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TELECOMMUNICATIONS

Long-Term Strategic Vision Would Help Ensure Targeting of E-rate Funds to Highest-Priority Uses

GAO
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Why GAO Did This Study

The Federal Communications Commission's (FCC) Schools and Libraries Universal Service Support Mechanism—also known as the E-rate program—is a significant source of federal funding for information technology for schools and libraries, providing about $2 billion a year. As requested, GAO assessed issues related to the E-rate program's long-term goals, including (1) key trends in the demand for and use of E-rate funding and the implications of these trends; (2) the rate of program participation, participants' views on requirements, and FCC's actions to facilitate participation; and (3) FCC's performance goals and measures for the program and how they compare to key characteristics of successful goals and measures. To perform this work, GAO analyzed data going back to the first year of the program, surveyed a sample of participating schools and libraries, reviewed agency documents, and interviewed agency officials and program stakeholders.

What GAO Recommends

To ensure targeted and efficient use of program funds, FCC should (1) report to Congress on its strategic vision for the E-rate program, including long-term goals, and (2) report annually in its performance plan on undisbursed funding associated with expired funding commitments. FCC took no position on GAO's recommendations, and USAC noted it stood ready to work with FCC to develop and report performance goals and measures.

To view the full product, including the scope and methodology, click on GAO-09-253. Additional data on E-rate participation are available at GAO-09-254SP. For more information, contact Mark Goldstein at (202) 512-2843 or goldsteinm@gao.gov.

What GAO Found

Requests for E-rate funding consistently exceed the annual funding cap, and increased commitments for telecommunications and Internet services, combined with significant undisbursed funds, limit funding for wiring and components needed for data transmission. Although still exceeding available funds, total amounts requested have generally declined since 2002, largely due to declining requests for wiring and components. Funding commitments in recent years reflect this trend, with the amount of funding for wiring and components outweighed by funding for telecommunications services and Internet access. In addition, a significant amount of committed funds are not disbursed to program participants; for commitments made in 1998 through 2006, about one-quarter of the funds have not been disbursed. Unused funds are reallocated for use in future years but are still problematic because they preclude other applicants from being funded.

Participation rates and participants' views on program requirements indicate difficulties in the E-rate application process, which FCC and the Universal Service Administrative Company (USAC)—the program's administrator—are taking steps to address. The participation rate among the more than 150,000 eligible schools and libraries is about 63 percent, but participation rates among groups vary, from 83 percent among public schools to 13 percent among private schools. According to nonparticipants, a key circumstance influencing nonparticipation is the complexity of program requirements, even though participants reported that participation is becoming easier. Still, E-rate program data show that some funding is denied because applicants do not correctly carry out application procedures. In recent years, FCC and USAC have made changes intended to ease the process of participation for schools and libraries, such as giving applicants an opportunity to correct clerical errors in their applications. FCC officials said they will consider further changes to facilitate participation, but their primary interest is in protecting funds from improper use.

FCC does not have performance goals for the E-rate program, and its performance measures are inadequate. In 1998, GAO first recommended that FCC develop specific performance goals and measures for the E-rate program in accordance with the Government Performance and Results Act of 1993. FCC set forth specific goals and measures for some of the intervening years, but it does not currently have performance goals in place. Further, the performance measures it adopted in 2007 lack key characteristics of successful performance measures, such as being tied to program goals. Performance goals and measures are particularly important for the E-rate program, as they could help FCC make well-informed decisions about how to address trends in request for and use of funds. Without them, FCC is limited in its ability to efficiently identify and address problems with the E-rate program and better target funding to highest-priority uses. FCC's piecemeal approach to performance goals and measures indicates a lack of a strategic vision for the program.

