



OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: January 7, 2004

TO: Chairman

FROM: Inspector General

SUBJECT: Report on Audit of the E-rate Program at Navajo Preparatory School, Inc.

The Office of Inspector General (OIG) has completed an audit the E-rate Program benefits received by Navajo Preparatory School, Inc. (the School), a beneficiary of the Universal Service Fund (USF). A copy of the Audit Report, entitled "Final Report on Audit of the E-rate Program at Navajo Preparatory School, Inc." is attached. The objective of this audit was to assess the beneficiary's compliance with the rules and regulations of the USF program and to identify areas in which to improve the program.

In January 2003, the OIG and the Universal Service Administrative Company (USAC) entered into a Memorandum of Understanding (MOU) with the Department of Interior (DOI) OIG to conduct audits of E-rate beneficiaries. This audit was conducted by DOI OIG under the terms of this MOU.

Based on the results of the audit, we have concluded that the School did not comply with the requirements of the E-rate program for funding year 2001. The audit resulted in eight (8) findings and \$1,000,592 in potential fund recoveries. In light of the multitude and severity of findings and systemic noncompliance with Commission rules and program requirements, we recommend that the Wireline Competition Bureau direct the Universal Service Administrative Company (USAC) to recover the full amount of \$2,084,399.45 disbursed on behalf of Navajo Preparatory School, Inc. in funding year 2001. In addition, we recommend that the Wireline Competition Bureau take steps to ensure that funding requests are adequately reviewed in accordance with existing program rules and implementing procedures to ensure that funding requests associated with such systemic noncompliance with program rules and regulations are not approved. Further, we recommend that the Wireline Competition Bureau review those program rules and implementing procedures governing the areas of noncompliance cited in this report to ensure that those program rules and implementing procedures are adequate to protect the interests of the fund.

We held an exit conference with School representatives on September 23, 2003 to discuss a preliminary draft of this report, which was provided to the School on September 16, 2003. The School response to the preliminary draft report, dated September 22, 2003 and included in its entirety as Appendix 6 to the report, expresses overall disagreement with many of the report's findings, especially to our questioning costs of over \$1 million related to services installed in ineligible buildings. The School's specific responses and our replies are presented after each finding in the body of the report.

On November 25, 2003, we provided a copy of our draft audit report to the Chief of the Wireline Competition Bureau (WCB). We requested that WCB provide comments on the draft report and that their comments indicate concurrence or non-concurrence with the audit results and recommendations. In their response, dated December 11, 2003, WCB indicated that they partially concur with one (1) of the three recommendations and concur with the other two (2) recommendations. With respect to the recommendation on which WCB partially concurs, the Bureau stated in their response that they "concur with the OIG that full recovery of funds - \$2,084,399.24 - is warranted" but that they "do not concur with the OIG conclusion that the findings support recovery of only \$1,000,592." WCB is not correct in their statement that we have concluded that the findings support recovery of only \$1,000,592. In our report, we concluded that the School did not comply with the requirements of the E-rate program for funding year 2001 and we recommended that WCB direct USAC to recover the full amount of \$2,084,399.45 disbursed on behalf of Navajo Preparatory School, Inc. in funding year 2001. The \$1,000,592 that we identified in the audit report represents costs associated with internal connections in seven buildings that we determined were not eligible for service at the School (one (1) of the eight (8) audit findings in the report). A copy of the WCB response is included in its entirety as an attachment to this memorandum.

If you have any questions, please contact me or Thomas Cline, Assistant Inspector General for Audits, at (202) 418-7890.



H. Walker Feaster III

Attachments

Copy furnished:

Betty Ojaye, Executive Director & Director of Campus, Navajo Preparatory School, Inc.
Chief, Wireline Competition Bureau
George McDonald, Vice President, Schools and Libraries Division, USAC
Performance Evaluation and Records Management, FCC Office of Managing Director



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

External Audits Division
12030 Sunrise Valley Drive, Suite 230
Reston, VA 20191

January 7, 2004

AUDIT REPORT

Memorandum

To: Inspector General
Federal Communications Commission

From: Joseph Ansnick
Director of External Audits

Subject: Final Report on Audit of the E-rate Program at Navajo Preparatory School, Inc.
(No.R-GR-FCC-0005-2003)

This report presents the results of our audit of the E-rate Program benefits received by Navajo Preparatory School, Inc. (the School or Navajo Prep), from the Universal Service Fund (USF). The E-rate Program provides discounts on the cost of obtaining communication services, such as basic phone service; internet access; and internal connections (wiring and network equipment), to eligible schools and libraries. The objectives of this audit were to determine whether the School complied with the rules and regulations of the E-rate Program and to identify Program areas which may need improvement. We conducted this review in accordance with the Memorandum of Understanding between the Department of the Interior Office of Inspector General, the Universal Service Administrative Company, the Federal Communications Commission Office of Managing Director, and the Federal Communications Commission (FCC) Office of Inspector General (OIG).

We concluded that the School did not comply with the requirements of the E-rate Program for the Funding Year 2001. The audit resulted in eight (8) findings and \$1,000,592 in potential fund recoveries. In a draft of this report we recommended that the FCC OIG take the necessary actions to ensure that the report findings are resolved and to seek recovery of USF funds disbursed on behalf of the School as determined to be appropriate. We consider our recommendation to be resolved based on the recommendations contained in FCC OIG's November 25, 2003, memorandum transmitting our draft report to the Wireline Competition Bureau and the Bureau's December 11, 2003 response, concurring with the recommendations.

We held an exit conference on September 23, 2003 with the School's representatives to discuss a preliminary draft of this report, which was provided to the School on September 16, 2003. The School's September 22, 2003, response (Appendix 6) to the preliminary draft report expresses overall disagreement with many of the report's findings, especially to our questioning costs of over \$1 million related to services installed in ineligible buildings. The School's specific responses and our replies are presented after each finding.

Final Report on Audit of the E-rate Program at Navajo Preparatory School

If you have any questions regarding this report, please contact me at (703) 487-5345 or Mr. James Duff, FCC Audit Coordinator, at (703) 487-5350.

EXECUTIVE SUMMARY

Under the E-rate Program, the Schools and Library Division (SLD) of FCC committed about \$2.3 million to Navajo Prep, located in Farmington, New Mexico, for Funding Year 2001 (July 1, 2001 to June 30, 2002). Funding commitments under the E-rate Program provide for discounts on eligible services such as telecommunication services, internet access, network equipment, and the wiring of instructional buildings and classrooms to connect to the internet. We found that the School was out of compliance with key requirements of the E-rate Program and identified costs of approximately \$1 million that were disbursed for ineligible services, as discussed below:

Technology Plan Was Not Properly Approved or Adequately Prepared

An FCC Order requires that E-rate Program discounts must be based on an approved technology plan. The School did not submit its Technology Plan for approval to the Bureau of Indian Affairs (BIA) Office of Indian Education Programs (OIEP) until it prepared its Funding Year 2003 E-rate application in March 2003, 28 months after it indicated in its Funding Year 2001 application that it had an approved technology plan. In addition, the Plan did not adequately address all five of the required criteria for a plan established by the FCC. As a result, the School did not meet the requirements for E-rate Program discounts for Funding Year 2001.

Discount Rate Was Not Supported

FCC regulations require that at least 75 percent of a school's students qualify for free or reduced price lunches under the National School Lunch Program (NSLP) for the school to qualify for the 90 percent discount rate. The School claimed that 100 percent of its students qualified for the NSLP; however, information from the State of New Mexico showed that 72.4 percent of the School's students qualified for the NSLP. As a result, the School would have qualified for a discount rate of only 80 percent for Funding Year 2001.

Service Contract Was Not Competitively Awarded

FCC regulations require schools to seek competitive bids in addition to following state and local competitive bid requirements when obtaining goods and services. Our review disclosed, however, that the School awarded a sole-source contract to its service provider in violation of school requirements. Consequently, there was no assurance that goods and services were obtained at a fair and reasonable price.

Services Were Put In Ineligible Buildings

FCC regulations provide that a service is eligible for discount support as a component of an institution's internal connections if such service is necessary to transport information within one or more instructional buildings of a single school campus. We found

that internal connections were installed in seven non-instructional buildings (five dormitories, the business office, and the cafeteria). As a result, we questioned the approximately \$1 million cost of internal connections for these seven buildings.

Buildings Were Not Wired

USAC approved funding for contracted services to install internal connections in 17 buildings. For instance, such services would consist of running cables from the main distribution frame to intermediate distribution frames in each building and the hardware and wiring within each building. However, we determined that such services were not installed in five buildings even though the service provider and the School indicated that all contract work had been performed and billed.

Equipment Was Not Installed as Approved

USAC approved funding for contracted services for specific hardware (manufacturer, model, configuration, and quantity of each) that would be installed under internal connections in the 17 buildings. Our inventory of the contractor's as-built system showed that numerous changes in quantities and product substitutions occurred without obtaining USAC approval of the changes or substitutions. As a result, there is no assurance that all contracted services were received and that only eligible services received discount funding.

The School's Program Support Funding Appears Insufficient

FCC regulations require schools to certify that they can pay for any necessary hardware or software and complete essential staff training needed to effectively use the acquired communication services and systems. The School could not demonstrate that it had adequate resources to utilize the system.

Applications for Services Were Inflated and Services Installed Were Underutilized

We found that the School's applications for service requested a network and wiring based on more classrooms and instructional buildings than exist, more students than actually are or are expected to be enrolled, and more computers to connect to the network than exist or are budgeted to be purchased. As of May 2003, only 10.4 percent of network system capacity was being utilized in the classroom for instructional purposes. An additional 10.4 percent of the network system capacity was being used for administrative or ineligible purposes.

On the positive side, we noted that the School met its matching funds requirement. FCC regulations require schools to certify they have funding to pay for the non-discounted portion of requested internal connections. The School paid the service provider a total of \$249,876 for the non-discounted portion of the internal connections contract price.

We concluded that the School did not comply with the requirements of the E-rate Program for the Funding Year 2001. The audit resulted in eight (8) findings and \$1,000,592 in potential fund recoveries. We recommend that the FCC Office of Inspector General take the necessary actions to ensure that the report findings are resolved and to seek recovery of USF funds disbursed on behalf of the School as determined to be appropriate.

