL	6329	5927	5854	5248	3578	**26,936**

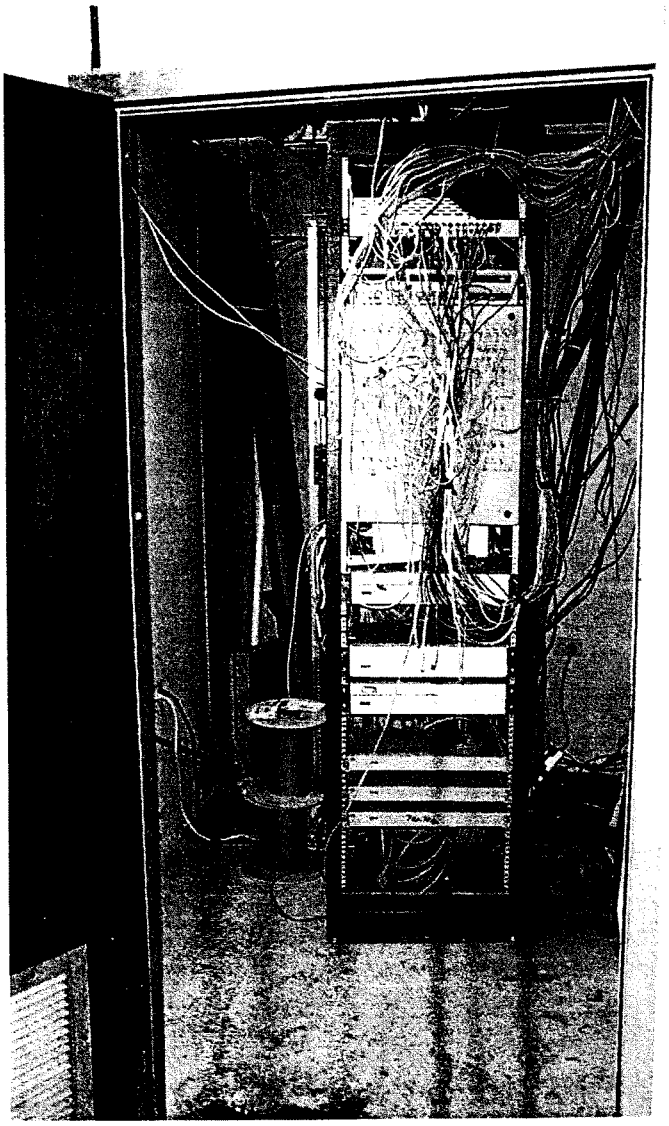
* La Región de San Germán aún no ha informado la matrícula de todos los distritos.

Old School Setup

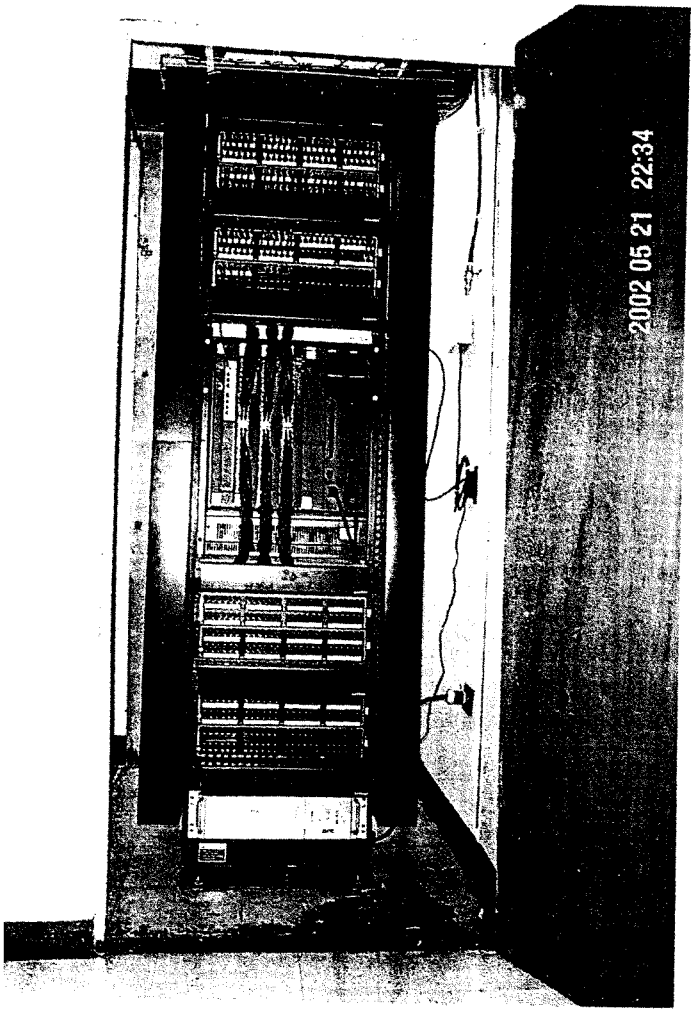
New School Setup



Old Wiring Closet

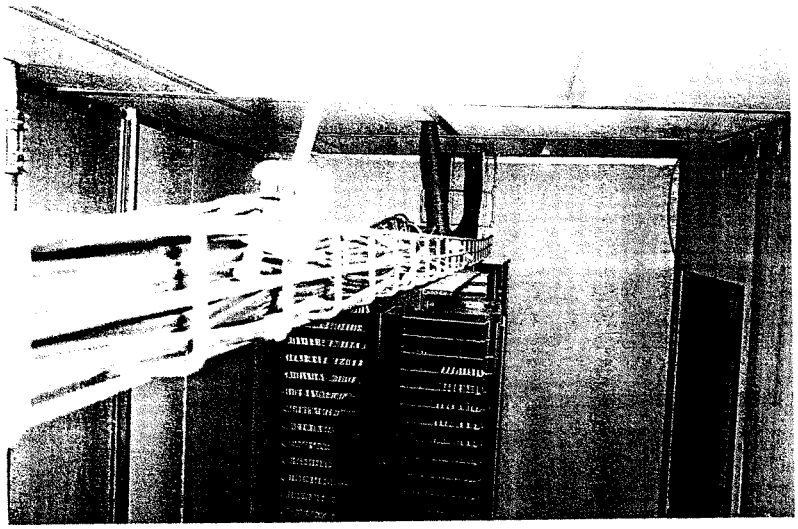


New Wiring Closet



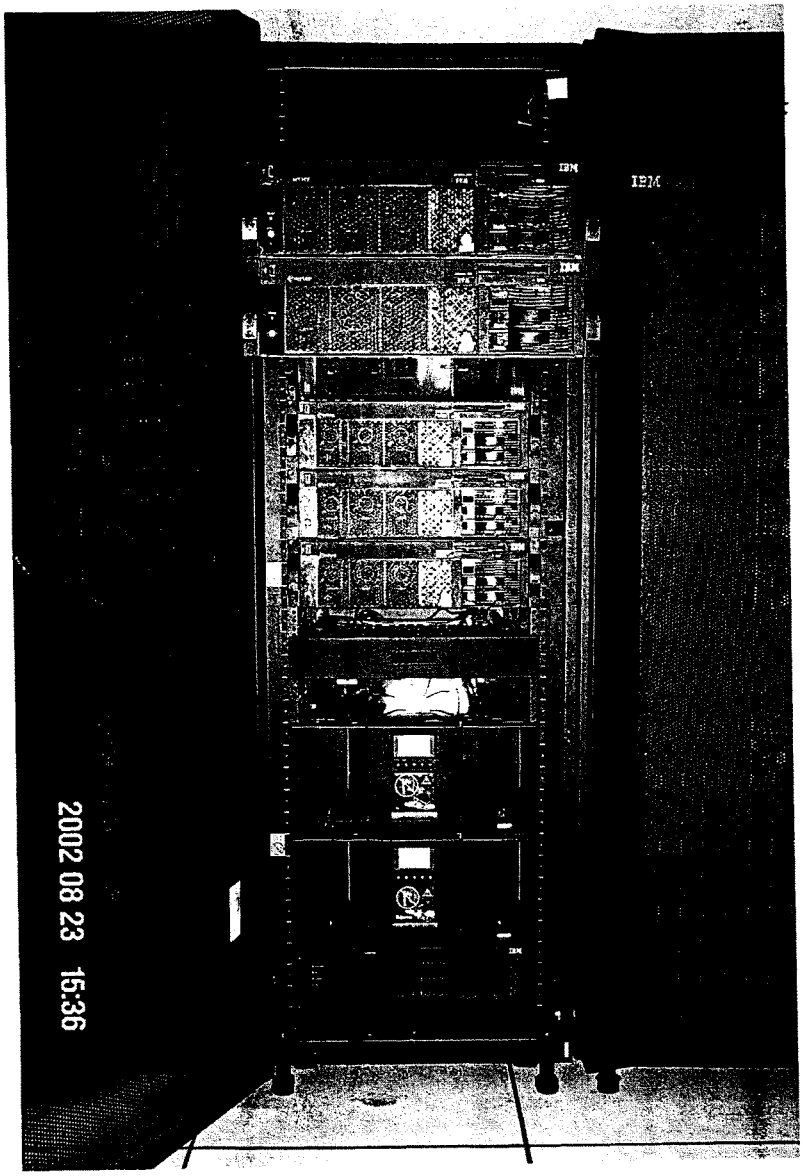
Old Cabling

New Cabling



Old Servers

New Servers



Help Desk People
LISTA DEL PERSONAL DEL HELP DESK
Diciembre 2002

UBICACIÓN	NOMBRE	PUESTO
Región Educativa de Arecibo	Francisco Estrada Ruiz	Técnico II
	Rafael Martínez Morales	"
	Osvaldo Salamanca	"
Región Educativa de Bayamón	Jolquier D. Salazar	"
	Judmila Curet Díaz	"
	Lawrence Velásquez	"
Región Educativa de Caguas	Raúl Rodríguez Vargas	"
	Mishel Carucini	"
Región Educativa de Fajardo	Ramón M. Jiménez	"
	Miguel A. Márquez	"
	Gloria Rodríguez	"
Región Educativa de Humacao	Leticia Delgado Rivera	"
	Berto Rosario Serrano	"
	Wanda Otero Cabrera	"
Región Educativa Mayagüez	Juan C. Cruz Rodríguez	"
	Aníbal J. Cruz Rodríguez	"
	Wanda I. Solís Ocasio	"
Región Educativa Morovis	Ángel Berríos Jock	"
	Armando Santana López	"
	Glorimar Matos	"
Región Educativa de Ponce	Juan Carlos Cruz Vega	"
	Eliud E. Vélez	"
	Nelson Gastón Bourdon	"
Región Educativa de San Juan	Vicente Graulau Rosario	"
	Francisco Alonso Cruz	"
	Jorge G. Gruz	"
Región Educativa San Germán	Memo J. Santiago	"
	Doel Rivera Santana	"
	Yanira Sánchez Rivera	"
DITE	Héctor Hernández	"
DITE	Juan Marcos Reyes	"
"	María de los A. Cepero	Técnico I
"	Iliana García	"
"	Griselle Lugo Montalvo	"
"	LuisMaldonado	"
"	José Luis Santiago	"
"	Alex Hernández	"
"	Hiram Rivera Santiago	"
"	Agustín García	Técnico III
	Carmen Martínez	Técnico I
	Gloria González	Técnico I
	Reginald Rivera	Técnico II
	Edelmiro Vargas	Técnico I

TAB 42

From: Jane Mago
To: Kinney, Linda; Mago, Jane; Peraertz, Louis; Rifken, Sonja; Seifert, Mark; Weiner, Debra
Date: 12/18/02
Time: 2:45PM - 3:45PM
Subject: Christina Lambert re: Review of Puerto Rico Telephone's efforts
Place: TBA

John Slater (Pres. of PRTC) and Greg Vogt w/ (Wiley Rein Feilding) will also be attending in addition to Jose Arroyo, Gail Polivy and Scott Randolph.

Contact: Victoria Chedester at 2/515-2528.
Non-public, for internal use only

CC: Petty, Monica

796963

CONFIDENTIAL

640858

Reeducate Network

PRT's Efforts to Ensure that "No Child is Left Behind"

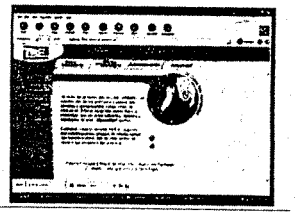
Mr. Jon Slater–President & CEO
Mrs. Cristina Lambert-VP/GM
Puerto Rico Telephone
December 18, 2002

CONFIDENTIAL

PRT's Commitment to the Reeducate Network: Above and Beyond Contractual Obligations

- The goal of the Reeducate project is to provide reliable end-user Internet service to approximately 1540 schools in Puerto Rico.
- Since Year 1 of the E-Rate program in Puerto Rico, PRT has only been contractually obligated for the CPE (router) and the T1 line availability in Phase I schools.
- PRT has not only met its contractual obligations, but has gone above and beyond, while dealing with a very difficult operational process.
- For example, to ensure the project's success, PRT invested $1.2M in an infrastructure enhancement effort at ~ 400 schools (Project 400).
- Finally, PRT has continued to offer service at Phase I schools, and has cooperated with the DE's Reeducate efforts even though it has not received payment for over 18 months.

Reliable End-User Internet Access



645577

PRT's Commitment with the Reeducate Network: Above and Beyond Contractual Obligations (*cont.*)

- The DE has been responsible for supplying PCs for end-user Internet access at the schools. A recent purchase of 3000 PCs will ensure at least 2 PCs for each school. However, PRT has loaned 280 PCs to the schools, to serve as demarcation test points for PRT personnel, and for temporary use by the schools.
- In an effort to ensure the project's success, PRT has provided proactive network management. PRT has located a network management team within the premises of the DE in order to expedite recovery of any interruption of service.
- The number of Phase I schools in service as of December 5, 2002 is 646 of 733. The schools currently out of service are a result of current and past infrastructure-related problems, not associated with PRT.
- PRT has demonstrated that Phase II schools may be integrated into Reeducate with minimal additional investments. Three showcase schools have already been integrated.

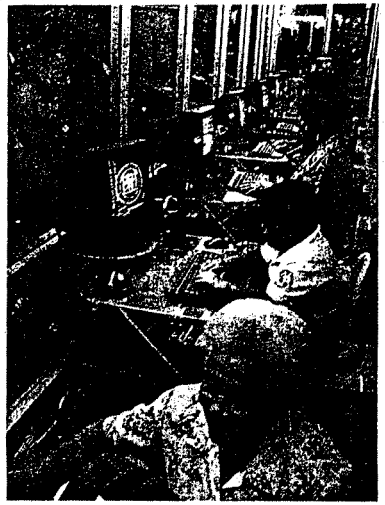
649553

PRT's Commitment with Education in General

- **PRT Digital Education Centers** not just to schools.
  - A $2.5M program is in process will establish 40 centers across the island in the next five years.
  - PRT provides computers, a printer, training, and free Internet connection. computers, routers, T1
  - The municipalities provide administrative personnel and site facilities.

- **Verizon Computer Engineering Scholarships**
  - $1.25M scholarship fund for computer engineering students at the University of Puerto Rico-Mayagüez. 10 students 5 male 5 female

PRT Digital Education Center
(Carolina, Puerto Rico)



PRT's Commitment with Education in General (*cont.*)

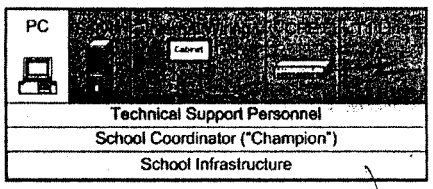
- **Verizon ASPIRA Centers**
  - $1.2M grant to establish literacy and technology centers at 10 public schools ranked low in academic achievement.
  - The grant pays for new computers at each center, software and hardware, as well as the salaries of an administrative coordinator and tutors in computer science, mathematics, English, and Spanish.
  - PRT provides free high-speed Internet access to each Center.
- **Other Programs**
  - School Visiting Program at the Arecibo Observatory.
  - Technology Resource Center at the School of Visual Arts.

Aspira Center
(Carnegie Library)

Action Plan for Year 4 and Year 5 Funds

- PRT has developed a detailed **project plan** assuming the simultaneous disbursement of Year 4 and Year 5 funds.

- By simultaneously disbursing the Year 4 and year 5 funds, SLD will ensure that the Reeducate network can be completed, allowing the students of Puerto Rico's public schools to reap the pedagogical benefits in the shortest possible amount of time. Puerto Rico is already 6 months behind schedule for Year 5 activities.



1540 SCHOOL REEDUCATE NETWORK

4 Months
Estimated Time to Integrate all 1540 Schools into the Reeducate Network

Action Plan for Year 4 and Year 5 Funds (*cont.*)

- The disbursement of Year 4 funds will enable the DE to pay for services already rendered by PRT, contract PRT to complete the infrastructure enhancement at all Phase I schools.
- The disbursement of Year 5 funds will lead to the following benefits that will significantly impact service availability and reliability at all 1540 Reeducate schools:
  - Training for Teachers, principals, and superintendents with follow-up training on the effective use and maintenance of the services provided (Champion identification).
  - Replacement of discontinued and/or technologically obsolete router equipment: ensures higher quality levels of maintenance support and network homogeneity.
  - Technical support plan: Dedicated support team (7:00AM-7:00PM), 24x7 NOC rapid response Monitoring site.
- All adverse conditions currently associated with the operational context will be alleviated under the implementation of Year 4 and Year 5 plans.

Conclusions

- PRT has complied with all of its Reeducate contractual obligations from day 1 of Year 1 - even under the most challenging of operational conditions.
- PRT has 646 schools currently in service.
- PRT has repeatedly demonstrated its commitment with the social goals of the Reeducate network by going beyond its obligations in cooperating with every initiative the DE has asked PRT to provide help with.
- PRT and Verizon, in unrelated efforts underscoring PRT's commitment, have established various programs that seek to enhance the use of technology in the education of Puerto Rico's residents.
- PRT stands behind its commitment to the Re-Educated project and the people of Puerto Rico.
- PRT has an aggressive 4-month Year 4 and Year 5 implementation plan in place and urgently needs SLD and the FCC to release funding so that we can continue to serve the DE and the students of Puerto Rico.

TAB 43

From: Charles Walter
Sent: Tuesday, July 16, 2002 4:33 PM
To: George McDonald
Subject: FW: Puerto Rico Department of Education (PRDOE)

FYI

-----Original Message-----
From: Mark Seifert [mailto:MSEIFERT@fcc.gov]
Sent: Tuesday, July 16, 2002 3:41 PM
To: cwalter@universalservice.org
Cc: Carol Mattey; Jessica Rosenworcel
Subject: Re: Puerto Rico Department of Education (PRDOE)

Charles,

As we discussed, I am available at 9:30 on August 23. I would like to suggest that the Secretary also contact our General Counsel, Jane Mago for an appointment. Jane is consulting with our Chairman and Dept of Justice to resolve some broader issues that are critical to a resolution of PR's problem. You may have his staff contact me directly and I can speak with them about setting up an appointment with Jane through her assistant counsel, Monica Petty.

Thank you
MGS

This email is privileged and confidential.

>>> Charles Walter <cwalter@universalservice.org> 07/10/02 01:05PM >>>
Good Afternoon,

I received a call from Mr. Anibal Cruz from the Department of Education in Puerto Rico, with the purpose of scheduling a meeting with the Secretary of Education Mr. Cesar Rey Hernadez, to provide us with an update of events occurred since our last meeting on April 26, 2002 and also, inquire on the PRDOE funding status. The Secretary is available on August 23, 2002 at 9:30 AM. The meeting will take place here at USAC. Please advise if the proposed date and time works for you.

Cordially,

Charles Walter

From: George McDonald
Sent: Wednesday, September 25, 2002 5:32 PM
To: 'Louis Peraertz'
Cc: Mark Seifert (E-mail); Scott Barash
Subject: RE: Did you meet with Puerto Rico representatives this week?

Louis,

I met with them last Thursday, September 19. Mark Seifert and Tom Cline begged off, and the Secretary was not in attendance. The CIO and an attorney who works with the DOE were looking to better understand the lay of the land and figure out how best to proceed. They also wanted to know from me whether, if the Secretary tells you they've done everything I asked them to do in my letter, I would contradict them. I said I would not. I told them that I believe the issue now is how we move forward when there are acknowledged violations of the rules in prior years. And your office is the key to answering that question.

They set out a pretty good case for why they need this resolved very soon. They said (and I believe they will tell you) that this has the danger of becoming a significant political issue (PR being the only "state" in the US whose public schools are not getting E-rate funds). They said it could become an issue in the congressional election now or, if not, in the gubernatorial campaigning that will begin next year.

On a more practical front, they said the Puerto Rico Telephone Company may soon cut off Internet access to the schools since they are not getting paid. Also, they have to make hard decisions about the island's ed tech infrastructure. Their design has assumed E-rate funding, but if they don't get an affirmative sign that that's a good assumption soon, they'll have to redesign to an infrastructure the commonwealth can support without E-rate. That will mean poorer service for the schools.

I expect that you will hear a forceful message from the Secretary that they have real needs and they have acted in good faith from the time they took over and saw what a mess the previous government left behind. The "bad guys" are in jail, under indictment, or have fled the island. The new team has done everything they can to right the wrongs of the past, including using funds from other sources (e.g., tobacco settlement money). They have come in and briefed us three times and have sought any corrective guidance we had to give them.

They will ask what else do they need to do and when can the money flow to help the kids of Puerto Rico.

Call or write if this leaves questions in your mind. 263-1602.

George

-----Original Message-----
From: Louis Peraertz [mailto:LPERAERT@fcc.gov]
Sent: Wednesday, September 25, 2002 1:56 PM
To: gmcdonald@universalservice.org
Subject: Did you meet with Puerto Rico representatives this week?

If so, how did it go? Did they raise any new issues? Was the Puerto Rican Secretary of Education with them? If so, what seemed to be his main concern? As I might have mentioned, the FCC General Counsel and I are meeting with them next week.

Thanks.

Louis, 418-1879

Non-public; for internal use only.

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From: Mark Seifert [MSEIFERT@fcc.gov]
Sent: Friday, September 27, 2002 11:08 AM
To: gmcdonald@universalservice.org; sbarash@universalservice.org
Subject: Puerto Rico Workout

TEXT.htm

PR wkout memo to George.doc

This email is privileged and confidential.

George and Scott:

Our email is down and I want to get this to you as soon as I can.
Please prepare an Executive Summary (high level – 2-3 pages) for a Puerto Rico DOE Workout Plan.

Give high level back ground, including short history, PR's efforts and proposal.

Give the outline of a consent agreement that would be entered into by PR DOE with DOJ and the FCC.

I think it makes sense to incorporate what they have already put before us and to add additional requirements.

Some that come to mind:
Independent audit paid for by PR for the next __ years.
Institute structural changes to prevent such from happening again (e.g., better checks and balances to prevent this from happening again, bid violations etc.)
Require full accounting of what has happened and removal of those who were involved and culpable.

Time is short on this. Jane Mago would like something by next week. If I can get something from you Tuesday, we can review, send it up to OGC/OIG and have Jane get it over to DOJ by Friday.

Jane has promised to ask for a less-than-two-week turnaround from Bob McCollum.

I will be coming over at 2:00 and we can talk then if you need more guidance or want to discuss.

MGS

This email is privileged and confidential.

From: George McDonald
Sent: Tuesday, October 01, 2002 1:30 PM
To: 'Louis Peraertz'; Mark Seifert
Cc: Scott Barash; Tom Cline (E-mail)
Subject: RE: Question concerning certifications for USAC.

PRDOE.doc

Tom Cline and I met with Dr. Rey and his colleagues this morning. Louis, I think Tom has or will be calling you to tell you about it. They gave us a detailed presentation on what they're doing and where they are in righting past wrongs. They will be saying this afternoon that they did everything I suggested they do in my December 5 letter (copy attached). They can't do any more without additional E-rate funds and they need to know what to expect in order to design their network. It's time to file the Form 470 for next year and they need to know what to do about that. They hope you'll say you're releasing the Year 4 and 5 money.

I told them that I couldn't tell them that and I doubted they would hear that from you. Bu the good news, I told them, was that I had been directed to develop a "workout plan," and I would need their help in doing that. That plan would enable the Bureau and General Counsel to consult with DOJ and get us past the current situation.

They will likely say that additional delay, even 3 weeks, is as good as denial altogether and Dr. Rey may get canned if he can't come home with a real commitment.

I told them that I doubted they'd get such a commitment today, but that I thought the good news they could take home is that we now have a path out of the current situation.

-----Original Message-----
From: Louis Peraertz [mailto:LPERAERT@fcc.gov]
Sent: Tuesday, October 01, 2002 11:46 AM
To: Mark Seifert; gmcdonald@universalservice.org
Cc: sbarash@universalservice.org
Subject: RE: Question concerning certifications for USAC.

Did you folks meet with Puerto Rico Secretary of Education Cesar Rey? If so, how did it go? Anything new?

>>> George McDonald <gmcdonald@universalservice.org> 09/04/02 04:53PM >>>
Mark,

USAC is headquartered in DC, but we have operations centers in Kansas and New Jersey. I'll list the forms that have certifications and must be signed below, but paper forms are sent to Kansas, and forms filed online go to our server in New Jersey.

If there is some legal question here that Louis wishes to pursue with us, Scott would be happy to talk with him.

(Note that I have not listed Form 479 since that is not filed with SLD. Also not that I have summarized and paraphrased the certifications -- anyone who wants to pursue this should probably go the forms themselves for the precise language.)

Form 470: Applicants file for posting on our web site to list the kinds of

services they are interested in purchasing. Service providers use this information to submit bids to applicants. The certifications on the form include the eligibility of the entities, the existence of a technology plan, that services will be used solely for educational purposes, that access must be secured to all the ineligible resources necessary to make effective use of the eligible services, and the authority of the official signing the form to represent the entities.

Form 471: Applicants file this request for funding after selecting service providers based on the posted Form 470. SLD reviews these applications and denies funding or makes funding commitments based on FCC rules. The certifications include those on the 470 plus statements that entities have complied with state and local laws regarding procurement of services and have complied with all program rules, that, in the case of a discount for shared services, the most disadvantaged entities used in the discount calculation will receive an appropriate share of benefits from the services, and that records will be retained for five years.

Form 486: Applicants submit this form to notify SLD that service has begun to be delivered (or the applicant has confirmed with the service provider that service delivery will commence during the first month of the funding year). SLD will not pay invoices before it receives this form. Certifications include that the technology plan has been approved, services have started or are planned to be, contracts are signed where necessary, official is authorized to sign, statements are true, the most disadvantaged entities included in shared discounts will receive an appropriate share of the benefits, the status of CIPA compliance and/or Forms 479 have been collected.

Form 500: Applicants file this form after receiving fund commitments to change dates or to cancel or reduce a funding commitment. Certifications include official is authorized to sign and the statements are true, the most disadvantaged entities will receive their share of benefits, and records will be retained for five years.

Form 472 (Billed Entity Applicant Reimbursement form) is submitted by applicants after obtaining the signature of the service provider to request reimbursement after having received services and paid for them in full. After reviewing the form, the SLD makes payment to the service provider who then passes the reimbursement along to the applicant. The applicant certifies that signer is authorized to represent entities, discount amounts listed represent charges for eligible services approved by SLD pursuant to a Form 471 used by eligible entities for eligible purposes on or after the 486 service start date, discount amounts were already billed by the service provider and paid by the applicant, and records will be retained for five years. The service provider signator certifies that it is authorized to sign the service provider acknowledgement, and acknowledges that the service provider must remit the payment to the applicant within 10 days of receipt of payment from USAC and must not use the payment prior to remitting it to the applicant.

Form 473 (Service Provider Annual Certification form): Service providers must submit this form once per year. USAC will not make payments to a service provider until this form is logged into our database. The certifications include that the signator is authorized to submit the form, the information on the form is accurate and complete, that amounts invoiced on the form are for services which have been billed to the customers and exclude any charges previously invoiced to SLD for which SLD has not yet issued a reimbursement decision, the service provider makes available to customers upon their request separate prices for distinct services to assist customers in identifying the cost of eligible services provided to eligible entities for eligible services, and records will be retained for three years.