_____ **United States Government Accountability Office**

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Abbreviations

ADA	Antideficiency Act
ALA	American Library Association
CCD	Common Core of Data
CIPA	Children's Internet Protection Act
FCC	Federal Communications Commission
GPRA	Government Performance and Results Act of 1993
NCES	National Center for Education Statistics
NPRM	Notice of Proposed Rulemaking
OMB	Office of Management and Budget
PIA	program integrity assurance
PLS	Public Library Survey
PSS	Private School Universe Survey
STARS	Streamlined Tracking and Application Review System
USAC	Universal Service Administrative Company
USF	Universal Service Fund

United States Government Accountability Office
Washington, DC 20548

March 27, 2009

The Honorable Joe Barton
Ranking Member
Committee on Energy and Commerce
House of Representatives

The Honorable Greg Walden
Ranking Member
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
House of Representatives

The Federal Communications Commission's (FCC) Schools and Libraries
Universal Service Support Mechanism is a significant source of federal
support for technology funding for schools and libraries, providing about
$2 billion each year to help eligible entities procure telecommunications
and Internet services—including the installation of wiring and components
needed to transmit data. "Universal service" traditionally has meant
providing residential customers with affordable nationwide access to
basic telephone service. The Telecommunications Act of 1996 expanded
the concept of universal service to include assistance to schools and
libraries for the acquisition of telecommunications and Internet services.
Created in 1997 pursuant to Section 254(h) of the act, the Schools and
Libraries Universal Service Support Mechanism—also commonly referred
to as the E-rate program[1]—is similar to a grant program in that schools and
libraries apply annually for support and, if approved, receive discounts for
eligible services actually received. FCC designated a not-for-profit
corporation, the Universal Service Administrative Company (USAC) to
carry out the day-to-day operations of the program and capped the amount
of funding provided by the program at $2.25 billion a year.[2] From 1998—

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[1]E-rate is short for education rate.

[2]Because there was no historical record of what it would cost to provide support to schools
and libraries, FCC based the funding cap on data from McKinsey and Company, the U.S.
National Committee on Libraries and Information Services, and others that sought to
estimate the cost of deploying and supporting the ongoing costs of a communications
network for public schools and libraries. The cap has remained the same since it was
established in May 1997. However, FCC did direct that no more than $1.925 billion be
committed or disbursed for the Schools and Libraries Support Mechanism during 1998 and
the first two quarters of 1999, and under current rules, unused funds may be carried
forward for use in subsequent funding years.

GAO-09-253 FCC's E-rate Program

the first funding year of the program—to 2007, USAC made funding commitments of nearly $22 billion to schools and libraries across the country to help pay telephone bills and Internet access fees, and to install network wiring and components. In the years since the program was established, schools and school districts have come to rely heavily on telecommunications networks to deliver educational content and to administer student achievement tests. Public-access computer terminals in libraries, particularly those in economically disadvantaged and insular areas, are in high demand as the Internet becomes more integral to obtaining government services and participating in commerce. At the same time, FCC is re-evaluating the purpose, management, and structure of the Universal Service Fund (USF) and its support programs[3]—including E-rate. The issues FCC is examining include whether USAC is administering the USF in an effective, efficient, and competitively neutral manner; what types of performance measures are appropriate for the universal service support programs; how to strengthen oversight of the USF and its support programs; and how to improve the support program's application processes and reduce the administrative burden on applicants while still maintaining sufficient control over funds.

In the interest of assessing certain fundamental issues related to the E-rate program's long-term goals and determining whether FCC has the information it needs to properly manage the program and to use its resources efficiently, we were asked to address the following questions:

- What are key trends in the demand for and use of E-rate funding and what are the implications of these trends?

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[3]Mandated payments from companies providing interstate telecommunications services are deposited into the federal Universal Service Fund, from which disbursements are made for the various federal universal service programs, including E-rate. 47 U.S.C. §254(d). The companies generally pass this cost along to customers by adding some form of universal service fee to customers' bills. Other universal service programs under the Universal Service Fund are the High-Cost program, the Low-Income program, and the Rural Health Care program. The High-Cost program assists customers living in high-cost, rural, or remote areas through financial support to telephone companies, thereby lowering rates for local service. The Low-Income program assists qualifying low-income consumers through discounted installation and monthly telephone services and free toll limitation service. The Rural Health Care program assists health care providers located in rural areas through discounts for telecommunications services. For more information on other universal service programs, see GAO, *Telecommunications: Federal and State Universal Service Programs and Challenges to Funding*, GAO-02-187 (Washington, D.C.: Feb. 4, 2002). For more information on the High-Cost program, see GAO, *Telecommunications: FCC Needs to Improve Performance Management and Strengthen Oversight of the High-Cost Program*, GAO-08-633 (Washington, D.C.: June 13, 2008).