We held an exit conference on September 23, 2003 with the School's representatives to discuss a preliminary draft of this report. The School's September 22, 2003, response (Appendix 6) to the preliminary draft report expresses overall disagreement with many of the report's findings, especially to our questioning costs of over \$1 million related to services installed in ineligible buildings. The School's specific responses and our replies are presented after each finding.

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ACRONYMS

BIA.....Bureau of Indian Affairs	OIGOffice of Inspector General
DOIDepartment of the Interior	OMDOffice of Managing Director, FCC
FCC.....Federal Communications Commission	SLD.....Schools and Library Division of USAC
IDFIntermediate Distribution Frame	USAC....Universal Service Administrative Company
MDF.....Main Distribution Frame	USFUniversal Service Fund
NSLP.....National School Lunch Program	OIEP.....Office of Indian Education Programs
MOUMemorandum of Understanding	

Introduction

Background

The Universal Service Fund (USF) provides affordable access to eligible communications services for schools, libraries, rural health care providers, low-income consumers, and companies serving high-cost areas. On May 7, 1997, the Federal Communications Commission (FCC) adopted a Universal Service Order implementing the Telecommunications Act of 1996, including the E-rate Program of the USF.

The Universal Service Administrative Company (USAC) is responsible for administering the USF under the direction of the FCC's Wireline Competition Bureau. The Schools and Library Division of USAC administers the E-rate Program. Under the E-rate Program, eligible schools and libraries may receive discounts from 20 to 90 percent of the cost of eligible communication services, depending on economic need and location of the beneficiary.

Discounts may be applied to three kinds of eligible communication services:

- Telecommunication services, including basic phone service.
- Internet access.
- Internal connections, including wiring and network equipment needed to bring information directly to classrooms or library patrons.

In accordance with the Inspector General Act of 1978, as amended, the FCC-Office of Inspector General (OIG) has oversight responsibilities for the USF as a Federal program of the FCC. The FCC-OIG has designed a plan of audit oversight to provide FCC management with a reasonable level of assurance that E-rate beneficiaries are complying with E-rate Program rules and regulations and that E-rate Program controls are adequate to prevent fraud, waste, and abuse.

We conducted this review in accordance with a Memorandum of Understanding (MOU) between the Department of the Interior (DOI)-OIG, USAC, FCC-Office of Managing Director (OMD), and the FCC-OIG. Under the MOU, DOI-OIG will apply specific procedures for the audit of beneficiaries of E-rate Program funds.

Navajo Prep was established in 1991 by the Education Committee of the Navajo Nation Council (Resolution ECMY-33-91). The School is incorporated under the Navajo Nation Corporation Code and the New Mexico State Corporation Commission as a non-profit organization under Section 501(c)(3) of the IRS Code. The North Central Association, Commission on Schools, and the New Mexico State Department of Education accredit the School.

The School is located in Farmington, New Mexico on the 82.45-acre site of the former campus of the Navajo Methodist Mission School. The Navajo Nation purchased this site in 1993 from the Women's Division of the General Board of Global Ministries of the United Methodist Church. The site is now the home of the School under a 99-year lease with the Navajo Nation.

The School operates under a grant awarded by the BIA under the auspices of Public Law 100-297, Tribally Controlled Schools Act of 1988.

Objective and Scope

Our objectives were to determine whether the School complied with the rules and regulations of the E-rate Program and to identify Program areas that may need improvement.

The scope of the review was designed to test school compliance with the E-rate Program requirements contained in Title 47, Part 54 of the Code of Federal Regulations (47 CFR § 54.500 through 47 CFR § 54.520) which provide that:

- The school certifies it has an approved technology plan.
- The school determines its discount percentage based on the percentage of its student enrollment that is eligible for a free or reduced price lunch under the national school lunch program or a federally-approved alternative mechanism.
- Services rendered comply with the school's application for E-rate funds and are installed or provided before the installation deadline.
- The school used a competitive process to select the most cost effective service provider.
- The school purchased equipment and services in accordance with applicable procurement rules and regulations.
- The applicant pays its portion of the pre-discounted costs.
- The school certifies it has adequate resources to use the discounted services for which funding has been provided.
- The school certifies that it has complied with all of the E-rate Program rules.

On September 4, 2001, USAC committed a total of \$2,322,097.61 to the School for Funding Year 2001. Payment of costs under the internal connection commitment has been extended to September 30, 2003. As of July 14, 2003, USAC had disbursed \$2,084,399.45 to the service provider for internal connections. Funds USAC committed and disbursed for Funding Year 2001 by service type follows:

Funding Year	Amount Committed	Amount Disbursed	Service Type
2001	\$2,883.60	-0-	Telecommunications
2001	\$2,243,590.65	\$2,084,399.45	Internal Connections
2001	\$63,923.40	-0-	Internet Access
2001	\$11,699.96	-0-	Telecommunications
TOTALS	<u>\$2,322,097.61</u>	<u>\$2,084,399.45</u>	

We performed our review during the period April through September 2003. We visited the School in April and May 2003 to conduct an entrance conference with the School administration, to perform site inspections and verifications of the equipment installed by the service provider, and to obtain additional documentation needed for our review. We conducted an exit conference at the School on September 23, 2003.

This review was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. As part of the scope of our review, we obtained an understanding of the specific management controls relevant to the E-rate Program. Because of inherent limitations, a study and evaluation made for the limited purposes of our review would not necessarily disclose all material weaknesses in the control structure.

RESULTS OF REVIEW

Summary

We found that the School:

- Did not have a properly approved or prepared technology plan and, therefore, did not meet one of the key requirements for E-rate Program assistance.
- Could not support the basis for the discount rate claimed and thus received 10 percent more E-rate Program assistance than it qualified for.
- Awarded non-competitively a \$2.5 million contract for internal connections.
- Put internal connections in seven buildings that are not eligible for E-rate Program assistance at a cost of more than \$1 million.
- Wired only 12 of 17 buildings that were approved for E-rate Program assistance.
- Installed equipment that was different from the equipment approved for E-rate Program assistance.
- Did not demonstrate that it has the funding to purchase the equipment and staff training needed to effectively use the internal connections.
- Applied for (on FCC Forms 470 and 471) and received E-rate Program assistance based on significantly more facilities than actually exist and for more students than will be enrolled in the school.
- Met its matching share requirement of about \$250,000 for the non-discounted portion of the services provided.

In addition, we identified reportable conditions that, while not material, represent weaknesses in the School's administration of the E-rate Program. These reportable conditions are discussed in the other matters section of this report.

**Technology Plan
Was Not Properly
Approved or
Adequately Prepared**

**Lack of Proper
Approval**

The School's technology plan had not been approved by the Bureau of Indian Affairs (BIA) Office of Indian Education Programs (OIEP) and the technology plan did not meet the five criteria for plan approval as established by the FCC.

Title 47 CFR § 54.504(b)(2)(vii) requires schools to certify that they have a technology plan that has been certified by its state, the Administrator, or an independent entity approved by the Commission. Schools and Library Division of USAC (SLD) has determined that the preferred approver for BIA school plans is OIEP. Furthermore, an applicant must certify that its plan was approved by an SLD certified technology plan approver. In addition, the Telecommunications Act of 1996 and FCC Order 97-157 require that requests for Universal Service Program discounts be based on an approved technology plan.

The School's Executive Director certified on January 2, 2001 and January 16, 2001, on the School's Forms 470 and 471, respectively, that the School had an approved technology plan. In addition, on October 19, 2001, the School's Executive Director certified on the School's Form 486 that OIEP had approved the School's Technology Plan.

In response to our written request for its technology plan and approval letter, the School sent us copies of its "School Wide Technology Plan," dated September 2000, and a Resolution of the School's Board of Trustees approving the "School Wide Technology Plan". However, the School had not requested OIEP to review its technology plan until March 17, 2003, as part of its Funding Year 2003 E-rate application, 28 months after indicating in its Funding Year 2001 Form 470 application that it had an approved technology plan. Moreover, the School submitted its Technology Plan to an OIEP representative at BIA's Shiprock Agency Office who was not a SLD-certified technology plan approver. As a result, the School's technology plan was not approved by an authorized official. Consequently, lacking a properly approved technology plan, the School did not meet the requirements for requesting E-rate Program discounts.

**Lack of Adequate
Plan Elements**

For technology plans to be approved, FCC Order 97-157 requires that it must:

- Establish clear goals and a realistic strategy for using telecommunications and information technology to improve education;

- Have a professional development strategy to ensure that staff know how to use these new technologies to improve education;
- Include an assessment of the telecommunication services, hardware, software and other services that will be needed to improve education services;
- Provide for a sufficient budget to acquire and support the non-discounted elements of the plan: the hardware, software, professional development, and other services that will be needed to implement the strategy; and
- Include an evaluation process that enables the school to monitor progress toward the specified goals and make mid-course corrections in response to new developments and opportunities as they arise.

Our review of the School’s technology plan disclosed that it did not satisfy all of the requirements. We identified problems as follows:

***“Canned”
Technology
Plan***

Parts of the School’s technology plan appeared to have come from a “canned” technology plan that did not specifically apply to the School. For example,

- In the “Aligning Technology to the Curriculum” section, the plan states, “Each student at the K-8 level should be assured of receiving training in keyboarding...” However, the School does not serve grades K-8; rather, its students are in grades 9-12.
- In the “Base Level” section, the plan states that, “The following are the recommended base levels of technology related equipment per building, ...

Instructional Areas

- A minimum of five (15) (sic) new computers for the Media Center...
- A CAD/Multi Media Development lab with a minimum of thirty (30) computers...
- Ten (10) Computer Labs...

Media Center

- Two Labs with a minimum of thirty (30) computers each...”

The Plan recommendations for 13 computer labs and 390 computers per building, appears unreasonably high for a school that claims to have 15 instructional buildings and 206 students.