George

-----Original Message-----
From: Mark Seifert [mailto:MSEIFERT@fcc.gov]
Sent: Wednesday, September 04, 2002 10:32 AM
To: gmcdonald@universalservice.org
Subject: Fwd: Question concerning certifications for USAC.

See attached.

Can you have someone draft up a short response to it, outlining the types of certifications. Thanks. MGS

This email is privileged and confidential.

From: Scott Barash
Sent: Tuesday, October 15, 2002 5:01 PM
To: Kristy Carroll
Cc: George McDonald
Subject: FW: PR Paper

Kristy, George asked me to forward this to you re background on what's happening with PR. OGC/WCB are trying to come up with a workout plan to restart the money flow down there. --Scott

-----Original Message-----
From: George McDonald
Sent: Friday, October 04, 2002 9:22 AM
To: Mark Seifert (E-mail)
Cc: Scott Barash; Cheryl Parrino
Subject: PR Paper

Mark,

As we discussed here's my draft on PRDOE. I'm sure it will evolve in content and format to meet your needs, but I hope I've given you the substance you want. I'm sure you'll need more information and data as you work this through and, as always, just ask. I have not included the attachments I reference -- I think you have them, but let me know if you need copies.

George

PRDOE WORKOUT.doc

USAC/SLD

PROPOSED WORKOUT PLAN FOR
PUERTO RICO DEPARTMENT OF EDCUCATION

BACKGROUND

The Puerto Rico Department of Education (PRDOE) requested discounts for telecommunications services, Internet access and internal connections for Funding Year 1998 (the first funding year of the Schools and Libraries Universal Service Support Mechanism), and the Schools and Libraries Corporation (the predecessor to the Schools and Libraries Division of the Universal Service Administrative Company) committed $46.2 million in discounts. Of that total, $21.7 million has been disbursed for telecommunications services and internal connections.

The Universal Service Administrative Company (USAC) contracted in the summer of 2000 with Arthur Andersen, LLP, to conduct a series of audits of beneficiaries of Year 1998 funding, and PRDOE was selected as one of the beneficiaries for review. As part of its review, Andersen made site visits to two Puerto Rico public schools at which discounted equipment had been installed. The final report on the beneficiary review of PRDOE concluded as follows:

> [Andersen] noted that there were no (desktop) computers in any of the classrooms visited at either school. Consequently, due to the lack of classroom computers, we ascertained that the PRDOE was not able (as of the date of our site visit) to fully meet the educational objectives (and training requirements) for which E-rate funding had been provided.

The Andersen reports were accepted by the Schools and Libraries Committee in October 2001. As follow-up to the Andersen reports, the USAC Vice President for the Schools and Libraries Division sent a letter to Dr. Cesar A. Rey Hernandez, the Secretary of the PRDOE, on December 5, 2001 (Attachment A), advising him that USAC would make no additional commitments or disbursements to PRDOE or to its service providers until the Department provided detailed information about the acquisition of computers to make use of the connections for which discounts had been provided as well as information about the other resources needed to make effective use of the discounted services, such as software, professional training, maintenance, and electrical capacity.

No further commitments or disbursements have been made since that date. Specifically, USAC has held PRDOE's applications for Year 2001 and Year 2002 funding without action.

In response to that letter, PRDOE asked to meet with USAC. A meeting was held on January 15, 2002, and staff of the Common Carrier Bureau and FCC's OIG attended. The PRDOE representatives were very forthcoming, providing us information that they asked us to treat as confidential.

PRDOE had launched an effort to develop an island-wide network to provide communications and Internet access to about 1,540 schools in Puerto Rico in Funding

Year 1998. The first phase of the effort in Funding Year 1998 was aimed at connecting 760 schools. In Funding Year 1999, 780 additional schools were to be connected, and two servers per school were funded. Funding in Funding Year 2000 was for about 100 additional schools and 4,600 additional servers.

The table below shows commitments and disbursements made on behalf of PRDOE for the first three funding years of the Schools and Libraries Support Mechanism.

Year	Service ID	Service Provider Name	Committed Amt	Disbursed Amt
1998	TELCOMM SERVICES	Puerto Rico Telephone Company, Inc.	$34,249,963.50	$9,933,962.60
1998	INTERNET ACCESS	Puerto Rico Telephone Company - Central	$173,695.50	
1998	INTERNET ACCESS	Puerto Rico Telephone Company, Inc.	$2,422.80	
1998	INTERNAL CONNECTNS	Data Research Communication (DRC) Corporation	$11,796,598.80	$11,796,159.78
	TOTAL		$46,222,680.60	$21,730,122.38
1999	INTERNAL CONNECTNS	Data Research Communication (DRC) Corporation	$38,340,305.35	$25,204,156.76
1999	INTERNET ACCESS	Data Research Communication (DRC) Corporation	$3,783,780.00	
1999	INTERNET ACCESS	Puerto Rico Telephone Company, Inc.	$189,485.10	$140,557.32
1999	TELCOMM SERVICES	Puerto Rico Telephone Company, Inc.	$14,566,208.40	$8,191,337.00
	TOTAL		$56,879,778.85	$33,536,051.08
2000	INTERNET ACCESS	Data Research Communication (DRC) Corporation	$15,975,329.06	$11,005,508.28
2000	INTERNAL CONNECTNS	Data Research Communication (DRC) Corporation	$21,699,192.00	$21,560,072.48
2000	INTERNAL CONNECTNS	Puerto Rico Telephone Company, Inc.	$17,930,567.41	$13,391,113.63
	TOTAL		$55,605,088.47	$45,956,694.39
	3-YR TOTAL		$158,707,547.92	$101,222,867.85

The pro-commonwealth party defeated the incumbent pro-statehood party in the gubernatorial election in November 2000. Two of the PRDOE representatives at the meeting were on the transition team for the DOE. The transition was very difficult -- the outgoing administration was reluctant to provide information, and the information they did provide was unreliable. The new team found matters in disarray; for example, a deficit in the Department of $210 million, not a reputed surplus of $15 million.

There had been four separate investigations of the PRDOE between January2001and January 2002 -- by the PR Office of the Comptroller, by the PR Justice Department, by the USDOE OIG and Federal prosecutors, and by a Blue Ribbon Committee appointed by the new governor with representatives of all the major political parties.

The new team had ten days after taking over to file the Year 2001 and opted to simply continue services already underway and launch no new initiatives until they had completed an evaluation of where things stood. (The application included a request for new connections among a few sites not connected to the network yet.) They continued with the existing vendors (PR Telephone Co and DRC) even though they found no evidence of a bidding process for the original awards. There is provision for emergency action without a bidding process if funds will be lost, and they carefully exercised and

documented their exercise of that authority to stay with these vendors. (PRTC is a monopoly. Anyone wanting to bid against them would have to resell their services.)

PRDOE's RECOVERY EFFORT

The new team undertook a two-part evaluation -- a short-term evaluation to get a quick take on the situation and a longer-term effort undertaken by a consultant. The preliminary evaluation showed that: (1) there was no reliable documentation on the status of projects at the schools, (2) the infrastructure installed at the PRDOE was inappropriate for its purpose, and (3) there was no network design. On the specific issue of computers, the earlier administration had initiated purchase of 100,000 computers, but a protest against their award of the contract was successful and no appeal was filed.

The detailed evaluation was launched in July 2001 and a report submitted in September. It found that more than 50% of the communication lines were not operational, equipment had been improperly placed where it could be damaged or stolen, there had been no evaluation of vendor performance, no RFPs had been prepared for the procurements, and there had been ineffective training for system administrators.

The strategy to correct the situation, which PRDOE representatives explained to USAC and FCC at the meeting, had three focuses: the network itself, infrastructure in the schools, and the infrastructure at the PRDOE central office. They briefed us on each element, but major highlights were that the schools do not have the electrical capacity to support the once-planned 100,000 computers so they had moved to a lab model -- either a fixed lab in one room with upgraded electricity or a mobile lab supported by laptops, which do not need electrical upgrades. Schools choose the model they think would work best for them. (PRDOE began with a 100-school pilot. The contract was awarded and survived a bid protest.) Forty-two mobile labs had been installed at the time of the January meeting. A new LAN was being designed for the PRDOE office that would be less reliant on multiple servers.

PRDOE was seeking accountability from vendors -- to fix the problems at no extra cost. And they reported success: in two months, the number of schools communicating with the network went from 2 to 216. PRDOE reported that PRTC was rewiring schools where the original work was unsatisfactory. Altogether PRDOE expected 550 schools (a little more than 1/3 of the commonwealth's public schools) connected by the end of that month. Microsoft, which had provided the teacher training, had agreed to a no-cost extension to retrain, and other funds have been earmarked for training.

PRDOE briefed us on the sources of funding for all of this -- a total of $331.5 million in new funds, primarily from the Children's Trust Fund (funded with tobacco settlement money) and QZAB funds from a Federal program of interest-free bonds.

USAC asked that the Secretary reply to the SLD letter giving USAC auditable assurances along the lines of their briefing.

USAC/SLD

On January 23, 2002, Secretary Rey responded to the December 5, 2001, SLD letter and attached a complete report of PRDOE's actions to understand the state of education technology in Puerto Rico's public schools and to correct the problems left by the previous administration. That response is Attachment B. That same day press reports appeared about the federal indictment of Victor Fajardo, who had served as Puerto Rico's Education Secretary from 1994 to 2000, for extorting millions of dollars, largely in kickbacks from Education Department contractors. Other Education Department employees were also indicted.

PRDOE representatives gave USAC and FCC staff two additional briefings on the status of their recovery efforts -- on April 26, 2002, and October 1, 2002. The status of the recovery effort as of October 1, 2001, according to PRDOE officials is summarized below:

Schools

- Deficiencies found in schools such as equipment installed in inappropriate places, inappropriate electrical connections, lack of ventilation, have been addressed in 400 schools.
- Based on checks of line availability, 479 schools had external access more than 80% of the time.
- Computer laboratories have been installed in 67 schools, and they are being installed now in 35 additional schools. Proposals have been received for 400 additional labs.
- 3,300 computers have been ordered and will be installed 2 per school to provide quick access to the Internet.
- More than 23,000 teachers – more than half of all public school teachers in Puerto Rico -- have been trained in the last 14 months.
- $7 million from the School Renovation Program will be invested in electrical upgrades.

PRDOE Central Facility (from which services are provided to schools)

- A new, significantly improved Local Area Network infrastructure is 99% completed.
- New server infrastructure two-thirds complete.
- A help desk with 38 people, including 27 in regional locations, has been established to help ensure that equipment in schools continues to perform.
- 84 district support technicians have been trained in the design of plans to incorporate technology into the curriculum.

NEXT STEPS

PRDOE maintains that it desperately needs the funding it has requested for Years 2001 and 2002 in order to continue the recovery effort and ensure that the benefits of educational technology reach all 660,000 Puerto Rican schoolchildren.

The table below shows the pending requests for Years 2001 and 2002 from PRDOE.

USAC/CONFIDENTIAL USAC-SUPP 069290

Year	Service Type	Service Provider	Request to SLD
2001	INTERNET ACCESS	Data Research Communication (DRC) Corporation	$16,342,579
2001	INTERNET ACCESS	Puerto Rico Telephone Company, Inc.	$2,794,155
2001	INTERNAL CONNECTIONS	Data Research Communication (DRC) Corporation	$3,986,547
2001	TELCOMM SERVICES	Puerto Rico Telephone Company, Inc.	$17,481,380
	TOTAL		$40,604,661
2002	TELCOMM SERVICES	Sprint Communications Company L.P.	$640,800
2002	TELCOMM SERVICES	Puerto Rico Telephone Company, Inc.	$21,473,371
2002	INTERNAL CONNECTIONS	Puerto Rico Telephone Company, Inc.	$934,500
2002	INTERNET ACCESS	Puerto Rico Telephone Company, Inc.	$5,847,637
	TOTAL		$28,896,308
	2-YEAR TOTAL		$69,500,969

PRDOE officials since January 2001 have shown themselves to be committed to address the abuses of Schools and Libraries Support Mechanism funding of the previous years. They have surveyed the current status of technology implementation and are aggressively implementing a plan to achieve the public school connectivity. Federal and Puerto Rican officials have been investigating the prior abuses and indictments have been issued.

In order to permit PRDOE to continue to achieve total connectivity of Puerto Rican public schools, funding commitments for Years 2001 and 2002 should be issued consistent with program rules. But, as part of its fiduciary responsibility for the Universal Service Fund, the FCC should require PRDOE to sign an agreement about actions it will continue to take to assure that additional Schools and Libraries funds are spent in accordance with program rules.

The agreement will include the following components:

1. PRDOE will cooperate fully with any official investigation into the abuses of the first three funding years and provide any documents requested that are in its possession.

2. PRDOE will return to USAC any funds still available from the first three funding years.

3. PRDOE, with assistance from USAC, will document what was to be accomplished with the funds that were disbursed for the first three funding years and what actually was done with those funds. It will describe, to the extent possible, (1) the services that were delivered to schools and to PRDOE, and (2) services paid for that were not delivered or were not effectively delivered because, for example, computers were not available to make use of Internet access.

4. PRDOE will provide to USAC a written comparison of what was to be accomplished with the funding for the first three funding years with the current status of implementation of educational technology in Puerto Rico's public schools.

5. PRDOE will contract with an independent auditor, selected in conjunction with USAC, to audit its performance since January 2001 including the accuracy of its representations to USAC and the FCC. The timing of this audit will be mutually agreed upon between PRDOE and USAC, but will be initiated no later than one year from the date of the agreement.

6. PRDOE will consult closely with USAC about how it will use Funding 2001 and 2002 funds and will take special efforts to ensure at it complies with all program rules in its use of those funds.

7. PRDOE and the Commonwealth of Puerto Rico will take such steps as may be necessary, including adoption of new regulations binding on PRDOE, to protect against program abuses in the future.

8. PRDOE and the FCC will agree to a timeline for conduct of these actions, but all will be completed or underway by one year from the date of the agreement.

9. The FCC will direct USAC to process PRDOE's Year 2001 and Year 2002 Forms 471 in accordance with approved procedures for review of these forms from any applicant.

10. The FCC will direct USAC not to issue Commitment Adjustments to PRDOE on funding disbursed during the first three funding years, although it may pursue fund recoveries from service providers to the extent they are believed to have acted intentionally in violation of program rules.

From: George McDonald
Sent: Thursday, November 21, 2002 5:10 PM
To: 'Mark Seifert'
Subject: RE: Question about Puerto Rico DOE

I checked last time I was up there, and I was told both could go within days. I expect that I'll hear about the progress of the talks with DOJ, so I can be sure they are in final position before the deal is done.

-----Original Message-----
From: Mark Seifert [mailto:MSEIFERT@fcc.gov]
Sent: Thursday, November 21, 2002 4:09 PM
To: gmcdonald@universalservice.org
Subject: RE: Question about Puerto Rico DOE

sorry. Are PRDOE's Year 4 and 5 apps ready to go (or close), if we were to reach agreement with DOJ, etc. within the next month?

This email is privileged and confidential.

>>> George McDonald 11/21/02 03:16PM >>>
I think you left the text section blank.

-----Original Message-----
From: Mark Seifert [mailto:MSEIFERT@fcc.gov]
Sent: Thursday, November 21, 2002 2:33 PM
To: gmcdonald@universalservice.org
Subject: Question about Puerto Rico DOE

Confidential Information
Internal Use Only
/26 2002 12 04 PM

TAB 44

I. INTRODUCTIO]

Investigations into the use of E-rate funds by the Puerto Rico Department of Education (PRDOE) have revealed serious and widespread problems. Federal authorities have indicted the former Secretary of Education, Victor Fajardo, for extortion of millions of dollars, primarily in kickbacks from Education Department contractors. The new Secretary, Dr. Cesar Rey Hernandez, has investigated the extent of the problems and has proposed a wide-ranging plan to correct the past problems as well as institute safeguards going forward.

This document proposes a workout plan for PRDOE to receive funds under the E-rate program on a going-forward basis. Our goal is to ensure that PRDOE is (1) complying with applicable program rules, (2) instituting systemic changes to prevent such events in the future, (3) redressing, to the extent possible, misuse of funds in past years, and (4) utilizing acceptable accounting and auditing procedures to ensure that disbursed funds are used in accordance with program rules. In addition, we are investigating joint action with the US Department of Education (USDOE), which is investigating and resolving similar problems arising from their federal grant program to Puerto Rico.

II. BACKGROUND

A. Identification of Problems

The Puerto Rico Department of Education (PRDOE) requested discounts for telecommunications services, Internet access and internal connections for Funding Years 1998, 1999, and 2000, totaling $158 million dollars. Of that, $101 million dollars was disbursed. (See Attachment 1, Commitments and Disbursements).

USAC's beneficiary audit of funding year 1998 revealed that PRDOE had violated program rules. Subsequent investigations have revealed a host of problems with PRDOE's applications for funding years 1998, 1999, and 2000, including:

- Large scale competitive bidding violations
- Missing equipment
- Internet service to schools with no computers
- Payments for service that was not provided or only partially provided

Since that determination, USAC has made no further disbursements on funding years 1998, 1999, and 2000. In addition, USAC has held PRDOE's applications for Year 2001 and Year 2002 without action.

In November, 2000, the government of Puerto Rico changed hands. Upon assuming office, the new Secretary of Education discovered massive problems throughout the Department, including inaccurate accounting for various federal grant programs including the E-rate. In addition, the new Comptroller for Puerto Rico issued a report citing

violations of Puerto Rico's competitive bidding laws associated with the bidding of several contracts, including those associated with the E-rate.

There had been four separate investigations of the PRDOE between January 2001 and January 2002 -- by the PR Office of the Comptroller, by the PR Justice Department, by the USDOE OIG and Federal prosecutors, and by a Blue Ribbon Committee appointed by Puerto Rico's new governor with representatives of all the major political parties.

B. PRDOE's Initial Recovery Efforts

PRDOE's preliminary evaluation the problems with its E-rate program show that: (1) there was no reliable documentation on the status of projects at the schools, (2) the infrastructure installed at the PRDOE was inappropriate for its purpose, and (3) there was no network design.[1]

In response, PRDOE instituted a broad recovery plan. PRDOE's strategy to correct the situation focused on three areas: the network itself, infrastructure in the schools, and the infrastructure at the PRDOE central office. PRDOE is also seeking accountability from vendors to fix existing problems at no extra cost. Microsoft, which had provided the teacher training, had agreed to a no-cost extension to retrain, and other funds have been earmarked for training.

To institute its system recovery plans, PRDOE is using a total of $331.5 million in new funds, primarily from the Children's Trust Fund (funded with tobacco settlement money) and funds from a Federal program of interest-free bonds.

As of October 1, 2001, PRDOE officials reported the following on the status of the recovery effort:

Schools

- Deficiencies such as equipment installed in inappropriate places, inappropriate electrical connections, lack of ventilation, have been addressed in 400 schools.
- Based on checks of line availability, 479 of 1150 schools had external access more than 80% of the time.
- Computer laboratories have been installed in 67 schools, and they are being installed now in 35 additional schools. Proposals have been received for 400 additional labs.
- 3,300 computers have been ordered and will be installed 2 per school to provide quick access to the Internet.
- More than 23,000 teachers – more than half of all public school teachers in Puerto Rico -- have been trained in the last 14 months.
- $7 million from the School Renovation Program will be invested in electrical upgrades.

[1] More than 50% of the communication lines were not operational, equipment had been improperly placed where it could be damaged or stolen, there had been no evaluation of vendor performance, no RFPs had been prepared for the procurements, and there had been ineffective training for system administrators.

PRDOE Central Facility (from which services are provided to schools)

- A new, significantly improved Local Area Network infrastructure is 99% completed.
- New server infrastructure two-thirds complete.
- A help desk with 38 people, including 27 in regional locations, has been established to help ensure that equipment in schools continues to perform.
- 84 district support technicians have been trained in the design of plans to incorporate technology into the curriculum.

C. Funding Requests for 2001 and 2002

PRDOE maintains that it desperately needs the funding it has requested for Years 2001 and 2002 in order to continue the recovery effort and ensure that the benefits of educational technology reach all 660,000 Puerto Rican schoolchildren.

The table below shows the pending requests for Years 2001 and 2002 from PRDOE.

Year	Service Type	Service Provider	Request to SLD
2001	INTERNET ACCESS	Data Research Communication (DRC) Corporation	$16,342,579
2001	INTERNET ACCESS	Puerto Rico Telephone Company, Inc. (PRTC)	$2,794,155
2001	INTERNAL CONNECTIONS	DRC Corporation	$3,986,547
2001	TELCOMM SERVICES	PRTC	$17,481,380
	TOTAL		$40,604,661
2002	TELCOMM SERVICES	Sprint Communications Company L.P.	$640,800
2002	TELCOMM SERVICES	PRTC	$21,473,371
2002	INTERNAL CONNECTIONS	PRTC	$934,500
2002	INTERNET ACCESS	PRTC	$5,847,637
	TOTAL		$28,896,308
	2-YEAR TOTAL		$69,500,969

III. PROPOSAL FOR RESOLUTION OF PAST ISSUES AND FUTURE FUNDING ELIGIBILITY

Since January 2001, PRDOE officials have shown themselves to be committed to address the abuses of Schools and Libraries Support Mechanism funding of the previous years. They have surveyed the current status of technology implementation and are aggressively implementing a plan to achieve the public school connectivity. Federal and Puerto Rican officials have been investigating the prior abuses and indictments have been issued.

Upon learning of program violations by PRDOE involving federal education grants, USDOE conducted an extensive investigation. In order to receive additional funds,

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USDOE has instituted a plan under which PRDOE will be required to pay for an independent third party to oversee and report on compliance with USDOE rules. Significantly, USDOE is requiring PRDOE to review update, and correct many of its accounting and auditing systems.

In order to permit PRDOE to continue to achieve total connectivity of Puerto Rican public schools, funding commitments for Years 2001 and 2002 should be issued consistent with program rules. But, as part of its fiduciary responsibility for the Universal Service Fund, the FCC should require PRDOE to sign an agreement about actions it will continue to take to assure that additional Schools and Libraries funds are spent in accordance with program rules.

The agreement should address the following areas:

1. Full cooperation by PRDOE with any official investigation into the abuses of the first three funding years, including the provision of any documents and records requested that are in its possession.

2. The return of any unspent funds from the first three years that still remain in the control of PRDOE.

3. An analysis and documentation of what was to be accomplished with the committed funds from the first three funding year versus what actually was done with those funds. Such an analysis should detail (1) the services that were delivered to schools and to PRDOE, and (2) services paid for that were not delivered or were not effectively delivered because, for example, computers were not available to make use of Internet access.

4. An analysis and documentation comparing of what was to be accomplished with the funding for the first three funding years with the current status of implementation of educational technology in Puerto Rico's public schools.

5. An independent audit paid for by PRDOE, selected in conjunction with USAC, of PRDOE's performance since January 2001 including the accuracy of its representations to USAC and the FCC. The audit should occur no later than one year from the date of the agreement.

6. Timely and regular reports on the use Funding 2001 and 2002 funds, including analysis and documentation of PRDOE's compliance with all program rules.

7. Regulatory and process changes by PRDOE and the Commonwealth of Puerto Rico to protect against program abuses in the future.

8. The pursuit of fund recoveries from service providers to the extent they are believed to have acted intentionally in violation of program rules.

9. Working in conjunction with USDOE and its oversight efforts so as to not duplicate work or expense.

CONCLUSION

The Bureau, working with OIG and OGC believes that this proposal will bring Puerto Rico back into the program while at the same time ensuring future program compliance. We also believe that this can provide a model for future situations similar to that of Puerto Rico.

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ATTACHMENT A

Commitments and Disbursements for PRDOE
Funding Years 1998, 1999, 2000

Year	Service ID	Service Provider Name	Committed Amt	Disbursed Amt
1998	TELCOMM SERVICES	Puerto Rico Telephone Co. Inc. (PRTC)	$34,249,963.50	$9,933,962.60
1998	INTERNET ACCESS	PRTC – Central	$173,695.50	
1998	INTERNET ACCESS	PRTC	$2,422.80	
1998	INTERNAL CONNECTNS	Data Research Communication (DRC) Corp	$11,796,598.80	$11,796,159.78
	TOTAL		$46,222,680.60	$21,730,122.38
1999	INTERNAL CONNECTNS	DRC Corporation	$38,340,305.35	$25,204,156.76
1999	INTERNET ACCESS	DRC Corporation	$3,783,780.00	
1999	INTERNET ACCESS	PRTC	$189,485.10	$140,557.32
1999	TELCOMM SERVICES	PRTC	$14,566,208.40	$8,191,337.00
	TOTAL		$56,879,778.85	$33,536,051.08
2000	INTERNET ACCESS	DRC Corporation	$15,975,329.06	$11,005,508.28
2000	INTERNAL CONNECTNS	DRC Corporation	$21,699,192.00	$21,560,072.48
2000	INTERNAL CONNECTNS	PRTC	$17,930,567.41	$13,391,113.63
	TOTAL		$55,605,088.47	$45,956,694.39
	3-YR TOTAL		$158,707,547.92	$101,222,867.85

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Providing E-rate Funds To The Puerto Rico Dept. Of Education

The Issues and a Proposed Solution

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The Issues

- Whether USAC should provide e-rate funds to the Puerto Rico Dept. of Education (PRDOE) despite previous criminal corruption and systemic problems in e-rate program.

- If funds should be authorized, how do we ensure previous problems will not re-occur.

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Past Criminal Conduct

U.S. DOJ indicted former Secretary of the PRDOE, Victor Fajardo, for masterminding a criminal fraud scheme involving $4.3 million in federal funds.

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Systemic, problems in PRDOE's administration of e-rate funds

- An audit, conducted by Arthur Anderson on behalf of the USAC, revealed that PRDOE did not have necessary computer equipment to utilize the E-rate discounts

- USAC told new Secretary of PRDOE, Dr. Cesar Rey Hernandez, no more disbursements to PRDOE's service providers until PRDOE provided information about acquiring necessary resources to use connections for which the discounts had been provided.

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Amount Of E-rate Funds Involved

- From 1998 through 2000, USAC committed $158,707,547.92 to PRDOE.
- Of that money only $101,222,867.85 has been disbursed to PRDOE.

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PRDOE's Steps to Investigate Problems

The new Secretary of PRDOE, Dr. Cesar Rey Hernandez, ordered an investigation that found:

- no reliable documentation on status of projects
- inappropriate infrastructure for use of e-rate funds
- no network design

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Steps PRDOE Has Taken To Fix Problem

- Deficiencies such as inappropriate electrical connections, lack of ventilation, have been addressed in 400 schools
- Computer labs have been installed in 67 schools.
- 3,300 computers have been ordered and will be installed 2 per school to provide quick access to the Internet.More than 23,000 teachers have been trained in the last 14 months.
- 479 schools had external access more than 80% of the time.

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The Public Interest Dilemma

- 600,000 public school students in Puerto Rico should not continue to suffer for sins of corrupt officials no longer in power.
- The FCC must ensure that the past problems with the e-rate program are fixed.

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The Proposed Solution

PRDOE should sign an agreement about actions it will take to assure that additional Schools and Libraries funds are spent in accordance with program rules.

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PRDOE's Obligations

- Cooperate w/ any investigation into past abuses.
- Return (waive its entitlement to?) funds still available from first three funding years.
- Document goals of the funds vs. actual achievements.
- Document comparison of goals vs. current status of educational technology.
- Hire independent auditor.
- Consult w/ USAC to ensure '01 & '02 funds comply with program rules.
- PRDOE will consider adopting new regulations, and other measures, to prevent abuses in future.
- All steps completed or underway in one year from date of agreement.

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FCC's Obligations

- The FCC will direct USAC to process PRDOE's Year 2001 and Year 2002 Forms 471.

- The FCC will direct USAC not to issue Commitment Adjustments to PRDOE on funding disbursed during the first three funding years. (Do we need DOJ approval?)

