



**Statement of Congressman John D. Dingell  
Ranking Member  
Committee on Energy and Commerce**

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

**July 22, 2004**

Mr. Chairman, thank you for continuing this investigation and holding this hearing. Today, this Subcommittee holds the first of its vendor-specific hearings, examining some of the fraudulent activity that a subsidiary of NEC America, Inc. (NEC) and its co-conspirators engaged in. While this hearing will specifically focus on NEC's unsuccessful attempt to defraud the E-rate program in San Francisco, NEC did succeed in procuring millions of dollars from illegal E-rate program claims that involved school districts from Michigan to Mississippi.

We will hear from the local public servants who prevented the San Francisco fraud from going forward and who subsequently uncovered its nationwide scope. This case study is particularly revealing in that NEC and its vendors were actively involved in most of the criminal schemes that flourished, in part due to the lax oversight of the E-rate program by the Federal Communications Commission (FCC).

These scams include bid rigging, hiding of ineligible equipment, and goldplating (specifying equipment acquisition that exceeded the school districts' needs). Scams also included the fraudulent inflation of prices, illegal kickbacks, illegal "in-kind" donations, the corruption of local officials, as well as directly or indirectly causing the filing of a plethora of false statements to the Universal Service Administrative Corporation (USAC), the non-profit corporation which disburses E-rate program funds.

Fortunately, a newly hired Superintendent of the San Francisco Unified School District caught the fraudulent application for almost \$50 million in E-rate funds and stopped the process before the money could be spent, stolen, or wasted. The City Attorney initiated an investigation that ultimately resulted in prosecution by the Department of Justice and a guilty plea by NEC. The federal investigation continues into the roles of various individuals in this sorry saga.

Amazingly, NEC has petitioned the FCC to allow it to continue participating in the E-rate program, based upon its exceptional "cooperation" with the federal investigations. But NEC's cooperation did not begin until after they were caught. The guilty plea probably saved the Government a trial but little else. No important executive has lost his or her job, and employees directly implicated in the wrongdoing remain on the NEC payroll.