- The funding for this Base Level is “to be facilitated through bond issues and general operating sources”. This sounds like funding sources for a public school district. Navajo Prep does not issue bonds. As a BIA funded grant school, it receives Federal funds for most of its annual operations.
- “The ‘E-Rate’ Budget” section states, “the budget allows for the purchase of a School Wide Productivity Software program such as *Microsoft Office Professional*.” However, such software is specifically ineligible under the E-rate Program.
- The “Bid/State Contract Specifications” section states that “Bid specifications will be written by ... the School’s Technology Planner and Designer ...” We found that the School did not prepare bid specifications or request proposals.

Insufficient Budget Detail

The technology plan does not explain how the School will develop a budget sufficient to acquire and support the non-discounted elements of the plan consisting of the hardware, software, professional development, and other services that will be needed to implement the strategy. The plan contains a generalized discussion of a budget to provide a substantial amount of end user equipment, such as computers, printers, monitors, scanners, other computer peripherals, but the specific number, type, and cost of equipment is not provided.

Appendix of Budget Details Referenced in Plan Non-existent

The “Replacing and Updating Equipment Budget” section states that “Appendix H details estimated costs for updating and replacing equipment in the future based on amortization schedules.” There is no Appendix H in the Plan, which ends with Appendix E.

Inadequate Evaluation Process

The Plan does contain sections which discuss goals, professional development, and the services and equipment needed to improve education at the school; however, much of the discussion is general and overall, lacks specific goals and milestones. Consequently, we could not determine whether the Plan, combined with E-rate Program funding, will achieve specific results. This lack of detail emphasizes the need for a critical review and approval process.

In addition, the Plan does not include a process to enable the School to monitor progress toward achieving the specified goals and making mid-course corrections in response to new developments and opportunities as they arise.

**Navajo Prep's
Comments**

The response stated that:

The School Technology Plan . . . was approved by the Board of Trustees by a resolution dated October 5, 2000. The School was unaware that further review and approval was required by an SLD-certified approver. On March 17, 2003, the Year 6 technology plan was submitted to the Shiprock Agency, Office of Indian Affairs Programs, and was approved by an official; however, the plan was determined not to meet the requirements of the E-rate program.

The response also advised that the technology plan would be revised to meet all requirements by the end of December 2003. (See Appendix 6, page 30, item number 1, for the School's complete response to this finding.)

**Office of Inspector
General's Reply**

The Funding Year 2003 technology plan was the same plan provided to us for Funding Year 2001, which was not adequately prepared or approved.

**Discount Rate Was
Not Supported**

Title 47 CFR § 54.505 Discounts, stipulates that the level of discount on the cost of eligible services that a school may qualify for is based on the percentage of its students who qualify for free or reduced price lunches under the National School Lunch Program (NSLP) or a federally-approved alternative mechanism. The School claimed on the Form 471, "Services Ordered and Certified," that 100 percent of its students qualified for the NSLP and that it therefore qualified for a 90 percent discount rate. The School did not provide documentation supporting the 100 percent NSLP claim. According to information provided to us by the State of New Mexico, Department of Education, Student Nutrition Programs Unit, at the time the School filed its Form 471 about 72.4 percent of the School's students qualified for the NSLP. As a result, the School would have qualified for a discount rate of 80 percent.

**Navajo Prep's
Comments**

The response stated:

The School contends that it meets this requirement [for a 90 percent discount] through the Provision 2 Guidance for Disclosure of Free and Reduced Price Lunch Eligibility Information. Under Provision 2 the National School Lunch Act allows schools that offer student lunches at no charge regardless of income, to collect free and reduced price applications once every four years or longer if extensions are granted. . . . According to the New Mexico Student Nutrition Programs Unit, all students in Provision 2 schools are considered “economically disadvantage” or free.

(See Appendix 6, page 30, item number 2, for the School’s complete response to this finding.)

**Office of Inspector
General’s Reply**

According to the Code of Federal Regulations (47 CFR § 54.505), the level of the discount “shall be determined by indicators of poverty and high cost.” For schools, “the level of poverty shall be measured by the percentage of their student enrollment that is eligible for a free or reduced price lunch under the national school lunch program or a federally-approved alternative mechanism.” Navajo Prep has no federally-approved alternative mechanism, therefore we used Provision 2 base year data of the number of Navajo Prep students who qualified for free or reduced lunch to determine the discount rate. The period covered by the Provision 2 base year data coincided with the period to be used for the filing of the Form 471. As a result, based on the matrix in Title 47 CFR §54.505, Navajo Prep qualifies for a discount rate of 80 percent based on the 72.4 percent of its students who qualify for free or reduced school lunch.

**Service Contract Was
Not Competitively
Awarded**

The School did not follow its local competitive procurement rules and regulations to maximize competition. Title 47 CFR § 54.504(a) requires schools to seek competitive bids, pursuant to the requirements established in subpart 54.504(a). However, these competitive bid requirements apply in addition to state and local competitive bid requirements. The FCC competitive bid system consists of posting the applicant’s completed FCC Form 470, which describes the services requested, to an internet website. Prospective service providers may contact the applicant for additional information and/or submit a bid to the school for the requested services. To give prospective service providers time to submit bids, the applicant must wait 28 days after the internet posting before entering into a contract.

The School did comply with the FCC requirement to wait 28 before entering into a contract. We found that on December 5, 2000, USAC posted the School's Form 470 application on the website. Twenty-nine days later, on January 3, 2001, the School entered into a pre-discounted \$2,498,760 contract with Norstan Communications (Norstan). The School did not have documentation to indicate whether it received any other inquiries or bids as a result of the website posting, despite requirements to do so. Title 47 CFR § 54.516, Auditing, (a) Record Keeping Requirements, states that "Schools and Libraries shall be required to maintain for their purchases of telecommunications and other supported services at discounted rates the kind of procurement records that they maintain for their other purchases."

The School's policy as contained in its accounting manual is to comply with all Federal bidding and procurement requirements contained in Title 25 CFR § 276.12. Title 25 CFR § 276.12 requires the school to obtain maximum competition and to select the contractor whose offer is most advantageous to the school, price and other factors considered. Also, the School is required to maintain records of the competitive process followed and justification for contractor selection and the basis for any cost or price negotiation. The School did not have any such records.

School personnel told us that they believed that they did not need to maximize competition because Norstan was an approved supplier for the Cooperative Educational Services (Cooperative) of New Mexico and because Norstan offered a comprehensive proposal. The Cooperative is an educational organization that obtains goods and services for member New Mexico schools. We found that the Cooperative does have a competitively awarded contract with Norstan which allows member schools to place orders under the contract. However, the School was not a member of the Cooperative and did not place an order under the Cooperative's contract. Instead, the School awarded a sole-source contract to Norstan that was separate and independent from the Cooperative's master contract. As a result, the School did not maximize competition and did not document the process it followed or basis for selecting Norstan. Consequently, there is no assurance that the School's contract price was fair and reasonable.

**Navajo Prep's
Comments**

The response said that the School met the requirement for posting its Form 470 on the FCC website for 28 days and contracted with Norstan Communications in January 2001 "with the understanding that Norstan is an approved supplier as a member of the New Mexico Cooperative Educational Services (CES)" and that "CES provides assurance that contract prices are fair and reasonable." The response also stated that the School became a member of CES in March 2003. (See Appendix 6, page 31, item number 3, for the School's complete response to this finding.)

**Office of Inspector
General's Reply**

The School's assumption that the contract price offered by Norstan is fair and reasonable because Norstan is an approved CES supplier is not supported. The School's orders were not placed under Norstan's contract with CES and the School had no analysis or documentation to show that prices offered by Norstan to the School were equal to or better than the prices offered to CES members.

**Services Put in
Ineligible Buildings**

The School installed internal connections in seven buildings that were not eligible for service. Title 47 CFR § 54.506 states:

"A service is eligible for support as a component of an institution's internal connections if such service is necessary to transport information within one or more instructional buildings of a single school campus.... Discounts are not available for internal connections in non-instructional buildings of a school...unless those internal connections are essential for the effective transport of information to an instructional building of a school...."

None of the seven buildings contain classrooms or are essential for the transport of information to instructional buildings. Specifically, the buildings consisted of five dormitories, (of which four were new and under construction), the business office, and the cafeteria. The installation of internal connections in ineligible buildings appears to have been planned because the School's application and its communications with USAC show these buildings as instructional buildings having classroom facilities. For example, the site plan prepared by Norstan had the new dormitories labeled as "Lab #1 thru 4" whereas the rest of the permanent buildings on site were identified only by a number. As a result, we questioned the \$1,000,592 cost of internal connections for these seven buildings. See Appendices 1, 2, 3, and 4 for our calculations of the questioned cost of internal connections.

**Navajo Prep's
Comments**

The School responded that the “cafeteria was considered an instructional building for study hall and tutorial sessions” and that the business office “was cabled to an existing network and was upgraded for compatibility with the rest of the school.” Regarding the dormitories, the response said that “Navajo Preparatory School does not fit into the ‘traditional’ school category” and that the “school’s regular academic college preparatory program extends into the evening program into after hours instruction, tutoring and study hall in the dormitories.” In a July 28, 2003 letter (See Appendix 7, page number 36, for the School’s complete letter.) to our office, Navajo Prep stated that new dormitories “have been designed to have two classroom labs to provide students with a variety of schedules for learning and delivery of continuous educational program[s]” for after-school tutoring, computer classes, scholastic aptitude testing, and independent research. (See Appendix 6, page 31, item number 4, for the School’s complete response to this finding.)

**Office of Inspector
General’s Reply**

Overall, we noted that Navajo Prep’s applications to USAC represented that these seven buildings were instructional buildings having classroom facilities. However, our examination of the buildings did not identify any classrooms or find that the buildings were essential for the effective transport of information to instructional buildings.

In the cafeteria, we found eight data drops in the dining area; however, there were no computer resources available for study halls or tutoring. Regarding the business office, information provided by Norstan and the cabling subcontractor showed that trenching was done from the Main Distribution Frame (MDF) to the Business Office, conduit was installed, and cables were pulled from the MDF. An Intermediate Distribution Frame (IDF) and wiring for drops were installed. The Business Office was connected to the new LAN. However, the School’s technician did not indicate at any time that any existing network was being used by the Business Office.