- To what extent do eligible entities apply for E-rate funds, how well do applicants navigate the E-rate program's requirements, and what steps is FCC taking to facilitate program participation?

- What are FCC's performance goals and measures for the E-rate program, and how do they compare to key characteristics of successful goals and measures?[4]

To answer these questions, we analyzed data from USAC on applications, funding commitments, and disbursements for the first 10 years of the E-rate program. We obtained from the Department of Education's National Center for Education Statistics the most recent complete listings of public schools, private schools, and libraries, and compared these listings to the entities that applied for E-rate funding during a comparable time period. We used this comparison as a basis to determine the rates at which eligible entities participated in the E-rate program and characteristics of participants and nonparticipants. We determined that the data obtained from USAC and the Department of Education were sufficiently reliable for the purposes specified. We interviewed six nonparticipants chosen on the basis of their entity type— public school, private school, or library—and whether they were located in a rural or urban area to obtain anecdotal information on reasons eligible entities do not apply for support. We conducted a Web-based survey of 697 beneficiaries selected by drawing a stratified, random sample from about 31,000 applications for funding year 2006 to obtain their views on program requirements and how to improve the program, among other things. This report does not contain all of the results from the survey; the survey and a more complete tabulation of the results, as well as detailed statistics on the results of our participation analysis, can be viewed at GAO-09-254SP. We reviewed FCC documentation on the agency's performance goals and measures for the E-rate program and compared this information with literature on results-oriented management and effective practices for setting performance goals and measures. We interviewed officials from FCC's Office of Managing Director, Office of Inspector General, and Wireline Competition Bureau to identify actions undertaken to address previously identified problems and plans to address issues of concern in the program; officials

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[4]In our past work, we have found that agencies that are successful in measuring performance strive to establish measures that demonstrate results, address important aspects of program performance, and provide useful information for decision making. See, for example, GAO, *Agency Performance Plans: Examples of Practices That Can Improve Usefulness of Decisionmakers*, GAO/GGD/AIMD-99-69 (Washington, D.C.: Feb. 26, 1999); and *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1996).

from USAC's Schools and Libraries Division, Office of General Counsel, and Office of Finance to collect information on program operations and USAC's actions to implement prior FCC orders on E-rate; and representatives of E-rate stakeholder groups. See appendix I for additional information on our scope and methodology.

We conducted this performance audit from July 2007 to March 2009 in accordance with generally accepted government auditing standards. Those 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Telecommunications Act of 1996 sets forth the nation's goals for providing affordable telecommunications services to consumers nationwide, particularly to populations such as individuals living in rural, isolated, or high-cost areas, or those with low incomes; schools and libraries; and rural health care facilities. The act instructed FCC to establish a universal service support mechanism to ensure that eligible schools and libraries have affordable access to and use of certain telecommunications services for educational purposes.[5] In addition, Congress authorized FCC to "establish competitively neutral rules to enhance, to the extent technically feasible and economically reasonable, access to advanced telecommunications and information services for all public and nonprofit elementary and secondary school classrooms . . . and libraries. . . ."[6] Based on this direction, and following the recommendations

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[5]Specifically, 47 U.S.C. § 254(h)(1)(B) provides: "All telecommunications carriers serving a geographic area shall, upon a bona fide request for any of its services that are within the definition of universal service under subsection (c)(3) of this section, provide such services to elementary schools, secondary schools, and libraries for educational purposes at rates less than the amounts charged for similar services to other parties. The discount shall be an amount that the Commission, with respect to interstate services, and the States, with respect to intrastate services, determine is appropriate and necessary to ensure affordable access to and use of such services by such entities. A telecommunications carrier providing service under this paragraph shall—(i) have an amount equal to the amount of the discount treated as an offset to its obligation to contribute to the mechanisms to preserve and advance universal service, or (ii) notwithstanding the provisions of subsection (e) of this section, receive reimbursement utilizing the support mechanisms to preserve and advance universal service."