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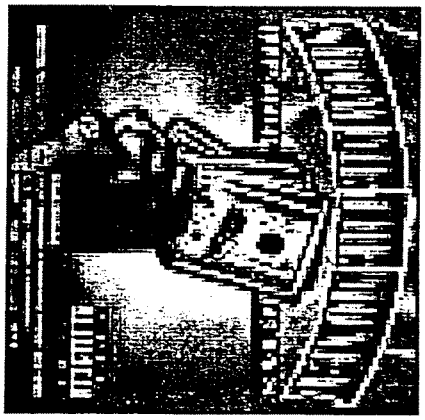

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TAB 45

BUFETE BENNAZAR, CSP
ABOGADOS Y NOTARIOS

APARTADO POSTAL 194000 - NÚM. 212
SAN JUAN, PUERTO RICO 00919-4000
Teléfono: (787) 754-9191
Fax: (787) 764-3101
bennazar@microjuris.com

A. J. Bennazar Zequeira
José R. García Pérez
Diego O. Pagán
Nyvia E. Millán Falero
Caroline Alicea Valentín

Asesores
Edward M. Borges
Tomasa del C. Vázquez
Jane A. Becker Whitaker

Edificio Unión Plaza, Penthouse A
Avenida Ponce de León 416
Hato Rey, PUERTO RICO 00918

RECEIVED
MAR 07 2003
BY: AW

March 5, 2003

VIA UPS

Mr. George McDonald
SLD Vice President
Universal Services Administrative Company
2120 L Street, N.W., Suite 600
Washington, D.C. 20037, U.S.A.

Re: PRDOE procurement process for Year 6 E-Rate funding

Dear Mr. McDonald:

On January 27, 2003, you contacted me by telephone and stated that a person who did not want his identity to be disclosed, had contacted the FCC claiming that the PRDOE "was allowing a service provider to participate in the selection process of the vendor for the year-6 phase of the Re Edúcate Project, to be partially funded with E-Rate funds. You told me that Atty. Mark Seifert was "very concerned". When I asked, you started that you thought that the vendor in question was Microsoft Corporation.

At your request, I contacted Dr. Carmen Collazo, Executive Under secretary of Education and Professor Arnaldo Ramos, Technology Consultant to the PRDOE. They in turn checked with Professor Primitivo Medina Coss, President of the *JUNTA DE SUBASTAS CENTRAL* (Central Bidding Board) of the Department.

The next day, I called you back and informed you that all members of the Junta de Subastas are PRDOE personnel, that the Junta is the administrative body that has the sole and exclusive responsibility of adjudicating the bids and that no employee or representative of any service provider participates in the bid adjudication process. I further informed you that occasionally, when the RFP is for goods or services of a highly technical nature, the president of the Junta appoints an *ad hoc* advisory committee, to provide technical advice to the Junta. In this particular case an advisory committee had been selected which initially included the name of a Microsoft technician who works on-

Mr. George McDonald
March 5, 2003
Page 2

site at the PRDOE as part of the services provided to the Department by Microsoft under a general contract for technical assistance. In light of Mr. Seifert's concern, measures were taken to eliminate that person's name from the list of the members of the advisory committee, and the committee was requested to provide its technical advise without any participation of this person.

When I finished explaining all of this to you, you then requested that I contact Professor Medina Coss and ask him to prepare a written memorandum explaining the bid adjudication process. My reaction was that I did not consider it prudent to contact him at the time or to request any memorandum, because the bid for Year 6 had not yet been adjudicated, and I did not wish to say or do anything that could be later interpreted as an improper attempt by someone to pressure the Junta or attempt to affect its decision through apparent or perceived concerns of FCC personnel. You agreed that we should wait until after the adjudication process was completed.

A few days later, I received a voice mail from Atty. Mark Seifert himself, asking for "the Department's response to the allegations of irregularities in the vendor selection process for Year 6". I called him back and informed him that: (a) I was not aware of any "allegations of irregularities" and (b) the bid for Year 6 had not yet been adjudicated and thus, no vendor had yet been selected for Year 6. I told him that you and I had agreed that I should not contact Professor Medina Coss until after the adjudication, and then only to request from him a written description of the process. He agreed to wait.

The bid was adjudicated on February 3, 2003, to Centennial de Puerto Rico. Enclosed please find a letter dated February 25, 2003 from Professor Primitivo Medina Coss, President of the *Junta de Subastas* with a detailed description of the bidding and adjudication process, with exhibits, including the *AVISO DE ADJUDICACIÓN* which contains a detailed relation of the evaluation made by the Junta of the four bids that were submitted.

I trust that these documents meet your verbal request for information, but should additional queries arise, do not hesitate to contact the undersigned.

Cordially,

A. J. Bennazar Zequeira

/mt
Encls.
Jane E. Mago, Esq.
Dra. Carmen Collazo
Prof. Primitivo Medina Coss
Prof. Arnaldo Ramos
Mark Seifert, Esq.
[ajb\depto.educacion\2mrmacdonald]

Estado Libre Asociado de Puerto Rico
Departamento de Educación

Junta de Subastas Central

February 25, 2003

Atty: Antonio J. Bennazar
Edificio Union Plaza, Penthhouse A
Ponce de León 416
Hato Rey, Puerto Rico 00918

Ref: PRDOE Bidding Process Description

Dear Mr. Bennazar:

The purpose of this document is to describe the bidding process followed by the Puerto Rico Department of Education (PRDOE) for the selection of the service provider for our Reeducate project, to be funded by ERATE funds for year 2003 (year 6). This process was conducted pursuant to PRDOE's bidding regulations and USAC's requirements. We have closely followed these regulations since the first day we came into office.

Bidding Board

Our bidding board (Junta de Subastas) is composed of eight persons, all of them appointed by the Secretary of Education. All of these members work for PRDOE and, as far as we are aware of, they do not have any relationships with PRDOE vendors. The list of current members is the following:

Name	Position in Bidding Board	Position in PRDOE
1. Primitivo Medina-Coss	President	Retired teacher, PRDOE
2. Ana Isabel Silva-Bisbal	Regular member	Nutritionist, School Lunch Program, PRDOE
3. Enoch González-Vélez	Regular member	Executive Director, Educational Technology, PRDOE

4. José L. Aldanondo-Rivera	Regular member	Director, Adult Education Program, PRDOE
5. Rafael Pérez-Matos	Alternate member	Director, Human Resources Area, PRDOE
6. Carmen López-Febus	Alternate member	Occupational Advisor, Educational Technology, PRDOE
7. Juan Sosa-Matos	Alternate member	Director, Planning Unit, PRDOE
8. Gloria Cartagena	Executive Secretary	Executive Director, Regular Program, PRDOE

When the products or services to be acquired are very technical in nature, the Bidding Board informally appoints an Advisory Committee, composed of knowledgeable and experienced persons in the required particular field. Regardless of the use of an Advisory Committee, the Bidding Board is the administrative body of the PRDOE that makes the decision to award the bid and is responsible for the adjudication. In performing its evaluation of the bids, the board may, or may not follow, any recommendations of this committee. The decision to award the bid is made solely by the Junta de Subastas without the intervention or participation of anyone else.

The Advisory Committee

The Advisory Committee originally appointed for the Year 6 bid was composed of the following persons:

Name	Qualifications	Current employment
1. Eng. Paul Murphy	Electrical Engineer specialized in Telecommunications	Infrastructure Manager, Puerto Rico Office of Management and Budget (PROMB)
2. Eng. Wanda Rodríguez	Electrical Engineer specialized in Telecommunications	Telecommunications and Infrastructure Officer, PROMB
3. Eng. David Miró	Computer Engineer, Master in	Webmaster, PRDOE

	Industrial Engineering	
4. Eng. Daniel Carmona	Electrical Engineer	Information Technology Advisor, PRDOE
5. Eng. Agustín Silva	Computer Engineer	Enterprise Strategy Consultant (Microsoft) for PRDOE

As you can see, all of the above were academically and professionally qualified to participate in the committee.

Microsoft contract

Since April 2000, the PRDOE entered into a four year contract with Microsoft Corporation for several products and services. This contract will expire on March 2004. Under this contract Microsoft will provide to the PRDOE, among others, the following products and services:

1. Software licenses for several Microsoft products like Windows, Office, Encarta and BackOffice.

2. Training in Microsoft products

3. Technical support

4. Two consultants for three years (Enterprise Strategy Consultants). These are Microsoft employees who are stationed on-site at the PRDOE to provide technical assistance with all Microsoft related technology.

One Enterprise Strategy Consultant (Mr. Agustin Silva) was originally appointed to the Advisory Committee.

USAC concerns

On Monday, January 27, 2003 you advised me that Mr. George McDonald, USAC's SLD vicepresident, informed you of a contact that someone at the FCC had received from "a source who chose to remain anonymous". Mr. McDonald quoted attorney Mark Seifert of the FCC as being

"very concerned" that an "employee of a service provider" was going to participate in the Year 6 procurement process at the PRDOE, and that this same vendor was one of the competing bidders, in partnership with another company. Mr. McDonald requested that the PRDOE look into the matter. He mentioned that he thought that Microsoft was the vendor in question. USAC's concern was based on the possibility of a conflict of interest. As soon as we received this information, we did the following:

1. We reviewed the identity of the four companies who submitted bids for any indication of any subsidiary, affiliate or parent company relation to Microsoft. None was apparent with respect to any of the four bidders.

2. Analyzed the nature of the services provided to PRDOE by Microsoft.

3. Examined the bid documents to determine the nature of the alleged "partnership" between one of the proponents (Centennial) and Microsoft.

From the analysis performed we concluded the following:

1. The bid submitted by Centennial is signed by Centennial only and does not indicate anywhere that it is acting on behalf of Microsoft or that these two firms are in a joint venture or partnership for the purpose of submitting the bid. The use of the word "partnering" in Centennial's proposal is in the context of promotional language and does not describe neither a legal relationship nor a real participation in the project.

2. The Centennial proposal does not indicate that any particular task will be performed by Microsoft. The so called "partnering" is a reference to Centennial's offer to provide Microsoft software products, like Windows 2000 Server. Due to the fact that Microsoft products are the standard adopted by the PRDOE several years ago, this kind of "partnering" will also need to be present in the proposals of all vendors, since we asked for a turn-key solution.

3. The initial appointment of Mr. Agustin Silva to the Advisory Committee was based on his academic and technical qualifications and not on his association with Microsoft. Mr. Silva is a very serious and professionally qualified person.

4. The Advisory Committee was appointed before vendors submitted their proposals. Therefore, when the committee was appointed, PRDOE didn't know which vendors were going to submit proposals.

Actions taken

Upon learning of the concern raised by USAC, I took immediate action to eliminate even the slightest appearance of a conflict of interest, prior to the adjudication of the bid. I ordered the removal of Mr. Agustin Silva from the Advisory Committee and specifically instructed the committee to perform its evaluation and submit their recommendations without any intervention or participation of Mr. Silva. See attached memorandum.

Subsequent to my memorandum to the Advisory Committee, they met without the presence or participation of Mr. Silva and submitted a unanimous report on January 31, 2003.

On February 3, 2003 the Junta de Subastas awarded the bid to Centennial. See attached document (Aviso de Adjudicación). Several days later, one of the other bidders filed a Request for Reconsideration, which is currently being processed by PRDOE's Administrative Review Board (Junta de Revisión Administrativa) pursuant to applicable regulations.

Final remarks

The decision regarding the awarding of the bid is the sole responsibility of the Junta de Subastas, whose members are all PRDOE employees with no relationship to any proponent or any service provider. The board may, or may not, follow the recommendations from an advisory committee.

Our Junta de Subastas is very jealous with its procurement processes. The sole insinuation of wrongdoing is a matter of big concern to us.

If there is any other information needed, we will gladly provide it to you.

Cordially,

Primitivo Medina-Coss
President

Enclosures

Cc Dra. Carmen Collazo

TAB 46

THE COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION
BOARD FOR CENTRAL BIDDING

RE: (SF-2003-009)
"REEDUCATE Support with E-rate funds"

Opening: December 9, 2002

NOTICE OF AWARD

Introduction

E-rate or the Schools and Libraries Support Mechanism, provides discounts in order to help the great majority of schools and libraries in the United States obtain access to Telecommunications and internet access services. Financial support is provided to three categories of services: telecommunications services, Internet access and internal connections. Discounts range between 20% and 90% of the cost of the eligible service, depending on the poverty level and the rural/urban classification of the population receiving the service. The eligible schools, school districts, and libraries may apply for discounts individually or as a consortium.

The Puerto Rico Department of Education, seeks financing through E-rate funds to help maintain and improve the REEDUCATE school network. The period this project will take place is during USAC's Funding Year 2003, which provides support for services delivered from July 1, 2003 through June 30, 2004.

The Puerto Rico Department of Education conducted a bidding process in order to obtain quotes on the following areas:

1. Telecommunications and Internet
    a. Frame relay telecommunications transport
    b. Internet service
    c. Distance learning solution
    d. 800 number service
    e. Fax line
    f. Telecommunications equipment maintenance
2. School LAN
    a. Wireless LAN infrastructure for 50 schools
    b. Upgrade for eligible LAN components
    c. Provide 10,000 additional drops
    d. New main communication distribution points

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e. Provide service and support for communications and network components

Pre-bid meeting

On November 22, 2002 a pre-bid meeting took place with representatives of the following companies interested in participating in the bidding process:

Computronics	Cisco Systems	EHC Communication
Clary Group	Audio Visual Concepts	Ayustar Corp
GT Service	Telecom Media Group	HP
Merced & Asociados	Centennial de PR	Nortel Networks
Caribe Wireless	GM Group	Caribe Net
Critical Hub Networks	NEC BNS	Comacom Corp
Dreyfous & Asociados	Unisys	Camera Mundi
PRT	Technology Partners	Computerlink
Compute All	DataVoice Solutions	Softek
IBM	Sinergy	Pub. Yuquiyu

At this meeting, the project was presented and questions on behalf of the bidders were answered. It was agreed that additional questions if any were to be submitted by email and answered in the same manner. We received a total of 56 questions. All questions and answers were posted on the Department of Education website.

As a result of the pre-bid process and recommendations from the bidders, we issued a notice of amendment to the original notice and changed the opening date from December 5 to the 9, 2003.

Opening Act

The opening act was conducted on December 9, 2003. The following companies submitted formal bids:

1. Centennial de Puerto Rico
2. Datavoice Solutions
3. NEC NBS
4. Puerto Rico Telephone

Evaluating Committee

The Bidding Board requested the creation of an evaluating committee with specialization in the telecommunications discipline and other material included in the bid.

The committee was formed with 4 highly qualified and renowned professional members:

1. Eng. Paul Murphy – Electric engineer with a specialization in telecommunications, Infrastructure manager of the Commonwealth of Puerto Rico office of Budget and Administration.

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2. Eng. Wanda Rodriguez – Electric engineer specialized in telecommunications, Telecommunications and Infrastructure official of the Commonwealth of Puerto Rico office of Budget and Administration.
3. Eng. David Miró – Computer engineer, ME Industrial engineer, specialized in cybernetic technology, PRDOE Web manager.
4. Eng. Daniel Carmona – Electric engineer PRDOE Information Technology Consultant.
5.

The evaluating committee prepared a written report that included its findings and recommendations. They also made an oral presentation to the Bidding Board and at this time there was opportunity to answer any questions, clear any doubts, and compare findings with those of the Board as a result of their own analysis and evaluation of the offers presented.

Evaluating Method

The method to evaluate the offers presented was established during the request for bid. It was determined that the offers would be evaluated in a two-step approach:

1. Confirm that offers received from the bidders meet the following requirements: special conditions, established instructions and general conditions. Offers that met these requirements passed to the second evaluation step.
2. Evaluate the offers that met the requirements in step one under the following criteria:

Category	Points
Cost	60
Provider's qualifications	
Personnel	8
Experience	5
Certifications in the field of service	2
Implementation	
Project focus (solution)	10
Documentation	5
Focus on service and support	10
Total	100

The formula used to obtain the cost points:
Points = [(Lowest cost offered)/(quoted cost)]*60
With this formula the lowest bid received, gets the total 60 points. The other offers received a fraction of the 60 points proportional to the offer.

This was the procedure used on the four (4) offers received by the bidding board.

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Analysis
Summary of cost (as presented in the company's offers)

	Part	Centennial	Datavoice Solutions	NEC BNS	PRT
1	Frame relay telecommunications Transport	$13,105,400	$13,038,200	$18,594,031	$14,850,970
2	Internet Service	$6,083,000	$2,195,539.81	$1,501,322	$5,005,698
3	Distance Learning	$164,452	$315,100	$290,580	$142,000
4	800 Number Service	$9,000	$4,100	$13,719	$11,979
5	Fax Lines	$517,440	N/C	$693,984	$240,240
6	Telecommunications Equipment Service	$138,852	$1,890,000	$70,968	$120,000
7	Wireless LAN	$475,143	$99,500	$619,950	$848,100
8	Upgrades	$723,350	$123,122	$791,000	$1,458,688
9	10,000 Additional Drops	$1,150,000	$1,500,000	$3,500,000	$2,530,000
10	New Communications Distribution Points	$10,547,955	$2,153,701	$14,876,300	$15,262,940
11	School Network – Service and Support	$1,401,882	$695,200	$3,330,600	$6,266,590
12	General Services	$93,000	$583,800	$542,000	$150,000
	Total Costs	$34,409,474	$22,598,262.81	$44,824,954	$46,887,205
	Preferred law	$33,968,288	N/A	N/A	N/A

First Stage of Evaluation (Step 1)

Datavoice Solutions	1. Did not comply with the minimum fixed amount for the bond. 15% of the offered cost is $3,389,739.42 and their bond has a limit of $2,250,000.00 2. Their table of Cost Summation is confusing and inconsistent with the costs of each individual section. For example: - Part 1: the calculated costs of this section only include costs	For the enumerated reasons, the proposal does not pass this stage of the evaluation as the applicant has not met the criteria to be awarded points

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	for 1390 schools. It doesn't include FR, wireless, T1 lines for 150 schools, connections for DOE nor costs of Passport 2430 - Part 7: "Wireless LAN" the cost only includes the costs of 7A and 7B. The rest of the section has been excluded - Part 10: "New Communication Distribution Points" does not include the costs for servers. On page 2, section 5 it indicates that this costs would increase up to $5,865,000.00 - Others: the difficulties described hinder whether the costs offered in this proposal are comparable to the costs of everyone else's proposals 3. In Part One (1), Telecommunications, it is indicated that Passport 2430 does not include the power cord and that it will be necessary to order it separately. No cost is given for this. 4. In Part Two (2), Internet Service, indicates that you will provide a permanent PVC of 256k. In the pre-bid meeting we indicated it must be a minimum of 768k. 5. In Part Five (5), Fax Lines, no cost was included for this service. Furthermore, the provider (TLD) was not authorized to offer fax line service when the offer was made. 6. In Part Ten (10), New Communications Distribution Points, it didn't include UPS as requested in the amendment #1 of the Bid. 7. It imposed restrictions on PRDOE in the areas of service and documentation Examples: - Expenses "Travel & Living Expenses" is not included in	

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	the proposal; the Department will have to assume those. - There is no guarantee that the manufacturer will be able to fix all of the software and hardware problems - It indicates that the telecommunications provider reserves the right to change the level of service (LOS) at any time. And it is the discretion of the DOE to continue or leave the service. 8. Does not include the project Gantt Chart	
NEC BNS	1. Include a Liability Disclaimer establishing that they may change the current specifications without notification; this is unacceptable for PRDOE in accordance with the project proposal. 2. Did not meet requirements for Special Condition Number 7 which proves the accreditation from the manufacturer as an authorized representative/distributor The requirement reads as follows: "The bidders will submit an updated copy of the document issued by the manufacturer that proves they are authorized distributors/representatives to sell and service their products. We will not accept any offers that omits this requirement. As clear as this condition was presented, the company NEC BNS did not include any documentation from the manufacturer stating they are an authorized representative/distributor. 3. No method or tool is utilized to guarantee the availability of the network performing at 95% 4. No specific brand and model of patch	

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	panel is given in Parts 7 and 10. 5. The literature presented reflects that the UPS* which is offered does not comply with the safeguard time of 15 minutes which is specified 6. This offer is $10,415,480.00 more expensive than the most economical offer of the three (3) that are being compared.	For the enumerated reasons, the proposal does not pass this stage of the evaluation as the applicant has not met the criteria to be awarded points
PRT	1. No specific model of UPS is offered. This does not allow for the Evaluation Committee to determine if the equipment met the required specifications. 2. There is no accompanying literature that corresponds with the IBM server X225, which is offered; this was a required in the bid. 3. The Gantt chart that is accompanying the offer is not detailed. It only includes the titles of the Parts, without indication of which activities are carried out and when; the Evaluation Committee did not receive the information for evaluation purposes. 4. Did not include with the offer the letters that proved that they are accredited by the manufacturer as an authorized representative or distributor of IBM, Minutemen and Great Lakes, still when offering equipment of these companies. 5. You have done an offer whose results are the highest in cost of all offers received. This same offer is $12,477,731.00 more than the most economical of the three (3) offers when compared.	For the enumerated reasons, the proposal does not pass this stage of the evaluation as the applicant has not met the criteria to be awarded points
Centennial de Puerto Rico	Complies with the specifications and conditions evaluated in this stage Presents the most economical offer of the three, which costs have been compared	Passes this stage of the evaluation

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Second Stage of Evaluation (Step two – Scoring)

Here we applied to Centennial de Puerto Rico offer the scoring criteria included in the request for bid. The score obtained was 95 points.

Based on these findings by the Bidding Board.

RESOLVES:

Award the bid under the Total Solution concept that was pre-established to Centennial de Puerto Rico for the following reasons:

1. Met with the specifications and requirements
2. Obtained the highest score in the final evaluation
3. The offer was 22.21% lower ($10,415,480.00 less) than the second lowest bid and 26.61% lower ($12,477,731.00 less) than the third lowest bid.

Registered and notified:
In San Juan, Puerto Rico on February 3, 2003

SIGNATURES HERE

WARNINGS:

1. This award does not bind the PRDOE until a contract is assigned or the corresponding order.
2. The part affected by the decision of this board can submit a motion to review before the Administrative Revision Committee, up to ten (10) calendar days after the date of the award, by registered mail, as established by the law #170 August 12,1988, as amended. The address is:
   Department of Education
   Area de Servicios Auxiliares, Anexo A Officina 100
   Calle Calaf, Urb Industrial Tres Monjitas
   Hato Rey, Puerto Rico.
   The affected party when submitting the motion should inform all entities, as established by the Revision Committee rules.
3. The awarded bidder will submit a performance bond for 25% of the total amount of his offer, when ask for it.

I certify that today February 3, 2003 I've submitted exact and identical copy of the present document to the following entities to the addresses on record:

Centennial de Puerto Rico
P. O. Box 71514
San Juan, PR 00968-1705

Data Voice Solutions
P.O. Box 19205
San Juan, PR 00910-1205

NEC BNS
Metro Office Park

Puerto Rico Telephone
P. O. Box 360998

797815

PRIVILEGED • NON-PUBLIC • FOR INTERNAL USE ONLY

Bldg. 3, Suite 301 San Juan, PR 00936-0998
Guaynabo, PR 00968-1705
Sr. Jose Santana
Interim Director
Educational Office of Information Systems and Technological Support

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THE COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

January 28, 2003

Eng. Daniel Carmona
President
Evaluating Committee
Bid S.F. 2003-009
"E-rate Funds Year 2003"

Primitivo Medina Coss
President
Board for Central Bidding

CONSTITUTION OF THE EVALUATING COMMITTEE BID S.F. 2003-009

I wish to inform you that the Board for Central Bidding, will not accept Mr. Agustin Silva as part of the Evaluating Committee on offers presented for bid S.F. 2003-009, "E-rate Funds 2003."

Allegedly, Mr. Silva has a work relationship with Microsoft Corporation, which is addressed by one of the bidders as a partner company in some of the services that they quote in their offer. It is essential that the Evaluating Committee provide us with their evaluating report free of all intervention or advising on behalf of Mr. Silva, we are sure of the impartiality with which the Committee operates, but we wouldn't want to be perceived as being subject to inappropriate influences.

Let it be of public knowledge as discussed in the past, that the recommendations of the Evaluating Committee, product of their findings are held in high regards by the eight (8) members of the Board for Central Bidding; but the final decision on assigning the bid will be based on the evaluation of this Board.

We reiterate to all members of the Evaluating Committee our gratefulness and esteem for your help, objectivity and professionalism you have shown on this delicate yet important mission you have accepted.

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TAB 47

From: George McDonald
Sent: Monday, September 30, 2002 2:13 PM
To: Mark Seifert (E-mail); Tom Cline (E-mail)
Cc: Scott Barash
Subject: FW: Content of the letter to be presented to USAC by the Secretary of Education of PR
Importance: High

Mark and Tom,

Anibal asked that I forward this to you. They would also like to get this in Jane Mago's hands – over to you on that, Mark.

George

-----Original Message-----
From: Anibal Cruz Perez [mailto:Cruz_Aa@DE.GOBIERNO.PR]
Sent: Friday, September 27, 2002 5:42 PM
To: gmcdonald@universalservice.org
Subject: Content of the letter to be presented to USAC by the Secretary of Education of PR
Importance: High

This is the content of the letter to be presented to USAC by the Secretary of Education of PR. Dr. Rey will deliver himself the formal letter to Mr. McDonald in the meeting of next Twesday.

Dear Mr. McDonald,

We received a letter from you dated December 5, 2001 announcing USAC's decision to withhold further ERate funding for Puerto Rico based on your concerns about our Department's capability to effectively provide the services for which you had been authorizing discounts for years 1, 2 and 3.

To comply with your request, we conducted a set of presentations to a committee compose of you, Mark Seifert, Tom Clines and Charles Walter. These presentations were held on February and April of this year. The last one will be made on next Tuesday October 1st, 2002. Throughout these presentations we have provided USAC:

1. A description of the state of the project when this administration took over on January 2001.
2. The reports of the preliminary findings of the initial assessment of the project that we had been conducting out our own initiative since the summer of 2001.
3. The scope for the project as determined by our administration to validate the concept and performance of the work done by the suppliers.
4. The results of the validation process of summer 2001.
5. The Recovery Plan designed by PRDOE to make the project viable.
6. Evidence of the outcome of the Recovery Plan on February, April and September 2002.

We have no doubt that we have specifically and properly addressed each and every concern stated in your letter of December 2001 and have fully complied with all of your requests contained therein.

The reports that we have submitted to USAC fully supports our fulfillment of your conditions for the availability of funding for years 4 and 5. The time has come for the approval of further funding. We cannot stay at a perpetual standstill.

More than 660,000 Puerto Rican children should not be penalized by being deprived from one of the very best technology projects available in our country. They have already lost too many opportunities because of the unavailability of the ERate project products. Every year lost means that 50,000 Puerto Ricans graduates from high school without the opportunity of overcome the technology divide. People or entities responsible for past misconduct within this project should continue to be investigated and, if need be, prosecuted. We will continue to provide you with the results of our own findings.

I am requesting the immediate availability of funding for years 4 and 5 in order to complete the recovery of this most important project in order to provide our people on an equal opportunity basis the educational and technological skills necessary to close the technology divide within our country. I will personally make the presentation to be held next Tuesday, October 1st, 2002 and the request for funds availability will be the primary point of our agenda.

Thank you for the opportunity to present to USAC the results of our efforts to recover this project. We are ready to move forward and hope that so will be USAC.

Sincerely,

Dr. César A. Rey Hernández
Secretary

TAB 48

PRT Puerto Rico
Telephone
Company

TELEFONICA
DE PUERTO RICO

[handwritten at right:
Discussed at 6/23/99 meeting
Not submitted.
[initials]

June 23, 1999

Mr. Kivio Peguero
Department of Education
Hato Rey, Puerto Rico

Dear Mr. Peguero,

Puerto Rico Telephone Company is currently involved in the process of installing the EDUNET Network for your agency. The following is a description of several matters that are not under our control and that affect delivery of the services contracted for:

There is no AC power connection and ground available. It is essential that DE make this situation a priority so that installation and startup of the PASSPORT 6740 and OC-48 equipment may be completed.

Availability of staff at school sites to provide access for the purpose of installation. Even when contact has been made the previous day, the staff has not been present. They generally leave early in the afternoon. Maintenance staff is the only personnel available and they do not wish to assume responsibility for equipment installed.

Space in school cabinets. In the majority of cases, there is insufficient space for installation of the equipment.

Provision of AC in schools. In most cases there is no AC outlet available. This is urgently needed.

Information regarding location of cabinets. It was agreed that 20 per day would be delivered. These have not been received. To date, only 189 locations have received them.

