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SENT VIA FEDERAL EXPRESS

February 10th, 2011

Marlene H. Dortch, Secretary
Federal Communications Commission
Office of the Secretary
445 12th Street, SW
Washington, DC 20554

RE: Request for Review of Universal Service Administrative Company's Administrators' Decision dated December 16th, 2010 Notification of Commitment Adjustment Letter

To Whom It May Concern:

The Noble Network of Charter Schools ("Noble") appeals the Notification of Commitment Letter (COMAD)¹ received from the Universal Services Administrative Corporation ("FCC") dated December 16th, 2010. This letter is regarding the following information:

Funding Year 2006 (2006 – 2007)

Applicant Name: Noble Network Replication Three
BEN: 16034434
CC Docket Number: 02-6, 96-45
Name of Submitter: Michael Madden
Title of Submitter: Director of Information Technology
Submitter phone number: 312-961-3803
Submitter mailing address: 1 North State Street, 7-Lower, Chicago, IL 60602
Submitter email address: mmadden@noblenetwork.org

Form 471 App Number(s): 519770, 519774, 519782
FRN Number(s): 1430180, 1430193, 1430251
Funding Amt: \$55,162.25, \$7,772.40, \$3888.00

I. INTRODUCTION

The Universal Service Administrative Company ("USAC") conducted a post-funding review for funding years 2006 in an effort to recover Schools and Libraries Support Mechanism funding approved for the Noble Network Replication Three entity. On May 27, 2009, the Schools and Libraries Committee and Audit Committee of the USAC Board of Directors issued a final Moss-Adams audit report². In the Moss-Adams Audit of selected entity Replication Three 2006 E-rate funding commitments and disbursements, USAC auditors alleged that the contract(s) for the associated

¹ The USAC justification of the denials included in Exhibit A.

² The Moss Adams Audit Report on the findings issued May 27th 2009 (see Exhibit B).

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funding requests referenced herein³ were executed before the Allowable Contract Date ("ACD") listed on the submitted Form 471 application(s). Furthermore, it is alleged that during the course of the audit, certain funds were committed in error, disbursed, and had been determined to be recoverable. The Administrator is seeking recovery of \$66,822.65. The SLD's decision to seek recovery of funds committed and disbursed in error were a direct result of the audit findings.

USAC's basis for the COMAD's -- that there was an inappropriate service provider involvement in the Replication Three FY2006 technology plan, -- alleging that it led to a competitive bid violation-- and whereby the service provider identified within the Moss Adams Report (herein referred to as "Onshore") provided technical assistance which lead to details about the schools procurement process prior to the FCC form 470 posting.

After review of the technology plan provided to the Auditors, it was noted in the findings of the audit that the plan lists the name under the acknowledgment and stakeholders involvement section two employees of the service provider, OnShore. See Exhibit B for the funding commitment Adjustment explanation for the referenced FRN herein.⁴

Onshore has equivocally stated that their employees did not assist with the development of the technology plan, however in the report, USAC auditors documented that Noble confirmed that they contributed. In our discussions and responses, we have stated that only neutral advice was provided and only Noble stakeholders contributed to this plan. USAC was unable to accurately resolve this and has stated this in the explanation letter, that they cannot resolve the discrepancy. As a result, the explanation letter has stated the following; "we must assume that they did participate." It is further stated that since the applicant has engaged in a conflict of interest the competitive bid process has been compromised.

The School did not violate the fundamental tenets of the MasterMind Order in any respect. While providing neutral assistance, the service provider did not decide or dictate the type of services for which Program support should be sought thereon; the School made that decision. The school contends that it made a clerical and administrative error in inserting the service providers name in the technology plan. USAC asserts that the School intentionally created a competitive bidding violation resulting in an improper and unfair competitive advantage. There is no evidence here of

³See Exhibit A, Summary of Application numbers and FRN numbers. For purposes of this filing, the Applications that are the subject of this Request for Review shall be referred collectively as the "Applications."

⁴ Key findings, "the service provider also appears on your Form 471 causing an unfair advantage in the bidding process. The technical assistance sought shows the Onshore network had additional information regarding the schools needs and details about the procurement process prior to the Form 470 posting date, which resulted in a competitive bidding process that was not open and fair."