[6]47 U.S.C. § 254(h)(2).

of the Federal-State Joint Board on Universal Service,[7] FCC established the Schools and Libraries Universal Service Support Mechanism, commonly referred to as the E-rate program. FCC designated USAC to carry out the day-to-day activities of the program,[8] which is funded from statutorily mandated payments to the Universal Service Fund. FCC oversees USAC and the program through rule-making proceedings, enforcement actions, audits of participants, and reviews of funding decision appeals from participants. FCC also reviews USAC's procedures, including its process for reviewing applications for funding; meets frequently with USAC staff; and provides guidance letters to USAC. A memorandum of understanding between FCC and USAC, first executed in June 2007 and updated in September 2008, as well as FCC orders and rules, set forth the roles and responsibilities of the two parties in the management, oversight, and administration of the program.[9]

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[7]The Federal-State Joint Board on Universal Service was established in 1996 to make recommendations to implement the universal service provisions of the Telecommunications Act of 1996. The board is composed of FCC commissioners, state utility commissioners, and a consumer advocate representative.

[8]USAC, in turn, contracts out many tasks to contractors, including Solix Inc. (formerly known as NECA Services Inc. and Independent NECA Services), a private, for-profit company. Solix reviews applications for funding from schools and libraries, as well as requests for reimbursements from schools, libraries, and service providers. Solix performs these reviews based on procedures approved by FCC and USAC, guidance from FCC and USAC, and with the oversight and management of FCC.

[9]In September 2008, FCC and USAC signed an updated memorandum of understanding, which will remain in effect for 4 years.

The E-rate program provides schools, school districts, libraries, and consortia[10] with discounts on telecommunications services, Internet access, and data transmission wiring and components used for educational purposes—that is, activities that are integral, immediate, or proximate to the education of students or to the provision of services to library patrons, such as activities that occur on library or school property.[11] Based on indicators of need, eligible schools and libraries qualify for a discount of 20 percent to 90 percent on the cost of services and must show that they can pay for the undiscounted portion of services. Indicators of need include the percentage of students eligible for free or reduced-price lunches through the National School Lunch Program[12] and whether the entity is located in a rural area.[13] Table 1 shows the discount percentages entities are eligible for based on these indicators. Eligible entities may apply annually for program support.

[10]Only eligible schools and libraries may receive universal service funds under the schools and libraries universal service mechanism. To be eligible, a school must meet the statutory definition of "elementary school" or "secondary school" contained in the Elementary and Secondary Education Act of 1965 (Education Act), as amended in the No Child Left Behind Act of 2001 (No Child Left Behind Act). *See* 47 U.S.C. §254(h)(7)(A). Under the No Child Left Behind Act, an "elementary school" is defined as "a nonprofit institutional day or residential school, including a public elementary charter school, that provides elementary education, as determined under State law." 20 U.S.C. §7801(18). A "secondary school" is defined as "a nonprofit institutional day or residential school, including a public elementary charter school, that provides secondary education, as determined under State law." 20 U.S.C. §7801(38). The term "secondary school" does not include any education beyond grade 12. 20 U.S.C. 7801(38). Libraries that may participate in E-rate are those that are eligible to receive assistance from a state's library administrative agency under the Library Services and Technology Act. *See*, 47 U.S.C. §254(h)(4); 20 U.S.C. §9121 et. seq. Examples of entities *not* eligible for support are home school programs, private vocational programs, and institutions of higher education. In addition, neither private schools with endowments of more than $50 million nor libraries whose budgets are part of a school's budget are eligible to participate. 47 U.S.C. §254(h)(4). Some education service agencies, as well as prekindergarten (such as Head Start), juvenile justice, and adult education student populations and facilities are eligible in certain states. Eligible schools, school districts, and libraries may also form consortia for the purposes of applying for E-rate funding. 47 C.F.R. 54.501(d).