I look forward to your customary assistance with these matters.

Sincerely,

[signature]

Luis A. Ramos

[handwritten at left margin:]
[illegible] for 6/24/99

Discussed with [illegible]
[illegible]

[illegible]

PRTCH000085

P.O. Box 360998 San Juan, Puerto Rico 00936-0998

PuertoRico Telephone Company
TELEFONICA DE PUERTO RICO

Discutido en acuerdo 6/23/99
no se entregó.

23 de junio de 1999

Ing. Kivio Peguero
Departamento de Educación,
Hato Rey, Puerto Rico

Estimado ingeniero Peguero;

Al día de hoy la Puerto Rico Telephone Company esta enfrascada en el proceso de implantación de la Red EDUNET para su agencia. A continuación traemos una serie de situaciones las cuales no están bajo nuestro control y que afectan el proceso de completar los servicios contratados;

No existe conexión de potencia AC y "ground" disponible. Se requiere le den prioridad en el DE a esta situación para poder completar y poner en servicio el equipo PASSPORT 6740 y el OC-48.

Disponibilidad de personal en las escuelas para el acceso para instalación. Aún coordinándose en el día previo el personal no se ha encontrado en las mismas. Tienden a irse temprano en la tarde. El personal disponible es de mantenimiento y esto no desean asumir responsabilidad por el equipo instalado.

Espacio en gabinetes en las escuelas. En la mayoría de los casos el espacio no es suficiente para la instalación de los equipos activos.

Provisión de AC en las escuelas. En la mayoría de los casos no hay receptáculo de AC disponible. Se requiere con urgencia.

Información sobre localización de gabinetes. Se acordó se entregaría 20 diarios los cuales no se han recibido. Al día de hoy hay recibidos solo 189 localidades.

Espero su acostumbrada ayuda en estas situaciones.

Atentamente,

Luis A. Ramos

PRTCH000085

P.O. Box 360998 San Juan, Puerto Rico 00936-0998

TAB 49

DRC
CORPORATION
SYSTEMS INTEGRATORS

Tel. (787)723-7621
Fax: (787)723-7610

June 9, 2000

Mr. Kivio Peguero
Director
Office of School Information Systems and Technology

Department of Education
Hato Rey PR

RE: SCHOOL CERTIFICATIONS

Dear Mr. Peguero:

This is for the purpose of informing you of our concern regarding the CATS (E-Rate 1998) wiring project in 745 public schools. After receiving the inspection sheets (in blocks) with the deficiencies identified by personnel hired by you for certification of our work, and after sending our personnel to correct them, in several cases the deficiencies were due to vandalism by students.

In many cases we understand that it was difficult for the DE personnel that conducted the inspections to determine if the deficiencies were due to vandalism. DE personnel have documented problems of vandalism in their reports on very few occasions. The majority of the cases encountered by your personnel, which we understand are cases of vandalism, are those described below:

Most frequent

- In one or two classrooms, modules (1 or 2) of the eight RJ-45 modules installed are missing and the cable is hanging, the pins inside the module are bent by pencils or writings.
- In some classrooms, one or more "Labels" are missing.
- In some classrooms two hole covers are missing (the size of a coin) that cover the blank space in the RJ-45s.

In many cases, it is apparent they were installed.

Less Frequent

- Tubing outside the staples used to hold it to the wall. Indicating people have climbed the tubing.
- RJ-45 modules forced inside and faceplates broken. They appear to have been kicked.
- In some schools the hole covers for the fans (where fans are to be installed in the future) are missing and in some cases the cables that go into the patch panel have been pulled.
- Patch panels moved from their location by PRTC, in order to install their equipment. In some cases the cables were laid out in such a manner that they have come out of their slot in the PP. Drilled tubes, covers from 6"x6" boxes not replaced after removal for installation of cables from the street.

For the last point, it was agreed in a memorandum between the responsible parties from DE and PRTC that the latter would not interfere with our work.

We understand the majority of deficiencies identified have to do with the period of time elapsed between the completion of the work in the school and the inspection. We understand that for the DE this is a complicated task that requires a great deal of resources. However, DRC's interest has always been in seeing the project move ahead, even when we have had to incur costs for materials, personnel and travel for re-adjustments.

Eighty percent of the schools not certified by the DE inspectors have been corrected and the sheets turned in to the DE affixed with the seal of the school.

We recommend that the DE develop a strategy to make students aware of the fact that these facilities are to educate them and provide them with Internet technology and to connect them to the world of computers, which is the future of tomorrow. We understand that 90% of the cases of vandalism are due to curiosity and ignorance on the part of students who do not understand the benefit this work will bring them.

I would appreciate your prompt response to this matter so that some solution may be identified. Please contact me at 723-7261 extension 262 if you have any questions.

Cordially,
[signature]
Mr. Miguel Vélez
Director, Infrastructure Dept.

C: Mr. Santos Díaz.

[handwritten:]
Delivered to Kivio Peguero's secretary, but the letter was only stamped on the front.
[signature]

DRC
CORPORATION
SYSTEMS INTEGRATORS
(787) 723-7621
(787) 723-7610

9 de Junio de 2000

Sr. Kivio Peguero
Director
Oficina de Sistema de Información y Tecnología Escolar

Departamento de Educación
Hato Rey PR

RE: CERTIFICACIONES DE LAS ESCUELAS

Estimado Sr. Peguero:

Sirva la presente para informarle sobre nuestra preocupación relacionado con el proyecto de alambrado de CAT5 (E-Rate 1998) en las 745 escuelas públicas. Después de recibir las hojas de inspección (por bloques) con las deficiencias encontradas por el personal contratado por ustedes, para la certificación de nuestros trabajos y luego de enviar a nuestro personal para corregirlas, en varias, las deficiencias, se deben a vandalismo por los estudiantes.

En muchos de los casos entendemos que el personal del DE que inspecciona se le ha hecho difícil determinar si las deficiencias fueron o no por vandalismo. Han sido pocas las ocasiones que el personal del DE ha documentado en sus hojas este problema de vandalismo. La mayoría de los casos encontrados por su personal, que entendemos son vandalismo, han sido los siguientes que a continuación describo:

Más frecuentes

- En uno o dos salones faltan módulos (1 ó 2) de ocho módulos RJ-45 que se instalaron y el cable esta colgando, los pines dentro del módulo están doblados por lápices y escritos.
- En algunos salones faltan uno o más "Labels" .
- En algunos salones faltan dos cubre falta (del tamaño de un vellón) que tapan el espacio en blanco de los RJ-45.

En muchos de los casos se puede apreciar que estaban instalados.

Menos frecuentes

- Tuberías fueras de las grapas que se utilizan para mantenerlas fijas a la pared. Refleja que se han subido en la tubería.
- Módulos RJ-45 forzados hacia dentro y faceplates partidos. Muestran como si los hubiesen pateados.
- En algunas escuelas faltan en los gabinetes los cubre faltas de los abanicos (para futuras instalaciones de abanicos) y en algunos casos introducen las manos y halan los cables terminados en el "patch panel".
- Patch Panels movidos de lugar por la PRTC, para montar sus equipos. En ocasiones estiraron los cables de tal manera que se haň soltado de su terminación en el PP. Tubos barrenados, tapas de las cajas 6"x6" sin poner luego de quitarlas para entrar sus cables de la calle.

Para el ultimo punto se acordado en un memorando con las partes encargadas del DE y la PRTC que este último no afectaría nuestros trabajos.

Nosotros entendemos que el mayor volumen de deficiencias encontradas se debe al lapso de tiempo transcorrido desde que se completo el trabajo en la escuela hasta que se inspecciono. Entendemos que para el DE es una tarea compleja que requiere muchos recursos. No obstante el interés de DRC siempre ha sido que el proyecto salga adelante aun cuando hemos tenido que sufragar gastos de materiales, personal y viajes para los re-arreglos.

El 80% de las escuelas no certificadas por los inspectores del DE, han sido corregidas y sometidas las hojas al DE ponchadas con el sello de la escuela.

Recomendamos que el DE diseñe alguna estrategia para demostrarles a los estudiantes que estas instalaciones son para educarlos y comunicarlos con la tecnología del "Internet" y al mundo de las computadoras que es el futuro del mañana. Entendemos que el 90% de los casos de vandalismo se debe a la curiosidad e ignorancia de los estudiantes al no conocer el beneficio que les brindara estos trabajos.

Agradeceré su pronta atención a este asunto para buscarle alguna solución a esta situación. De tener alguna duda o pregunta favor de comunicarse con el que suscribe al 723-7621 extensión 262.

Cordialmente,

Sr. Miguel Vélez
Dir. Dept. de Insfraestuctura

C: Sr. Santos Díaz

Se le entregó a la secretaria de Alvio Pesquero pero solo se ponchó la carta de afrente

TAB 50

PRT Puerto Rico Telephone Company

ATTACHMENT 2-B
P.O. Box 360998 San Juan P.R. 00936-0998

TELEFONICA
DE PUERTO RICO

Office of the Vice President
Network Engineering and Services

August 19, 1999

Mr. Kivio Peguero Cuello, Director
Office of School Information Systems and Technology
Department of Education
P.O. Box 190759
San Juan, PR 00919-0759

Dear Mr. Peguero:

During the meeting held last Monday, August 9, 1999 in the Conference Room on the 12th floor of PRTC, I promised that by today I would send a list of schools to which we will not be able to provide the services included in the contract between the Department of Education and PRTC by the time required by the Department of Education. The work is being performed and we are making every possible effort to finish 446 schools in close, essential coordination and collaboration with the Department of Education, by September 30, 1999.

Service to 313 schools, of a total of 759, will not be ready by September 30, 1999. This does not mean that service cannot be provided to these schools. Rather, service to these schools may be ready between 30 and 90 days from September 30. The main reason for the delay is that during the course of this project, we have discovered there is a need to construct telephone systems in those schools in which the systems are inadequate. It is vital and essential to achieving this that we are provided with permanent electrical circuits.

Attached is a list of schools that will receive service after September 30, 1999, as set forth above.

I would appreciate it if we could meet tomorrow, Friday, to discuss this matter further.

Cordially,
[signature]

Joaquín Rivera

Xc: Mr. José E. Arroyo
Attachment

PRTCH000092

LIST OF ORDERS SUBJECT TO DIFFICULTY IN FULFILLING ON OR BEFORE SEPTEMBER 30

EDUNET PROJECT

PRT Puerto Rico Telephone Company
TELEFONICA DE PUERTO RICO

ATTACHMENT 2-B

P.O. Box 360998, San Juan, P.R. 00936-0998

Oficina del Vicepresidente
Ingeniería y Servicios de Redes

19 de agosto de 1999

Ing. Kivio Peguero Cuello, Director
Oficina de Sistemas de Información y
Tecnología Escolar
Departamento de Educación
P. O. Box 190759
San Juan PR 00919-0759

Estimado ingeniero Peguero:

En reunión del pasado lunes, 9 de agosto de 1999, en el Salón de Conferencias del Piso 12 de PRTC, me comprometí a someterle para hoy la lista de las escuelas a las que no podremos proveerle los servicios contemplados en el contrato entre el Departamento de Educación y PRTC en el tiempo requerido por el Departamento de Educación. Se están desarrollando los trabajos, y se está haciendo nuestro mayor esfuerzo posible para que, en estrecha e imprescindible coordinación y colaboración con el Departamento de Educación, completar 446 escuelas para septiembre 30 de 1999.

El servicio a 313 escuelas, del total de 759, no estará disponible para el 30 de septiembre de 1999. Esto no quiere decir que el servicio a estas escuelas no podrá proveerse. Por el contrario, el servicio a estas escuelas podrá estar disponible entre 30 y 90 días a partir de septiembre 30. La razón principal para esta demora es que durante el curso de este proyecto hemos comprobado el hecho de que hay que construir planta telefónica en aquellas escuelas en las cuales la planta es insuficiente. Es imperioso y vital para el logro de lo antes señalado, que en todas las escuelas nos provean circuitos de corriente eléctrica permanente.

Le incluyo el listado de las escuelas cuyo servicio se proveerá posterior a septiembre 30 del 1999, según arriba indicado.

Agradeceré que nos conceda tiempo para una reunión mañana viernes, y discutir este asunto más a fondo.

Cordialmente,

Joaquín Rivera

xc: Lcdo. José E. Arroyo
Anejo

PRTCH000093

LISTADO DE ORDENES CON DIFICULTAD PARA COMPLETARSE EN O ANTES DE SEPTIMBRE 30

PROYECTO EDUNET

19/08/99

Número de Orden	NOMBRE DE ESCUELA	CODIGO DE ESCUELA	Dirección	
A9-27406	ESCUELA JOSE B BARCELO OLIVER	55806	CARR 518 KM 1 HM 1 BO SALTILLO ADJUNTAS	ADJUNTAS
A9-25573	ESCUELA JOSE EMILIO LUGO	50294	CALLE FRANCISCO PIETRI # 75 URBLOS CEDROS	ADJUNTAS
A9-25572	ESCUELA JOSE PILAR GONZALEZ	50179	CARR 10 KM 36.5 BO GARZAS	ADJUNTAS
A9-25956	ESCUELA RAFAEL APARICIO JIMENEZ	54551	CALLE RODOLFO GONZALEZ	ADJUNTAS
A9-25574	ESCUELA DOMINGO MASSOL	E9-50252	BO VACAS SALTILLO CARR 388 KM 1 HM 2	ADJUNTAS
A9-25957	ESCUELA JOSE JULIAN ACOSTA	E9-50070	CALLE RODULFO GONZALEZ #18	ADJUNTAS
A9-25575	ESCUELA AQUILINO RIVERA	E9-50195	BO PORTILLO CARR 129 KM3 H 5	ADJUNTAS
A9-25577	ESCUELA JUAN GARRASTEGUI RIVERA	E9-50187	BO YAHUECAS,CARR 135	ADJUNTAS
A9-39177	ESCUELA S.U. MARTIN HERNANDEZ	40212	CARR 442 KM 1 HM 5 BO ESPINAR AGUADILLA	AGUADA
A9-25482	ESCUELA EXT. BORINQUEN	44743	RES AGUSTIN STAHL BO BORINQUEN AGUADILLA	AGUADILLA
A9-27407	ESCUELA DR.GUSTAVO MUNOZ	23564	CALLE RAMON ROSA AGUAS BUENAS	AGUAS BUENAS
A9-27159	ESCUELA S.U. JOSE C BARBOSA	20321	CARR 14 KM 46.5 BO ASOMANTE	AIBONITO
A9-40293	ESCUELA FEDERICO DEGETAU I	20263	AVE CAPITAN WHEELER	AIBONITO
A9-25218	ESCUELA OVEJAS	40733	CARR 430 RAMAL 430 KM 3 HM 3 BO OVEJAS ANASCO	ANASCO
A9-39342	ESCUELA MARIANA BRACETTI	40758	CARR 402 KM 5.5 BO PINALES ABAJO	ANASCO
A9-27469	ESCUELA SUP. VOCACIONAL ANTONIO LUCHETTI	10587	CARR 10 AVE JUAN ROSADO URB MARTELL ARECIBO	ARECIBO
A9-27473	ESCUELA S.U.RAMON E BETANCES ARECIBUII	10058	CARR # 657 KM 1 HM1 BO BAJADERO ARECIBO	ARECIBO
A9-25666	ESCUELA S.U. DIEGO BRAVO	10520	CARR 635 INT 626 BO ESPERANZA SECTOR CIENEGUETA ARECIBO	ARECIBO
A9-27480	ESCUELA JUSTINO TORRES	10124	PR-639 KM 2 HM 7 SECTOR CANDELARIA	ARECIBO
[illegible]	ESCUELA ELEM. HIGUILLARE	10330	CARR NT CALLE MARTE ABRA SAN FRANCISCO PARQUE DE PELOTA	ARECIBO

Número de	Jen	NOMBRE DE ESCUELA	CODIGO DE ESCUELA	Dirección	
A9-25637		ESCUELA ENRIQUE HUYKE	24653	CALLE MORSE FRENTE A LA PLAZA PUBLICA	ARROYO
A9-25639		ESCUELA JOSE M MASSARI	24661	CALLE MORSE ##162	ARROYO
A9-25635		ESCUELA BEATRIZ RODRIGUEZ	24737	EL PIOJO CARR 753 BO PITAHAYA	ARROYO
A9-25638		ESCUELA JOVITA MANATOU	24711	CARR #753 K2 H2 BARRIADA MARIN BO PITAHAYA	ARROYO
A9-25636		ESCUELA DOLORES GONZALEZ	26153	URB.JARDINES DE ARROYO	ARROYO
A9-25374		ESCUELA JOSE CORDERO ROSARIO	10728	CARR 2 KM 56.0 COMUNIDAD PALENQUE BARCELONETA	BARCELONETA
A9-27171		ESCUELA EASTON (TIBURON) NUEVA ELEMENTAL	10686	CALLE 3 PARCELAS TIBURON 2	BARCELONETA
A9-38750		ESCUELA S.U.PALO HINCADO	20552	CARR 156 KM HM 4 BO PALO HINCANDO	BARRANQUITA
A9-27217		ESCUELA EL PORTON.	20396	CARR HONDURAS KM 17.7 INT BO HONDURAS SECT. EL PORTON BARRANQUITAS	BARRANQUITAS
A9-27220		ESCUELA MANA ABAJO	20479	CARR 771M JN 9.2 BO BARRANCAS SECTOR MANA ABAJO	BARRANQUITAS
A9-27216		ESCUELA EL FARALLON	20412	BO QUEBRADILLAS SECTOR EL FARALLON	BARRANQUITAS
A9-27219		ESCUELA LA TORRE	20453	CARR LA TORRE CARR 770 KM 21 SECTOR HINCADO BARRANQUITAS	BARRANQUITAS
A9-27248		ESCUELA INTERMEDIA CACIQUE AGUEYBANA	70078	CALLE 61,URB SIERRA BAYAMON	BAYAMON
A9-40609		ESCUELA RAUL JULIA (FLAMBOYAN GARDENS)	70474	CALLE 19 URB FLAMBOYAN GARDENS	BAYAMON
A9-27231		ESCUELA REXVILLE SUPERIOR	70284	CALLE 41 NORTE FINAL URB .REXVILLE	BAYAMON
A9-27241		ESCUELA CRISTOBAL COLON	70425	CALLE TULIPAN ESQ SAUCE 4TA SSECCION LOMAS VERDES	BAYAMON
A9-27243		ESCUELA RAFAEL MARTINEZ NADAL	70169	CALLE C ESQ CALLE 7 HNAS DAVILA	BAYAMON
A9-38902		ESCUELA JOHN F KENNEDY	71597	PASEO DEL MAR FINAL 1ERA SECCION LEVITTOWN	BAYAMON
A9-39065		ESCUELA JOSEFINA BARCELO	70524	CALLE RIGEL SECCION 12 IRLANDA HEIGHT BAYAMON	BAYAMON
A9-39068		ESCUELA TOMAS C. ONGAY	70623	CARR 174 BO MINILLAS	BAYAMON
A9-25731		ESCUELA S.U JOSE M TORRES	70680	CARR 167 RAMAL 812 KM 3 HM 1 BO DAJAS	BAYAMON
A9-27237		ESCUELA JOSEFITA MONSERRATE DE SELLES	70532	CALLE BEGONIA ESQ. CLAVEL 1RA SECCION LOMAS VERDES	BAYAMON
A9-39073		ESCUELA VAN SCOY	70326	CARR 167 KM 5.5 HM 4 BO BUENA VISTA	BAYAMON
A9-27379		ESCUELA SUPERIOR CACIQUE AGUEYBANA	70086	CALLE 61,URB SIERRA BAYAMON	BAYAMON
[illegible]		ESCUELA RAMON MORALES	70045	CALLE 7 BLOQUE F URB RIVERVIEW	BAYAMON

Numero de	Jen	NOMBRE DE ESCUELA	CODIGO DE ESCUELA	Direccion	
A9-27264		ESCUELA LUIS MUNOZ SQUIFFRONT	40949	CARR 102 KM 4.2 BO MIRADERO SECT JOYUDA CABO ROJO	CABO ROJO
A9-25254		ESCUELA S.U. CARMEN VIGNALS	41004	KM 18.5 BO BOQUERON CABO ROJO	CABO ROJO
A9-27265		ESCUELA MANUEL FERNANDEZ JUNCOS	40931	KM 14.2 CARR 102 BO JOYUDAS CABO ROJO	CABO ROJO
A9-38524		ESCUELA PAULA MOJICA	20941	CALLE ROBLES URB VILLA TURABO	CAGUAS
A9-38520		ESCUELA INES M. MENDOZA DE MUNOZ	27078	CALLE 10, ESQ. 11 ,URB. VILLAS DE CASTRO	CAGUAS
A9-24616		ESCUELA ABELARDO DIAZ MORALES	20578	CALLE STA GERTRUDIS URB STA ELVIRA CAGUAS	CAGUAS
A9-24560		ESCUELA PEDRO MILLAN BAIROA I	20669	CALLE 7 RESIDENCIAL BAIROA CAGUAS	CAGUAS
A9-38840		ESCUELA MYRNA M. FUENTES	23135	CALLE 33 URB BONEVILLE HEIGHTS VALLEY	CAGUAS
A9-38842		ESCUELA FRANCISCO VALDES	21006	CARR 798 KM 12 HM 5 BO RIO CANAS	CAGUAS
A9-27409		ESCUELA SANTA CLARA	23580	CARR 173 KM 6 BO SUMIDERO	CAGUAS
A9-38526		ESCUELA CIPRIAN MANRIQUE	20727	CARR 765 KM 3 HM 1 BO BORINQUEN	CAGUAS
A9-27411		ESCUELA MULITAS ALVELO	20115	CARR 779 BO MULITAS ALVELO	CAGUAS
A9-27408		ESCUELA EZEQUIEL RAMOS LA SANTA	20032	BARR 156 CARRETERRA BO CAGUITAS	CAGUAS
A9-38521		ESCUELA JOHN F KENNEDY CAGUAS III	21071	CALLE KINGSTON 2DA SECCION VILLA DE REY	CAGUAS
A9-38841		ESCUELA SALVADOR RODRIGUEZ	21030	CARR 7754 KM 4 HM 4 CANABANCITO ARRIBA	CAGUAS
A9-25670		ESCUELA ELEM.S.U. SANTIAGO R PALMER	11031	CARR 486 KM 1.5 BO QUEBRADA	CAMUY
A9-25600		ESCUELA ELEM.S.U. SANTIAGO R PALMER	17327	CARR 486 KM 1 HM 6 BO QUEBRADA	CAMUY
A9-25413		ESCUELA JOSE D. HERNANDEZ	14258	CARR 119 KM 10 HM 9 PARCELAS DE CAMUY ARRIBA CAMUY	CAMUY
A9-38552		ESCUELA S.U. ANTONIO REYES	11023	CARR 486 KM 2 HM 6 BO ZANJAS	CAMUY
A9-38561		ESCUELA JULIAN BLANCO	10942	CARR 456 KM 4 BO PUERTOS CAMUY	CAMUY
A9-38553		ESCUELA BO. PUENTE DR FELIPE GARCIA FARIAS	10991	CARR.119 KM SECTOR ZARZA BO PUENTE	CAMUY
A9-39595		ESCUELA RAFAEL RIVERA OTERO	61499	CALLE SANDALIO ALONSO EXT LAS LOMAS RIO PIEDRAS	CAPARRA
A9-39025		ESCUELA RAFAEL HERNANDEZ MARIN	61549	CALLE ASOMANTE URB SUMMIT HILLS RIO PIEDRAS	CAPARRA
A9-39597		ESCUELA ANA ROQUE DE DUPREY	62836	CARR 21 KM 3 HM 4 BO MONACILLOS RIO PIEDRAS	CAPARRA
A9-39101		ESCUELA JARDINES DE MONTE	64394	RES JARDINES DE MONTE HATILLO	AROLINA

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Numero de Orden	NOMBRE DE ESCUELA	CODIGO DE ESCUELA	Direccion	
A9-25725	ESCUELA LUIS MUNOZ RIVERA	60368	CALLE MUNOZ RIVERA # 13 CAROLINA	CAROLINA
A9-39117	ESCUELA JUAN A MENDEZ MELENDEZ	68510	CALLE 1 FINAL URB METROPOLIS CAROLINA	CAROLINA
A9-39119	ESCUELA LORENZO VIZCARRONDO	60905	CALLE QUINONEZ #33 URB JOSE S. QUINONEZ CAROLINA	CAROLINA
A9-39130	ESCUELA PEDRO J. RODRIGUEZ OQUENDO	60459	CARR 859 H 6 SANTA CRUZ CAROLINA	CAROLINA
A9-39127	ESCUELA AGUSTIN CALDERON	66019	AVE CALDERON 3 ER EXT CAROLINA	CAROLINA
A9-39044	ESCUELA ISAAC DEL ROSARIO	70755	AVE FLOR DEL VALLE URB LAS VEGAS	CATANO
A9-40614	ESCUELA FRANCISCO OLLER	70813	AVE LAS NEREIDAS	CATANO
A9-40613	ESCUELA JOSE A NIEVES	70771	CALLE MARGINAL BARRIO PALMA	CATANO
A9-38982	ESCUELA JULIO VIZCARRONDO	21287	CARR 14 KM 63 BO.MATON ABAJO	CAYEY
A9-38977	ESCUELA S.U.EUGENIO MARIA DE HOSTOS	21352	CARR 14 KM 65 CARR CAYEY HACIA AIBONITO INTERIOR BO TOITA	CAYEY
A9-38983	ESCUELA RAMON FRADE	21360	CALLE FLOR RODRIGUEZ BO SAN THOMAS	CAYEY
A9-38974	ESCUELA AGUSTIN FERNANDEZ COLON	21337	AVE ANTONIO R. BARCELO BO MONTELLANO	CAYEY
A9-38976	ESCUELA REXFORD TUGWELL	21345	CARR 15 INT 7737 BO QUEBRADA ARRIBA	CAYEY
A9-41948	ESCUELA FRANCISCO COIRA	11197	CALLE HERNANDEZ USERA CIALES	CIALES
A9-39016	ESCUELA HATO VIEJO CUMBRE	11239	BO HATO VIEJO CUMBRE CARR 632 KM 2.4 CIALES	CIALES
A9-39017	ESCUELA S.U. JAIME COIRA	11296	CARR 149 KM 7 H6 RAMAL 615 BO POZAS CIALES	CIALES
A9-39014	ESCUELA ZENON RIVERA	17152	KM 21.1 CARR 149 BO PESA	CIALES
A9-39012	ESCUELA REPUBLICA DEL ECUADOR	11155	CARR 149 KM 18.8 BO CIALITOS PORTO	CIALES
A9-39015	ESCUELA ERNESTO VALDERAS	11171	CALLE DE DIEGO # 5 EXT CORCHADO CIALES	CIALES
A9-39013	ESCUELA PESA PARCELAS	11270	CARR 149 KM 18.2 BO PESAS TORTUGO CIALES	CIALES
A9-39011	ESCUELA CONCEPCION PEREZ HERNANDEZ	11262	CARR 143 KM 5 HM 5 BO JAGUAS CIALES	CIALES
A9-24542	ESCUELA S.U. CERTENEJAS II	21543	CARR 172 KM 8.1 BO. CERTENEJAS II CIDRA	CIDRA
A9-24557	ESCUELA CEIBAT	21428	CARR 782 KM 9.0 BO CEIBA CIDRA	CIDRA
A9-25790	ESCUELA BAYAMONCITO	21451	CARR 787 KM 4 HM 7 CIDRA	CIDRA
A9-24558	ESCUELA S.U. JUAN D. STUBBE	21659	CARR 787 KM 2 BO BAYAMON CIDRA	CIDRA