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any waste, fraud and abuse. Bidders were not disadvantaged because the name of the service provider was inadvertently inserted into the technology plan. FCC Form 470 was vendor-neutral under the FCC Form 470 service descriptions. Any technical violation of the competitive bidding rules should be waived and the COMAD rescinded.

We contend that the applicant did not violate the then-applicable standard- the Mastermind Order -related to service providers and the competitive bid process. The service provider, OnShore, did not actively provide vendor input into the technology plan. Additionally, in the case of the applicant herein, at the time of the filing did so without any E-rate program experts, making good faith efforts to comply with what the Commission itself concedes can be a complicated set of rules, wholly justifies a waiver of the requirement. Simply put, a hardship on the applicant and the lack of evidence of waste, fraud and abuse warrant that the COMADs be rescinded.

II. KEY BACKGROUND FACTS

A. THE APPLICANT

Noble Street Charter School with over 5,200 students has ten campuses in Chicago communities where access to a high-performing high school is severely limited or unavailable. These communities are at least 50% low-income and minority, and most often have far higher statistics.

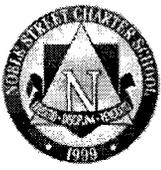
Many of the communities that Noble serves are home to immigrant families, and the average level of education is lower than the city-wide rate of 71% of citizens holding a high school diploma; it is estimated that less than half of Noble students' parents completed high school.

Many of our students' parents speak Spanish and many live at or below the poverty line. About 70% of students attending Noble Street campuses in 2009-2010 are Hispanic, 30% are African-American, and more than 90% are low-income. Each year, about 55% of Noble students are female and approximately 15% qualify for special education assistance. Most students enroll at Noble Street campuses with reading and math skills far below their peers; many enter with reading skills at the 3rd and 4th grade level.

B. ECONOMIC HARDSHIP

The applicant had standing to file the Requests because Section 54.719(c) of the Commission's rules provides that

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“[a]ny person aggrieved by an action taken by a division of the Administrator... may seek review from the FFC.”⁵ The applicant is directly aggrieved by USAC’s Denial Lettes and its continued effort to recover previously approved Program funds.

C. USAC’s 2006 COMMITMENT ADJUSTMENT LETTERS

The applicant received the 2006 Commitment Adjustment letters on December 16th, 2010. Please reference Exhibit C for the letters that were issued to Noble Network Charter School and Onshore Networks.

D. THE APPLICANT’S RESPONSE TO USAC’S COMPLIANCE AUDIT FINDINGS

Based on the findings pursuant to your letter dated September 8th, 2010 to the Noble Network of Charter Schools, we respectfully disagree with the findings as set forth below and request a reversal of the denied funding for the FRNS identified herein. As a general matter, Noble disagrees with the following findings that we did not conduct a fair and open competitive bidding process and that Shore Networks had an unfair competitive advantage. We will argue that the findings supported in USAC’s report did not prove how the generic and neutral technical assistance sought from Onshore Network LLC created an environment whereby they had additional information regarding the needs and details about the procurement process prior to our Form 470 posting date, and how this information was used by Onshore to benefit them resulting in a competitive bidding process that was not open and fair to all prospective vendors

III. STATEMENT OF INTEREST AND RELEVANT FACTS

FCC Rules require applicants to conduct a fair and open competitive bidding process free from conflicts of interest. USAC’s guidance provides clear guidelines that service providers may offer technical assistance on the development of a technology plan, so long as that assistance can be interpreted as neutral and in no way as having an undue influence on the applicant's ability to conduct a fair and open competition for the necessary technology, services, and products." To promote a fair and open competitive bidding process, Noble adopted and complied with requirements aimed at ensuring that all prospective bidders could identify the services that Replication 3 seeks to receive and that all

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⁵ 47C.F.R. §54.719(c)



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such prospective bidders had sufficient time to prepare and submit bids. To ensure such accountability, a description of the services that were sought on the Form 470 were such that all competing service providers had access to the same information based on the description of services. The Form 470 was completed by Noble staff and was signed by the person authorized to order the requested services on behalf of the organization. A name was listed on the Form 470 that a prospective service provider may contact for additional information and answer questions regarding the information included on the Form 470. No service providers were involved in this process. The established Form 470 has demonstrated that all prospective bidders could identify the services that the school was seeking and had sufficient time to prepare bids and attend a scheduled walk-thru (cited in response) for all prospective bidders to attend. In box 12, Allan Ramsier (Noble Staff), the IT Manager was listed as the technical contact for bidders to request additional information.