In the new dormitories, we determined that two wiring drops were installed in each of the 16 student rooms and between 24 to 32 drops were installed in the common area on each floor. The common areas are approximately 15 feet by 15 feet, have six work station tables, and are not a separate enclosed room. Regarding potential tutoring and classroom instruction in the dormitories, the School did not provide us with teacher schedules or class work plans. While we recognize the benefits of having computer

resources available to students in the dormitories for research, study, and practice, the requirements (Title 47 CFR § 54.506) are clear that “discounts are not available for internal connections in non-instructional buildings of a school . . . unless those internal connections are essential for the effective transport of information to an instructional building of a school.”

Buildings Were Not Wired

Norstan did not install internal connections in all buildings approved for service. USAC approved funding to install internal connections in 17 instructional buildings as requested in the School’s Form 471. Such services would consist of pulling cables from the MDF to the IDF in each building; IDF hardware and wiring; wiring of drops within each of the buildings; and configuration and programming as necessary. Based on our site visit, we determined that 5 of the 17 buildings did not have IDF hardware, wiring, or drops installed. In addition, four of the five buildings did not have cable pulled from the MDF. Norstan and the School, however, indicated that all contract work had been performed and billed. Also, we found that no substitution was requested of or approved by USAC to remove the cost of services for the five buildings from the commitment or substitute the work elsewhere on campus. See the table below for details.

Building Name	Instructional Building	IDF Installed	Building Wired/ Drops Installed	Cable Pulled From MDF
1. Dodge Hall	No - Dorm	No	No	No
2. Morgan Hall	Yes (Library)	No	No	No
3. MacDonald Hall	No - Dorm	No	No	No
4. Art Building	Yes	No*	No	No
5. Gym	Yes	No	No	Yes

*Drops for telephone and teacher’s computer provided by wireless antenna from Ahkeah Hall.

We believe that contracted services for IDF hardware and wiring for drops for five buildings have either not been provided or were installed elsewhere on the campus without USAC’s approval, and that contracted services for cabling from the MDF to four buildings has not been provided. In addition, two of these five buildings were

not eligible for services because they are not instructional buildings. Since the contract did not specify the goods and services required to wire each of the 17 proposed buildings, we were unable to identify specific questionable costs.

**Navajo Prep's
Comments**

The response stated that three buildings (Dodge Hall, Morgan Hall, and MacDonald Hall) are slated for renovation for future classroom use, therefore were not wired due to anticipated vacancy of the buildings. The response also stated that the three buildings plus the Art building were vacated in May 2003. The School agreed that the Gym should have been wired. (See Appendix 6, page number 32, item number 5 for the School's complete response to this finding.)

**Office of Inspector
General's Reply**

The School provided an explanation of why the work was not done. However, the School certified to USAC that all contract work had been performed and Norstan has billed USAC for this work. The School needs to explain what happened to the contracted services for IDF hardware and wiring for drops for all five buildings and cabling for four buildings.

**Equipment Was
Not Installed as
Approved**

Our inventory of the as-built system showed numerous changes in quantities and product substitutions without USAC approval. USAC approved funding for specific hardware (manufacturer, model, configuration, and quantity of each) that was to be installed under internal connections for the MDF and the IDF's in the 17 buildings. See Appendix 5 for a comparison of the USAC approved equipment and services with the as-built installed equipment and services.

**Navajo Prep's
Comments**

The response stated that the changes in quantities and product substitutions demonstrated in Appendix 5 of the report are considered minor to keep with upgrades in technology.

**Office of Inspector
General's Reply**

The School and Norstan did not obtain USAC approval for product substitutions, nor did they substantiate or identify the equipment and services which it asserts was no longer technologically up to date and thus required substitution. In addition, the School did not provide any contract modifications or change orders to support that all additions, deletions, and substitutions were reviewed and approved by the School. Further, the School did not provide any documentation to demonstrate the impact the substitutions would have on the price of the contracted services. Because of the lack of documentation we were not able to determine whether the numerous changes in quantities and product substitutions constituted only a minor change.

**The School's
Program Support
Funding Appears
Insufficient**

The School did not demonstrate that it has the funds needed to fully utilize the services acquired under the E-rate Program. Title 47 CFR § 54.504(b)(2)(v) requires schools to certify that they have the necessary funding for any necessary hardware or software, and for the necessary staff training required to use the services effectively.

We found that the School's technology plan did not identify funding or time tables for acquiring planned technology and staff training necessary to use the internal connections, or budgetary resources needed for purchasing the technology and training. The School's technology plan does not include clearly defined goals, objectives, milestones, or performance measures, so progress has not been measured. The School did provide high level budget information; however, it lacked specific information about the E-rate Program or planned technology expenditures. School personnel told us that the School had a \$15,700 grant from the Navajo Nation Trust Fund to purchase computers for the dormitories.

**Navajo Prep's
Comments**

Navajo Prep did not agree with this finding. The response stated that:

The School has provided funds to train essential staff. Specifically, the following training has been provided for the Network Administrator and Computer Technician: Introduction Network Security, SQL Server 2000, and A+ Certification for Computers. In addition, the computer teacher and math teacher are scheduled to attend training offered by the BIA-Technology Information Center in October 2003 and other staff members will be scheduled to attend these BIA trainings.... In addition, a planned technology expenditure will be developed with staff input within 90 workdays from the date of this report.

(See Appendix 6, page 32, item number 7, for the School's complete response to this finding.)

**Office of Inspector
General's Reply**

The School did not provide any documentation to support the training reportedly provided for the Network Administrator and Computer Technician or the amount of funds committed to training. The planned training for the computer and the math teachers will be given during Funding Year 2003, not Funding Year 2001. Also, the School has only about half of the 250 computers it reported on its

Form 471 that it would acquire in Funding Year 2001. And, the School lacked budget or planning information to support when it might achieve the 250 computer level.

Applications for Services Were Inflated and The Services Installed Were Underutilized

The School’s applications for services and funding certify the need for a network based on inflated statements about the number of classrooms, instructional buildings, students, and computers which do not currently exist and are not supported by budgets provided to us. The statements are summarized in the table that follows:

Inflated Applications	Date and Type of Application	Classrooms	Instructional Buildings	Students	Computers
	December 5, 2000, Form 470, Funding Year 2001	30	8	None*	450
	January 11, 2001, Form 471, Funding Year 2001	32	15	206	250
	December 17, 2001, Form 470, Funding Year 2002	None	20	None	None
	January 14, 2002, Form 471, Funding Year 2002	81	20	633	772

* Applications did not contain any data for this category

During our visits to the school in April and May 2003, we determined that: there were 206 students¹; about 90 computers; 24 classrooms; and 8 instructional buildings, three of which did not have E-rate internal connections installed. We also noted that the School had built a system with 741 data drops and 53 video drops at a pre-discounted cost of \$2,492,879. As built, the system cost approximately \$12,000 per student or \$104,000 per classroom.

Underutilized System

In addition, we found that the School’s use of network system data drops, with computers, printers, and telephones connected was underutilized as follows:

¹ The School’s development plan contains three phases. The school has recently completed Phase I which included the construction of four new dormitories. The dormitories will house 128 students and are replacing three existing dormitories which house 118 students. Phase II which is currently underway in part will renovate and expand the three dormitories as academic buildings. Phase III which has not been funded proposes construction of two to four new dormitories. If Phase III is fully funded the school projects its enrollment will increase to 300 students.

Data Drop Usage	Number of Data Drops	Percent of System Capacity
Used in classrooms for instructional purposes	77	10.4
Used for administrative purposes	77	10.4
Not used	587	79.2
TOTALS	741	100.0

**Navajo Prep's
Comments**

Navajo Prep agreed that the inflated applications in the report did not make sense. Also, the response said that the current student enrollment is 206 students and that proposed enrollment for new school construction is 300 students. In addition, the response stated that the “numbers of data drops and video drops were installed at the advice of the consultant with intent to future-proof classrooms.”

Navajo Prep did not agree with the finding on underutilization. The response stated that:

We do not agree with this assessment that was conducted in June 2003 at the time when school was not in session. Our current technology utilization is much higher with increasing potential. The School purchased a software program called Lightspan that is an online tool used by teachers....The School also has the Rubicon Curriculum Mapping Program...Accelerated and Star Reader programs...For school year 2003, forty (40) new Dell computers were installed in two portable buildings and twelve (12) in the new relocated library.

(See Appendix 6, page numbers 32 and 33, item numbers 8 and 9, for the School's complete response to this finding.)

**Office of Inspector
General's Reply**

Our assessment of utilization was conducted during April and May 2003, when the School was in session. At the time of our review, more than half of the unused system capacity was located in the four new dormitories which contain 337 drops; however, only 20 of these 337 drops were being used. We recognize this may change when the dormitories are occupied; however, this capacity will still be in ineligible buildings. The other three buildings we consider ineligible contain 34 drops, of which 16 were being used.

The software was added after our assessment of utilization. However, such software would only increase the utilization of

computers already connected to the LAN. Additional hardware and software would be needed to utilize the remaining unused percentage of system capacity.

There were only 40 new computers added for the start of School year 2003, and these were installed in two portable buildings and the relocated library. These 40 new computers were connected to the LAN via new drops wired to existing IDF capacity. Assuming that equal numbers of computers and drops were added to the LAN, the result would be a nominal reduction from 79 percent to 75 percent of system capacity that is underutilized. We recognize that additional resources (computers, printers, etc.) may be added to the system in the future, however, we do not believe that a system with 75 percent of system capacity available to “future-proof classrooms,” is an efficient and effective use of resources.

**Non-Discounted
Portion Paid by
School**

Our review disclosed that the School had the necessary funding to pay for the non-discounted portion of the cost of E-rate Program services. Title 47 CFR § 54.504(b)(2)(v) requires schools to certify that they have the necessary funding to pay for the non-discounted portion of requested internal connections. The School paid the service provider a total of \$249,876 for the non-discounted portion of the internal connections contract price.

**Navajo Prep’s
Comments**

Navajo Prep stated that it met its matching fund requirement for the non-discounted portion of the internal connections in the amount of \$249,876. (See Appendix 6, page number 32, item number 7, for the School’s complete response to this finding.)