[11]*See*, 47 C.F.R. 54.500(b). When a product or service contains ineligible components or is to be used by both eligible and ineligible locations, an applicant may delineate between the eligible and ineligible portions of the cost and apply for discounts only for the eligible portion. 47 C.F.R. §54.504(g).

[12]Need can also be measured based on a federally approved alternative mechanism such as a survey to collect family income data.

[13]An applicant is classified as rural according to a definition adopted by the U.S. Department of Health and Human Services' Office of Rural Health Policy.

Table 1: Discount Percentage That E-rate Applicants Are Eligible for Based on the Proportion of Students Eligible for the National School Lunch Program

Percent

Students eligible for National School Lunch Program	E-rate program discount for urban applicants	E-rate program discount for rural applicants
Less than 1	20	25
1-19	40	50
20-34	50	60
35-49	60	70
50-74	80	80
75-100	90	90

Source: 47 C.F.R. 54.505(c).

Based on the broad direction in the act, FCC defined two general types of services that are eligible for E-rate discounts:

- Priority 1 services, which include telecommunications services, such as local, long-distance, and wireless (e.g., cellular) telephone services, as well as data links (e.g., T-1 lines) and Internet access services, such as Web hosting and e-mail services—all of which receive priority for funding under FCC's rules;[14] and

- Priority 2 services, which include cabling, components, routers, switches, and network servers that are necessary to transport information to individual classrooms, public rooms in a library, or eligible administrative areas, as well as basic maintenance of internal connections, such as the repair and upkeep of eligible hardware and basic technical support.

Lists of specific eligible services, including the conditions under which they are eligible, are updated annually by USAC, finalized by FCC after a public comment period, and posted on USAC's Web site. Items ineligible for E-rate discounts include, among other things, end-user products and services such as Internet content, Web site content maintenance fees, end-user personal computers, and end-user software.

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[14]According to USAC, Priority 1 services include a wide range of high-speed digital transmission services that facilitate, for example, distance learning, which allows students to access classes that would otherwise not be offered.

All eligible and properly completed requests for Priority 1 services are funded up to the available amount of funding.[15] Priority 2 services, herein referred to as internal connections, are funded with what remains after commitments have been made for all approved requests for Priority 1 services in a given year. Requests for internal connections services are prioritized by the discount level of the applicant, with funding going first to applicants with the highest discount level—90 percent—and then to applicants at each descending discount level until the funding is exhausted; in 2007, for example, internal connections funding was provided to applicants with discount levels down to 81 percent.[16] Because of this prioritization, available funding may be exhausted before all eligible and properly completed requests for internal connections are funded. According to FCC, the rules of priority equitably provide the greatest assurance of support to schools and libraries with the greatest level of economic disadvantage. The rules ensure that all applicants filing during a time period specified by USAC receive at least some support in the event that the amounts requested for support exceed the total support available in a funding year.[17]

The steps applicants must carry out to obtain program support—including the application, review, invoicing, and reimbursement processes—are illustrated in figure 1. This figure is followed by a more detailed description of each of these steps.

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[15]47 C.F.R. 54.507(g)

[16]Eligible entities are able to receive support for internal connections in 2 out of every 5 years (47 CFR 54.506 (c)). All requests for recurring services that have been found consistent with FCC rules through the application review process have been funded since the beginning of the program.

[17]*In the Matter of Federal-State Joint Board on Universal Service,* Fifth Order on Reconsideration and Fourth Report and Order, 13 FCC Rcd 14915 (1998).