IV. DISCUSSION

In the funding requests at issue here, Noble made a bona fide request for services by filing a FCC Form 470 which is posted to the Administrator's website for potential competing service providers to review. During the 28 days before entering an agreement for services and submitting a FCC Form 471, applicants may discuss their product offerings with service providers and learn about new technologies from service providers. Noble did not accept or use the following from Onshore: a) vendor-specific language for the 470, b) templates for posting of the Forms 470; or c) assistance with writing of the technology plan.

In USAC's findings, it was concluded that because the applicant listed two of the employees of Onshore under the acknowledgement and stakeholder section of the District's technology plan and on the Form 471, directly resulted in an unfair advantage in the bidding process. Noble argues that, in any event, a fair and open competitive process occurred; noting that 1) Onshore's technical assistance was neutral; 2) a copy of the technology plan was never provided to Onshore; and 3) technical advice was vendor neutral and not manufacturer or technology specific; and 4) Onshore's role was based on discussion only and was limited to vendor neutral recommendations and network architecture.



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A. USAC asserts that additional information was provided to Onshore about the procurement process prior to the form 470 posting date.

Noble followed the FCC's guidance on the competitive bid process. Noble did not post a separate procurement process on its website nor was it published separately in the technology plan. It is not the policy of Noble to neither post the evaluation criteria nor publish any separate information beforehand. Furthermore, in USAC's guidance, Noble did not surrender control of the bidding process to Onshore that participated in the bidding process. In this regard, even if Noble mistakenly inserted the name of the vendor into its technology plan, in the absence of rules, the rules does not explicitly prohibit a vendor from being listed in the District's technology plan. In absence of a definition by USAC, we argue that we did not intend to violate the rules on the competitive bidding process but clearly USAC does not explicitly state that a service provider cannot be listed in the technology plan. We argue that if USAC is going to define this herein, then USAC should arguably provide additional guidance on this. In USAC's guidance and following common practice, applicants do seek technical assistance from service providers in a neutral capacity.

In USAC's policy, it states the following:

"Service providers may offer technical assistance on the development of a technology plan, so long as that assistance can be interpreted as neutral and in no way as having an undue influence on the applicant's ability to conduct a fair and open competition for the necessary technology, services, and products."

If an applicant complies with the policy herein, there is no procedural rule that states an applicant cannot list a service provider in the technology plan. We argue that based on our definition and practices herein, USAC policy recognizes this common practice. Furthermore, we argue that based on USAC's guidance we inserted the name of our vendor only in our technology plan as a reference to the discussions we had with Onshore to seek out technical assistance only. We argue that if USAC is going to recognize the common practice of trying to define what neutral technical assistance is and establishing a time period of what is allowable under E-rate rules and regulation; then the rules should allow for flexibility when an applicant can demonstrate that a competitive bid process was fair and open. We contend we should not be penalized for this oversight.

B. USAC asserts that information was used by Onshore to benefit them resulting in a competitive bid process that was not open and fair to all prospective vendors.



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In USAC's findings, there was no information that was provided to OnShore that would have provided them an unfair advantage. As a result of the neutral topology cited in the Form 470, all bidders could have successfully recommended a solution. Onshore had no undue influence on any future competitive bids that was based on the time line of the technology plan. The technology plan was created a year and a half prior to the posting of the FCC Form 470. The description on the form 470 was vendor neutral as evidenced in the posting of the Form 470 (see Exhibit D). Any prospective bidder that contacted the school was provided information on the walk-thru allowing any bidder to propose a solution. Evidenced by the evaluation matrices (previous proposal), only two bidders submitted a response.

1. USAC has made no showing that there was a "thwarting of the competitive bidding process or unfair advantage given to any service provider as a result of the Applicant mistakenly inserting the service provider's name into the technology plan.
2. Onshore has stated that they did not assist with the development of the technology plan, the applicant did not confirm that they did in the sense of the Mastermind order. Since USAC is unable to resolve the discrepancy, we must assume that they did participate.