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Número de	en	NOMBRE DE ESCUELA	CODIGO DE ESCUELA		
9-38968		ESCUELA CLEMENCIA MELENDEZ	21493	CARR 173 KM 7.9 BO RABANAL CIDRA	CIDRA
9-40865		ESCUELA JOSE RAMON RODRIGUEZ	50500	CALLE DR.VEVE	COAMO
9-26049		ESCUELA SEGUNDA UNIDAD MANUEL CANDANEDO	50666	SECTOR SANJA BLANCA CARR 150 INT 553 KM 1 HM 0 BO SANTA CATALINA	COAMO
9-27176		ESCUELA S.U. ENRIQUE COLON BO HAYALES	50633	BO AYALES CARR 143 KM 50.1	COAMO
9-27413		ESCUELA AURELIA QUINTERO LABOY	50591	CARR 555 KM HM 2 BO PASTO COAMO PR	COAMO
A9-27414		ESCUELA RIO JUEYES	50609	CARR 154 SECTOR RIO JUEYES COAMO	COAMO
A9-26044		ESCUELA CUYON SEGUNDA UNIDAD	50443	CARR 705 KM 2 HM BO CUYON COAMO	COAMO
A9-26043		ESCUELA INES CARATINI	E9-50559	BO PALMAREJO CARR 702 CALLE ORQUIDEA KM 3.7	COAMO
A9-26046		ESCUELA ANA SANTA	50658	CARR 556 KM 3 H 5 BO PASTO,SECTOR SANTA ANA	COAMO
A9-26042		ESCUELA RUFINO HUERTAS	50617	CARR 153 KM 2.3 BO LAS FLORES	COAMO
A9-39329		ESCUELA INES MENDOZA	23655	CARR 156 KM 33 HM 7	COMERIO
A9-39340		ESCUELA PORFIRIO CRUZ GARCIA	74179	CARR 568 KM 6.6 BO CUCHILAS COROZAL	COROZAL
A9-39339		ESCUELA DR.JOSE PADIN	71043	CARR 568 KM 24.2 BO CUCHILAS COROZAL	COROZAL
A9-39338		ESCUELA HIPOLITO CALDERO	70979	BO PALOS BLANCOS SECTOR GOBEO	COROZAL
A9-39399		ESCUELA SAN IDELFONZO	30114	CALLE SALISBURRY 109	CULEBRA
A9-39398		ESCUELA LUIS MUNOZ RIVERA	30130	CALLE SALISBURY # 109	CULEBRA
A9-27200		ESCUELA DE.SANTIAGO VEVE.	30163	CASERIO VEVE CALZADA 105 FAJARDO	FAJARDO
A9-40752		ESCUELA ELSA E. CUOTO ANNONI	50690	BO.CIENAGA SECTOR FUIG CALLE 3	GUANICA
A9-26170		ESCUELA LUIS MUNOZ RIVERA	50773	BO CANO RAMAL 1116	GUANICA
A9-39395		ESCUELA JOSE RODRIGUEZ SOTO	50757	LAJAS ROAD RAMAL 116 KM 1 HM 3 BO ENSENADA GUANICA	GUANICA
A9-25641		ESCUELA MARIA L. MCDOUGALL	50799	65 INFANTERIA NO 23	GUANICA
A9-25720		ESCUELA OLGA E COLON TORRES	E9-50765	CARR 3 BO LUNA	GUANICA
A9-26031		ESCUELA ALEJANDRO ORTIZ RESTO	24877	CARR 713 KM 3 BO CIMARRONA	GUAYAMA
A9-26048		ESCUELA MARCELA GARCIA CORA	24968	RAMAL 787 KM 2 HM 4 BO PUERTO DE JOBOS GUAYAMA	GUAYAMA
A9-39198		ESCUELA BARTOLO	24885	CALLE SANTO TOMAS BO CORAZON	GUAYAMA

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Número de	.en	NOMBRE DE ESCUELA	CODIGO DE ESCUELA		
A9-39200		ESCUELA ANSELMO VAZQUEZ	24919	CARR KM 148 HM 3 BO MOSQUITO GUAYAMA	GUAYAMA
A9-38873		ESCUELA OSCAR HERNANDEZ GUEVARA	E9-24950	CALLE D BDA BLONDET	GUAYAMA
A9-39197		ESCUELA FRANCISCO NAVARRO	24869	CARR 712 BO PUEBLITO DE GUAYAMA	GUAYAMA
A9-39199		ESCUELA JOSE MUNOZ VAZQUEZ	24992	CARR 3 BO PUENTE JOBOS GUAYAMA	GUAYAMA
A9-27355		ESCUELA HIPOLITO GARCIA (POLITO GARCIA)	51177	CARR 335 KM 4 BO INDIOS GUAYANILLA	GUAYANILLA
A9-38812		ESCUELA BIENVENIDO CASTRO	54825	CARR 132 KM 4 HM 2 GUAYANILLA	GUAYANILLA
A9-38813		ESCUELA HERMINIO E ARZOLA (QUEBRADA)	51292	CARR 127 CRUCE CARR 377 BI QUEBRADAS GUAYANILLA	GUAYANILLA
A9-27444		ESCUELA RAMON MARIN SOLA	75655	CALLE AZALEA ESQ CAMPO BELLO URB MUNOZ RIVERA	GUAYNABO
A9-27435		ESCUELA CANEJAS	62745	CARR 842 KM 2 HM 3 BO CAIMITO ALTO	GUAYNABO
A9-39107		ESCUELA DRA CONCHA MELENDEZ	65359	CARR 838 KM 16 HM 6 RES ALEJANDRINO	GUAYNABO
A9-40615		ESCUELA LUIS MUNOZ RIVERA I	75846	AVE PONCE DE LEON BO SABANA GUAYNABO	GUAYNABO
A9-27439		ESCUELA S.U.RAFAEL HERNANDEZ	75689	CARR 833 KM 3.8 BO GUARAGUA FRENTE A LA GALLERA LA CAMPESINA	GUAYNABO
A9-27443		ESCUELA SANTA ROSA II	75762	CARR 837 KM HM BO SANTA ROSA III	GUAYNABO
A9-27441		ESCUELA JOSE DE DIEGO	75663	CARR 835 KM 2 HM 6 BO MAMEY 1 GUAYNABO	GUAYNABO
A9-27438		ESCUELA ALEJANDRO CRUZ JR	75671	CARR 838 RAMAL CARR 834 KM 4.3 BO MAMEY II	GUAYNABO
A9-27436		ESCUELA MARIANO ABRIL ELEMENTAL	75747	CARR 834 KM 1.8 RIO GUAYNABO	GUAYNABO
A9-27442		ESCUELA SANTA ROSA III	75770	CARR 833 KM 11 SANTA ROSA III	GUAYNABO
A9-38555		ESCUELA JOHN G WHITTIE	11411	BO CORCOBADA CARR 492 KM 3.1 HATILLO	HATILLO
A9-38560		ESCUELA LORENZO CABALLES GANDIA	11528	CARR 130 KM.3 SECTOR LOS ALVAREZ	HATILLO
A9-38559		ESCUELA LUIS MUNOZ RIVERA	11395	CARR 130 KM 3 HM 5 BO CAPAEZ HATILLO	HATILLO
A9-38557		ESCUELA TEODORO ROOSVELT	11486	CARR 134 KM 27 BO BAYANEY HATILLO	HATILLO
A9-26172		ESCUELA LUIS MELENDEZ RODRIGUEZ	11387	CARR 130 KM 11 HM BO CAMPO ALEGRE	HATILLO
A9-39096		ESCUELA MOISES MELENDEZ	62448	CALLE C 223 BDA BUENA VISTA RIO PIEDRAS	HATO REY
A9-40874		ESCUELA LEONOR ROOSVELT	61358	CALLE ANTOLIN ESQ. SARGENTO CASTILLO URB ROOSVELT HATO REY	HATO REY
A9-27165		ESCUELA FRANCSICO INSERN JIMENEZ	30585	.E ADUANA BO PUNTA SANTIAGO HUMACAO	HUMACAO

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Número de	Jen	NOMBRE DE ESCUELA	CODIGO DE ESCUELA	Dirección	
A9-39663		ESCUELA JUAN DE DIOS LOPEZ	30460	BO MARIANA II	HUMACAO
A9-39659		ESCUELA S.U. LUCIANO RIOS	30551	CARR 923 KM 8.16 BO BUENA VISTA	HUMACAO
A9-25479		ESCUELA ANTONIO GEIGEL PAREDES	15438	CARR 112 KM 5 HM 3 BO MORA	ISABELA
A9-38854		ESCUELA NICANDRO GARCIA	15321	CARR 475 KM3 HM 9 BO GALATEO ALTO	ISABELA
A9-38855		ESCUELA LA PLANTA	15305	CARR 475 KM 0 HM 9 BO ARENALES BAJO SECTOR LA 15	ISABELA
A9-38848		ESCUELA GLORIA GONZALEZ (LAS CRUCES)	15412	CARR 457 KM 2 HM 1 BO PLANAS 1 ISABELA	ISABELA
A9-38853		ESCUELA MANTILLA	15420	CARR 4475, C/ PARCELAS MANTILLAS BO ARENALES ALTOS ISABELA	ISABELA
A9-38508		ESCUELA ELEMENTAL URBANA 1	51342	CALLE FIGUEROA FRENTE PLAZA DE RECREO JAYUYA	JAYUYA
A9-25485		ESCUELA ANTONIO SERRANO	51458	CARR 141 KM 12.0 BO MAMEYES JAYUYA	JAYUYA
A9-24831		ESCUELA SAN PATRICIO	E9-51482	CARR 143KM 8.5 BO LA PICA	JAYUYA
A9-25968		ESCUELA SEGUNDA UNIDAD TOMAS CARRION MADURO	51789	CARR 1 KML 190 HM 9 BO ARUS	JUANA DIAZ
A9-38510		ESCUELA PEDRO ALBIZU CAMPOS	55889	CALLE 30 PACELAS AGUILITA JUANA DIAZ	JUANA DIAZ
A9-38773		ESCUELA SANTIAGO COLLAZO PEREZ	51540	CALLE 1 SECTOR EL PARQUE BO SABANA LLANA JUANA DIAZ	JUANA DIAZ
A9-25966		ESCUELA DALILA TORRES	51334	CALLE LUIS MUNOZ RIVERA	JUANA DIAZ
A9-38966		ESCUELA CLARA MALDONADO DE ARAMBURU	30742	CARR 31 KM 20 HM 8 BO EL MANGO JUNCOS	JUNCOS
A9-38965		ESCUELA SUPERIOR NUEVA JOSE COLLAZO COLON	34785	CARR 935 KM 4.2 BO CEIBA NORTE JUNCOS	JUNCOS
A9-40747		ESCUELA PEDRO BOSCH SALGAS	30643	CARR 935SECTOR SANTANA NO 2 BO CEIBA NORTE	JUNCOS
A9-27458		ESCUELA RAMON OLIVARES	44529	CARR 303 CALLE AMAPOLA BO OLIVARES LAJAS	LAJAS
A9-27454		ESCUELA ANTONIO PAGAN	41483	CARR 316 KM 1 HM 5 BO CANDELARIA, LAJAS	LAJAS
A9-27457		ESCUELA RICARDO MARTY FONT	41574	CARR 305 CALLE TORO BO MAGUAYO LAJAS	LAJAS
A9-27455		ESCUELA EMILIO ALVAREZ LOPEZ	41509	BO LA PLATA CARR 117	LAJAS
A9-25366		ESCUELA VIRGILIO ACEVEDO	11973	CARR 111 KM 23 BO PALMA LLANO	LARES
A9-36327		ESCUELA JOAQUIN CASTRO	11601	CARR 111 RUTA 453 KM 4 HM 9 SECTOR PILETAS CASTRO	LARES
A9-38681		ESCUELA CELSO GONZALEZ VAILLANT	34793	CARR 188 KM 7 HM 2	LOIZA
A9-38682		ESCUELA COM.MEDIANIA ALTA	31245	BO MEDIANIA ALTA	LOIZA

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Numero de	Jen	NOMBRE DE ESCUELA	CODIGO DE ESCUELA		
A9-39383		ESCUELA SU ADELAIDA VEGA	71852	CARR 677 KM 3 HM 3 BO MARICAO	MOROVIS
A9-39382		ESCUELA ANTONIO PAOLI	71738	CALLE 9 URB SANTA RITA	MOROVIS
A9-38825		SU SALTOS CABRAS	12740	CARR 566 KM 2 HM 1 BO SALTOS OROCOVIS	MOROVIS
A9-38607		ESCUELA S.U. JOSE R BARRERAS	12401	CARR 159 KM 5.6 BO UNIBON	MOROVIS
A9-38613		ESCUELA BARAHONA ELEMENTAL	12435	CARR 633 KM 4.4 BO BARAHONA, MOROVIS	MOROVIS
A9-38877		ESCUELA COM,QUEBRADA GRANDE	31609	CALLE 3 ESQ CALLE 8 PARCELAS VIEQUES	NAGUABO
A9-38835		ESCUELA HEVIA	71290	BO NUEVO CARR 167 KM 7.7 NARANJITO	NARANJITO
A9-38836		ESCUELA LOMAS VALLES	71316	CARR PR 164 KM 11 HM 2	NARANJITO
A9-38832		ESCUELA FELIPE SANCHEZ CRUZADO	71324	CARR 811 KM 5 HM 9 BO CEDRO ABAJO	NARANJITO
A9-38821		ESCUELA S.U. BONIFACIO ALVARADO	12518	CARR 143 KM 41HM 8 BO BERMEJALES	OROCOVIS
A9-38827		ESCUELA S.U. MATRULLAS	12666	CARR 564 KM 4.2 BO BAUTA ABAJO SECTOR MATRULLAS	OROCOVIS
A9-39608		ESCUELA QUEBRADA ARUBE 2	25221	CARR 184 KM 0 HM 0 BO QUEBRADA ARRIBA PATILLAS	PATILLAS
A9-39603		ESCUELA MARIA DAVILA SEMIDEY	25023	CALLE MUNOZ RIVERA FINAL # 54	PATILLAS
A9-39605		ESCUELA MARIN ABAJO	25148	CARR 181 KM 30 BO MARIN BAJO	PATILLAS
A9-39604		ESCUELA GUILLERMO KIEFKOHL	25197	CARR 3 KM 119.3 BO BOJOS	PATILLAS
A9-39607		ESCUELA S.U. JOAQUIN PARRILLA	25239	CARR 184 KM 21 HM 5 BO CACAO ALTO	PATILLAS
A9-39606		ESCUELA LOS POLLOS	25098	CARR 3 KM1 HM8 BO LOS POLLOS	PATILLAS
A9-39609		ESCUELA TOMAS VERA AYALA	25189	CARR 3 HM 15 BO GUARDARRAYA PATILLAS	PATILLAS
A9-26363		ESCUELA TALLABOA ALTA I	51961	CARR 391 KM 1 HM 7 BO. TALLABOA ALTA I BO RUCIO SECT LA MOCA PENUELA	PENUELAS
A9-25963		ESCUELA ELEMENTAL WERSTERN	51862	CALLE LUIS MUNOZ RIVERA, PENUELAS	PENUELAS
A9-38747		ESCUELA NUEVA SUPERIOR PEDRO MALDONADO TORRES	54585	CARR 132 BARRIO JAGUA PENUELAS	PENUELAS
57919		BO COTTO	57919	BO COTTO CARR 132 PENUELAS	PENUELAS
A9-24494		ESCUELA LUIS MUNOZ RIVERA I	52373	CARR 139 BO BAYAS	PONCE
A9-25702		ESCUELA HERMINIA GARCIA	54635	URB.GLENVIEW GARDENS CALLE 9 FINAL	PONCE
A9-25700.		ESCUELA ANSELMO RIVERA MATOS	52308	BO SAN PATRICIO CARR 505 KM 15.0	PONCE

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Numero de	Jen	NOMBRE DE ESCUELA	CODIGO DE ESCUELA		
A9-38657		ESCUELA CAPITANEJO	52183	CARR 1 INT 510 SECTOR LA CUARTA BO CAPITANEJO	PONCE
A9-27416		ESCUELA SUSANA RIVERA	50526	CARR 545 KM 0 HM 4 BO LOS LLANOS COAMO	PONCE
A9-38746		ESCUELA SUP. RAMON PEREZ PURCELL	51946	CARR 132 KM 7 HM 7 BO SANTO DOMINGO PENUELAS	PONCE
A9-38514		ESCUELA JUAN RAYMUNDO GARCIA	51755	CARR 551 SECTOR MAGAS BO GUAYABAL JUANA DIAZ	PONCE
A9-24644		ESCUELA PARCELAS MARUENO	54965	PARCELAS MARUENO CALLE SALVADOR BRAU	PONCE
A9-24522		ESCUELA LA YUCA	52316	BO LA YUCA KM 5 CARR 505	PONCE
A9-25701		ESCUELA MERCEDES P. SERRALLES	52407	BO. CALZADA MERCEDITA	PONCE
A9-24631		ESCUELA RAICES	54510	CARR 511 KM 13 BO LAS RAICES REAL ARRIBA	PONCE
A9-24623		ESCUELA RAMON E BETANCES	52076	CARR 10 PONCE ADJUNTAS KM 24.1 BO GUARAGUAO	PONCE
A9-25708		ESCUELA PONCE I RODULFO DEL VALLE	52571	CALLE ALCAZAR CARR 14	PONCE
A9-25704		ESCUELA PONCE I SANTA TERESITA	57026	CALLE 23 URB SANTA TERESITA	PONCE
A9-24637		ESCUELA PONCE I TOMAS CARRION MADURO	52720	CAR 14 BO MACHUELO SECTOR LA RAMBLA	PONCE
A9-24621		ESCUELA PONCE III ANGELA CORDERO BERNARD	55483	CALLE 3 BLOQUEHH VILLA DEL CARMEN	PONCE
A9-25698		ESCUELA PONCE IV ANDRES GRILLASCA SALAS	E9-54940	AVE LAS AMERICAS URB CONSTANCIA CALLE 9	PONCE
A9-25706		ESCUELA PONCE V OLIMPO OTERO	E9-52423	CALLE VILLA FINAL	PONCE
A9-24627		ESCUELA SEGUNDA UNIDAD ROSARIO LA TORRE	E9-52613	CARR #10 PONCE A ADJUNTAS	PONCE
A9-38764		ESCUELA MARIA DE HOSTOS	12807	CARR 119 RAMAL 463 KM 1.9 SECTOR SOLLER BO GUAJATACA QUEBRADILLA	QUEBRADILLAS
A9-25415		ESCUELA JOSE DE DIEGO	12849	CALLE 13 KM 15 H 9 BO SAN ANTONIO QUEBRADILLA	QUEBRADILLAS
A9-25410		ESCUELA JORGE SEDA CRESPO	42820	CALLE CAMBIJA BO ENSENADA FRENTE BALNERIO RINCON	RINCON
A9-39208		ESCUELA COM. ANTERA ROSADO	33647	CALLE 19 VILLAS DE RIO GRANDE	RIO GRANDE
A9-39206		ESCUELA PEDRO FALU ORELLANO	33233	CALLE PIMENTEL SECTOR LAS FLORES RIO GRANDE	RIO GRANDE
A9-39099		ESCUELA ELEMENTAL BERWIND	67785	CALLE FINAL RES. JARDINES DE BERWIND 65 TH INFANTERIA	RIO PIEDRAS
A9-39702		ESCUELA EL SENORIAL	66076	CALLE RIO BAROJA ESQ FEYO RIO PIEDRAS VI	RIO PIEDRAS
A9-24819		ESCUELA SAN AGUSTIN	62927	C/ 6, EXT SAN AGUSTIN RIO PIEDRAS	RIO PIEDRAS
A9-27211		ESCUELA ERNESTO RAMOS ANTONINI	64402	CHARDON FINAL TRES MONJITAS, HATO REY	RIO PIEDRAS

Numero de	Jen	NOMBRE DE ESCUELA	CODIGO DE ESCUELA		
A9-41942		ESCUELA JUAN B.HUYKE ELEMENTAL	61408	AVE SAN IGNACIO ESQ SAN ALFONZO URB ALTAMESA	RIO PIEDRAS
A9-25378		ESCUELA JULIO SELLES SOLAN	61416	CALLE 20 ESQ 19 VILLA NEVAREZ RIO PIEDRAS	RIO PIEDRAS
A9-41426		ESCUELA SAN MARTIN	64410	CALLE LUIS PARDO ESQ JUAN BAIZ URB SAN MARTIN	RIO PIEDRAS
A9-38898		ESCUELA LUIS MUNOZ RIVERA	43083	CALLE FRANCISC M QUINONEZ BO PUEBLO	SABANA GRANDE
A9-25596		ESCUELA PARCELAS VAZQUEZ	52803	CARR 1KM 77 BO PARCELAS	SALINAS
A9-39345		ESCUELA SAN FELIPE	52902	PDA 12 BO SAN FELIPE SALINAS	SALINAS
A9-39348		ESCUELA CARMEN BORRAS DE BATISTINI	47605	CARR 348 KM 9.4 ROSARIO POBLADO	SAN GERMAN
A9-25223		ESCUELA SU GALO ROSADO	43414	CARR 102 PARCELAS SABANA ENEAS SAN GERMAN	SAN GERMAN
A9-25251		ESCUELA LUIS MUNOZ RIVERA	43240	CARR 330 KM 1.1 SAN GERMAN	SAN GERMAN
A9-39347		ESCUELA BARTOLOME DE LAS CASAS	43273	CARR 162 KM 4.3 BO GUAMA SAN GERMAN	SAN GERMAN
A9-24488		ESCUELA MARTIN G. BRUMBOUGH	61721	CALLE SAN JUAN BAUTISTA PDA 7 PUERTA DE TIERRA SAN JUAN	SAN JUAN
A9-39128		ESCUELA AGUSTIN RODRIGUEZ HERNANDEZ	60285	CARR 185 KM 14 HM 5 BO CEDROS CAROLINA	SAN JUAN
A9-24665		ESCUELA TOMAS CARRION MADERO	61788	AVE PONCE DE LEON PDA 22 SANTURCE	SAN JUAN
A9-38911		ESCUELA LUIS MUNOZ RIVERA	22327	CALLE LUIS MUNOZ RIVERA	SAN LORENZO
A9-38910		ESCUELA S.U. QUEBRADA HONDA	22574	CARR 181 INT 913 KM 10 BO QUEBRADA SAN LORENZO	SAN LORENZO
A9-39676		ESCUELA ANGEL GUERRERO	43471	CARR 457 KM 0.6 BO AIBONITO SAN SEBASTIAN	SAN SEBASTIAN
A9-39374		ESCUELA ELEMENTAL ESTHER RIVERA	53025	BO PASO SECO CARR 163 SANTA ISABEL	SANTA ISABEL
A9-25613		ESCUELA EMILIO CASAS	53033	CARR 543, KM. 2 HM 4 BO PENUELAS SANTA ISABEL	SANTA ISABEL
A9-25607		ESCUELA FELICITA OLIVIERI (OLLAS)	53017	CARR 536 BO OLLAS SANTA ISABEL	SANTA ISABEL
A9-38872		ESCUELA SEGUNDO RUIZ BELVIS	61770	AVE FERNANDEZ JUNCOS	SANTURCE
A9-39317		ECUELA ALEJANDRO JR.CRUZ	71449	BO GALATEO SECTOR VILLA JOSCO CARR 115,KM 4.0	TOA ALTA
A9-40608		ESCUELA LUIS M. SANTIAGO	71498	6 CALLE LUIS M RIVERA TOA BAJA	TOA ALTA
A9-39319		ESCUELA JOSE DE DIEGO	71407	BO PINAS TOA ALTA	TOA ALTA
A9-38907		ESCUELA CARMEN BARROSO	71662	CALLE RAMON A. MORLA 7MA SEC LEVITTOWN	TOA BAJA
A9-38905		ESCUELA DELIA DAVILA DE CARAN	71639	'E LAGO CURIAS 5TA SECCION LEVITTOWN	TOA BAJA

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Numero de	en	NOMBRE DE ESCUELA	CODIGO DE ESCUELA		
A9-38901		ESCUELA ERNESTINA BRACERO	71571	CARR 865 OESTE KM 4.3 BO CANDELARIA ARENAS	TOA BAJA
A9-38904		ESCUEAL BASILIO MILAN HERNANDEZ	71654	CALLE JOSE DE DIEGO AVE SABANA 6TA LEVITTOWN	TOA BAJA
A9-27161		ESCUELA ALTINECIA VALLE SANTANA	71530	CALLE 2 # 538 CAMPANILLA	TOA BAJA
A9-24821		ESCUELA MANUEL CEPEDA	62752	CALLE RONDA , VILLA ANDALUCIA TRUJILLO ALTO	TRUJILLO ALTO
A9-27270		ESCUELA EL CONQUISTADOR	60095	CALLE 11 URB EL CONQUITADOR,TRUJILLO ALTO	TRUJILLO ALTO
A9-25381		ESCUELA ANTONIO S PEDREIRA	69096	CARR 852 KM 1V HM 9 QUEBRADA GRANDE TRUJILLO ALTO	TRUJILLO ALTO
A9-25380		ESCUELA JUAN J. OSUNA	69062	CARR 181 KM 10.4 QUEBRADA NEGRITO TRUJILLO ALTO	TRUJILLO ALTO
A9-38717		ESCUELA ANGELES EL CORCHO	12955	CARR 600 KM 2 HM 2 BO ANGELES UTUADO	UTUADO
A9-38714		ESCUELA FRANCISCO JORDAN	13326	CARR 111 K 8.5 BO CAGUANA EXT CARR 621 BO CAGUANA UTUADO	UTUADO
A9-38719		ESCUELA CARMEN APONTE	13094	CARR 111 DESVIO SECTOR CAYUCO BO CAGUANO UTUADO	UTUADO
A9-38718		ESCUELA SABANA GRANDE ABAJO	13367	CARR 611 KM 4 BO SABANA GRANDE	UTUADO
A9-38716		ESCUELA EUGENIO J VIVAS (ANGELES ELEMENTAL)	17335	CARR 602 KM 1 BO ANGELES UTUADO	UTUADO
A9-38722		ESCUELA S.U. INOCENCIO MONTERO	13359	TOA SALTO ARRIBA UTUADO	UTUADO
A9-38721		ESCUELA MARIA LIBERTAD GONZALEZ	14373	CALLE ROBLES URB LUIS PEREZ MATOS UTUADO	UTUADO
A9-38733		ESCUELA FRANCISCO RAMOS	13151	DR CUETO # 98	UTUADO
A9-38715		ESCUELA ANTONIO TULLA LOPEZ (MAMEYES)	13342	CARR 140 KM 5 HM 6 BO MAMEYES UTUADO	UTUADO
A9-39385		ESCUELA ELEMENTA URBANA	71720	CALLE TEODOMIRO RAMIREZ	VEGA ALTA
A9-38771		ESCUELA JOSE G PADILLA	71860	75 CALLE BETANCES	VEGA BAJA
A9-25364		ESCUELA ROSA M. RODRIGUEZ	72033	CARR 686 KM 13 HM 5 CALLE JUPITER BDA SANDIN VEGA BAJA	VEGA BAJA
A9-25722		ESCUELA ALMIRANTITO	71993	CARR 160KM 2.2 ALMIRANTE NORTE	VEGA BAJA
A9-25673		ESCUELA ALMIRANTE SUR II	E9-72017	CARR 160KM 6.7 SECTOR PARCELAS MIRANDA BO ALMIRANTE SUR	VEGA BAJA
A9-40759		ESCUELA ALMIRANTE SUR I	72009	CARR 160KM 7.7 SECTOR DECLET BO ALMIRANTE SUR	VEGA BAJA
A9-38758		ESCUELA FRANKLIN D ROOSEVELT	32318	BO LA PRA SECTOR LOS CHIVOS	VIEQUES
A9-38757		ESCUELA GERMAN RIECKEHFT	33043	CARR 993 KM 0.5 BO PUEBLO NUEVO	VIEQUES
A9-38755		ESCUELA VICTOR DUTEIL	32409	CALLE VICTOR DUTEIL VIEQUES	VIEQUES

PRTCH000103

Numero de Orden	NOMBRE DE ESCUELA	CODIGO DE ESCUELA		
A9-38759	ESCUELA EUGENIO MARIA DE HOSTOS	32292	CALLE ANTONIO G MELLADO VIEQUES	VIEQUES
A9-38756	ESCUELA MONTE SANTO	32359	CARR 993 KM 1 HM3	VIEQUES
A9-38775	ESCUELA CERRO GORDO	53116	BO CAONILLAS ARRIBA SECTOR CERRO GORDO	VILLABA
A9-25961	ESCUELA CAONILLAS	53108	CARR 151 KM. 1 ,BO CAONILLAS ARRIBA SECTOR LIMON VILLALBA	VILLALBA
A9-25960	ESCUELA LIMON	53199	CARR 151 KM 7 SECTOR LIMON BO CAONILLAS ARRIBA	VILLALBA
A9-25959	ESCUELA JOHNNY E. LABOY	53090	BO. HATO PUERCO ARRIBA SECTOR CAMARONES CARR 560, VILLALBA	VILLALBA
A9-38743	ESCUELA FRANCISCO SUSTACHE	32441	BO CAMINO NUEVO CARR 3R 901 K 8 H6	YABUCOA
A9-38739	ESCUELA MARTORELL	32607	APT 156 PARCELAS MARTORELL	YABUCOA
A9-38740	ESCUELA ROSA SANCHEZ VARGAS	32466	PARCELAS ROSA VARGAS	YABUCOA
A9-39379	ESCUELA S.U.ASUNCION LUGO	32433	BO CAMINO NUEVO SECTOR PARCELAS	YABUCOA
A9-38742	ESCUELA S.U.CRISTOBAL DEL CAMPO	32714	CARR 902 BO LIMONES	YABUCOA
A9-38741	ESCUELA TRINIDAD FEDERICO MATHEW	32615	CARR 902 K 1 BO INGENIO	YABUCOA
A9-39380	ESCUELA S.U. ANDRES SANDIN MARTINEZ	32680	CARR 906 KM 2 HM 0 BO AGUACATE	YABUCOA
A9-39378	ESCUELA EUGENIO MARIA DE HOSTOS	32649	CARR 906 KM 6 HM 4 BO PLAYA GUAYANES	YABUCOA
A9-39377	ESCUELA MARTA SANCHEZ	32524	CARR 900 KM 2 PARCELAS PLAYITA YABUCOA	YABUCOA
A9-38738	ESCUELA JAIME C RODRIGUEZ	32763	CALLE 4 URB C RODRIGUEZ	YABUCOA
A9-40624	ESCUELA S.U. JAIME CASTANER	53686	BO DUEY CARR 372 KM 9 YAUCO	YAUCO
A9-40623	ESCUELA PATRIA PEREZ (ALGARROBOS)	53314	CARR 128 BO ALGARROBOS	YAUCO

PRTCH000104

TAB 51

DRC
CORPORATION
SYSTEMS INTEGRATORS

Tel. (787)723-7621
Fax: (787)723-7610

August 22, 2001

Mr. Adonay Ramírez
Project Manager
Department of Education
Free Associated State of Puerto Rico

CONDITIONS ENCOUNTERED IN SCHOOLS

In the ReEducate project "status" meeting of August 15, 2001, we were asked to inform the Department of Education of Puerto Rico regarding conditions that DRC Corporation has encountered in the implementation of the project in the school system. In accordance with this request, the following is a list of conditions and concerns that affect or may affect implementation.