Figure 1: E-rate Application, Funding, and Reimbursement Processes

Applicant	USAC	Service provider
Assesses technology needs to develop technology plan		Obtains service provider identification number and annually certifies it will comply with FCC rules
Files form describing products and services sought	Acknowledges receipt of form and posts to Web site	Searches and responds to applicant requests
Selects service provider		
Calculates discount percentage and selects eligible services	Publishes annual eligible services list	
Submits application for program support	Acknowledges receipt	
Responds to reviewer's requests	Reviews applications; may request additional information and/or documentation	
May appeal decision	Makes funding decision; issues funding decision commitment letters	May appeal decision
	Partially or fully denied	Consults with applicant to determine invoicing method
	Funded	
Begins receiving services; submits form confirming receipt of services		Begins providing services
	Acknowledges receipt of form	
May pay service provider full cost of services; with service provider, jointly requests reimbursement of discounted portion	Reviews invoices and reimburses service provider for discounted portion; may request additional information or documentation	May provide discounts on applicant's bills and invoice USAC directly
		May remit discount amount to applicant, if appropriate
May receive reimbursement from service provider		

———— Always occurs

– – – – Occurs only under certain circumstances

Source: GAO analysis of FCC and USAC information.

Prior to submitting an application for E-rate support, an applicant must complete several steps, including the following:

- *Prepare a technology plan.* The applicant conducts a technology assessment and develops a technology plan to ensure that any services it obtains will be used effectively and that it can provide for the nondiscounted portion of services as well as for the goods or services that are ineligible for E-rate funding.[18]

- *Open competitive bidding.* The applicant identifies products and services needed to implement its technology plan and submits a form to USAC describing the desired products and services. USAC posts completed forms on its Web site so that service providers can view and consider bidding on these requests.[19] To participate in the E-rate program, service providers must obtain identification numbers from USAC and certify compliance with program rules in each year that they provide services under the program.[20]

- *Select a service provider and enter into a service agreement.* At least 28 days after the applicant's description of requested services is posted to USAC's Web site,[21] an applicant may enter into an agreement with a provider of eligible services.[22]

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[18]Before services begin, the plan must be approved by a USAC-certified technology plan approver. However, applicants that seek discounts only for basic local, cellular, personal communication service, long-distance telephone service, or voice mail are not required to prepare technology plans. 47 C.F.R. 54.504(b)(2)(iii)(c).

[19]Applicants may additionally use a request for proposal (RFP) to solicit bids.

[20]Pursuant to the commission's rules, USAC must obtain the service provider name, address, telephone number, and contact names, as well as other information, in order for USAC to be able to perform its billing, collection, and disbursement functions. Therefore, the commission and USAC developed the Service Provider Identification Number and Contact Form, FCC Form 498, to collect this information from carriers and service providers that receive support.

[21]And, if applicable, at least 28 days after an RFP is publicly available. 47 C.F.R. 54.504(b)(4).

[22]Applicants may also choose vendors from a State Master Contract, execute multiyear contracts pursuant to a Form 470 (Description of Services Requested), and enter into voluntary contract extensions, but certain additional contract requirements apply. In all cases, applicants must comply with state and local procurement laws. Applicants may select a vendor for tariffed or month-to-month services or execute a contract for new contractual services.

After completing these steps, the applicant submits its application for program support to USAC. USAC accepts applications during a filing window, the exact dates for which change somewhat each year but are generally from November to Feburary.[23] The information the applicant provides on this form, includes, but is not limited to, the following:

- the discount percentage to which the applicant is entitled, calculated using a worksheet provided on the application;[24]

- detailed information about each requested service or product and its cost—some services have both eligible and ineligible components, in which case the applicant must calculate the portion of the service eligible for an E-rate discount, a process referred to as cost allocation; and

- certifications that, among other things, the applicant has adequately budgeted for the undiscounted portion of services, as well as related ineligible services—such as computers, training, software, and electrical capacity—needed to make effective use of the services ordered.[25]

USAC reviews requests for funding to determine whether applicants have properly complied with program rules and requirements; this process is known as the program integrity assurance (PIA) review. Reviewers may ask applicants to submit additional information, such as verification of a contract award date or enrollment and income data for newly constructed schools. Some applications undergo "selective" reviews, which require more detailed documentation that the applicant has complied with the rules. Applicants are chosen for selective review based on defined criteria to test compliance with specific FCC rules. Additionally, applicants that

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[23]Requests received during a filing window are treated as if they were received simultaneously. 13 FCC Rcd 14915. According to FCC officials, requests received outside the filing window typically do not receive funding because requests submitted during the window exceed the amount of funds available.