V. CONCLUSION

The Commission's rules allow waiver of a Commission rules for good cause shown. The Commission has extended this authority to waiver of USAC rules. Based on the foregoing, Noble requests that USAC rescind its denial of the recovery of awarded funding requests herein. Noble acted in the interest of its neediest students and within the spirit of the E-rate program. Noble faces financial hardships similar to those faced by many charter school applicants; and the E-rate program helps ensure that students at schools with the greatest need continue to have enhanced learning opportunities. Noble has a long-standing history of compliance with the E-rate rules. If USAC determines that Noble violated any rules by its activities, we request that USAC grant a waiver of the rules with respect to the funding requests at issue to avoid needlessly penalizing for this oversight. We appreciate your review of the information herein.



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If you have any questions, or wish to discuss this matter further, please don't hesitate to contact the undersigned, at (312) 961-3803 or via email at mmadden@noblenetwork.org. Otherwise, thank you in advance for your prompt and courteous attention to resolving this matter.

Very truly yours,

Michael Madden
Director of Information Technology
Noble Network of Charter Schools



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EXHIBIT A

FUNDING COMMITMENT AMOUNTS

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Form 471 App Number(s):	FRN Numbers (s)	Funded Amount
519770	1430180	\$55162.25
519774	1430193	\$7,772.40
519782	1430251	\$3,888.00



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EXHIBIT B

MOSS ADAMS REPORT

1010 N. Noble St.
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ph 773.278.6895

fax 773.632.2033

INDEPENDENT ACCOUNTANT'S REPORT

Universal Service Administrative Company
Federal Communications Commission

Re: Noble Network Replication Three – SL-2008-BE294

We have examined Noble Network Replication Three's (the Beneficiary) (Beneficiary Number 16034434) compliance, relative to Funding Request Numbers (FRNs) 1430180, 1430193, 1430205, 1430219, 1430238, and 1430293 with the Federal Communications Commission's (FCC) 47 C.F.R. Part 54 Rules and related Orders identified in the accompanying Attachment 1 relative to disbursements of \$209,139 for internal connections and basic maintenance of internal connections made from the Universal Service Fund during the fiscal year ended June 30, 2008, and relative to its application and service provider selection processes for funding year 2006. Management is responsible for the Beneficiary's compliance with those requirements. Our responsibility is to express an opinion on management's assertions about the Beneficiary's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence about the Beneficiary's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Beneficiary's compliance with specified requirements.

Our examination disclosed material noncompliance related to inadequate review of the eligible and ineligible services in regards to FCC Rule 54.505(a). The Beneficiary overbilled the Universal Service Administrative Company (USAC) in the amount of \$13,952 relative to FRNs 1430180 and 1430193 for funding year 2006. Additionally, the Beneficiary allowed a service provider to review the tech plan before it was finalized in regards to FCC Order 00-167. Detailed information relative to these matters is described in items SL2008BE294_F01 and SL2008BE294_F02 in Attachment 2.

In our opinion, except for the effects of the material noncompliance with the specific requirements described in the third paragraph, the Beneficiary complied, in all material respects relative to FRNs 1430180, 1430193, 1430205, 1430219, 1430238, and 1430293, with the aforementioned requirements relative to disbursements of \$209,139 for internal connections and basic maintenance of internal connections made from the Universal Service Fund during the fiscal year ended June 30, 2008, and relative to its application and service provider selection processes for funding year 2006.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the funding requests and disbursements referred to in the preceding paragraph, and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. In planning and performing our examination, we considered the Beneficiary's internal control relative to the examination as a basis for designing our procedures for the purpose of expressing an opinion on whether the Beneficiary complied, in all material respects, relative to FRNs 1430180, 1430193, 1430205, 1430219, 1430238, and 1430293, with the aforementioned requirements relative to disbursements of \$209,139 for internal connections and basic maintenance of internal connections made from the Universal Service Fund during the fiscal year ended June 30, 2008, and relative to its application and service provider selection processes for funding year 2006, but not for the purpose of expressing an opinion on the internal control over the funding requests and disbursements referred to above, or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed two findings that are required to be reported under *Government Auditing Standards* and those finding, along with the views of management, are described in Attachment 2 as Findings SL2008BE294_F01 and SL2008BE294_F02.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a program such that there is more than a remote likelihood that a noncompliance with the subject matter that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider Findings SL2008BE294_F01 and SL2008BE294_F02 described in Attachment 2 to be a significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance of the subject matter will not be detected by the entity's internal control. We consider Findings SL2008BE294_F01 and SL2008BE294_F02 to be material weaknesses.

The Beneficiary's responses to the findings identified in our examination are described in Attachment 2. We did not audit the Beneficiary's responses and, accordingly, we express no opinion on them.