**Office of Inspector
General’s Reply**

No comment.

Other Matters

We identified reportable conditions that, while not material, represent weaknesses in the School’s administration of the E-rate Program as discussed below.

BEAR Request

The School received a separate funding commitment from USAC of \$11,700 for telecommunication services to be provided by Qwest Communications. The School submitted its Billed Entity Applicant Reimbursement (BEAR) request late and as a result lost the \$11,700 of eligible funding. The BEAR form, also known as FCC Form 472, is a tool used by schools to request E-rate discount reimbursements for approved services that they have already purchased from the service provider. Under this process, the school pays the service provider in full for services received. This

payment covers both the USF share (the discounted portion) and the school's share (the non-discounted portion) of the service. The school should then submit Form 472 to USAC for the USF share of the amount it paid. The service provider must also sign the BEAR form indicating that it will pass back to the school the payment it receives from USAC. After processing the form, USAC sends the payment to the service provider, who must then reimburse the school for the discounted portion of the invoiced costs within ten days following receipt of payment from USAC.

The School paid Qwest Corporation in full for the \$13,000 cost of services provided throughout the school year, but did not prepare a BEAR Request Form until the end of the school year on June 30, 2002. The School's consultant did not mail the completed BEAR Request Form to USAC until January 27, 2003, almost seven months after it was prepared. According to the School's network administrator, USAC did not pay the reimbursement because the BEAR Form was received after the expiration date for payment of approved services.

The delay in completing the BEAR reimbursement process in a timely manner resulted in the loss of \$11,700 of E-rate Program funds which the School could have used to support the E-rate Program or similar technology expenditures.

**Navajo Prep's
Comments**

The response attributed this deficiency to a lack of communication between the consultant and the previous School director and indicated that it will improve control over funds. (See Appendix 6, page number 33, item number 10, for the School's complete response to this finding.)

**Office of Inspector
General's Reply**

No comment.

Use of Consultant

The School relied on a consultant to manage its E-rate Program. The School's use of the consultant resulted in a loss of management control. School personnel told us that the consultant was an unpaid third-party consultant. We found that the consultant performed numerous tasks which we believe would inherently fall under the duties and responsibilities of School staff over which the School administration should exercise management control. The consultant:

- Prepared, reviewed, and revised the school's technology plan.
- Prepared and submitted the School's Form 470 "Description of

Services Requested and Certification Form”. The consultant was listed on the form as the School’s contact person.

Accordingly, USAC correspondence was sent to the consultant at his address in Scottsdale, Arizona.

- Was listed on the Form 470 as “the person on your staff who can provide additional technical details or answer specific questions from service providers about the services you are seeking”.
- Was identified on the Form 470 as the Technology Planner and Designer.
- Prepared and submitted the School’s “Services Ordered and Certification Form 471”.
- Prepared the Form 486, Receipt of Service Confirmation Form, including certification that the technology plan was approved by OIEP.
- Received USAC inquiries for additional and/or detailed information and decided what would be provided to USAC. In an E-mail response to a USAC inquiry, the consultant represented that he was the “Contracting Officer Representative for 7 Bureau of Indian Affairs Schools on the Navajo Reservation”.
- Acted as the Contracting Officer’s Representative for Navajo Prep. In this capacity the consultant, planned, designed, and administered the contract with the service provider. The consultant also signed contract documents on behalf of the school.
- Submitted the BEAR Form 472.

We believe that many of the deficiencies noted in our report were attributable to the work performed by the consultant combined with a lack of management oversight by the School.

**Navajo Prep’s
Comments**

The response agreed with this finding and stated that this deficiency has been corrected and training will be provided for key administrative personnel on the management of E-rate projects. (See Appendix 6, page number 34, item number 11, and page number 35, item h, for the School’s complete response to this finding.)

**Office of Inspector
General’s Reply**

Corrective action appears not to have been implemented. In that regard, we noted that the BEAR request was not properly submitted, and the School continued to certify to USAC that Norstan had performed work and should be paid when they had not ensured that all goods and services had been provided.

**SCHEDULE OF QUESTIONED COSTS FOR
NAVAJO PREPARATORY SCHOOL, INC.,
E-RATE COMMITMENT FOR FUNDING YEAR 2001,
JULY 1, 2001 THROUGH JUNE 30, 2002**

Internal Connection	USAC Approved Pre-Discounted Amount	Questioned Amount	Remaining Amount	Discounted Remaining Amount @90%
PBX System:				
Material	\$90,775	\$-0-	\$90,775	\$81,698
Installation	45,880	-0-	45,880	41,292
Subtotal PBX System	\$136,655	-0-	\$136,655	\$122,990
Local Area Network:				
Material	\$717,025	\$66,145 ¹	\$650,880	\$585,792
Installation	277,530	25,588 ²	251,942	226,748
Subtotal Local Area Network	\$994,555	\$91,733	\$902,822	\$812,540
Cabling and Termination:				
Material	\$653,205	\$435,988 ³	\$217,217	\$195,494
Installation	708,464	472,871 ⁴	235,593	212,034
Subtotal Cabling and Termination	\$1,361,669	\$908,859	\$452,810	\$407,528
Total	\$2,492,879	\$1,000,592	\$1,492,287	\$1,343,058

¹See Appendix 2 for details by building.

²Amount determined by calculating questionable local area network switch cost as a percentage of total local area network material cost (9.22 percent) and applying the percent to the total approved local area network installation cost of \$277,530.

³Amount determined by calculating questionable trenching footage and cabling footage to non-instructional buildings which are not essential for the effective transport of information to instructional buildings. See Appendix 4 for details.

⁴Amount determined by identifying the appropriate questionable trenching installation cost and then determining the questionable cabling and termination installation cost. See Appendix 4 for details.

Details of Local Area Network Questioned Costs for Ineligible Intermediate Distribution Frames

LOCAL AREA NETWORK EQUIPMENT LOCATED AT QUESTIONABLE IDF's	NEW DORMITORIES								EXISTING DORM AHKEAH HALL - IDF #8		BUSINESS OFFICE IDF #12	CAFETERIA IDF #9	TOTALS			
	GARRETT HALL - IDF #4		ARTHUR HALL - IDF #7		ZAH HALL - IDF #5		BATES HALL - IDF #6		Questioned		Questioned		Questioned			
	Qty	Costs	Qty	Costs	Qty	Costs	Qty	Costs	Qty	Costs	Qty	Costs	Qty	Costs		
Switches¹																
Intel Express 460T Standalone Switch with Base 1000 LX Module	4	\$12,188			2	\$6,094							1	\$3,047	7	\$21,329
Intel Netstructure 470T Switch with Gigabit Module	1	\$7,952			1	\$7,952									2	\$15,904
Intel Express 530T Stackable Switch with Module for CAT 5 1000 Base LX 22 Ports			3	\$7,542	2	\$5,028	1	\$2,514	1	\$2,514	1	\$2,514			8	\$20,112
Intel Express 535T Stackable Switch with LX Stack Module 22 Ports			1	\$2,200			3	\$6,600							4	\$8,800
Uninterruptible Power Supply																
APC Smart-UPS 700	1	Cost Unkn.	1	Cost Unkn.	1	Cost Unkn.	1	Cost Unkn.							4	Cost Unkn.
APC Smart-UPS 450									1	Cost Unkn.	1	Cost Unkn.			2	Cost Unkn.
APC Smart-UPS 250													1	Cost Unkn.	1	Cost Unkn.
Patch Panels, Cabinets & Racks																
Hubbell SpeedGain C5E+ Patch Panel 24 Port	1				1		1		1		1		1		6	
Hubbell Fiber Optic Patch Panel LIU 24 Port	1	Patch Panels, Cabinets and Racks were Approved as Part of Cabling and Termination	1	Patch Panels, Cabinets and Racks were Approved as Part of Cabling and Termination	1	Patch Panels, Cabinets and Racks were Approved as Part of Cabling and Termination	1	Patch Panels, Cabinets and Racks were Approved as Part of Cabling and Termination	1	Patch Panels, Cabinets and Racks were Approved as Part of Cabling and Termination	1	Patch Panels, Cabinets and Racks were Approved as Part of Cabling and Termination	1	Patch Panels, Cabinets and Racks were Approved as Part of Cabling and Termination	7	Patch Panels, Cabinets and Racks were Approved as Part of Cabling and Termination
Hubbell Next Speed 670 Cat 5 Patch Panel 48 Port	2		2		2		2		2		1		1		9	
Hubbell Next Speed 670 Cat 5 Patch Panel 24 Port			1		1		1		1		1		1		3	
Hubbell Fiber Termination Cabinets	1		1		1		1		1		1		1		7	
Hubbell Wall Mount Racks	1		1		1		1		1		1		1		7	
Total Questioned Costs		\$20,140		\$9,742		\$19,074		\$9,114		\$2,514		\$2,514		\$3,047		\$66,145

¹ See Appendix 3 for cost details

**CALCULATION OF QUESTIONED COSTS FOR
INTERMEDIATE DISTRIBUTION FRAMES
BY EQUIPMENT CATEGORIES**

Equipment Categories as Inventoried at Questionable Intermediate Distribution Frames	Equipment as Listed on Approved Form 471 and Invoices	Cost from Form 471 and Invoices
Intel Express 460 Standalone Switch with Base 1000 LX Module	ES460T/24 Non-Stackable 10/100 Switch	\$1,598
	ES460MSX Gigabit Fiber Uplink Module-Fiber	\$1,449
	Total	<u>\$3,047</u>
Intel Nextstructure 470T Switch with Gigabit Module	ES470F 8 Port Gigabit Fiber Switch	\$7,497
	ESGBIC35VSX GBIC Module for Gigabit Switch	\$455
	Total	<u>\$7,952</u>
Intel Express 530T stackable Switch with Module for CAT 5 1000 Base LX 22 Ports	ES530T 10/100 Stacking Switch	\$1,644
	ES530MSX Gigabit Fiber Uplink Module-Fiber	\$870
	Total	<u>\$2,514</u>
Intel Express 535T Stackable Switch with LX stack Module 22 Ports	ES535T Stackable 10/100 Switch	\$1,330
	ES530MSX Gigabit Fiber Uplink Module-Fiber	\$870
	Total	<u>\$2,200</u>
Uninterruptible Power Supply		Indeterminable
Patch Panels, Cabinets and Racks	Approved as Part of Cabling and Termination Costs	Indeterminable