[24]For the entities they represent, school districts, library systems, and consortia may calculate an aggregate discount percentage representing the level of need. For example, school districts applying for eligible services on behalf of their individual schools may calculate the districtwide percentage of eligible students using a weighted average. Alternatively, a district could submit separate applications on behalf of individual schools and use the respective percentage discounts for which the individual schools are eligible. 47 C.F.R. 54.505(b).

[25]47 C.F.R. 54.504(c)(1)(iii).

fail selective review in a given year must go through selective review the following year.

Based on the outcome of the application review, USAC issues funding commitment decision letters stating how much funding the applicant may receive based on eligible services provided within the funding year deadlines. Funding commitments are conditional upon applicants meeting additional requirements as described later. Funding commitments may be for the full amount requested or less than the amount requested, or funding may be denied entirely for reasons such as competitive bidding violations or requests for ineligible services. Funding requests for Priority 2 services may also be denied if the applicant's discount percentage falls below the annual discount percentage threshold for internal connections.

After eligible services have been delivered, service providers or applicants submit invoices to USAC to request reimbursement for the discounted portion of services. Before seeking reimbursement for the discounted portion of services from USAC, applicants must confirm (1) that the services are planned to be or are being provided; (2) approval of their technology plans by a state or other authorized body, if required; and (3) compliance with the Children's Internet Protection Act (CIPA) and the Neighborhood Children's Internet Protection Act, if required.[26] Under these acts, if required, schools and libraries receiving support for Internet access, internal connections, or basic maintenance must certify that they have in place certain Internet safety policies and technology protection measures. Funding requests for telecommunications services do not require certification of CIPA compliance. Service providers may apply the discount rate to the applicant's bill before sending it to the applicant, in which case the applicant pays only the nondiscounted portion and the service provider invoices USAC directly to obtain reimbursement. Alternatively, applicants may pay for services in full and submit a form to USAC to request reimbursement. Regardless of which invoicing method is used, USAC reviews the invoices and disburses payments for universal service support to service providers; under the latter method, service providers remit the discounted amount to the applicant. To ensure compliance with FCC rules, both USAC and FCC's Office of Inspector

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[26]Under the Children's Internet Protection Act and the Neighborhood Children's Internet Protection Act, Congress imposed new conditions on schools and libraries with Internet access that request discounted service under the E-rate program. 47 U.S.C. §§254(h)(5), (6); 254(l).

General periodically select a sample of participants to audit and conduct site visits of beneficiaries.[27]

Requests for E-rate Funding Consistently Exceed the Cap, and Increased Commitments for Priority 1 Services, Combined with Significant Undisbursed Funds, Limit Funding for Priority 2 Services

Each year from 1998 through 2007, the amount of funding applicants requested exceeded the amount available, but the amounts requested have generally declined since 2002, with most of the decline driven by fewer requests for Priority 2 services—the wiring and components needed for data transmission.[28] Although requests for Priority 1 services—that is, telecommunications and Internet access—have remained roughly level since 2002, commitments have increased, at least in part, because applicants received a greater proportion of the funds they requested. The increasing amounts committed for Priority 1 services has the effect of decreasing the amounts available for Priority 2 services, which are funded only after all eligible Priority 1 services requests are satisfied. Regarding disbursements, a significant proportion of committed funds are not paid out to beneficiaries. Funding that is not disbursed in the year for which it was committed is carried over to the next funding year and made available for new commitments, but undisbursed funding is still problematic because it prevents some applicants from receiving funding in a given year.[29]