In addition, in accordance with *Government Auditing Standards*, we noted certain immaterial instances of noncompliance or other matters that we have reported to USAC and the FCC in a separate letter dated May 27, 2009.

This report is intended solely for the information and use of Noble Network Replication Three's management, others within the Noble Network Replication Three, USAC, and the FCC, and is not intended to be, and should not be used by anyone other than these specified parties.

Moss Adams LLP

Spokane, Washington
May 27, 2009

Attachment I

Federal Communications Commission's 47 C.F.R. Section 54.500 through 54.523 Rules and Regulations, as amended, and Related Orders with which Compliance was Examined, as applicable.

Record Keeping:

Section 54.504 (c) (1) (x), which was effective as of October 13, 2004

Section 54.516 (a), which was effective from July 17, 1997, through October 12, 2004

Sections 54.516 (a) (1), which was effective as of October 13, 2004

Application Matters:

Section 54.501 (c), as revised, which was originally effective as of July 17, 1997

Section 54.504 (b) (1), which was originally effective as of July 17, 1997

Section 54.504 (b) (2), as revised, which was originally effective as of July 17, 1997

Section 54.504 (b) (2) (i), which was effective as of October 13, 2004

Section 54.504 (b) (2) (i) (superseded), which was effective from February 12, 1998, through October 12, 2004

Section 54.504 (b) (2) (iii), which was effective as of October 13, 2004

Sections 54.504 (b) (2) (iv), which was effective as of October 13, 2004

Section 54.504 (b) (2) (v), which was effective from July 17, 1997, through October 12, 2004

Section 54.504 (b) (2) (vi), which was effective as of October 13, 2004

Sections 54.504 (b) (2) (vii), which was effective from July 17, 1997, to October 12, 2004

Section 54.504 (c), which was effective as of February 12, 1998

Section 54.505 (b), which was effective as of July 17, 1997

Section 54.505 (c), as revised, which was originally effective as of July 17, 1997

Section 54.508 (a), which was effective as of October 13, 2004

Section 54.508 (c), which was effective as of October 13, 2004

Section 54.520 (c), which was effective as of April 20, 2001

Section 54.520 (c) (1) (i), which was effective as of April 20, 2001

Section 54.520 (c) (1) (ii), which was effective as of April 20, 2001

Attachment 1, Cont.

Federal Communications Commission's 47 C.F.R. Section 54.500 through 54.523 Rules and Regulations, as amended, and Related Orders with which Compliance was Examined, as applicable, (continued).

Service Provider Selection Matters:

- Section 54.504 (a), which was effective as of February 12, 1998
- Section 54.504 (b) (4), which was effective as of January 1, 1999
- Section 54.511 (a), which was effective as of July 21, 2003
- FCC Order 00-167, paragraph 10, which was issued on May 23, 2000
- FCC Order 03-313, paragraphs 39 and 56, which was issued December 8, 2003

Receipt of Services and Reimbursement Matters:

- Section 54.500 (b), which was effective as of July 21, 2003
- Section 54.504, which was effective as of July 17, 1997
- Section 54.504 (b) (2) (ii), which was effective from February 12, 1998, through October 12, 2004
- Section 54.504 (b) (2) (iii), which was effective as of July 17, 1997
- Section 54.504 (b) (2) (v), which was effective from July 17, 1997, through March 10, 2004
- Section 54.504 (b) (2) (v), as revised, which was effective as of October 13, 2004
- Section 54.504 (c) (1) (vii), which was effective as of October 13, 2004
- Section 54.504 (f), which was effective as of March 11, 2004, as confirmation of earlier administrative practices
- Section 54.504 (g), which was effective as of March 11, 2004
- Section 54.505 (a), which was effective as of July 17, 1997
- Section 54.513 (c), which was effective as of March 11, 2004
- Section 54.514 (b), as revised, which was originally effective as of July 21, 2003, as confirmation of earlier administrative practices
- Section 54.523, which was effective as of March 11, 2004
- FCC Order 03-313, paragraph 60, which was issued on December 8, 2003
- FCC Order 04-190, paragraph 24, which was issued August 13, 2004

Attachment 2

Detailed Information Relative to Material Noncompliance and/or Significant Deficiencies (Findings)

(presented in accordance with the standards applicable to attestation engagements contained in *Government Auditing Standards*)

Finding No. SL2008BE294_F01 – Material Weakness

Condition: The Beneficiary received reimbursement for ineligible charges in funding year 2006. The Beneficiary purchased extended warranties on two purchases for FRN 1430180. The equipment was not installed until July 2007, which is subsequent to the funding year.