1. ***Electricity,*** as part of the visits our technicians have made to the Phase II schools, they have used a 50' extension that DRC provided, and connected the equipment in the black cabinet and the equipment to be installed (servers, back-up units, etc.) to the closest electrical outlets. In the Phase I schools, the equipment to be installed is connected to the closest electrical outlet with an extension provided by DRC. In doing so, we experienced the following:
    a. The closest outlet may be in the adjoining classroom, in which cases the equipment was connected, the standard tests run, and the extension disconnected and the equipment left disconnected in order to avoid inconveniences caused by the extension cord to teachers and/or students.
    b. When the equipment is connected and turned on, the electrical circuit to which it is connected shorts out. Different components of the equipment are then connected or turned on one by one as necessary to configure them and run the standard tests. In these cases, we chose to leave the equipment installed but turned off.
    c. Equipment is installed, connected and left on. When the technician leaves the school, the equipment is turned off by school staff.
    d. In another case, in the area where the equipment is installed, there was electrical wiring, but the outlet was missing. While the technician was preparing the equipment for installation and configuration, the person in charge of the area sent someone to buy an outlet. The situation was resolved with the help of an electrician, and the equipment was ultimately connected and turned on.
    e. In order to determine proactively and with certainty if a T1 circuit is working, it is essential that the school equipment be continually turned on. Under the conditions described, it is impossible to responsibly determine whether or not the T1 is damaged.
2. ***Lack of familiarity with project on the part of school staff.***
    a. The Department carries out several projects involving computers at the same time. The technician in some cases must spend more time on site due to the need to explain (in some cases in detail and to more than one person) what the benefits of the project are.

b. Authorized personnel does not allow work to be performed due to lack of familiarity with the project. We can point out that in one school where even after talking with the Superintendent of the District or Region, they did not allow work to be performed.

c. We also encountered schools that were aware of the implementation of the project and others that, while they were not aware, were cooperative after being presented with the letter from the Department and after receiving an explanation of the scope of the project from our technician.

3. Placement, Installation and configuration in schools.

a. The site where the equipment is installed should meet the following requirements:

ii. Close to the Main Distribution Frame (cabinet where the communications equipment is installed).

iii. Security: the equipment should be secured, preferably with bars and doors with locks; the installation should not pose a danger to students.

iv. The site should not get wet. The equipment should not be exposed to water.

b. Even after explanation of the requirements set forth above, we have been forced to install equipment in areas that do not meet some or all of these requirements because the staff in charge so directs.

c. In some cases, the school is preparing an area (installing bars, air conditioning) that can house the equipment. In these cases, it is configured and stored for placement upon completion of work.

d. Equipment theft takes place at different stages in the process: before installation, during installation and after installation. We would point out that on one occasion on which the technician was asked to leave the facility because it was closing, the cable for connecting the back-up unit was missing the following day.

e. In terms of vandalism, we have found that communications antennae and WavePoints have been taken to use in target practice, leaving some areas of the school without communications.

4. Work hours in the schools in relation to the project.

a. In this area, we have encountered all types of attitudes: schools that allow the technician to remain until whatever time necessary to finish the job, schools that ask the technician to leave the facility up to an hour before closing, schools that allow the technician to perform work even when arriving at 2:00 pm, and schools that do not allow it even when the technician arrives at 12:00.

b. We have coordinated with schools for certain, specific periods, and upon arrival at the appointed time, the school is closed. We have also had schools follow up with us to inquire about date of installation because they need the equipment.

c. The efforts of the Department in keeping schools open during the summer allowed us to move the installation process up and we found the majority of schools open.

We understand that the situations set forth above are a summary of what DRC Corporation personnel has encountered during installation of the project. We would like to make it clear that these comments do not reflect all the schools.

Implementation of the ReEducate network would greatly benefit from receiving plans and objectives from the Department sufficiently in advance. This would allow us to make suggestions and be responsive and proactive in implementing the Department's guidelines. We recommend continued efforts to provide information to the Principal, the teacher or responsible person about the benefits to each school of equipment installation and configuration. We know from experience that it is possible to have more schools like 20 de Septiembre School in the Vieques district and Ponce High in the Ponce district, where the principals were informed, had a positive attitude, and showed interest in asking questions and receiving additional information so that their schools could receive the benefits of the installations.

I remain at your service,

Sincerely,

[signature]
Mr. Ricardo R. Reyes Soler, CNE
Project Manager
Operations Department

Cc: Mr. Aníbal Cruz
Director, MIS
Department of Education
Free Associated State of Puerto Rico

Mr. José Santana
Department of Education
Free Associated State of Puerto Rico

Mr. Arnaldo Ramos
Department of Education
Free Associated State of Puerto Rico

Ms. Sonio Meléndez
Vice-President, Technical Operations
And Training

Ms. Maribel Cedeño
Department of Education
Free Associated State of Puerto Rico

Mr. Neftalí Usabal
Network Support Technician
Operations Department

DRC
CORPORATION
SYSTEMS INTEGRATORS
Tel. (787) 723-7621
Fax: (787) 723-7610

22 de agosto de 2001.

Sr. Adonay Ramírez,
Gerente de Proyectos
Departamento de Educación
Estado Libre Asociado de Puerto Rico

SITUACIONES ENCONTRADAS EN LAS ESCUELAS

En la reunión de "status" del proyecto ReEducate del pasado 15 de agosto de 2001, se nos solicitó que le informáramos al Departamento de Educación de Puerto Rico las situaciones que DRC Corporation se ha encontrado en la implantación del proyecto en las escuelas del sistema. Cumpliendo con esta solicitud a continuación le presentamos las situaciones y preocupaciones que afectan o pueden afectar su implantación.

1. ***Electricidad***, como parte del procedimiento de la visita de nuestros técnicos a las escuelas de Fase II, éstos utilizando una extensión de 50' que DRC provee, conectan a los receptáculos de corriente más cercanos los equipos que se encuentran dentro del gabinete negro y los equipos a instalar (servidores, "back-up unit", etc.). En las escuelas de Fase I, se conectan a los receptáculos de corriente más cercanos los equipos a instalar con una extensión que DRC provee. Al hacerlo hemos experimentado lo siguiente:
    a. El receptáculo más cercano puede estar en un salón contiguo, por lo que se ha preferido conectar el equipo, hacer las pruebas de rigor, y para evitar que la extensión pueda causar algún tipo de inconveniente a los maestros y/o estudiantes, retiramos la extensión y los dejamos desconectados.
    b. Cuando se conectan y se prenden los equipos el circuito eléctrico donde son conectados, se "cae". Se van prendiendo o conectando los equipos paulatinamente y según sean necesarios para configurase y hacer las pruebas de rigor. En estos casos preferimos dejar los equipos instalados pero apagados.
    c. Se instalan, conectan y se dejan prendidos los equipos, al técnico salir de la escuela los mismos son apagados por personal de la escuela.
    d. En otro caso, en el área donde se instalaron los equipos, la cablería eléctrica se encontraba pero no tenía receptáculo. Mientras el técnico preparaba los equipos para su instalación y configuración la persona encargada del área envió a comprar el receptáculo, y con la ayuda de un electricista arreglaron la situación, finalmente se pudieron dejar los equipos conectados y prendidos.
    e. Para poder determinar con certeza y pro-activamente si un circuito de T1 esta en función es vital tener el equipo de las escuelas prendido continuamente. En las situaciones señaladas es imposible determinar responsablemente si el T1 esta averiado.
2. ***Desconocimiento del proyecto por parte del personal en las escuelas***.
    a. El Departamento lleva a acabo varios proyectos que envuelven computadoras al mismo tiempo. El técnico en algunas ocasiones tiene que aumentar el tiempo de su visita debido a que tiene que explicar (en algunos casos en detalle y a más de una persona) en que consiste y los beneficios del proyecto.
    b. Personal autorizado que no permite que se realicen los trabajos por desconocer del proyecto. Podemos señalar una escuela donde aún después de conversar con el Superintendente del Distrito o Región no permitieron llevar acabo los trabajos.
    c. De la misma manera encontramos escuelas que estaban al tanto de la implantación del proyecto y otras, que aunque no estaban al tanto cooperaron luego de presentar la carta del Departamento y una explicación del alcance de la implantación por parte de nuestro técnico.
3. ***Ubicación, Instalaciones y configuración de los equipos en las escuelas.***
    a. El lugar donde se instala el equipo debe de cumplir con los siguientes requisitos o criterios:
        i. Cercanía al Main Distribution Fame (gabinete donde están los equipos de comunicación).
        ii. Seguridad: que el equipo esté seguro, preferiblemente con rejas y puertas con candado; que la instalación no represente peligro para la comunidad estudiantil.
        iii. Que no se moje. Se evita que el equipo esté expuesto al agua.

b. Aún explicando los requisitos antes expuestos se nos han requerido instalar los equipos en lugares que no cumplen con algunos o la totalidad de estos requisitos debido a que el personal encargado así lo prefiere.
c. En algunos casos, la escuela esta preparando el área (colocando rejas, aires acondicionado) que puedan albergar los equipos. En estos casos se configuran y se guardan para colocarlos en su lugar final al finalizar los trabajos.
d. El hurto de equipo es uno experimentado en diferentes etapas del proceso: antes de ir a instalarlos, durante la instalación y luego de la instalación. Podemos señalar que en una ocasión en la que a un técnico le solicitaron que saliera del plantel por que el mismo tenía que cerrar, se encontró que el cable para conectar la unidad de "backup" se había extraviado al día siguiente
e. En términos de vandalismo, hemos experimentado que las antenas de comunicación y los puntos de acceso ("WavePoint") han sido tomadas para practicar el tiro al blanco, dejando algunos sectores de la escuela sin comunicación..

4. ***El horario de trabajo en las escuelas en relación al proyecto.***
   a. En éste particular hemos experimentado todo tipo de actitudes: escuelas que permiten que el técnico se quede hasta la hora que sea necesario para finalizar el trabajo; hasta escuelas que le solicitan al técnico que abandone las facilidades hasta una hora antes de cerrar el plantel; escuelas que aunque el técnico llega a las 2:00 pm le permiten trabajar, y escuelas que aún cuando lleguen a la 12:00 m no se lo permite.
   b. Hemos coordinado escuelas para ciertos periodos en específico, y al ser visitadas durante el periodo coordinado encontramos la escuela cerrada. También hemos tenido casos de escuelas que nos dan seguimiento para saber la fecha de la instalación del equipo por que necesitan del mismo.
   c. La gestión que realizó el Departamento de mantener las escuelas abiertas durante el verano, nos permitió adelantar el proceso de instalación del proyecto y logramos encontrar la mayoría de las escuelas abiertas.

Entendemos que las situaciones antes expuestas son un resumen de lo que el personal de DRC Corporation ha experimentado durante la implantación del proyecto. Queremos aclarar que las situaciones expuestas no se reflejan en la totalidad de las escuelas.

La implantación de la red ReEducate se beneficiaría grandemente si los proveedores de servicio contáramos con los planes y objetivos del Departamento con suficiente anticipación. De esta manera podríamos ofrecer sugerencias, ser ágiles y pro-activos en la implantación de las directrices del Departamento. Recomendamos que se continúen los esfuerzos para que la información siga llegando al Director, al maestro o persona encargada, sobre los beneficios que adquiere la escuela con la instalación y configuración de los equipos. Sabemos por experiencia que podemos tener más escuelas como la 20 de septiembre en el distrito de Vieques y la Ponce High del distrito de Ponce, donde las Directoras, estaban informadas y con una actitud positiva a preguntar y recibir información adicional para que sus escuelas pudieran obtener los frutos de las instalaciones.

Quedando a su disposición para éste u otro asunto.

Att.

Sr. Ricardo R. Reyes Soler, CNE
Project Manager
Departamento de Operaciones

Cc: Sr. Aníbal Cruz,
Director de MIS
Departamento de Educación
Estado Libre Asociado de Puerto Rico

Sr. Arnaldo Ramos
Departamento de Educación
Estado Libre Asociado de Puerto Rico

Sra. Sonia Meléndez,
Vice-Presidenta de Operaciones Técnicas y Adiestramientos

Sr. José Santana
Departamento de Educación
Estado Libre Asociado de Puerto Rico

Srta. Maribel Cedeño
Departamento de Educación
Estado Libre Asociado de Puerto Rico

Sr. Neftalí Usabal
Network Support Technitian
Departamento de Operaciones

TAB 52

DRC
CORPORATION
SYSTEMS INTEGRATORS

Tel. (787)723-7621
Fax: (787)723-7610

October 1, 2001

BY FAX: (787)250-0275

Honorable Cesar Rey Hernández, PhD
Secretary
Department of Education
Free Associated State of Puerto Rico
P.O. Box 190759
San Juan, Puerto Rico 00919-0759

Dear Mr. Secretary:

On September 28, 2001, the Department of Education decided not to accept final delivery from DRC Corporation of 55 servers with monitors, 29 backup units and 84 UPS', under the contract between the Department of Education and DRC Corporation for year three of the E-Rate program. The deadline to deliver this equipment and take advantage of the discounts approved by E-rate was September 30, 2001. The total amount of the equipment is $207,480.00.

Clause one, section four of the contract details the services and equipment that would be provided by DRC Corporation for this year. In due observance of it's contractual obligations, DRC Corporation acquired and paid its suppliers for the full amount of the equipment, as follows: 4600 servers with monitors, 1540 backup units, and 4600 UPS. The servers were manufactured with a ***custom*** configuration according to the specifications contained in the proposal presented to the Department of Education, with the Windows 2000 operating system licensed to the Department of Education preinstalled.

For the reasons set forth above, DRC Corporation is forced to invoice the Department of Education directly for the full amount of the equipment. This equipment is identified and separated in DRC Corporation's warehouses and ready for immediate delivery to the Department of Education.

I thank you in advance for your attention to this matter.

Cordially,

[signature]
Santos Díaz Díaz

Carmen Collazo, PhD
Lic. Ana Matilde Nin
Mr. Aníbel Cruz
Lic. Francisco de Jesús Schuck

DRC
CORPORATION
SYSTEMS INTEGRATORS
. (787) 723-7621
Fax: (787) 723-7610

1 de octubre de 2001

POR FAX: (787) 250-0275

Honorable Cesar Rey Hernández, PhD
Secretario
Departamento de Educación
Estado Libre Asociado de Puerto Rico
PO Box 190759
San Juan, Puerto Rico 00919-0759

Estimado señor Secretario:

El pasado viernes 28 de septiembre de 2001, el Departamento de Educación decidió no aceptar la entrega final por parte de DRC Corporation de 55 servidores con sus monitores, 29 unidades de backup, y 84 UPS, correspondientes al contrato del año 3 del programa de E-Rate entre el Departamento de Educación y DRC Corporation. La fecha límite para entregar estos equipos y acogerse a los descuentos aprobados por E-rate era el 30 de septiembre de 2001. El monto total de los equipos es $207,480.00.

En su primera cláusula, inciso 4 del contrato se detallan los servicios y equipos que serían provistos por DRC Corporation para este año. Cumpliendo responsablemente con las obligaciones contraídas, DRC Corporation adquirió y pagó a sus suplidores la totalidad de los equipos, a saber: 4600 servidores con sus monitores, 1540 unidades de backup, y 4600 UPS. Los servidores fueron manufacturados con una configuración ***particular*** según ofrecida en la propuesta al Departamento de Educación y contienen pre-instalado el sistema operativo de Windows 2000 con licencias del Departamento de Educación.

Por las razones antes expuestas, DRC Corporation se ve obligado a facturar directamente al Departamento la totalidad del equipo. El mismo está disponible, identificado y separado en los almacenes de DRC Corporation para su entrega inmediata al Departamento de Educación.

Agradeciendo de antemano su atención a este asunto quedo,

Cordialmente,

Santos Diaz Diaz

c. Carmen Collazo, PhD
Lcda. Ana Matilde Nin
Sr. Aníbal Cruz
Lcdo. Francisco de Jesús Schuck

TAB 53

PRT Telefónica of Puerto Ri

ATTACHMENT 4-A

Arnaldo Díaz Montes
Sales Support Department

P.O. BOX 360998, San Juan, Puerto Rico 00936-0998

October 4, 2001

Mr. Aníbal Cruz Pérez, MA SE
Chief of Information Systems
DEPARTMENT OF EDUCATION
P.O. Box 190759
San Juan, Puerto Rico 00919-0759

Dear Mr. Cruz:

Puerto Rico Telephone has created a technical team for the purpose of identifying and correcting any malfunction or damage detected in the network that serves the Department of Education's Re-Edúcate Project.

For this purpose, we have been making visits to various locations and we have identified the following deficiencies and situations:

1. Lack of cooperation by school staff.
2. Lack of adequate electrical facilities necessary for connection of equipment. It is important to note that during the first phase, Puerto Rico Telephone was forced to install extension cords in order to connect the equipment, due to lack of electrical facilities. This type of connection used by PRT should eventually have been replaced with electrical connections installed by the Department of Education at those sites.
3. The sites selected by the Department of Education for installation by PRT of HDSL cards for the T-1 circuits lacked the ventilation necessary to prevent the equipment from burning out due to excess heat. This creates constant malfunctions in the services we provide and affects the quality of service.
4. The same situation affects installed equipment. Problems are beginning to arise with overheating due to lack of ventilation.

Our work is being seriously hampered, and this has prevented us from reaching our stated goals.

Cont...

The difficulties set forth herein were communicated on countless occasions to the Department of Education so that corrective measures could be taken. However, these issues were not addressed as needed.

Our purpose in addressing these issues is to request your help, as we are well aware of your genuine interest and that of all of the Management of the Department of Education in the quality and efficiency of this Project for the benefit of Puerto Rican students and our country as a whole.

Therefore, it is essential and important that we join forces so that the situations we currently face and those that may arise in the future can be resolved with the speed and priority this project requires.

All the resources of our Company are at your disposal so that we may continue to provide the best and most efficient telecommunications service that any provider could provide to the Department of Education in Puerto Rico.

I remain at your service and I thank you for the opportunity to serve you.

Cordially,
[signature]
Arnaldo Díaz Montes
Project Coordinator

/aao
Educación4

Xc: Sr. Abid E. Quiñones, Sales Manager

PRT Telefónica de Puerto Rico

ATTACHMENT 4-A

Arnaldo Díaz Montes
Departamento Apoyo a Ventas

P.O. BOX 360998, San Juan, Puerto Rico 00936-0998

4 de octubre de 2001

Sr. Aníbal Cruz Pérez, MA SE
Principal Oficial de Informática
DEPARTAMENTO DE EDUCACIÓN
P.O. Box 190759
San Juan, Puerto Rico 00919-0759

Estimado Señor Cruz:

Puerto Rico Telephone ha creado un equipo de trabajo técnico el cual encara como meta identificar y corregir cualquier avería que detecte en la red que sirve al Proyecto Re-Edúcate del Departamento de Educación.

A esos efectos, hemos estado realizando visitas a diferentes localidades y hemos encontrado las siguientes deficiencias o situaciones:

1- Falta de cooperación del personal en las escuelas.
2- Falta de facilidades eléctricas adecuadas disponibles para la conexión de los equipos. Es importante señalar que en la primera fase, Puerto Rico Telephone se vio obligado a colocar extensiones eléctricas para conectar los equipos debido a la ausencia de facilidades eléctricas. Este tipo de conexión utilizado por PRT debió haber sido sustituido eventualmente por conexiones eléctricas construidas por el Departamento de Educación en dicha localidad.
3- Los lugares seleccionado por el Departamento de Educación para que PRT instalara las tarjetas de HDSL para los circuitos T-1, carecen de la ventilación necesaria y requerida para evitar el que dichos equipos se quemen por el exceso de calor. Esto crea averías constantes en los servicios que le prestamos interrumpiendo la calidad del servicio.
4- La misma situación ocurre con los equipos instalados, los cuales comienzan a tener problema por sobrecalentarse por falta de ventilación.

El esfuerzo que estamos realizando se está viendo seriamente afectado y nos impide alcanzar las metas que nos hemos establecido.

Cont...

Estas situaciones que hoy le expresamos en éste comunicado, fueron señaladas en innumerables ocasiones al Departamento de Educación para que se tomaran acciones correctivas, sin embargo, las mismas no fueron atendidas como se requería.

Nuestro propósito al presentarle éstos asuntos es para solicitarle su ayuda ya que conocemos el interés genuino suyo y de toda la Gerencia del Departamento de Educación, para que éste Proyecto funcione con calidad y eficiencia para el beneficio del estudiante puertorriqueño y de nuestro País.

Por tal razón, es indispensable e importante el que aunemos esfuerzos conjuntos de forma tal que las situaciones que hoy confrontamos y aquellos que surjan en el futuro, puedan ser atendidos con la premura e importancia que éste proyecto requiera.

Ponemos a su disposición todos los recursos de nuestra Empresa para continuar proveyéndole el mejor y más eficiente servicio de telecomunicaciones que proveedor alguno pueda proveerle al Departamento de Educación en Puerto Rico.

Reiterándome a sus órdenes y agradeciendo la oportunidad que nos brinda para servirle, queda de usted,

Cordialmente,

Arnaldo Díaz Montes
Coordinador de Proyecto

/aao
Educación4

Xc: Sr. Abid E. Quiñones, Gerente de Ventas

TAB 54

DRC

CORPORATION SYSTEMS INTEGRATORS

DRC is a wholly Puerto Rican company with 25 years of history. We are fully committed to the DE. At DRC we see this project as a great opportunity for growth and educational development for our children, who will be part of Puerto Rico's future.

[handwritten:] Received October 30, 2001

Upgrade Program for Schools in the E-Rate Program

1. Identify an individual at each school as a contact.
   •This gives DRC and the DE a point of contact for each installation for:
   - √ Local supervision of communications teams
   - √ Weekly validation on the DE web site

   • Those persons selected by the DE will be trained by DRC personnel in the use of the computers.

2. Monitoring Program:
   •DRC shall provide the DE with the tools necessary for monitoring the Servers, Routers, Switches and PCs supplied by DRC during Phase II.
   - √ HP Open View Remote Management
   - √ HP Open View Web Access

   • These tools are currently in operation in DRC facilities.

3. Help Desk
   •DRC shall provide the DE with space in its NOC facilities, where the DE may station a person who may monitor its Phase II servers.
   •DRC shall provide the DE with a weekly report on its Servers and their availability on the NETWORK.

4. Installation of PCs by school.
   •DRC shall provide the DE with connectivity of one PC per school that is compatible with E-Rate. This installation shall be based on the following premises:
   a. The first choice is to use one of the school's existing PCs in order to offer Internet services under the E-Rate program.
   b. If necessary, if the school does not have a PC for Internet service, DRC shall provide one for Internet access.

5. Installation and Verification of Phase II Equipment.

•DRC shall employ a team of people from the following divisions:

•Infrastructure
- √ Verify Cable connections
- √ Verify Access Point Wireless
- √ Verify Electrical extensions
- √ Provide Electrical extensions
- √ Provide covers to protect the extensions and prevent removal or vandalism

•Operations.

√ Verify installation of servers
√ Verify all services are correct
(DHCP, DNS, ROUTERS, ETC.)
√ Verify condition of AX50s (ATM Routers)
√ Verify UPS' (Batteries)
√ Warranty review and replacement of equipment under warranty

•ISP

√ Verify access to Internet and filter contents
√ Update filter tables
√ Network management

6. Student web page

• DRC, on its own initiative, is working on developing a student web page to give students quick access to educational servers

√ Access to common areas for research projects
√ Access to public programming tools, such as C, Perl, CGI, etc.
√ Access to open code operating systems (BSD, LINUX, ETC)
√ Access to GNU projects at all universities and schools in the United States and Europe

• Creation of a forum for questions and answers

7. Daily Access Reports

•DRC shall provide daily access reports for the following categories:
√ Areas most visited by students
√ Areas visited by machine
√ Areas restricted due to pornography
√ Areas restricted due to violence

[handwritten:]

8. [illegible] a school to validate systems and infrastructure, which shall serve as a model for connection of the remaining schools. DE shall validate each school.

Date – On or before [illegible] Nov. 2.

[signature]

DRC

CORPORATION

SYSTEMS INTEGRATORS

DRC es una empresa netamente puertorriqueña con 25 años de estar establecida. Nuestra compromiso con el DE es completo. En DRC vemos este proyecto como una gran oportunidad de crecimiento y desarrollo educativo para nuestros hijos que vendrán a formar parte del Puerto Rico del Futuro.

Recibida 30 de octubre de 2011

Programa Para Actualizar Las Escuelas del Programa E-Rate

1. Designar un individuo por escuela como contacto.
   - Esto le brinda a DRC y al DE la oportunidad tener un punto de contacto por cada instalación para:
     - ✓ Supervisión local de los equipos de comunicación.
     - ✓ Validación semanal a la pagina de WEB de DE
   - DRC tomara las personas seleccionadas por el DE para ser adiestradas por personal de DRC en el uso de las computadoras.

2. Programa de Monitoreo
   - DRC proveerá al DE las herramientas necesarias para el monitoreo de los Servidores, Routers, Switches y PC's proveidas por DRC en la Fase II
     - ✓ HP Open View Remote Management
     - ✓ HP Open View Web Access
   - Estas Herramientas están en función actualmente en las facilidades de DRC.

3. Help Desk
   - DRC proveerá al DE un espacio en sus facilidades del NOC donde podrá ubicar una persona que pueda estar monitoreando sus servidores de Fase II.
   - DRC proveerá al DE un reporte Semanal de los Servidores y su disponibilidad en la RED.