**CALCULATION OF QUESTIONABLE COSTS FOR
TRENCHING, CABLING, AND TERMINATION RELATED TO
INELIGIBLE INTERMEDIATE DISTRIBUTION FRAMES**

Calculation of Trenching Distance to Non-Instructional Buildings Not Essential for Effective Transport of Information to Instructional Buildings	Feet
Main Trunk to Business Office (Building #34)	56
Main Trunk to Cafeteria (Building #31)	264
Main Trunk to Arthur Hall (Dormitory #4)	132
Main Trunk to Ahkeah Dormitory (Building #26)	151
Main Trunk to Bates Hall (Dormitory #3)	103
Branch from Bates Hall (Dormitory #3) to Zah Hall (Dormitory #2)	238
Main Trunk to Garrett Hall (Dormitory #1)	91
Total Questionable Trenching	<u>1,035</u>
Total Trenching Footage	<u>3,857</u>
Percent of Trenching Footage that is questionable (1,035 feet/3,857 feet)	<u>26.83%</u>

Calculation of Questionable Trenching Funding	Costs
Approved Trenching Material Funding	\$50,079
Questionable Trenching Material Funding (50,079 X 26.83%)	\$13,438
Approved Total Material Funding for Cabling and Termination Which Includes Trenching	\$653,205
Trenching Material Funding as a Percent of Cabling and Termination Material Funding (\$50,079/\$653,205)	7.67%
Approved Overhead Funding for Cabling and Termination	\$708,464
Applicable Installation Funding for Trenching (7.67% X \$708,464)	\$54,316
Questionable Trenching Installation Funding (26.83% X \$54,316)	\$14,575
Total Questionable Trenching Funding (\$13,438 + \$14,575)	\$28,013

**Calculation of Fiber Optic, Copper, and Coaxial Cabling to
Non-Instructional Buildings Not Essential for Effective
Transport of Information to Instructional Buildings**

	Feet
MDF to Garrett Hall (Dormitory #1)	1,740
MDF to Zah Hall (Dormitory #2)	1,728
MDF to Bates Hall (Dormitory #3)	1,570
MDF to Arthur Hall (Dormitory #4)	1,260
MDF to Ahkeah Dormitory (Building #26)	1,232
MDF to Cafeteria (Building #31)	752
MDF to Business Office (Building #34)	476
Total Questionable Cabling Footage	<u>8,758</u>
Total Cabling and Termination Footage	<u>12,500</u>
Percent of total Cabling and Termination Footage that is questionable (8,758 feet/12,500 feet).	<u>70.06%</u>

Calculation of Questionable Cabling and Termination Funding

	Costs
Approved Cabling and Termination Material Funding Exclusive of Trenching Funding (\$653,205-\$50,079)	\$603,126
Approved Cabling and Termination Installation Funding Exclusive of Trenching Funding (\$708,464 -\$54,316)	\$654,148
Questionable Cabling and Termination Material Funding Exclusive of Questionable Trenching Material Funding (\$603,126 X 70.06%)	\$422,550
Questionable Cabling and Termination Installation Funding Exclusive of Questionable Trenching Installation Funding (\$654,148 X 70.06%)	\$458,296
Total Cabling and Termination Funding Exclusive of Trenching Funding (\$422,550 + \$458,296)	\$880,846
Total Questionable Material Cabling and Termination Funding Including Trenching (\$422,550 +\$13,438)	<u>\$435,988</u>
Total Questionable Installation Cabling and Termination Funding Including Trenching (\$458,296 +\$14,575)	<u>\$472,871</u>

**USAC APPROVED FORM 471 EQUIPMENT AND SERVICES
COMPARED TO AS-BUILT INSTALLED EQUIPMENT AND SERVICES**

Equipment Item- Description	Form 471 Equipment/ Services USAC Approved After Completing PIA Review	As-Built Installed Equipment/ Services
PBX--Nortel		
Clock Controller Card Model NTAK20AD	1	
Power Supply Model NTAK98AA	2	
AC-DC Power Supply NTDK78AB		2
30 Ft or 10M Fiber Daughterboard Model NTDK22AA	1	1
Option 11C Single Cabinet (AC) Model NTWB09AA	1	1
Option 11C Expansion Cab (AC) Model NTWB09BA	1	1
Digital Line Card (DLC) NT8D02GA	5	5
Analog Message Waiting Line CA Model NT8D09BA	2	2
Universal Trunk Card Model NT8D14BB	2	2
TMDI Pkg (1.5MB DTI/PRI) NTSF6800	1	1
Option 11C 30 FT or 10 M Expans Model NTDK49BA	1	
Opt 11C Enhanced Bus SW Pkg Model NTSF8021	1	
Adtran T1 CSU ACE with Power Supply Model 395138	1	
C-Pilot 2.0 Base Hardware Package IPE NTUB01AF		1
SSC NTDK20GA		1
Ethernet 802.310 Base T Transceiver		1
Fiber Receiver NTDK		1
Multi Media Processing Card--Nortel MPC-8		2
PIC 83		1
3-COM Office Connect Ethernet HUB 8C 3C16701A		1
Plextor Plexwriter 12/10/32S CD-RW		1
Tandberg Data SLR 4/8GB SLR5		1
U.S. Robotics 56K MODEM V 92 #5686		1
Teltronics System Host 1 Host 2 and Modem SEB2		1
DGA System #105680		
Pioneer DVD Player DV354		1
Photoviewer 192KHZ 24 BIT D/A Converter		1
3.5" Floppy Drive		1
Clock with 3.5" Floppy Drive		1
52X CD ROM		1
Encoder with DVD Player 3210X40 CD-RW and 3.5" Floppy Drive		1
PANASONIC VHS Video Tape Player AG135 50 Super Drive		1
DGA Network Adapter Assembly #212-005 MA V1.01		1
DGA Network Translator Assembly 240-001 MA-V1.01		1
Blonder Tongue MIPS-12MIDM/MICM Power Supply		1

Equipment Item- Description	Form 471 Equipment/ Services USAC Approved After Completing PIA Review	As-Built Installed Equipment/ Services
Local Area Network Hardware		
Sprint Model 119D5402 Communications Server	1	
Microsoft Windows NT Operating System Software	1	
Sprint Model 118D5404 Server Communication Card	1	
Sprint Model 118D5067 1-Port Serial Communications Card	19	
Sprint Network File Server for Digital Controller and Routing Switch Model 119K1963	1	
Sprint Model 119K2588 TCP/IP Client Software	76	
Sprint Model 119D5304 Video Distribution System	4	
Sprint Model 119K5333 Master FM Antenna	1	
Intel Model ES520T 12 Port TCP/IP Ethernet Switches	19	
LAN Equipment Rack Sprint	3	3
Monitors for File Servers Only	3	1
Intel Model ES480TRD 12+4 Stackable Gigabit Switch with Redundant Power Supply	10	
Intel Model ES480TRU Layer 3 Software Option for 480TRD	10	
Intel Model ES470F 8 Port Gigabit Fiber Switch	5	
Intel Netstructure 470T Switch with a GBIC Module		3
Intel Model ESGBIC35VSX GBIC Module for Gigabit Switch	11	
Intel Model ES530T 10/100 Stacking Switch	42	
Intel Express 530T Stackable Switch with a Module for CAT 5 1000 BASE LX 22 Ports		20
Intel Model ES535T Stackable 10/100 Switch	40	
Intel Express 535T Stackable Switch w/LX Stack Module 22 Ports		12
Intel Model ES530MSX Gigabit Fiber Uplink Module-Fiber	32	
Intel Model ES530MTSX Gigabit Fiber Uplink Module-Copper	1	
Intel Model ES460T/24 Non Stackable 10/100 Switch	1	
Intel Express 460T Standalone Switch w/Base 1000 LX Module		9
Intel Model ES460MSX Gigabit Fiber Uplink Module-Fiber		1
Intel 480TRS 12+4 Stackable Gigabit Switch with redundant power supply		5
Intel Express 500 Stackable Switch		1
Gigabit NIC Card Intel Model PRO1000	8	
PowerEdge Server Model 6450 Dell	8	2
PowerEdge Server Model 6650 Dell		6
Tape Backup Dell Power Vault, Metis Thebe 120T DLT 7000		2
APC Power Supply Smart-UPS 1400XL		1
APC Power Supply Smart-UPS 3000XL with Battery Pack		2
APC Power Supply Smart-UPS 1400		1
APC Power Supply Smart-UPS 700		5
APC Power Supply Smart-UPS 450		3
APC Power Supply Smart-UPS 250		4