The Beneficiary also purchased basic maintenance of internal connections for funding year 2006 on FRN 1430193; however, the equipment was not installed until July 2007. Since this is outside the funding year, all costs related to the basic maintenance are not eligible for funding.

Criteria: Per FCC Rule 54.505 (a), the discount available to the Beneficiary is based on the pre-discount price for all eligible services provided by eligible providers. The Beneficiary is responsible for ensuring the pre-discounted price is accurate and supported by vendor invoices.

Cause: The Beneficiary does not have a review process in place to verify that all costs being submitted to USAC for reimbursement are for eligible services or that eligible services were performed in the proper funding year.

Effect: The Beneficiary submitted for reimbursement \$4,002 for ineligible services for FRN 1430180, resulting in a monetary effect of \$3,602 after the discount rate of 90%.

The Beneficiary submitted for reimbursement \$11,500 for ineligible services for FRN 1430193, resulting in a monetary effect of \$10,350 after the discount rate of 90%.

The monetary effect for FRNs 1430180 and 1430193 is already included in the monetary effect for SL2008BE294_F02.

Finding No. SL2008BE294_F01 – Material Weakness (Continued)

Recommendation: Moss Adams recommends the Beneficiary implement a review process to ensure amounts submitted to USAC for reimbursement represent eligible costs and that eligible costs are incurred in the proper funding year.

Beneficiary

Response: To avoid future problems with funding warranties outside the fiscal year, we will implement a review to ensure that all reimbursement requests fit within the fiscal year and represent eligible costs.

Finding No. SL2008BE294_F02 – Material Weakness

Condition: The Beneficiary included two employees of one service provider (Onshore, Inc.) in the review of the Beneficiary's technology plan for technology deployment components. This affects FRNs 1430180, 1430193, 1430205, 1430219, 1430238, and 1430293.

Criteria: FCC Order 00-167, paragraph 10, states the Beneficiary should not surrender control of its competitive bidding process to a service provider that participated in that bidding process and should not include the service provider contact information on its FCC Forms 470.

In addition, USAC's website states, "The competitive bidding process must be fair and open. 'Fair' means that all bidders are treated the same and that no bidder has advance knowledge of the project information. 'Open' means there are no secrets in the process – such as information shared with one bidder but not with others – and that all bidders know what is required of them...In order to be sure that a fair and open competition is achieved, any marketing discussions held with service providers must be neutral, so as not to taint the competitive bidding process. That is, the applicant should not have a relationship with a service provider prior to the competitive bidding that would unfairly influence the outcome of a competition or would furnish the service provider with 'inside' information or allow it to unfairly compete in any way. For example, a conflict of interest exists when the applicant's consultant is associated with a service provider that is selected and is involved in determining the services sought by the applicant and the selection of the applicant's service provider(s)".

Finding No. SL2008BE294_F02 – Material Weakness (Continued)

Cause: The Beneficiary was unaware the service providers should not participate in the review of technology plans.

Effect: The monetary effect relates to those FRNs where the service provider was awarded the contract as follows:

FRN	Form 471	Disbursed Amount
1430180	519770	\$55,162
1430193	519774	10,350
1430205	519776	7,772
	Total	\$73,284

Recommendation: Moss Adams recommends the Beneficiary not allow a service provider to have involvement with the drafting or finalizing of the technology plan in order to ensure a fair competitive bidding process.

Beneficiary Response: To correct any potential impropriety, we will ensure that no vendor or potential vendor participates in our technology plan creation.