4. Instalación de PC's por Escuela.
   - DRC proveerá al DE la conectividad de una PC por escuela que cumpla con el Programa E-Rate. Esta instalación será basada en las siguientes premisas:
     a. Como primera alternativa tomar una PC existente en la escuela para ofrecer los servicios de Internet bajo el programa de E-Rate.
     b. De ser necesario si la escuela no posee una PC para obtener los servicios de Internet, DRC proveerá una para el acceso de Internet.

5. Instalación y Verificación de Equipo de Fase II.
   - DRC tendrá un equipo de personas de las siguientes divisiones:
     - Infraestructura
       - ✓ Verificara las conexiones de Cableado

- ✓ Verificara los Access Point Wireless
- ✓ Verificara las extensiones de Corriente
- ✓ Proveerá las extensiones de corriente
- ✓ Proveerá varetas para proteger las extensiones y prevenir su remoción o vandalismo

- Operaciones.
  - ✓ Verificara la instalación de los servidores
  - ✓ Verificara que todos los servicios esten correctos (DHCP, DNS, ROUTERS, ETC.)
  - ✓ Verificara es estado de los AX50 (Routers ATM)
  - ✓ Verificará los UPS (Baterías) .
  - ✓ Revisión de garantias y reemplazo de equipo en garantía

- ISP
  - ✓ Verificara el acceso a Internet y el contenido del filtro
  - ✓ Actualizara las tablas de filtro.
  - ✓ Manejo de la red

6. Portal Estudiantil
   - DRC como iniciativa suya esta trabajando en el desarrollo de un portal estudiantil brindando a los estudiantes un rápido acceso a servidores educativos
     - ✓ Acceso a áreas comunes para proyectos de investigación
     - ✓ Acceso a herramientas de programación publicas como C, Perl, CGI, etc.
     - ✓ Acceso a sistemas operativos de código abierto (BSD, LINUX, ETC)
     - ✓ Acceso a proyectos GNU de todas las universidades y escuelas de Estados unidos y Europa
   - Creación de foro de intercambio de preguntas y respuestas

7. Reportes de Acceso Por Día
   - DRC proveerá los reportes de acceso bajo las siguientes categorías:
     - ✓ Lugares mas visitados por los estudiantes
     - ✓ Lugares visitados por maquina
     - ✓ Lugares restringidos por pornografía
     - ✓ Lugares restringidos por violencia

8. [illegible]

TAB 55

Puerto Rico
Telephone
Company

TELEFONICA
DE PUERTO RICO

October 30, 2001

Aníbal Cruz
Chief of Information Systems
Department of Education
San Juan Puerto Rico

As per your request, we have studied a Recovery plan for services related to the E-Rate Program, known as the Re-Edúcate Project.

An analysis of the conditions encountered by PRTC staff and that of our contractors yielded the following results:

5. The cabinets where the equipment is installed have no ventilation.
6. The size of the cabinets is not adequate for the amount of equipment.
7. The cabinets do not have fans to disperse heat from the equipment installed.
8. The cabinets are being affected by rain, as they are up against the windows, the equipment gets wet and the Power Supply burns out.
9. The lack of electricity in the schools prevents schools from keeping the equipment connected.
10. PRTC installed electrical extensions in all Phase I schools and there are many cases in which these are missing.
11. In many cases, the structural wiring runs horizontally in relation to the windows. Thus, computers installed may get wet, as well as equipment.
12. HDSL cards have burned out due to lack of ventilation. This does not allow the T-1s to be active in order to provide service.

On the basis of the foregoing, we are making the following recommendations:

1. We would have to reposition the cabinets in the schools.
2. Rewire for at least 12 Category 5 ports.
3. Use libraries as the first choice for installation of the T-1s and equipment.
4. Use classrooms with air conditioning and security (bars) for installation of T-1s and equipment.
5. Install fans in cabinets.
6. Correct electrical problems to the extent possible.
7. Install two PCs for Internet access.
8. Install UPS for all schools.

P.O. Box 360998 San Juan Puerto Rico 00936-0998

PRTC, in its interest in making good use of these funds and bringing Internet service to the public schools of Puerto Rico. We made contact with the staff of Rafael Hernández Marín School, code 61549, to perform an installation, in accordance with our recommendations.

Once this has been completed, a joint site visit will be made with the Department of Education in order to verify the installation. Should the site be certified by the Department of Education, the necessary agreements will be made between the parties for the work plan to be carried out. Once this school is evaluated, PRTC will be in a position to make any type of decision regarding this project.

We want to make it clear that our interest in this project has always been to provide good service, and that the matters set forth above are presented for the purpose of improving what we have encountered in the field.

Lastly, we would like to express our full willingness to help, as long as all parties involved in the project cooperate. I appreciate the opportunity to present alternatives for correcting the problems in the Re-Edúcate network.

[signature]
Arnaldo Díaz
Technical Coordinator
Puerto Rico Telephone

[handwritten:]

The school for certification shall be available on or before [illegible] Nov. 2, 2001.
[signature]
18672

PuertoRico
Telephone
Company

TELEFONICA

30 de octubre de 2001

Aníbal Cruz
Principal Oficial de Informática
Departamento de Educación
San Juan Puerto Rico.

Según solicitado por usted hemos analizado un plan de Recuperación para los servicios del Programa de E-Rate conocido como el Proyecto Re-Edúcate.

Después de haber analizado la situación encontrada por el personal técnico de PRTC y nuestros contratistas estas son las situaciones:

1. Los gabinetes donde están instalados los equipos no tienen ningún tipo de ventilación.
2. El tamaño de los gabinetes no esta apropiado para la cantidad de equipo.
3. Los gabinetes no tienen abanicos para disipar el calor de los equipos instalados.
4. Los gabinetes se están afectando por la lluvia, ya que al estar pegados a las ventanas los equipos se mojan y queman los "Power Supply"
5. La falta de electricidad en las escuelas no permiten tener los equipos conectados.
6. PRTC instaló extensiones eléctricas en todas las escuelas de la Fase I y tenemos muchos casos donde la misma no existe.
7. El alambrado estructurado corre en muchos casos horizontalmente a las ventanas, por lo cual de instalar computadoras las mismas podrían mojarse al igual que los equipos.
8. Tarjetas HDSL quemadas por la falta de ventilación, no permiten tener los T-1 activos para poder dar servicio.

Después de analizar lo antes expuesto podemos llegar a las siguientes recomendaciones:

1. Tendríamos que reubicar los gabinetes en las escuelas
2. Realambrar por lo menos para doce puertos Categoría 5
3. Utilizar las bibliotecas como primera opción para instalación de T-1 y equipos
4. Utilizar salones que tengan aire acondicionado y seguridad (rejas) para la instalación de T-1 y equipos.
5. Instalar abanicos en los gabinetes
6. Corregir los problemas eléctricos en la medida que sea posible.
7. Instalar dos PC para acceso de Internet
8. Instalación de UPS para todas las escuelas

P.O. Box 360998, San Juan, Puerto Rico 00936-0998

PRTC en su interés por hacer un trabajo que permita la buena utilización de estos fondos y que podamos llevar el servicio de Internet a las escuelas públicas de Puerto Rico. Coordinamos con el personal de la Escuela Rafael Hernández Marin código 61549 para hacer una instalación de acuerdo a nuestras recomendaciones.

Una vez completada la misma se visitará conjunta con el Departamento de Educación para que estos validen la escuela. De esta ser validad por el Departamento de Educación se llegaran a los acuerdos necesarios entre las partes para el plan de trabajo a realizar. PRTC estaría en posición una vez evaluada esta escuela de tomar cualquier tipo de decisión en cuanto a este proyecto.

Queremos ser especifico que nuestro interés en este proyecto siempre ha sido brindar un buen servicio, y que las situaciones antes señaladas han sido presentadas como una forma de mejorar lo que hemos encontrado en terreno.

Por ultimo deseamos señalar que estamos en la mejor disposición de ayudar, siempre y cuando todas las partes envueltas en el proyecto cooperen. Agradezco su oportunidad de brindar alternativas para la corrección de los problemas dentro de la red Re-Edúcate.

Arnaldo Díaz
Coordinador Técnico
Puerto Rico Telephone

Fue enviado para incluir en informe disponible en o antes del viernes 2 de nov. de 2001.
18672

TAB 56

Puerto Rico
Telephone
Company

ATTACHMENT 4-C

TELEFONICA
OF PUERTO RICO

[stamp reads:]
RECEIVED
NOV. 14 2001
[illegible]
MANAGER

November 9, 2001

Mr. Aníbal Cruz
Chief of Information Systems
Department of Education
San Juan, Puerto Rico

Dear Mr. Cruz,

Telefónica is anxious to work with the Department of Education to connect as many schools as possible to the Internet. We have attached a list, in both hard copy and electronic form, that includes over four hundred schools where service is being provided, but where students are unable to use this service because there are no computers connected.

The purpose of this list is to allow the Department to specify how many of these schools have computers available to be connected to the Internet. Telefónica will provide personnel to assist the Department in installing these machines.

The schools not included on this list are schools that have been identified as having serious deficiencies in electrical service, or other problems that affect electrical service. There are very few cases in which problems are attributable to Telefónica. We have identified those cases and are making efforts to rectify those situations.

As our recovery plan specifies, our company is interested in working with the Department of Education to resolve the electrical deficiencies and the lack of adequate cabinets for this service.

We hope to receive a reply as soon as possible, so we can implement our action plan. In order for this plan to be effective, it is important that we work together for the benefit of all the students in the public system.

Cordially,

[signature]
Arnaldo Díaz
Technical Coordinator

c. Mr. Abid Quiñones

P.O. Box 360998 San Juan, Puerto Rico 00936-0998

PRTCH000109

Puerto Rico Telephone Company
TELEFONICA

ATTACHMENT 4-C

RECEIVED
NOV 14 2001
GOVERNMENT MANAGER

9 de noviembre de 2001

Sr. Aníbal Cruz
Principal Oficial de Informática
Departamento de Educación
San Juan, Puerto Rico

Estimado Sr. Cruz.

La Telefónica esta en la mejor disposión de trabajar con el Departamento de Educación, para poner la mayor cantidad de escuelas posible a utilizar el servicio de Internet. El listado que acompañamos tanto escrito como electrónico tiene sobre cuatrocientas escuelas donde el servicio se está brindando, pero por no tener computadoras instaladas los estudiantes no pueden utilizar el mismo.

El propósito de este listado es que el Departamento identifique cuantas de estas escuelas tienen computadoras disponibles para hacer la conexión al Internet. Telefónica tendrá personal disponible para asistir al Departamento en la instalación de estas máquinas.

En cuantos a las escuelas que no están en este listado las mismas han sido identificadas como escuelas con serias deficiencias eléctricas o con algún tipo de problema que afectan las mismas. Son muy pocos los casos en que la problemática es por consecuencia de Telefónica, las cuales hemos identificados y estamos haciendo gestiones para corregirlos.

Como establece nuestro plan de recuperación, nuestra compañía tiene interés en trabajar con el Departamento de Educación para corregir las deficiencias eléctricas y la falta de gabinetes adecuados para este servicio.

Esperamos tener una contestación de usted a la brevedad posible, para poder poner en marcha nuestro plan de acción. Para que este plan de trabajo funcione es importante unir esfuerzos para el beneficio de todos los estudiantes del sistema público.

Cordialmente,

Arnaldo Díaz
Coordinador Técnico

c Sr. Abid Quiñones

P.O. Box 360998, San Juan, Puerto Rico 00936-0998

Education Dept.
Office for the Improvement of Public Schools

Departamento de Educación
Oficina para el Mejoramiento de las Escuelas Públicas

Oficina del
OMEP
Gerente General

Informe de Mejoras Necesarias para la Instalación de Computadoras

Report on Necessary Improvements for Computer Installation

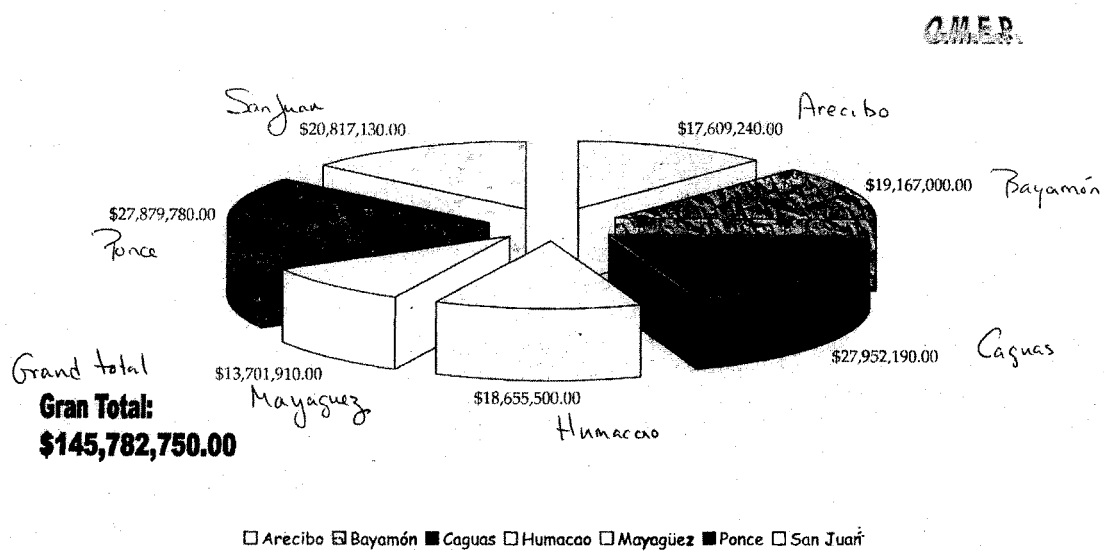
Alejandro Ruiz Olivo
Gerente General
OMEP Central

General Manager

TAB 57

Cost by Región for Pertinent Improvements - Computer Installation

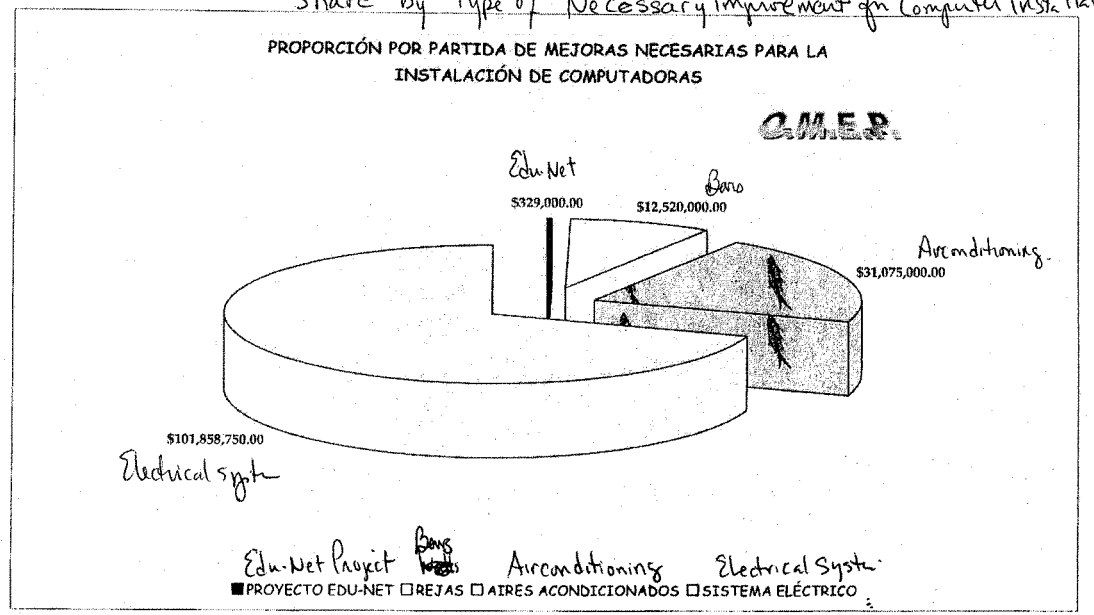
COSTO POR REGIÓN PARA MEJORAS PERTINENTES - INSTALACIÓN DE COMPUTADORAS



Grand total

Gran Total:
$145,782,750.00

Share by Type of Necessary Improvement for Computer Installation



DEPARTAMENTO DE EDUCACIÓN
GOBIERNO DE PUERTO RICO

Oficina de CMEB Gerente General

Summary Report of Necessary Improvements for Computer Installations

RESUMEN INFORME DE MEJORAS NECESARIAS PARA LA INSTALACION DE COMPUTADORAS

REGIÓN	PROYECTO EDU-NET (Edu-Net Project)			REJAS (Bars)		AIRES ACONDICIONADOS (Airconditioning)		SISTEMA ELECTRICO (Electrical System)		TOTAL POR REGIÓN
	Núm. de Cajas (# Boxes)	Núm. de Escuelas (# Schools)	Costo Estimado (Est. Cost)	Núm. de Escuelas (#Schools)	Costo Estimado (Est. Cost)	Núm. de Escuelas (#Schools)	Costo Estimado (Est. Cost)	Núm. de Escuelas (#Schools)	Costo Estimado (Est. Cost)	(Total by Region)
ARECIBO	107	75	$53,500.00	176	$2,010,000.00	176	$5,025,000.00	177	$10,520,740.00	$17,609,240.00
BAYAMÓN	94	53	$47,000.00	112	$1,120,000.00	104	$2,600,000.00	196	$15,400,000.00	$19,167,000.00
CAGUAS	90	60	$45,000.00	229	$2,290,000.00	229	$5,725,000.00	215	$19,892,190.00	$27,952,190.00
HUMACAO	41	40	$20,500.00	189	$1,690,000.00	189	$4,225,000.00	189	$12,720,000.00	$18,655,500.00
MAYAGÜEZ	132	96	$66,000.00	92	$1,170,000.00	95	$2,925,000.00	95	$9,540,910.00	$13,701,910.00
PONCE	102		$51,000.00	252	$2,520,000.00	251	$6,275,000.00	255	$19,033,780.00	$27,879,780.00
SAN JUAN	92	81	$46,000.00	81	$1,720,000.00	81	$4,300,000.00	172	$14,751,130.00	$20,817,130.00
TOTAL	658	405	$329,000.00	1131	$12,520,000.00	1125	$31,075,000.00	1299	$101,858,750.00	$145,782,750.00

GRAN TOTAL	$145,782,750.00

Grand total

Arecibo

DEPARTAMENTO DE EDUCACIÓN
GOBIERNO DE PUERTO RICO

SMER

Report on Necessary Improvements for Computer Installation

REGIÓN: ARECIBO

INFORME DE MEJORAS NECESARIAS PARA LA INSTALACIÓN DE COMPUTADORAS

EduNet			Bars		Air Conditioning		Electrical System (Sub-stations)	
Proyecto Edu-Net (Cajas Negras)			Rejas		Aires Acondicionados		Sistema Eléctrico (Subestaciones)	
Núm. de Cajas	Núm. de Escuelas	Costo Estimado	Núm. de Escuelas	Costo Estimado	Núm. de Escuelas	Costo Estimado	Núm. de Escuelas	Costo Estimado
# Boxes	#schools	Est. Cost	#Schools	Est. Cost	#schools	Est. Cost.	#schools	Est. Cos.
107	75	$53,500.00	201	$2,010,000.00	201	$5,025,000.00	174	$10,520,740.00

TOTAL:	$17,609,240.00

Bayamón

DEPARTAMENTO DE EDUCACIÓN
GOBIERNO DE PUERTO RICO

Report on Necessary Improvements for Computer Installation

OMEP

INFORME DE MEJORAS NECESARIAS PARA LA INSTALACIÓN DE COMPUTADORAS

REGIÓN: BAYAMÓN

Edu-Net (Black Boxes)			Bars		Airconditioning		Electrical System (Sub-stations)	
Proyecto Edu-Net (Cajas Negras)			**Rejas**		**Aires Acondicionados**		**Sistema Eléctrico (Subestaciones)**	
Núm. de Cajas	**Núm. de Escuelas**	**Costo Estimado**	**Núm. de Escuelas**	**Costo Estimado**	**Núm. de Escuelas**	**Costo Estimado**	**Núm. de Escuelas**	**Costo Estimado**
# Boxes	# Schools	Est. Cost	# schools	Est Cost	# Schools	Est. Cost.	# Schools	Est. Cost.
94	83	$47,000.00	112	$1,120,000.00	104	$2,600,000.00	154	$15,400,000.00

TOTAL	**$19,167,000.00**

Caguas

DEPARTAMENTO DE EDUCACIÓN
GOBIERNO DE PUERTO RICO

OMEP

Report on Necessary Improvements for Computer Installation

INFORME DE MEJORAS NECESARIAS PARA LA INSTALACIÓN DE COMPUTADORAS

REGIÓN: CAGUAS

Proyecto Edu-Net (Cajas Negras)			Rejas		Aires Acondicionados		Sistema Eléctrico (Subestaciones)	
Núm. de Cajas	Núm. de Escuelas	Costo Estimado	Núm. de Escuelas	Costo Estimado	Núm. de Escuelas	Costo Estimado	Núm. de Escuelas	Costo Estimado
# Boxes	# schools	Est. Cost	# schools	Est. Cost	# schools	Est. Cost.	# schools	Est. Cost.
90	60	$45,000.00	229	$2,290,000.00	229	$5,725,000.00	215	$19,892,190.00

TOTAL	$27,952,190.00

Humacao

DEPARTAMENTO DE EDUCACIÓN
GOBIERNO DE PUERTO RICO

Report on Necessary Improvements for Computer Installation CMER

INFORME DE MEJORAS NECESARIAS PARA LA INSTALACIÓN DE COMPUTADORAS

REGIÓN: HUMACAO

Edu-Net. (Black boxes)			Bars		Airconditioning		Electrical System (subestations)	
Proyecto Edu-Net (Cajas Negras)			Rejas		Aires Acondicionados		Sistema Eléctrico (Subestaciones)	
Núm. de Cajas	Núm. de Escuelas	Costo Estimado	Núm. de Escuelas	Costo Estimado	Núm. de Escuelas	Costo Estimado	Núm. de Escuelas	Costo Estimado
#Boxes	#Schools	Est. Cost	#schools	Est. Cost	#schools	Est. Cost	#schools	Est. Cost
41	40	$20,500.00	169	$1,690,000.00	169	$4,225,000.00	159	$12,720,000.00

TOTAL	$18,655,500.00

Mayaguez

DEPARTAMENTO DE EDUCACIÓN
GOBIERNO DE PUERTO RICO

CMEP

Report on Necessary Improvements for Computer Installation

INFORME DE MEJORAS NECESARIAS PARA LA INSTALACIÓN DE COMPUTADORAS

REGIÓN: MAYAGÜEZ

Proyecto Edu-Net (Cajas Negras)			Rejas		Aires Acondicionados		Sistema Eléctrico (Subestaciones)	
Núm. de Cajas	Núm. de Escuelas	Costo Estimado	Núm. de Escuelas	Costo Estimado	Núm. de Escuelas	Costo Estimado	Núm. de Escuelas	Costo Estimado
# Boxes	# Schools	Cost Est.	# Schools	Cost Est.	# Schools	Cost. Est.	# Schools	Cost Est.
132	96	$66,000.00	117	$1,170,000.00	117	$2,925,000.00	94	$9,540,910.00

Edu-Net (Black boxes) Bars Airconditions Electrical System (substations)

TOTAL	$13,701,910.00

Ponce

DEPARTAMENTO DE EDUCACIÓN
GOBIERNO DE PUERTO RICO

OMEP

Report on Necessary Improvements for Computer Installation

INFORME DE MEJORAS NECESARIAS PARA LA INSTALACIÓN DE COMPUTADORAS

REGION: PONCE

Proyecto Edu-Net (Cajas Negras)			Rejas		Aires Acondicionados		Sistema Eléctrico (Subestaciones)	
Núm. de Cajas	Núm. de Escuelas	Costo Estimado	Núm. de Escuelas	Costo Estimado	Núm. de Escuelas	Costo Estimado	Núm. de Escuelas	Costo Estimado
#Boxes	#Schools	Cost Est.	#schools	Cost Est.	#schools	Cost est.	# schools	Cost Est.
102		$51,000.00	252	$2,520,000.00	251	$6,275,000.00	255	$19,033,780.00

TOTAL	$27,879,780.00

DEPARTAMENTO DE EDUCACIÓN
GOBIERNO DE PUERTO RICO

Report on Necessary Improvements for Computer Installation

C.M.E.D.

INFORME DE MEJORAS NECESARIAS PARA LA INSTALACIÓN DE COMPUTADORAS

REGIÓN: SAN JUAN

Proyecto Edu-Net (Cajas Negras)			Rejas		Aires Acondicionados		Sistema Eléctrico (Subestaciones)	
Núm. de Cajas	Núm. de Escuelas	Costo Estimado	Núm. de Escuelas	Costo Estimado	Núm. de Escuelas	Costo Estimado	Núm. de Escuelas	Costo Estimado
# Boxes	# schools	Cost Est.	# school	Cost Est	# schools	Cost Est	# school	Cost Est.
92	81	$46,000.00	172	$1,720,000.00	172	$4,300,000.00	130	$14,751,130.00

TOTAL	$20,817,130.00

PRT Puerto Rico Telephone Company

TAB 58

ATTACHMENT 1-A

P.O. Box 360998 San Juan P.R. 00936-0998

TELEFONICA
DE PUERTO RICO

February 4, 1999

Mr. Kivio Peguero
Director
Information and Technology Services
School System
Department of Education
P.O. Box 190759
San Juan, PR 00919-0759

Dear Mr. Peguero:

As you know, we are working on the planning and implementation of the EDUNET Project. To this end, we need confirmation of whether the schools have the following facilities:

1. Ground less than .5 ohms
2. UPS
3. Security

The following will be installed in each school:

1 HDSL box
1 CPE (Frame Relay)
1 LAN Ethernet Hub

We request you forward this information as soon as possible.

Cordially,
[signature]
Abid E. Quiñones
Manager

WCC

ATTACHMENT 1-A

Puerto Rico Telephone Company
TELEFONICA DE PUERTO RICO

P O Box 360998 San Juan PR 00936-0998

4 de febrero de 1999

Ing. Kivio Peguero
Director
Servicios Información y Tecnología
Sistema de Escuela
Departamento de Educación
PO BOX 190759
San Juan PR 00919-0759

Estimado Ingeniero Peguero:

Como es de su conocimiento, estamos trabajando en el proceso de planificación e implantación del Proyecto EDUNET. A estos efectos, requerimos que nos confirme si las escuelas cuentan con las siguientes facilidades:

1. Ground menor de .5 ohmios
2. UPS
3. Seguridad

En cada escuela se instalará:

1 caja HDSL
1 CPE (Frame Relay)
1 Hub Ethernet Lan

Le exhortamos que nos envíe esta información con carácter de urgencia.

Cordialmente,

Abid E. Quiñones
Gerente

wcc

TAB 59

Puerto Rico
Telephone
Company

ATTACHMENT 4-C

TELEFONICA
OF PUERTO RICO

[stamp reads:]
RECEIVED
NOV. 14 2001
[illegible]
MANAGER

November 9, 2001

Mr. Aníbal Cruz
Chief of Information Systems
Department of Education
San Juan, Puerto Rico

Dear Mr. Cruz,

Telefónica is anxious to work with the Department of Education to connect as many schools as possible to the Internet. We have attached a list, in both hard copy and electronic form, that includes over four hundred schools where service is being provided, but where students are unable to use this service because there are no computers connected.

The purpose of this list is to allow the Department to specify how many of these schools have computers available to be connected to the Internet. Telefónica will provide personnel to assist the Department in installing these machines.

The schools not included on this list are schools that have been identified as having serious deficiencies in electrical service, or other problems that affect electrical service. There are very few cases in which problems are attributable to Telefónica. We have identified those cases and are making efforts to rectify those situations.

As our recovery plan specifies, our company is interested in working with the Department of Education to resolve the electrical deficiencies and the lack of adequate cabinets for this service.

We hope to receive a reply as soon as possible, so we can implement our action plan. In order for this plan to be effective, it is important that we work together for the benefit of all the students in the public system.

