

Prepared Remarks of
Louise H. Renne, Special Counsel, San Francisco Unified School District
House Committee on Energy & Commerce
Subcommittee on Oversight & Investigations
Hearings on the E-Rate Program
July 22, 2004

Mr. Chairman and Members:

The nationwide scheme to defraud the E-Rate program came to our attention in San Francisco soon after Arlene Ackerman, the former chief of the Washington, D.C. schools, took over as superintendent of the San Francisco Unified School District.

At the time I was the San Francisco City Attorney.

Ms. Ackerman had grown suspicious of a number of situations at the school district. I still remember very well the day when she called me and said, "I think there's some funny business going on over here."

I ordered an investigation, assembling a team of attorneys and investigators, including George Cothran, who will also testify today. As our investigation progressed, the national scope of the E-Rate problem soon became clear. In the process, we alerted the FBI and U.S. Attorney Kevin Ryan.

In addition, we prepared a whistleblower lawsuit, unprecedented for a school district, which was filed in federal court by my successor in office, Dennis Herrera.

That suit resulted in a guilty plea last May by one of the companies that perpetrated the San Francisco fraud, NEC Business Network Solutions.

But the matter does not end there. We learned that some of the San Francisco co-conspirators were likely committing the same or similar fraud across the country.

The misappropriation of E-Rate money from disadvantaged schools and the children they serve was a well orchestrated effort by several corporate players working in concert with one another.

In San Francisco, the school district's initial contact with the corporate con game came when a representative of Inter-Tel Technologies approached the district with a proposal for the purchase of telecommunications equipment.

The Inter-Tel representative introduced district officials to Judy Green and George Marchellos, employees of Video Network Communications Inc., or VNCI, both experts in the E-Rate program. As our chief E-Rate investigator, George Cothran, will testify in detail, Ms. Green and Mr. Marchellos infiltrated the district's competitive bidding

process to win inflated E-Rate funding for district projects directly benefiting VNCI, Inter-Tel, and NEC.

Specifically, they wrote the district's request for proposals so that it would be prejudiced toward goods and services sold by VNCI. Then they bundled VNCI equipment inside a bid submitted by Inter-Tel. As part of the conspiracy, the RFP was not advertised as required by law.

The investigation suggested that the three companies used the same or similar schemes elsewhere, with VNCI typically managing the bidding process and hiding its equipment inside bids submitted either by Inter-Tel, as in San Francisco, or by NEC.

As a result of their conspiracy, these companies ensured that they would be the primary recipients of E-Rate funding provided to the San Francisco Unified School District.

But their fraud didn't stop with a phony bidding process. They also submitted a falsified application for E-Rate funding on behalf of the district that inflated their bid prices by more than \$60 million, well above the artificially high rates already enabled by the rigged bids.

In short, they thoroughly soaked the E-Rate process for millions of dollars with lies, overcharges, and fraud.

San Francisco's lawsuit marks the first time to our knowledge that a school district has filed a whistleblower claim. It is my hope that our unprecedented action, along with other enforcement efforts around the country, will put government agencies and businesses alike on their guard against these practices, and will help to root out the problems that have beset the E-Rate program. The goals of the program are important for the future. Our children cannot compete in the modern world without knowledge of computers and technology, which is why a well-run program is so necessary.

Thank you.



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LOUISE RENNE

Louise H. Renne served as San Francisco City Attorney, an elective office, from 1986 to 2002. She is currently Special Counsel to the San Francisco Unified School District and a partner in Renne Sloan Holtzman & Sakai Public Law Group LLP.

Ms. Renne transformed the traditionally defense-oriented practice of municipal law by pioneering an affirmative litigation program that won significant victories for cities and counties in California.

In what one California newspaper termed “Renne’s Revolution,” she organized multiparty consumer and taxpayer protection lawsuits on behalf of local government and non-profit plaintiffs to reform unfair business practices by energy producers, tobacco companies, national banks, gun manufacturers, auto insurers, and escrow companies.

Ms. Renne was appointed city attorney by Mayor Dianne Feinstein in 1986 to fill the unexpired term of the previous city attorney. She was subsequently elected to three full four-year terms before retiring from the office in 2002.

Ms. Renne modernized the city attorney’s office, establishing it as a national leader in the practice of public law. She built a respected and wide-ranging legal practice in every area of municipal affairs from land use and public safety to more cutting-edge areas such as energy regulation and telecommunications.

The resulting 200-lawyer city department of litigators, negotiators, and regulatory attorneys became known as a vigorous and enterprising public law firm, attracting top talent from private sector firms, law schools, and judicial clerkships nationwide. Ms. Renne’s new model of the public law firm attracted wide attention among city and county legal departments for recasting the municipal attorney in a more activist role as legal problem solver, inter-agency and community mediator, and neighborhood services provider.

Besides her ground-breaking affirmative litigation program, among Ms. Renne’s other initiatives adopted by cities and counties was an inter-agency code enforcement task force, commended by the Ford Foundation and the Kennedy School of Government at Harvard University in 1991 for innovation in local government. Task force legal action closed crack houses, cleaned up apartment house slums, ensured disability access, and enforced health and safety laws.

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Prior to becoming city attorney, Ms. Renne was a member of the San Francisco Board of Supervisors from 1978 – 1986, where she was chair of the Finance Committee.

She was a California deputy attorney general from 1966 – 1977. She served in the environmental and criminal divisions of the attorney general's office and represented the state before both the California and United States Supreme Courts.

She was in private practice from 1964 – 1966 and a staff attorney at the Federal Communications Commission from 1961 – 1964. As city attorney she served on the FCC's local and state government advisory board.

She has been a member of the California Regional Water Quality Control Board and the Golden Gate Bridge District Board of Directors. She is a former president of California Women Lawyers, and is on the board of the San Francisco chapters of the American Cancer Society, Friends of the Children, and the PGA's First Tee program, as well as the boards of the San Francisco Fine Arts Museums and the Volunteers of Laguna Honda Hospital, the nation's largest publicly-run skilled nursing facility.

She is a founding member of the International Municipal Lawyers' Association.

Ms. Renne was raised in Pittsburgh, PA and attended college at Michigan State University. She earned her law degree at Columbia University in 1961. She lives in San Francisco with her husband, Paul. The couple has two adult daughters, Anne and Christine, and three young grandsons.

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