May 27, 2009

Universal Service Administrative Company
Federal Communications Commission

Re: Noble Network Replication Three – SL-2008-BE294

We have examined Noble Network Replication Three's (the Beneficiary) (Beneficiary Number 16034434) compliance with the applicable requirements of the Universal Service Fund Schools and Libraries Support Mechanism (SLSM), as set forth in 47 C.F.R. Section 54.500 through 54.523 of the Federal Communications Commission's (FCC) Rules and Regulations, as amended, and related FCC Orders, related to disbursements from the Universal Service Fund during the fiscal year ended June 30, 2008, relative to Funding Request Numbers (FRNs) 1430180, 1430193, 1430205, 1430219, 1430238, and 1430293 and the related funding year 2006 applications for funding and service provider selection for such FRNs and have issued our report thereon dated May 27, 2009. In planning and performing our examinations, we considered internal control in order to determine our examination procedures for the purpose of expressing our opinion on management's assertions. An examination does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our examination, we noted certain matters involving internal control and immaterial noncompliance with SLSM requirements that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in improved compliance with SLSM requirements and are summarized as follows:

Comment No. SL2008BE294_C01

Condition: The Beneficiary does not have a formal record retention policy that meets the record retention requirements stipulated in the FCC Rule 54.516 (a)(1).

Criteria: Per FCC Rule 54.516 (a)(1), schools and libraries should retain all documents related to the application for, receipt, and delivery of discounted telecommunications and other supported services for at least five years after the last day of service delivered in a particular funding year.

Cause: The Beneficiary is aware of the five-year record retention requirement; however, they have not developed a documented policy that meets the standard.

Comment No. SL2008BE294_C01 (Continued)

Effect: Moss Adams noted no monetary effect as the Beneficiary was able to provide most of the requested documentation other than items described in this letter. For those documents not made available, Moss Adams was able to perform alternative procedures to reduce the significance of the missing documentation.

Recommendation: Moss Adams recommends the Beneficiary develop and implement a formal, written record retention policy that is consistent with FCC Rule 54.516 (a)(1).

Beneficiary

Response: We will develop a document retention policy to conform with FCC Rule 54.516 (a)(1).

Comment No. SL2008BE294_C02

Condition: The Beneficiary did not retain all supporting documentation relating to the E-Rate program and did not have a complete file where all the Universal Service Administrative Company (USAC) documentation was organized. Specifically, the Beneficiary was unable to produce its original free and reduced student listings used to complete the funding year 2006 application (FCC Form 471). This affects all of the FRNs selected for testing: FRNs 1430180, 1430193, 1430205, 1430219, 1430238, and 1430293.

Criteria: Per FCC Rule 54.516(a)(1) schools and libraries should retain all documents related to the application for, receipt, and delivery of discounted telecommunications and other supported services for at least five years after the last day of service delivered in a particular funding year.

Cause: The original free and reduced student listings for funding year 2006 were not retained because the Beneficiary thought the its computer system retained the original listing. The system, however, cannot recreate the exact listing as of a previous printing date, thus the Beneficiary was unable to provide the document.

Comment No. SL2008BE294_C02 (Continued)

Effect: There is no monetary effect as the Beneficiary was able to produce a lunch status listing that tied to the FCC Form 471, and there were no errors noted during our testing of the listing. However, the Beneficiary is less able to demonstrate compliance with program requirements without adequate documentation.

Recommendation: Moss Adams recommends the Beneficiary retain copies of all documentation related to the application for, receipt, and delivery of discounted telecommunications and other supported services for at least five years after the last day of service delivered in a particular funding year, which is in compliance with FCC Rule 54.516(a)(1).

Beneficiary

Response: We agree with the need to establish a baseline free/reduced lunch listing to substantiate each year's application, and we have already done so for 2009.

Comment No. SL2008BE294_C03

Condition: The Beneficiary does not have any written policies and procedures relating to fixed assets purchased using E-Rate funds. The Beneficiary was unable to provide Moss Adams with a fixed asset listing containing the internal connections purchased under FRNs 1430180, 1430219, and 1430293. The Beneficiary also does not perform a physical inspection of E-Rate purchased internal connections at the Rowe-Clark Math and Science Academy.

Criteria: Per FCC Rule 54.516(a)(1), schools and libraries should retain all documents related to the application for, receipt, and delivery of discounted telecommunications and other supported services for at least five years after the last day of service delivered in a particular funding year. This includes the requirement the Beneficiary maintain, to date, asset and inventory records of equipment purchased as components of supported internal connections services sufficient to verify the actual location of such equipment. The Beneficiary must also maintain such records for a period of five years after purchase.

Comment No. SL2008BE294_C03 (Continued)

Cause: The accounting system used by the Beneficiary only tracks fixed assets with a value exceeding \$5,000. All of the internal connections purchased under FRNs 1430180, 1430219, and 1430293 individually totaled less than \$5,000 and as such, they were not tracked by the system. In addition, the Beneficiary has not established a control to perform a physical inspection of E-Rate purchased equipment.