Cordially,

[signature]
Arnaldo Díaz
Technical Coordinator

c. Mr. Abid Quiñones

[truncated address at bottom]

Puerto Rico Telephone Company

TELEFONICA

.TTACHMENT 4-C

RECEIVED
NOV 14 2001
ENVIRONMENT MANAGER

9 de noviembre de 2001

Sr. Aníbal Cruz
Principal Oficial de Informática
Departamento de Educación
San Juan, Puerto Rico

Estimado Sr. Cruz.

La Telefónica esta en la mejor disposión de trabajar con el Departamento de Educación, para poner la mayor cantidad de escuelas posible a utilizar el servicio de Internet. El listado que acompañamos tanto escrito como electrónico tiene sobre cuatrocientas escuelas donde el servicio se esta brindando, pero por no tener computadoras instaladas los estudiantes no pueden utilizar el mismo.

El propósito de este listado es que el Departamento identifique cuantas de estas escuelas tienen computadoras disponibles para hacer la conexión al Internet. Telefónica tendrá personal disponible para asistir al Departamento en la instalación de estas máquinas.

En cuantos a las escuelas que no están en este listado las mismas han sido identificadas como escuelas con serias deficiencias eléctricas o con algún tipo de problema que afectan las mismas. Son muy pocos los casos en que la problemática es por consecuencia de Telefónica, las cuales hemos identificados y estamos haciendo gestiones para corregirlos.

Como establece nuestro plan de recuperación, nuestra compañía tiene interés en trabajar con el Departamento de Educación para corregir las deficiencias eléctricas y la falta de gabinetes adecuados para este servicio.

Esperamos tener una contestación de usted a la brevedad posible, para poder poner en marcha nuestro plan de acción. Para que este plan de trabajo funcione es importante unir esfuerzos para el beneficio de todos los estudiantes del sistema público.

Cordialmente,

Arnaldo Díaz
Coordinador Técnico

c Sr. Abid Quiñones

TAB 60

INITIATIVE SCHOOLS PROJECT
OVERSIGHT MEETING
DATE: DECEMBER 14, 2001

TIME: 2:00 P.M.

PLACE: PH FLOOR, DEPARTMENT OF EDUCATION

MINUTES

1. Present

Adonay Ramírez Jiménez	ARJ Inc.
Hiram Rivera	DE
Juan C. Sierra	DE
Agustín Silva	Microsoft Corp.
Francisco Alonso	DE
René León	ATS Inc.

Excused:

Mr. Francisco Rodríguez	Microsoft Corp.
Mr. Juan Carlos Correa	DRC Corp.
Mr. Miguel Vélez	DRC Corp.

Absent:

Mr. Arnaldo Díaz, PRTC

2. Reading of minutes of the previous meeting.

The minutes of the December 5, 2001 meeting were read and approved without changes.

3. Support for schools with Internet access through the "ReEducate" network.

3.1 Schools validated as of December 14, 2001.

DRC reported that as of today's date they have 160 schools with Internet access. PRT did not excuse itself from the meeting. Nor did it submit a report on the status of phase I schools with Internet access. This situation has been recurring for 3 weeks.

3.2 Support for schools chosen as Initiative Schools

3.2.1 Status of mobile laboratory installation (Report of Mr. Francisco Alonso).

Mr. Francisco Alonso reported that installation of the Albert Einstein school mobile laboratory was completed. For the Juan José Osuna school, all that needs to be done is to prepare a UTP cable to provide Internet access. Also, Vieques and Culebra were visited and laboratories were installed in the 20 de septiembre school in Vieques and the Antonio R. Barceló school in Culebra. But they were not totally completed.

17 laboratories have been delivered. It is expected that 14 more laboratories will be delivered by December 21.

3.2.2 Status of fixed laboratory installation (report of Compaq Caribbean).

Mr. René León of ATS Inc. presented a report. He indicated that he visited 27 pre-selected schools to assign them a fixed laboratory. Twenty-five of them accepted the installation, assigned a room, and signed the project acceptance document. The schools that rejected the laboratory were: Escuela Juan O Miranda #75804 of Guaynabo and the barrio Guaraguo intermediate school # 70664.

Mr. León provided Mr. Adonay Ramírez with the documentation for preparation of the purchase order for installation of the fixed laboratories in the 25 schools that accepted and designated a room.

Mr. León expressed his satisfaction with the way this project had gotten off the ground, especially the meeting of Friday, December 11, with the 27 principals of the selected schools. This made it possible for the principals to understand in depth the scope of the project and to develop an interest in it. Another benefit, in his opinion, is that it broke the ice in terms of communication with the principals, which helped him a great deal on his visits to the schools. Adonay was in full agreement.

4. DRC Corporation

4.1 Recovery plan for Phase II schools.

DRC has 160 schools with Internet access.

As part of the written report this company submitted, Adonay indicated that DRC is requesting support from the DE in calling 110 schools that are planning to connect to the Internet on or before January 9, 2002. Adonay is

coordinating this support with the OSIATD office. Mr. Hiram Rivera, Help Desk Manager, was put in charge of starting the calling process as of Monday, December 17.

4.2 Status of active T1s. (Submit report of activated T1s as of December 14, 2001).

This information was not submitted in its report.

4.3 Procedure for reporting technical problems to DRC. **Pending since October 24, 2001.**

The procedure was turned over, it was referred to Mr. Hiram Rivera so that, along with his group, he can evaluate it before accepting it. This issue will be followed up at the next meeting.

5. Puerto Rico Telephone Company

5.1 Recovery plan for Phase I schools

This company did not attend the meeting or submit a report

5.2 Status of programming for content filter.

Engineer Agustín Silva of Microsoft was asked about the status of this task. Engineer Silva said that the programming is working. The only problem is that, when rejecting access to a site, the software issues an error message that gives the impression that Internet access is not available. This problem was reported to Mr. Arnaldo Ramos. But despite the fact that he agreed to meet with Engineer Silva to address this matter, the meeting has not taken place.

5.3 Updating of the code for Phase I and III schools with eRate Code and IP address Delivery date.

Adonay reported that he has not been able to meet with Prof. Aníbal Cruz to resolve this matter. He promised to address it before the next Committee meeting.

6. Microsoft Corporation

6.1 Product, "Functional Specifications for a Windows 2000 Infrastructure (ReEducate)." (Status).

Engineer Silva will report on the status of this document at the next Committee meeting.

6.2 Certification of development of software images for the initiative schools (Status)

Mr. Francisco Alonso reported that the development of the software image to be installed in the laboratories of the initiative schools had been accepted and certified.

6.3 Procedure for configuring Trust Site in the Internet Security component (Status)

Engineer Silva reported that he developed a system for automatic validation by the schools. This programming will be installed in all the schools with Internet access, so it will not be necessary to configure the Trust Site on the PCs with Internet access.

Adonay expressed to Engineer Silva his satisfaction with this effort which will doubtless resolve a tricky project problem.

7. Pending DE issues.

7.1 Status of development of the project to use the school's IP number in the process of validating a school with Internet access. Schools at which the change in the Internet security component has been made. Report of Mr. David Marín.

Development of the automatic self-validation system will make it possible to capture the school's IP address. So the project that Mr. Marín has been developing is no longer so urgent. In fact, it can be suspended.

7.2 Status of changes in the configuration of the Trust Site option on the 103 PCs that have already validated Internet access and with regard to which there is interest in their being part of the new validation procedure through the IP Address. Report of Mr. David Marín.

Development of the automatic self-validation system resolved this issue. However, both Engineer Silva and Mr. Adonay expressed their concern over not seeing an affirmative action in situations such as these. They do not see the development of a plan and follow-up thereof. When questions are raised about the status, all that is said is that it hasn't been completed yet. Adonay promised to discuss this matter with Prof. Cruz.

7.3 Verification of the eRate codes. Status.

Adonay will address this matter and report at the next committee meeting.

7.4 Status of integration of the suppliers' databases into a single, common database.

Waiting for eRate codes.

8. Other issues

8.1 RFP for request for eRate funds for improvements to the ReEducate network (year five). Engineer Daniel Carmona.

Engineer Carmona did not attend the meeting or submit a report.

8.2 Preparation of RFP for acquisition of the servers that will support the ReEducate network at the central level.

It was reported that Prof. Arnaldo Ramos is in the process of preparing that document. Engineer Silva indicated that he is very concerned because they are continuing to connect schools and laboratories to the network and the servers that maintain the DA are on loan and the companies are asking for their return. Adonay said that the necessary effort must be made to obtain other servers, by rental, emergency purchase, or by requesting a loan. He immediately asked Compaq for the loan of a server. Mr. Dwight Méndez promised to obtain a server to lend to the Department. Adonay said that, at this time, when the project is taking shape, there can be no obstacles impeding its development.

At this time we addressed the matter of the passwords for Internet access from the schools. Adonay told Engineer Silva that he is in full agreement with the network security plans. What he does not agree with is that the user cannot access the Internet because, when he/she wants to enter the system, it is not permitted because his/her password expired or a reset needs to be performed. He again mentioned that, at this time, nothing should impede project development. Engineer Silva explained the reasons why it is necessary to reset at these times. It was agreed to do what is necessary to avoid creating stumbling blocks for the users.

The meeting adjourned at 4:30 P.M.

FCC Form 474

SPI 10-25-99 22700140

FRN# 59312

FY 01 NECSPI10-25-99227001 40

Approval by OMB

3060 - 0856

Uni Applicant ID 63476 Libraries

Please read instructions before completi ıge Burden Hours Per Response: 1.5 hours

ıd by Service Providers)

63476

SERVICE PROVIDER ... Form

Persons willfully making false statements on this form can be punished by fine or forfeiture, under the Communications Act, 47 U.S.C. Secs. 502,503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. Sec. 1001.

NOTICE TO INDIVIDUALS: Section 69.619 of the Federal Communications Commission's rules requires the fund administrator to review bills for services and to determine the amount of universal service support to be disbursed to service providers. All service providers that have signed a contract or have tariff in effect under which they provide discounted service to eligible schools and libraries who have received a Funding Commitment Decisions Letter form the fund administrator are required to submit this Service Provider Invoice Form to obtain universal support for the amount of the discounts provided to eligible schools and libraries. This Service Provider Invoice Form informs the fund administrator of the amount of the discounts provided to eligible schools and libraries and for which the service provider seeks universal service support. The collection of information stems from the Commission's authority under Section 254 of the Communications Act of 1934, as amended, 47 U.S.C. S 254.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

The FCC is authorized under the Communications Act of 1934, as amended, to collect the personal information we request in this form. We will use the information you provide to determine whether approving this applications is in the public interest. If we believe there may be a violation or potential violation of a FCC statute, regulation, rule or order, your application may be referred to the Federal, state, or local agency responsible for investigating, prosecuting, enforcing or implementing the statute, rule, regulation or order. In certain cases, the information in your application may be disclosed to the Department of Justice or a court or adjudicative body when (a) the FCC; or (b) any employee of the FCC; or (c) the United States Government, is a party in a proceeding before the body or has an interest in the proceeding.

If you owe a past due debt to the federal government, the taxpayer identification number and other information you provide may also be disclosed to the Department of the Treasury Financial Management Service, other federal agencies and/or your employer to offset your salary, IRS tax refund or other payments to collect that debt. The FCC may also provide this information to these agencies through the matching of computer records when authorized.

If you do not provide the information requested on the form, your application may be returned without action or your application may be delayed.

The foregoing Notice is required by the Privacy Act of 1974, Pub. L. No. 93-579, December 31, 1974, 5 U.S.C. S 552, and the Paperwork Reduction Act of 1995, Pub. L. No. 104-13, 44 U.S.C. S3501, *et seq.*

Public reporting burden for this collection of information is estimated to average 1.5 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, completing, and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing the reporting burden to the Federal Communications Commission, Performance Evaluation and Records Management, Washington, D.C. 20554.

1. **Service Provider Name** (30 characters maximum) **Puerto Rico Telephone Company**
2. **Service Provider Identification Number** (SPIN) (9 characters maximum) **143012431**
3. **Contact Name** (30 characters maximum) **Luis E. Caldero, ~~CPA~~**
4. **Contact Telephone Number** (14 digits maximum) **(787) 792-9267**
5. **Invoice Number** (25 characters maximum) **501988, 502000, 502001**
6. **Invoice Date to SLC** (mmddyyyy) **October 6, 1999**
7. **Total Invoice Amount** (sum of Column (14) – 14.2 digits maximum) **$4,464,901.60**

SERVICE PROVIDER Invoice Form

	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	FCC Form 471 Application Number (10 digits) (from Funding Commitment Decisions Letter)	Funding Request Number (FRN) (10 digits) (from Funding Commitment Decisions Letter)	Bill Frequency (Monthly, Quarterly, Annually, One-time, Other)	Customer Billed Date (mmyyyy)	Shipping Date to Customer or Last Day of Work Performed (mmddyyyy)	Total (Undiscounted) Amount for Service per FRN (14.2 digits max.)	Discount Amount Billed to SLC (14.2 digits max.)
1	44575	59312	Other	9-15-99	N/A	$2,067,253.00	$1,860,528.00
2	44575	59312	Other	9-29-99	N/A	$2,427,574.00	$2,184,817.00
3	44575	59312	Other	9-29-99	N/A	$466,174.00	$419,556.60
4							
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15							

P O BOX 360998 SAN JUAN PR
00936-938

October 8, 1999

Universal Service Administrative Company
3383 Greenway Drive,
Lawrence, KS 66046 – 7026

Attn: Ms. Smith

Dear Ms. Smith:

Subject: SERVICE PROVIDER INVOICE FORM

Enclosed is the form FCC 474 (Service Provider Invoice Form) from Puerto Rico Telephone Company which SPIN Number is 143012431 for the funding request number 59312 that covers the total discount amount of $4,464,901.60 billed to SLD for the period of January 1, 1998 to June 30, 1999.

Cordially yours,

Luis E. Caldero, CPA

Enclosure

c. Mr. Angel F. Pérez
Mrs. María M. Rivera

SPI 10-05-99 21300039

NECSPI10-05-9921300039

FY 01

Applicant ID 60656

60656

Approval by OMB

3060 - 0856

Univer Libraries

e read instructions before completing.

ed Average Burden Hours Per Response: 1.5 hours

(To be completed by Service Providers)

SERVICE PROVIDER Invoice Form

is willfully making false statements on this form can be punished by fine or forfeiture, under the Communications Act, 47 U.S.C. Secs. 502, 503(b), or fine risonment under Title 18 of the United States Code, 18 U.S.C. Sec. 1001.

E TO INDIVIDUALS: Section 69.619 of the Federal Communications Commission's rules requires the fund administrator to review bills for services and to determine ount of universal service support to be disbursed to service providers. All service providers that have signed a contract or have tariffs in effect under which they discounted service to eligible schools and libraries who have received a Funding Commitment Decisions Letter from the fund administrator are required to submit this Provider Invoice Form to obtain universal service support for the amount of the discounts provided to eligible schools and libraries. This Service Provider Invoice nforms the fund administrator of the amount of the discounts provided to eligible schools and libraries and for which the service provider seeks universal service t. The collection of information stems from the Commission's authority under Section 254 of the Communications Act of 1934, as amended, 47 U.S.C. § 254.

ency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

CC is authorized under the Communications Act of 1934, as amended, to collect the personal information we request in this form. We will use the information you e to determine whether approving this application is in the public interest. If we believe there may be a violation or potential violation of a FCC statute, regulation, rule er, your application may be referred to the Federal, state, or local agency responsible for investigating, prosecuting, enforcing or implementing the statute, rule, tion or order. In certain cases, the information in your application may be disclosed to the Department of Justice or a court or adjudicative body when (a) the FCC; or y employee of the FCC; or (c) the United States Government, is a party in a proceeding before the body or has an interest in the proceeding.

owe a past due debt to the federal government, the taxpayer identification number and other information you provide may also be disclosed to the Department of the ury Financial Management Service, other federal agencies and/or your employer to offset your salary, IRS tax refund or other payments to collect that debt. The FCC lso provide this information to these agencies through the matching of computer records when authorized.

do not provide the information requested on the form, your application may be returned without action or your application may be delayed.

regoing Notice is required by the Privacy Act of 1974, Pub. L. No. 93-579, December 31, 1974, 5 U.S.C. § 552, and the Paperwork Reduction Act of 1995, Pub. L. No. 3, 44 U.S.C. § 3501, *et seq.*

reporting burden for this collection of information is estimated to average 1.5 hours per response, including the time for reviewing instructions, searching existing data s, gathering and maintaining the data needed, completing, and reviewing the collection of information. Send comments regarding this burden estimate or any other of this collection of information, including suggestions for reducing the reporting burden to the Federal Communications Commission, Performance Evaluation and ds Management, Washington, D.C. 20554.

ervice Provider Name (30 characters maximum) Puerto Rico Telephone Company

ervice Provider Identification Number (SPIN) (9 characters maximum) 143012431

ontact Name (30 characters maximum) Luis E. Caldero, CPA

ontact Telephone Number (14 digits maximum) (787) 792-9267

ivoice Number (25 characters maximum) 501899

ivoice Date to SLC (mmddyyyy) September 13, 1999

otal Invoice Amount (sum of Column (14) - 14.2 digits maximum) $5,469.061

SERVICE PROVIDER Invoice Form

	(8) FCC Form 471 Application Number (10 digits) (from Funding Commitment Decisions Letter)	(9) Funding Request Number (FRN) (10 digits) (from Funding Commitment Decisions Letter)	(10) Bill Frequency (Monthly, Quarterly, Annually, One-time, Other)	(11) Customer Billed Date (mmyyyy)	(12) Shipping Date to Customer or Last Day of Work Performed (mmddyyyy)	(13) Total (Undiscounted) Amount for Service per FRN (14.2 digits max.)	(14) Discount Amount Billed to SLC (14.2 digits max.)
				For each FRN, there should be an entry in Column (11) or Column (12) but not both			
1	44575	59312	Other	9-07-99	N/A	$6,076,734	$5,469,061
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							

P O BOX 360998 SAN JUAN PR
00936-938

September 30, 1999

Universal Service Administrative Company
3383 Greenway Drive,
Lawrence, KS 66046 – 7026

Attn: Ms. Smith

Dear Ms. Smith:

Subject: SERVICE PROVIDER INVOICE FORM

Enclosed is the form FCC 474 (Service Provider Invoice Form) from Puerto Rico Telephone Company which SPIN Number is 143012431 for the funding request number 59312 that covers the total discount amount of $5,469,061 billed to SLD for the period of January 1, 1998 to June 30, 1999.

Cordially yours,

Luis E. Caldero, CPA

Enclosure

c. Mr. Angel F. Pérez
Mrs. María M. Rivera

PRT Puerto Rico Telephone Company
TELEFONICA DE PUERTO RICO

Núm. de Delegación

1999	163	02
Año	Depto.	Núm.. Secuencial

A : Sra. Aurora Casablanca
Operaciones de Tesorería

Fecha : 24 de septiembre de 1999

c: Los Abajo Listados

De : ~~Luis E. Caldero~~

RE: DELEGACION DE AUTORIDAD

En cumplimiento de las disposiciones de la Práctica GE-030, Carta de Autorizaciones Ejecutivas, estamos informando que del 27 de septiembre al 2 de octubre de 1999 la Sra. Ingrid M. Bithorn estará ocupando la posición de Directora Interina en el Departamento de Tarifas y Separaciones de Costos en sustitución del Sr. Luis E. Caldero.

Esta delegación autoriza al empleado a la aprobación de toda documentación que se genera en nuestro departamento.

Firma Oficial	Firma Alterna	00879	163
		Num. Empl.	Num. Depto.

Aprobada por:		9-24-99	163
	~~Nivel Superior~~	Fecha	Num. Depto.

Estamos registrando las firmas de los dos niveles superiores para delegaciones de más de treinta (30) días, según lo establece la Práctica GE-030, Carta Ejecutiva de Aprobaciones:

Firma Nivel Superior de Autoridad	Fecha	Num. Depto.
Vicepresidente de Area	Fecha	Num. Depto.

c: CAJA MENUDA CENTRAL DE SU ÁREA
DEPTO. DE DESEMBOLSOS
DEPTO. CONTABILIDAD CORPORATIVA
DEPTO. DE CONTABILIDAD DE COSTO
DEPTO. APOYO OPERACIONAL
DEPTO. DE TRANSPORTACIÓN
DEPTO. DE COMPRA
DEPTO. LEGAL
DEPTO. DE SUBASTA
DEPTO. DE SEGURIDAD
PROG. INCEN. Y SIST. RETRIBUCIÓN
DEPTO. DE RECURSOS HUMANOS

TAB 62

PRIMERA HORA- Friday. June 4, 2004

"REVEALING TESTIMONY BY FREDDY VALENTIN (ex-PR Senate Member) REGARDING THE SALE OF HOSPITAL IN MANATI, Sells Out Santos Diaz"

The convicted ex-senator for the PNP(Political Party) who testified yesterday in the federal trial of ex-legal advisor to the PR Health Department for the fraudulent sale of the Hospital in Manati, declared that the President of Data Research Corporation (DRC), Mr.. Santos Diaz, paid him and convicted ex-Speaker of the PR House of Representatives, Mr.. Misla Aldarondo, $20,000 to facilitate a contract award for the installation of cabling for a computer network at the Hospital.

Valentin testified yesterday, in the second trial to date related to the fraudulent sale of this Hospital, that in 1996, when he worked on his own as a lobbyist, he reached an agreement with Mr. Santos Diaz who was also the ex-vice-president of the organization "Entrepreneurs for Governor Rosello", where Mr. Diaz would pay him "depending on the contracts that he was able to obtain for his company."

"Data Research is a company that provides training programs. I had my office in the 4th floor of DRC back in the final months of 1996. I would work on behalf of DRC and I would get paid depending on how many contracts I was able to obtain." answered Mr. Valentin to questions posed to him by federal prosecutor Jorge Vega Pacheco who is prosecuting the case with Prosecutor Rebecca Kellog.

"I received $10,000" he added, referring to the contract that he obtained for Diaz, according to him, in the House of Representatives.

"And Misla Aldarondo (ex-Speaker), did he also receive money? Prosecutor Vega Pacheco asked.

"I did not see it when it was given to him. I was told that $10,000 were given to Misla". Valenbtin responded.

"Who told you?" Asked the prosecutor.

"I know of this out of conversations I had with Mr. Santos Diaz himself". Valentin said.

Mr. Diaz has lawsuits pending against the Commonwealth, Governor Sila Calderon and Education Secretary, Mr. Cesar Rey, because they rescinded a 56 million dollar contract awarded to DRC by convicted ex-Secretary of Education, Mr. Victor Fajardo. Mr. Diaz claims in his lawsuit that he was discriminated against because of his affiliations to the PNP party and because he was a member of "Entrepreneurs with Governor Rosello".

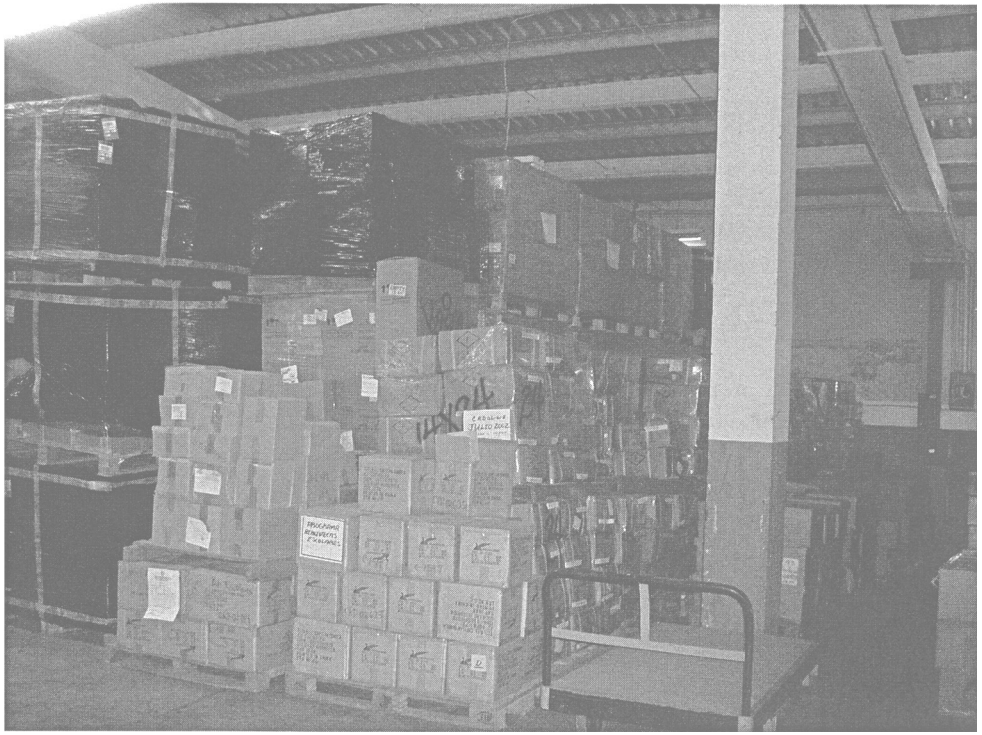
Mr.Diaz was one of the contractors investigated by federal authorities during the 2.4 million dollar fraud investigation at the Puerto Rico Department of Education, but he was never accused.

The trial is being heard in the Courtroom of federal judge Carmen Consuelo Cerezo.

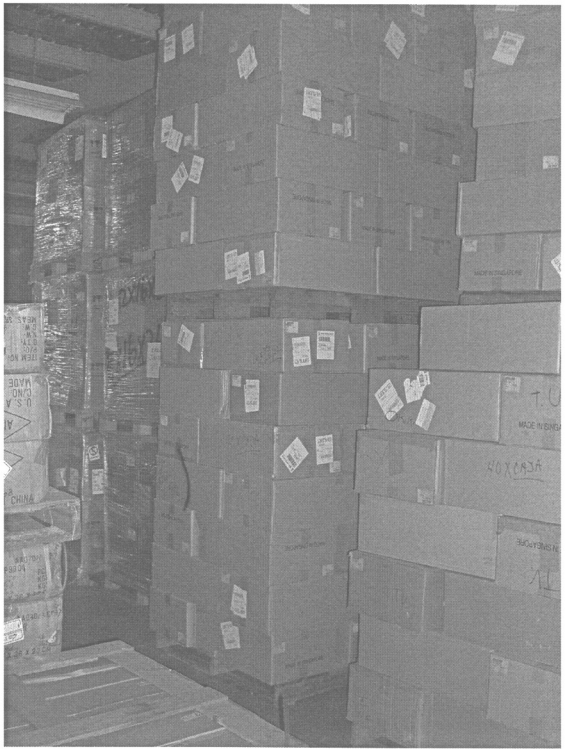
TAB 63

Wireless Cards

Cabling & Wireless Cards



Adaptors & Wireless Cards



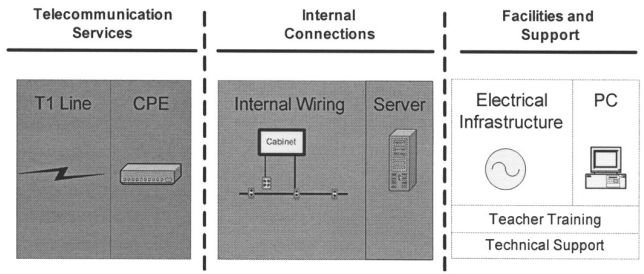
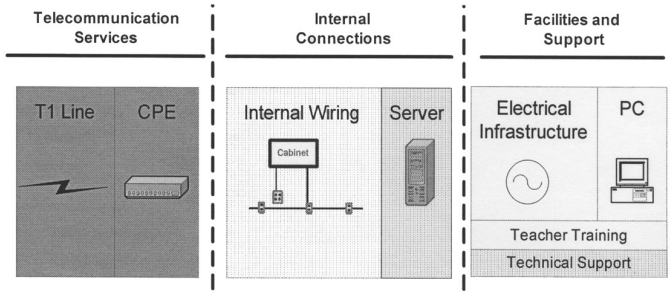
Wireless Cards

Reeducate Project Responsibilities (Phase I Schools): Chronology

PRT | DRC | DOE | PRT Awarded, Not Funded (DOE Responsibility)

Year 1 – Year 3 (1998-2001)

Year 4 (2001-2002)
* Awarded by DOE, Not Funded by SLD



Year 5 (2002-2003)
•Awarded by DOE, Not Funded by SLD