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United States Government Accountability Office
Washington, DC 20548

JAN 24 2008

The Honorable John D. Dingell
Chairman, Committee on Energy and Commerce
House of Representatives

Subject: Government Accountability Office Review of the Universal Service Fund's Schools
and Libraries Program

Dear Mr. Chairman:

This letter confirms our commitment to study the Universal Service Fund's E-rate Program
based on your letter to the Comptroller General. In our July 30, 2007, letter to you, we
outlined our approach to designing the study. Based on that design and discussions with
your staff and staff representing the minority on November 8, 2007, we will complete our
work and issue a report to you by November 21, 2008.

We will be providing this report in electronic form, in accordance with GAO's move to
primarily electronic distribution of reports. Please see enclosure I for the list of committees
with whom we will be coordinating. Enclosure II sets forth the understanding reached with
your staff on the key aspects of the study, including the form of distribution.

We look forward to working with you and your staff on this assignment. Should you have any
questions, please contact me on (202) 512-6670 or at goldsteinm@gao.gov or Faye Morrison,
Assistant Director, on (202) 512-6448 or at morrisonf@gao.gov.

Sincerely yours,

Mark Goldstein
Director, Physical Infrastructure Issues
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cc: Amy Levine, Mark Seifert

LIST OF REQUESTERS

Joe Barton, Ranking Minority Member
Committee on Energy and Commerce
House of Representatives
(Staff Member: Neil Fried)

Bart Stupak, Chairman
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
House of Representatives
(Staff Members: David Nelson, Steven Rangel)

John Shimkus, Ranking Minority Member
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
House of Representatives
(Staff Members: Peter Spencer, Alan Slobodin)

Terms of the Work

Objectives/Key Questions

We will review the Federal Communication Commission's (FCC) universal service Schools and Libraries Program, also known as the "E-rate" program, to address the following questions:

1. How have the E-rate program's key requirements developed since its inception, and how does it currently operate?

2. What are FCC's performance goals and measures for the E-rate program, and how do they compare to key attributes of successful performance goals and measures?

3. What are trends in key aspects of the program, including how funds have been used, reasons for funding denials, and the participation rates of schools and libraries?

4. What do eligible schools and libraries and other stakeholders consider to be the strengths and weaknesses of the E-rate program?

Scope

Our report will include a description of key events in the E-rate program's development since its 1996 inception and a description of program operations, including application, review, and invoicing procedures. We will evaluate FCC's performance goals and measures to determine how they compare to key attributes of successful goals and measures. We will describe program trends for funding year 1998—the first year in which USAC issued funding commitments—through funding year 2007, the most recent year for which funding commitment data are available. We will focus on trends in key aspects of the program, including what types of services have been funded, beneficiary characteristics, the length of time to make funding decisions, administrative costs, amounts of funding requested and denied, reasons for funding denials, and rates of program participation. Finally, we will examine the views of eligible schools and libraries and other stakeholders, including selected service providers and non-participating eligible schools and libraries, on the strengths and weaknesses of the program.

Methodology

To describe the program's development, we will review key FCC orders to determine major changes to program rules and requirements and interview FCC and Universal Service Administrative Company (USAC) officials to obtain their views about significant events in the program's development. To explain how the program currently operates, we will review

documentation from USAC and its subcontractor, Solix, Inc., on program requirements for applicants and service providers and processes used to review applications and invoices.

To determine FCC's performance goals and measures for the E-rate program, we will review the 1996 Telecommunications Act and FCC documentation, including rules, orders, strategic plans, performance and accountability reports, budget proposals, and its contract with USAC. We will also review USAC's contract with Solix, Inc., and related documentation on performance goals. We will interview selected beneficiaries to obtain their views on performance goals and measures for the E-rate program. Finally, we will review and compare FCC's performance goals and measures for the E-rate program to GAO and Office of Management and Budget guidance on key attributes of successful performance goals and measures.

To provide information on key program trends, we will analyze data from the database USAC uses to track and process funding applications to determine what types of services were applied for and funded, beneficiary characteristics, and the length of time to make funding decisions. To describe how the cost to administer the program has changed over time and reasons for these changes, we will analyze FCC and USAC budget data and obtain the views of FCC and USAC officials. To provide information on reasons for funding denials, we will analyze USAC data and Improper Payment Information Act audits of the E-rate program, and interview and review relevant documents from the FCC Inspector General on program non-compliance. To determine the participation rates of schools and libraries, we will obtain and analyze USAC, FCC, and association data on the number of eligible schools and libraries and the number of those that participate in the program.

To obtain the views of eligible school and libraries and other stakeholders on the strengths and weaknesses of the E-rate program, we will (1) survey a representative sample of beneficiaries using an Internet-based questionnaire and (2) conduct telephone and in-person interviews with selected beneficiaries and service providers. Additionally, we will conduct telephone interviews with selected eligible schools and libraries that have not participated in the program to discuss the reasons they have not participated and their views on the impact this has had on their current level of connectivity. We will interview officials and review relevant documentation from FCC and USAC about conditions perceived as weaknesses and proposals for addressing them.

This work will be done in accordance with generally accepted government auditing standards (GAGAS). These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

Product and Form of Distribution

This work is expected to result in a report. We will be providing this report in electronic form, in accordance with GAO's move to primarily electronic distribution of reports. GAO will provide a draft of the product to FCC and USAC for comment before it is issued.

Product Delivery Date

This report will be issued by November 21, 2008.

Reporting on Job Status

We will periodically brief the committee and subcommittee staff on the progress of our work.