Effect: There is no monetary effect. The Beneficiary is less able to demonstrate compliance with program requirements and to monitor E-Rate equipment, which could lead to missing, lost, or stolen equipment.

Recommendation: Moss Adams recommends the Beneficiary develop and implement policies and procedures specifically for the notation/tracking of E-Rate assets in the fixed asset system regardless of their monetary value. Moss Adams also recommends the Beneficiary perform physical inspections at all locations where E-Rate funded equipment is located at least annually. Performing physical inspections of equipment will ensure that the Beneficiary's fixed asset inventory listing is up-to-date and accurate.

Beneficiary

Response: We agree with the need for a fixed asset listing of E-Rate assets and will create, maintain, and update that list going forward.

Comment No. SL2008BE294_C04

Condition: The Beneficiary received only one bid for FRNs 1430180 and 1430193. In these instances the Beneficiary selected the service provider without performing any due diligence work to ensure the reasonableness of the charges for the services requested.

Additionally, the Beneficiary received multiple bids for FRNs 1430219 and 1430293. Even though the Beneficiary completed a scoring matrix in instances where there were multiple bidders, the Beneficiary did not document the rationale for the selection of the service provider.

Comment No. SL2008BE294_C04 (Continued)

Criteria: When only one bid is received subsequent to the Beneficiary's FCC Form 470 posting, best practices include documenting a comparison of the bid to other available resources to ensure amounts being charged are reasonable. In addition, the Beneficiary is to maintain documentation regarding the rationale for selecting a service provider.

Cause: The Beneficiary does not have a formal procurement policy, which outlines the steps that need to be followed when only one bid is received and the documentation required when there are multiple bids received.

Effect: The Beneficiary may be charged prices for goods and services that are not reasonable considering current market prices. Moss Adams performed procedures to verify the reasonableness of the charges and determined there is no monetary effect.

Recommendation: Moss Adams recommends the Beneficiary develop and implement policies and procedures over procurement for goods and services purchased with E-Rate funds. The policies and procedures should document the procedures for documenting the reasonableness of the pricing when there is only one bid and the documentation requirements when there are multiple bidders.

Beneficiary Response: We agree it is in our best interest to implement a procedure to document our decision process with our competitive bidding process and, when we receive only one bid, to do due diligence and research comparable prices to avoid being overcharged.



Our examination procedures are designed primarily to enable us to form an opinion on compliance with the applicable requirements of the SLSM, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of Noble Network Replication Three gained during our work to make comments and suggestions that we hope will be useful to you.

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We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of Noble Network Replication Three's management, others within the Noble Network Replication Three, USAC, and the FCC, and is not intended to be, and should not be used by anyone other than these specified parties.

Moss Adams LLP

Spokane, Washington



USAC Management Response

Date: December 15, 2009

Subject: Federal Communications Commission, Office of Inspector General, Universal Service Fund (FCC OIG USF) Audit of the Schools & Libraries Program at Noble Network Replication Three

USAC management has reviewed the FCC OIG USF Audit of the Noble Network Replication Three. Our response to the audit is as follows:

Finding ID: SL2008BE294_F01

Finding/Comment Narrative:

The Beneficiary received reimbursement for ineligible charges in funding year 2006. The Beneficiary purchased extended warranties on two purchases for FRN 1430180. The equipment was not installed until July 2006, which is subsequent to the funding year.

Management Comment:

To be eligible for Schools and Libraries Program discounts, services must be received during a specific period of time related to the particular Funding Year for which discounts are requested. Therefore, USAC management concurs with the finding, effect and recommendation and will seek recovery of \$13,952 disbursed for services delivered outside of the funding year.

Finding ID: SL2008BE294_F02

Finding/Comment Narrative:

The Beneficiary included two employees of one service provider (Onshore, Inc.) in the review of the Beneficiary's Technology Plan for technology deployment components. This affects FRNs 1430180, 1430193, 1430205, 1430219, 1430238 and 1430293.

Management Comment:

The involvement of the service provider's employees in reviewing the Technology Plan creates an unfair advantage as the service provider had advance knowledge of the project information. This in turn compromised the competitive bidding process. Therefore, USAC will seek recovery of the \$73,284 identified by the auditors. USAC management concurs with the finding and recommendation.