Equipment Item- Description	Form 471 Equipment/ Services USAC Approved After Completing PIA Review	As-Built Installed Equipment/ Services
Cabling and Termination Services		
All 9 Instructional Buildings-24 Strand loose tube Multi-Mode fiber, 50 Pair Cat 3 cable and #500 coaxial cable Model DX24 OCC	161,000 feet	
Fiber optic, cooper, and coaxial cable for 13 buildings. Cabling footage of 12,500 feet each for the three cables installed per As-built schematic drawing prepared by cabling subcontractor.		37,500 feet
Termination of all loose tube fibers at both ends using SC connector and power meter test all 24 strands per cable.	1 job	
Provide and install two-strand multi-mode fiber CMR rated to each classroom location. Model DX-02 OCC	39,000 feet	Not Inventoried
Terminate all two strand fibers on the station side using ST connector in a single gang faceplate, OCC	480	Not Inventoried
Terminate all two-strand fibers in Telecommunications Closet using ST connectors and power meter test all strands	2,300	Not Inventoried
24X24X19 Wall Mount Racks Model CR1976W Hubbell	25	
Provide and install (10) 48 port fiber LIUs Hubbell Model 59130-00N-48	10	
Provide and install (18) 24 port fiber LIUs Hubbell Model 59130-00N-24	18	
Provide and install (23) 12 port fiber LIUs Hubbell Model 59130-00N-12	23	
Provide and install (641) Cat 5 Jacks with Plates Hubbell Model 5G484-B48	641	787
Provide and install (24) 48 port Cat 5 Patch Panels Hubbell Model 5G484-B48	24	
OPT Channel LIU Fiber Optic 144 ports		4
Hubbell Next Speed 670 Cat 5 Patch Panel 48 ports		17
Hubbell Next Speed 670 Cat 5 Patch Panel 24 ports		7
Hubbell Speed Gain C5E+ Patch Panel 24 ports		12
Hubbell LIU Fiber Optic Patch Panel 24 ports		13
Surface Conduit System for Voice and Data System (15 linear feet) Wiremold 4000 Series	51	Not Inventoried
NEMA Enclosures, Hammond Eclipse	51	Not Inventoried
Wire Management for Voice and Data, Hubbell Model,WM-1	51	Not Inventoried
2" Stub for Wiremold Connectivity, EMT Model CONDUIT-2	992	Not Inventoried
Stainless Steel Underground Enclosure for Voice and Data System Hammond Model 2000 Series	22	Not Inventoried
Wire Management for Voice and Data Hubbell Model WM-1	22	Not Inventoried
Fiber Termination Cabinets, Hubbell Model 5900 Series	22	Not Inventoried
Underground 4" Conduit System for 9 Instructional Buildings, EMT Conduit-4	9	18 according to schematic
Trenching for 9 Instructional Buildings	1 job	
Trenching for 18 Instructional Buildings per subcontractor data.		3,857 feet

Equipment Item- Description	Form 471 Equipment/ Services USAC Approved After Completing PIA Review	As-Built Installed Equipment/ Services
Installed data, voice and video connections to 13 buildings and trenching without pulling cable to 5 additional buildings. Installed system includes trenching of 3,857 feet, cabling of 12,500 feet, 14 Intermediate Distribution Frame, and 735 data and 52 video drops.		1



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September 22, 2003

Joseph Ansnick
Director of External Audits
United States Department of Interior
Office of Inspector General
Washington, D.C. 20240

Subject: Response to the Advisory Report on the E-rate Program at Navajo Preparatory School, Inc.

Dear Mr. Ansnick:

This is a response to the Inspector General Advisory Report on the E-rate program at Navajo Preparatory School, Inc. The objective of your review was to determine whether the School complied with the rules and regulations of the E-rate program and to identify program areas, which may need improvement. The report concludes that the School was out of compliance with key requirements of the E-rate program for Funding Year 2001. We understand that our response will be attached to the Advisory report for submittal to FCC. We ask that you carefully consider our response to each requirement:

1. *Technology Plan was not properly approved or adequately prepared.*

Response: The School Technology Plan for Year 4 funding was approved by the Board of Trustees by a resolution dated October 5, 2000. The School was unaware that further review and approval of the technology plan was required by an SLD-certified approver. On March 17, 2003, the Year 6 Technology Plan was submitted to the Shiprock Agency, Office of Indian Affairs Program, and was approved by an official; however, the plan was determined not to meet the requirements for E-rate program. Prior to our submittal of the Year 6 Technology Plan, the school did not received feedback from SLD or BIA that the Year 4 Technology Plan was not approved.

Corrective Action: The School understands that the Technology Plan drives the E-rate project. Our current Technology Plan will be completely revised to meet all the requirements for E-rate program within 90 workdays from the date of this response. We will ensure that our Revised Technology Plan is approved by Stuart Ott, BIA-SLD Certified Approver.

2. *Discount Rate was no Supported.*

FCC regulations require that at least 75% of a school's students qualify for free or reduced price lunches under the National School Lunch Program for the school to qualify for the 90% discount rate.

Response: The School contends that it meets this requirement through the Provision 2 Guidance for Disclosure of Free and Reduced Price Lunch Eligibility Information.

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1

Under Provision 2, the National School Lunch Act allows schools, that offer student lunches at no charge regardless of income, to collect free and reduced price applications once every four years or longer if extensions are granted. Hence, school lunch regulations prohibit Provision 2 schools from collecting eligibility data and certifying students on an annual basis after the first year (base year) of Provision 2. According to the New Mexico Student Nutrition Programs Unit, all students in Provision 2 schools are considered “economically disadvantaged” or free. The Navajo Preparatory School qualifies under Provision 2 for Funding Year 2001 and receives USDA reimbursement based on Provision 2. The School qualified for Provision 2 in 1999 and requested for a four-year extension in February 2003. This provision 2 is based on the Navajo Nation socioeconomic data that shows an unemployment rate of 45.81 % as of December 1997 and 42.19 % as of 2002. Please refer to attached documentation, which shows that the Navajo Nation has 56% of its people living under the poverty level with per capita income of \$5,759.

3. *Service Contract was not competitively awarded.*

Response: As required by FCC competitive bid system the school’s completed FCC Form 470 was posted on the internet website by FCC. The School complied with the 28-day wait to enter into a contract. The School entered into a contract with Norstan Communications with the understanding that Norstan is an approved supplier as a member of the New Mexico Cooperative Educational Services (CES). Under CES Norstan has a competitively awarded contract. CES provides assurance that contract prices are fair and reasonable.

Corrective Action: The School became a member of New Mexico Cooperative Educational Services in March 2003. The new Executive Director of Navajo Preparatory School is on the Board of Directors for CES. In addition, the new Business Manager attends CES meetings. This relationship will strengthen and improve school procurement procedures. The School will maintain adequate record-keeping for bid inquiries in accordance with Title 47 CFR §54.516 Auditing (a) Record Keeping Requirements.

4. *Services were put in ineligible buildings.*

The report cites that internal connections were installed in seven non-instructional buildings (five dormitories, the business office, and the cafeteria).

Response: The cafeteria was considered an instructional building for study hall and tutorial sessions. The cafeteria has only two drops with a mounted television. The Business Office was cabled to an existing network and was upgraded for compatibility with the rest of the school.

We contend that internal connections for the five dormitories are justified by our letter to Charles Bullock dated July 28, 2003. This letter explains that the Navajo Preparatory School does not fit into the “traditional” school category. The school’s regular academic college preparatory program extends into the evening program into after hours instruction, tutoring and study hall in the dormitories. The school academic program is designed for preparation of students for college in a dormitory setting. As such, the School has a 90% or better rate of sending students to college each year. The July 28, 2003 letter is attached with this response.

5. *Buildings were not wired.*

The report indicates that USAC approved funding for contracted services to install internal connections in 17 buildings.

Response: Three of the buildings (Buildings Nos. 19, 20 & 21) are slated for renovation for future classroom use, therefore were not wired due to anticipated vacancy of the buildings. However, conduits and cables have been installed up to each building for later connection after the buildings are renovated. All three buildings (Nos. 19, 20 & 21) and the art building were vacated in May 2003. The School is currently utilizing two portables buildings. The library has been relocated from Building #20 to Building #32. The art classroom has been moved to a leased building in No. 16. The art classroom was relocated because it would be impacted by the Phase II construction zone. We request FCC to be cognizant of the complexity of our building projects and the domino effect it has as we move through the various phases.

Of the five buildings listed in the report, we agree that one (1) building should have been wired. This building is the Gym.

Corrective Action: The School will contact Norstan and attempt to have the gym wired.

6. *Equipment was not installed as approved.*

Response: The changes in quantities and product substitutions demonstrated in Appendix 5 of the report are considered minor to keep with upgrades in technology.

7. *The School's program support funding appears insufficient.*

Response: We do not agree with this finding. The School has provided funds to train essential staff. Specifically, the following training has been provided for the Network Administrator and Computer Technician: Introduction Network Security, SQL Server 2000 and A+ Certification for Computers.

In addition, the computer teacher and math teacher are scheduled to attend training offered by the BIA-Technology Information Center in October 2003 and other staff members will be scheduled to attend these BIA trainings. Please refer to Question # 9 for further support of this finding. The School also met its matching fund requirement for the non-discounted portion of the internal connections in the amount of \$249,876.

The School Technology Plan will be further refined to include goals, objectives, milestones and performance measures to implement a specific plan for professional training and development. In addition, a planned technology expenditure will be developed with staff input within 90 workdays from the date of this report.

8. *Applications for Services were inflated and services installed were underutilized.*

Response: We agree that the inflated applications in the report demonstrated by a table does not make sense. The correct information is as follows: current student enrollment is 206 students; proposed student enrollment for new construction is 300 students. The numbers of data drops and video drops were installed at the advice of the consultant with intent to future-proof classrooms. For example, if one cable goes bad in the future, or if the school adds more computers, there would be enough drops available without having to pull or install more cables.

The conflicting information in the report represented by a table may be attributed to the School's proposed school construction projects that are broken down in three phases: Phase I, Phase II and Phase III. Phase II involves moving out of three buildings for renovation and relocation of the library. When the buildings are renovated in Phase II, they will become classrooms. Perhaps this was not clearly understood by the Consultant with lack of communication with school personnel. This occurred under the previous administration without input from the planning department.

Corrective Action: The new Executive Director is also responsible for campus planning and development. This new management system will alleviate future problems in arriving at number of classrooms, instructional buildings, students and computers for the school.

9. Underutilized System

The report indicates that the school's use of network system data drops, with computers, printers and telephones connected are underutilized showing 79.2% not used.

Response: We do not agree with this assessment that was conducted in June 2003 at the time when school was not in session. Our current technology utilization is much higher with increasing potential. The School purchased a software program called Lightspan that is an online tool used by teachers. Teachers can create lesson plans, search the web for compelling, educator reviewed content and connect with other educators for curriculum alignment to state standards. This tool helps the school comply with the No Child Left Behind Act. The School also has the Rubicon Curriculum Mapping Program that all teachers are required to use in upgrading their curriculum.

In addition, Accelerated and Star Reader programs have been installed on all computers that both students and staff have access to. Accelerated and Star Reading's computer adaptive testing offers teachers easy-to-use tools to help them match their instruction to the individual student levels and measure growth throughout the school year. In Spring 2003, the School and Intel conducted a demonstration of a video media conference in partnership with Polycom, University of New Mexico, Northern Arizona University and San Juan College.

