STATEMENT OF
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BEFORE
THE OVERSIGHT AND INVESTIGATIONS
SUBCOMMITTEE
HOUSE COMMITTEE ON ENGERY AND COMERCE

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

WEDNESDAY, SEPTEMBER 22, 2004

My name is Paula Glogovac. I was a contractor for Sun Microsystems, Inc., where I provided E-rate Program Management Resources to the Company. My role as a Program Manager was to review the E-Rate Program Rules for Applicants and Services Providers and to make sure those Rules were communicated to the Sun Sales and Marketing Team. I was the knowledge base for any questions regarding the E-Rate Program to the Sun Sales and Marketing Team. Starting in Year 6 of the E-Rate Program, I reviewed 470's as they were posted, looking for Internal Connections needs and would try to make initial contact with the applicant or their suggested contact(s) to qualify them for Sun opportunities. I did this throughout the entire United States. I supported Sun's internal accounts receivables, payables, and order entry groups in processing paperwork. I was the single point of contact for Sun with USAC and the SLD for paperwork processing and issues.

My experience with the E-Rate Program started at the end of Year 1, when I was a full-time Sun Employee covering the K-12 Educational Market in support of the Sun Sales Team in the United States. I consistently ran the program while at Sun for the next 2 years. I managed Sun's involvement in the E-rate Program as a contractor for the last 5 years. I attended the E-rate Service Provider Training in San Diego that was provided by USAC & SLD. I also participated in the Bi-Weekly Service Provider Conference Calls on a regular basis to stay current with the program.

What I have seen with this program is that in many cases it does work for Schools and Libraries that have effectively learned how to adhere to the rules, understand the process and value the much needed support. In several cases, service providers are not following the program rules. For example; some have been developing the 470's for small schools and capturing the sales along with it, without the knowledge of this being against the program rules, by the applicant. They prey upon applicants that have no knowledge of the program, but are told that this service provider can get them money for computers. This happened in Year 6, across the United States with small charter schools, religious schools and special schools. Some consultants actually block service providers from responding to the 470's that are posted by not allowing them to get appropriate technical information to size products and services for what the account needs, or by stating that the applicant is going to use a State Contract to purchase from. Even if you are on the state contract, they are choosing what they want vs. having a service provider provide them with information on what's available to them. Some service providers are providing ineligible products and

services, knowing that they are not eligible under the program rules, as I will get into in just a few moments. This makes the applicant feel like they are getting a better solution.

I also see Applicants making several program rule violations. Some applicants will pre-release their RFP's prior to the posting of the 470's and will then close the RFP response prior to the 28-day waiting window. Some will require a mandatory pre-bid conference attendance prior to or very shortly after the 470 being posted. This makes it almost impossible for a Service Provider to respond to these applications, unless they had notification of the RFP from the applicant. Some applicants will release an RFP with ineligible products or services or with clear violations of the program rules. In one case, just this year a consortia applicant required a 3% kickback on all sales. In another case, an applicants RFP was for Global Positioning products and services. In other cases, I have seen on the 470 forms and in RFP's applicants specifying specific brand names of products and not allowing anyone else to respond. In making contact with some applicants, I have heard that they are already working with a vendor, that they are only buying off their state contract, that they are using their same vendor as last year, that they already have enough responses or they don't return my faxes, phone calls or e-mails even though that is their specified method of contacting them. Very little has been highly publicized about these issues, until just recently. But not much is publicly stated about what the investigations have found once you do report these violations. I'm still seeing some of the same activities happening today as I did in Year 6. Today when I see a possible violation, I actually try to tell the applicant what the violation is and recommend to them to call the 800 number with USAC to get USAC's take on whether it's a violation or not and what can be done about it. I don't know how successful that is.

In one case, I was brought in by the Sun Sales Team to work with them on an E-rate Project that they had been selected for. It was an E-mail solution. In this case as I started to get more involved in it, I had serious questions about the integrity of what was going on with this applicant and the originally awarded service provider. The applicant was El Paso Independent School District and the selected Service Provider on the original 471 forms was I.B.M. (International Business Machines). I had been given a Statement of Work that was provided to Sun by IBM and had El Paso ISD's name on it. (See Reference #1) I reviewed the Statement of Work and it had several issues. They included ineligible products and services and had products that didn't pertain to just an E-mail Solution. I sent an e-mail off to the Service Provider E-mail Alias asking if these products and services were eligible and the response back was NO. (See Reference #2) We had a conference call with El Paso ISD and I.B.M. representatives discussing these issues and I.B.M.'s response was that we should take this offline to discuss, but they had FCC lawyers that handled this kind of stuff. I did take this offline with Don Riddick from IBM. Don told me not to worry about it that they would take care of it. I was to fill out the service substitution form and that would take care of everything. He didn't appear to be concerned about the products and services that were being offered in the Statement of Work that were not eligible. In trying to fill out the service substitution form, I realized that IBM didn't include their e-mail software solution on any line item. (See Reference #3) I informed the Sun Sales Team and I was instructed to call Woodrow Lee from I.B.M. When I spoke with Mr. Lee, he informed me that they didn't include it on there because their E-rate Consultant had advised them not to. In the Statement of Work it was listed as Lotus Notes and in my e-mail to the Service Provider Alias, I specifically asked if Lotus Notes was eligible and they said NO. I

responded back to Mr. Lee that they must have known it wasn't eligible and didn't include it on their itemized list on the 471. Again, he said no, but their E-rate Consultant had advised them not to. If that was the case, I didn't know how I could substitute our e-mail software solution for one that didn't exist on their original 471. IBM agreed that Sun should also leave off their software solution. I believed that it would not be acceptable, since the original 470 products and services must match the 471 and in turn the service substitution form also needed to match the products and services selected. This was confirmed to me by the SLD in another e-mail. Sun has substantial discounts that they provided to Educational Institutions. In this case, since we were asked by the applicant to work through I.B.M. on this project, we were not able to pass along those Educational discounts. We did offer to go direct with El Paso ISD and the price would be substantially lower for El Paso ISD. El Paso ISD again directed Sun to work through IBM. IBM also stated to Sun that we needed to work through them. (See Reference # 4) We did however, provide our best possible pricing to IBM considering that we were providing all the products and installation services, but IBM didn't like our price. It was unclear to Sun why IBM required us to provide them with a price that allowed them to take approximately 51% of the overall cost for the project, as they specified on the original 471 form, with Sun doing most of the work. (See Reference #5) Not to mention, that Sun was providing an e-mail solution that could cover the entire school district vs. the 5,000 accounts that were mentioned in IBM's Statement of Work. When Sun wouldn't come down in our price to IBM, IBM told Sun they were going to rebid the project and release an RFP that would be due in approximately 1 day. (See Reference #6) It was clear to the Sun Sales Team that even though they had been selected amongst three vendors, one of which was IBM, that Sun would not get the business unless IBM had made a significant amount of money off of the E-mail Solution.

In closing, I would like to say that the intent of the E-Rate Program is a very good one. Service Providers and Applicants that don't feel ownership in working within the program rules and guidelines, should not jeopardize those Applicants and Service Providers that do adhere to the programs rules and value what the program does for them. There needs to be more extreme measures taken against the waste, fraud and abuse and there are tools out there that can help. There are some proficient sets of tools for Service Providers and Applicants to help them with the E-rate Process. These tools could be modified to assist USAC & the SLD in providing a traceable method for service providers and applicants to work together. Without that traceable contact between service providers and applicants, it will be very difficult to monitor the waste, fraud and abuse. These tools could also help in identifying patterns of consultants and services providers that might be working together, as well as service providers and applicants. Exposing the program violations and the offenders in a public forum is key to fixing some of these problems. It's also important for those that report waste, fraud and abuse to get some sort of notification of what happened with their reporting. This would encourage more reporting of these issues when they see results from it. By eliminating the waste, fraud, and abuse, all of our schools and libraries will have an opportunity to take full advantage of what this program has to offer.