For school year 2003, forty (40) new Dell computers were installed in two portable buildings and twelve (12) in the new relocated library. The library has a total of twenty-five (25) computers. The lab in the portable buildings are open to students during and after school.

The School has a Technology Committee that oversees and recommends new development in technology support services.

10. BEAR Request

The report indicates that the delay in the BEAR reimbursement process resulted in a loss of \$11,700 of E-rate program funds, which the school could have used to support the E-rate program or similar technology expenditures.

Response: Follow-through on this reimbursement request is unfortunate. This deficiency is attributed to lack of communication between the consultant and the previous School Director.

Corrective Action: Management at the school level will have control over current and future funding. The use of any consultant will be thoroughly screened with a background check.

11. Use of Consultant

The report indicates that the use of the consultant resulted in a loss of management control. The report notes that many of the deficiencies reported were attributed to the work performed by the consultant combined with the lack of management oversight by the school.

Response: The School is in agreement with this assessment. From the period of October 2000 to May 2002, the school was under an Executive Director who was fired for lack of leadership ability and accountability. It was during this period that the deficiencies occurred.

Corrective Action: Training for administrative personnel on managing the E-rate program is necessary. The school will schedule training for the Executive Director, Business Manager and Network Administrator within 90 days of this report.

Summary:

In summary, we are in general disagreement with this advisory report, particularly that costs of approximately \$1 million were disbursed for ineligible services. We ask FCC to carefully consider our responses that are summarized below.

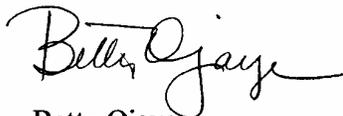
- a. That the School qualified for the full 90% discount rate based on Provision 2 criteria of the New Mexico Student Nutrition Program and USDA reimbursement (documentation is attached).
- b. The School Technology Plan was submitted to SLD, however, feedback approval from BIA-OIEP and SLD did not occur until our application for Year 6.
- c. The Service Contract with Norstan was awarded based on Norstan being an approved supplier under the New Mexico Cooperative Educational Services (CES). The School is a member of CES. (documentation attached).
- d. We have explained the three phases of school planning, design and construction that raised questions for some buildings not wired. Three buildings were not wired pending renovation.
- e. We have explained why internal connections were installed in five dormitories based on our position that the School academic program is designed for college preparation in a dormitory setting. The School does not fall under the "traditional" boarding school category.
- f. We do not agree that the school's use of network system data drops, with computers, printers and telephones are underutilized. We have provided strong justification that the new technology system is advance and much utilized by students, teachers and staff. In particular, the new technology system is key to the school's compliance with the No Child Left Behind Act.
- g. We provided explanation as to why some buildings were not wired due to the complexity of our phased building projects and the domino effect it has as we move through the various phases.

- h. We agree there was lack of management oversight for the E-rate program by the school's former Executive Director and work performed by the consultant; however, this deficiency has been corrected and training will be provided for key administrative personnel on the management of E-rate projects.

The Navajo Preparatory School has an excellent advanced technology system that is fully operational throughout the school campus. We are thankful to the E-rate program. The School commits to developing an updated Technology Plan that will drive our technology support program so that students are given full opportunity to acquire technological literacy and skills and to be successful in today's world. Therefore, we ask the FCC to carefully review our response and provide support for Year 6 funding.

Please call me if you have any additional questions.

Sincerely,



Betty Ojaye
Executive Director & Director of Campus
Planning & Development
Navajo Preparatory School, Inc.



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July 28, 2003

Clark Bullock
Office of Inspector General
134 Union Blvd., Suite 510
Lakewood, Colorado 80228

Re: Drops in the New Dormitories for use as classroom labs

Dear Mr. Bullock:

Please accept this letter as justification for use of e-rate funds for four new dormitories at the Navajo Preparatory School, Farmington, N.M.

The Navajo Preparatory School Campus Master Plan provides for several recurrent themes and issues that give focus and sense or priority to the campus planning process. As a college preparatory school, one of our priorities is to assure maximum preparation of students for college.

To meet this goal we are improving our facilities to provide appropriate space for integrated curriculum delivery. This plan includes ready access to computer technology resources in differing and flexible arrangements that include the Residential Life Program. Our new dormitories (4) have been designed to have two classroom labs to provide students with a variety of schedules for learning and delivery of continuous educational program in the following areas:

- To provide for scheduled tutoring classes from 3:00-9:00 p.m. Monday-Thursday. The tutoring classes are in all subject areas from the regular instructional day to individualized tutoring for students after school. The school has a staff of five part-time tutors who each have a schedule for tutoring services.
- Computer Classes – Since not all students can take a computer class in the regular daily schedule, shorten computer classes and seminars are offered each quarter to provide students an opportunity to take advance computer courses such as Excel, Microsoft word, Power Point and Web Design.
- Testing – The testing program is an integral part of the academic curriculum that include the ACT sequence for all grades in 9-12, Stanford 9, PSAT, SAT and New Mexico Competency Exam. Test taking skills and seminars are offered in the evenings in the dormitory classroom labs.
- Independent work and research – In order to prepare students for college, research skills are strongly emphasized in all classes. Students are provided with

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opportunities to conduct research by accessing the Library Catalog, SIRS Researcher Online Database, SIRS Government Reporter and numerous other on line subscriptions.

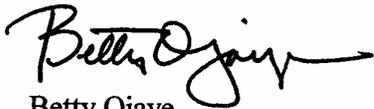
- Mentoring, Teaming, Cooperative Learning and Group Work Sessions are scheduled at the dormitory classroom labs. These projects are related to a project based academic curriculum that vary from class to class. For example, each senior student is required to develop a senior project for graduation. The dormitory classroom lab is utilized after hours for individual and group projects.

The dorm/classroom labs will have maximum usage everyday. The Navajo Preparatory School Residential Program is an integral component of the entire school program that complements the academic program. At Navajo Preparatory School, student learning does not take place just during the school day in the classroom; there is much learning activity into the evening hours in the residential program.

Please understand also that the academic program is currently housed in old historic buildings that have very limited capability for electric power and technology. The dormitory classroom labs offer modern space with adequate utilities.

We appreciate your acceptance of this justification for use of e-rate funds in the dormitories. I will be happy to answer any other questions you may have. You can reach me by e-mail at bojaye@opus.nps.bia.edu

Sincerely,



Betty Ojaye
Executive Director



Wireline Competition Bureau

MEMORANDUM

DATE: December 11, 2003

TO: Inspector General

FROM: William F. Maher *WFM*
Chief, Wireline Competition Bureau

SUBJECT: Draft Report on Audit of the E-rate Program at Navajo Preparatory School, Inc.

Attached please find WCB's response to the OIG's draft audit report on Navajo Preparatory School, Inc.

Navajo Preparatory School, Inc

Recommendation 1 of 3: recover the full amount of \$2,084,399.45 disbursed in funding year 2001.

Wireline Competition Bureau Response: Partially Concur

Explanation: We concur with the OIG that full recovery of funds – a total of \$2,084,399.45- is warranted. We do not concur with the OIG conclusion that the findings support recovery of only \$1,000,592. In WCB's view, the lack of an approved technology plan, failure to competitively bid the contracts for E-rate services and the failure to demonstrate necessary resources to utilize the services are rule violations that support full recovery. We conclude that the failure to properly calculate the discount rate, the installation of services in ineligible locations, billing for services not rendered, and unauthorized service substitutions are also rule violations, but because full recovery is already warranted, we do not address the methodology used to calculate the \$1,000,592 discussed in the report. Finally, while the FCC requires beneficiaries to have necessary resources to utilize the services requested, there is no specific rule prohibiting underutilization of services. We concur with the OIG's finding that the beneficiary failed to demonstrate necessary resources, but we conclude that underutilization of services is not a rule violation.

We note that the Commission has not, to date, addressed the question of whether full recovery of funding is permissible and appropriate in situations in which the findings collectively implicate only a portion of the total funding commitment, but those findings demonstrate systematic noncompliance with FCC rules and program requirements. WCB has recommended that the Commission seek comment in the item scheduled for the December 2003 agenda meeting whether such action is appropriate. We also recommend that the Commission seek comment on the circumstances under which recovery should be directed at the beneficiary, rather than the service provider.

Recommendation 2 of 3: WCB should take steps to ensure that funding requests are adequately reviewed in accordance with existing rules and implement procedures to ensure that funding requests associated with this area of noncompliance with program rules are not approved.

Wireline Competition Bureau Response: Concur

Explanation: We agree with the OIG that we should take steps to ensure that funding requests are adequately reviewed in accordance with Commission rules and USAC procedures. We will work with USAC within the next ninety days to determine whether additional procedures are warranted to address the issues identified in this report.

Recommendation 3 of 3: WCB should review those program rules and implementing procedures governing the area of noncompliance cited to in this report to ensure that

those program rules and implementing procedures are adequate to protect the interests of the fund.

Wireline Competition Bureau Response: Concur

Explanation: We agree with the OIG that we should review the existing program rules and implementing procedures governing the areas of noncompliance to ensure that program rules and implementing procedures are adequate to protect the interests of the fund. We are already taking action in this regard as discussed below.

In January 2002, based on WCB's recommendation, the Commission initiated a rulemaking to consider, among other things, measures to limit fraud, waste and abuse in the e-rate program. In April 2003, the Commission sought further comment on additional issues relating to E-rate. Most recently, WCB has circulated an Order/FNPRM scheduled for Commission consideration at the December agenda meeting. WCB has already taken specific actions in the context of the open E-rate rulemaking to review a number of the rules implicated in the findings. Among other things, WCB has recommended that the Commission codify USAC's service substitution procedures. WCB has recommended that the Commission seek comment on whether the Commission should revise and strengthen its rules regarding technology plans. WCB has also recommended that the Commission seek comment on whether additional rules are necessary to ensure that applicants make informed and reasonable decisions in deciding which services they will seek discounts for. WCB has also recommended that the Commission seek comment on whether the program participants should be required to retain their records for a period of five years

In addition, WCB is considering the other findings as part of our ongoing efforts to improve the Commission's oversight over the E-rate program and reduce the occurrences of waste, fraud and abuse.