Requests Consistently Outweigh Available Funding

From 1998 through 2007, applicants requested a total of about $41 billion in E-rate funding—174 percent of the $23.4 billion in program funding
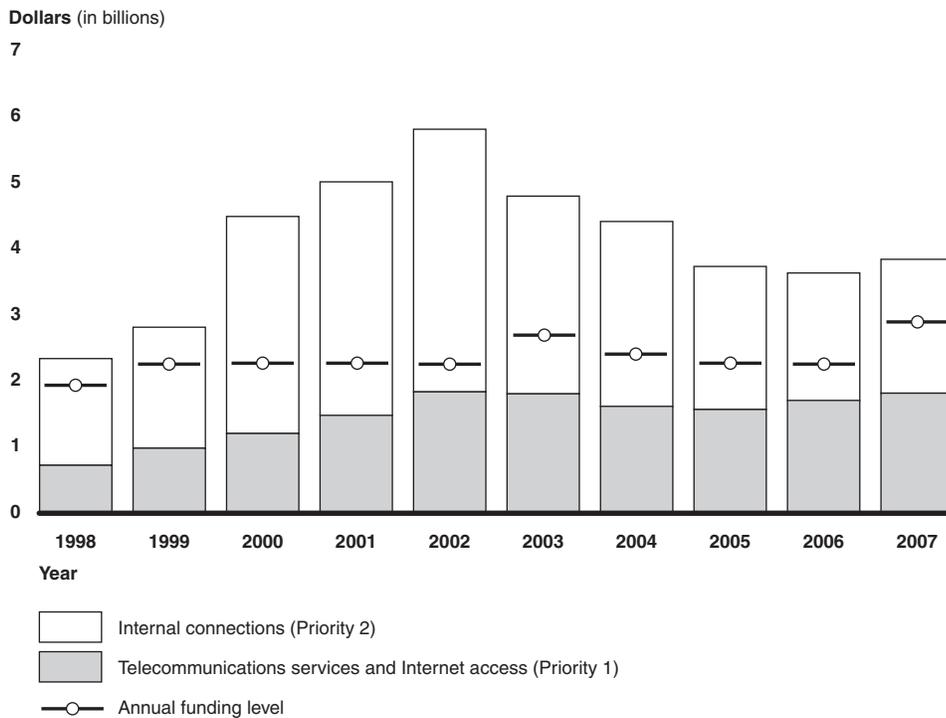
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[27]Program participants and service providers are expected to maintain records for at least 5 years after the last date of service delivered to be able to comply with audits and other inquiries or investigations. 47 C.F.R. § 54.504(c)(1)(x). They also are required to retain, for example, competitive bidding documentation, such as bid evaluation worksheets, winning and losing bids, and correspondence between the beneficiary and prospective bidders; executed contracts; National School Lunch Program eligibility documentation; purchase, delivery, and installation records; invoices; asset and inventory records; and all program forms. *See* Schools and Libraries Universal Service Mechanism, Fifth Report and Order, 19 FCC Rcd 15808 (2004).

[28]We analyzed program requests, commitments, and disbursements on the basis of which funding year they were associated with rather than in which calendar year or fiscal year the action occurred. For instance, individual requests for funding year 2007 may have been submitted in calendar year 2006, and individual commitments for funding year 2007 may have been made in calendar year 2008.

[29]Under program rules, on an annual basis in the second quarter of each calendar year, all funds that are collected and that are unused from prior years shall be available for use in the next full funding year in accordance with the public interest and not withstanding the annual cap. 47 C.F.R. 54.507(a).

available during that time. Further, in each of these years, the amounts requested exceeded the amounts available. However, the amounts requested have generally declined since 2002. Figure 2 shows the annual funding levels and the amount of E-rate funding requested for Priority 1 services and Priority 2 services for each year from 1998 through 2007.

Figure 2: Amounts Requested, by Service Category, and Annual Funding Levels, 1998-2007

Dollars (in billions)

Internal connections (Priority 2)

Telecommunications services and Internet access (Priority 1)

Annual funding level

Source: GAO analysis of USAC data.

Note: The funding level was higher in the years when USAC carried over unused funds from prior years.

Since 2002, the number of applicants and the amounts requested for Priority 1 services have been stable. As figure 3 shows, the number of applicants for telecommunications services has been generally stable since 1998, and the number of applicants for Internet access, after showing an increase the first few years of the program, has been roughly level since 2002. From 2002 through 2007, the amounts requested for Priority 1 services have also been relatively stable.

Figure 3: Requests for Telecommunications Services and Internet Access, by Number of Applicants and Amounts Requested, 1998-2007
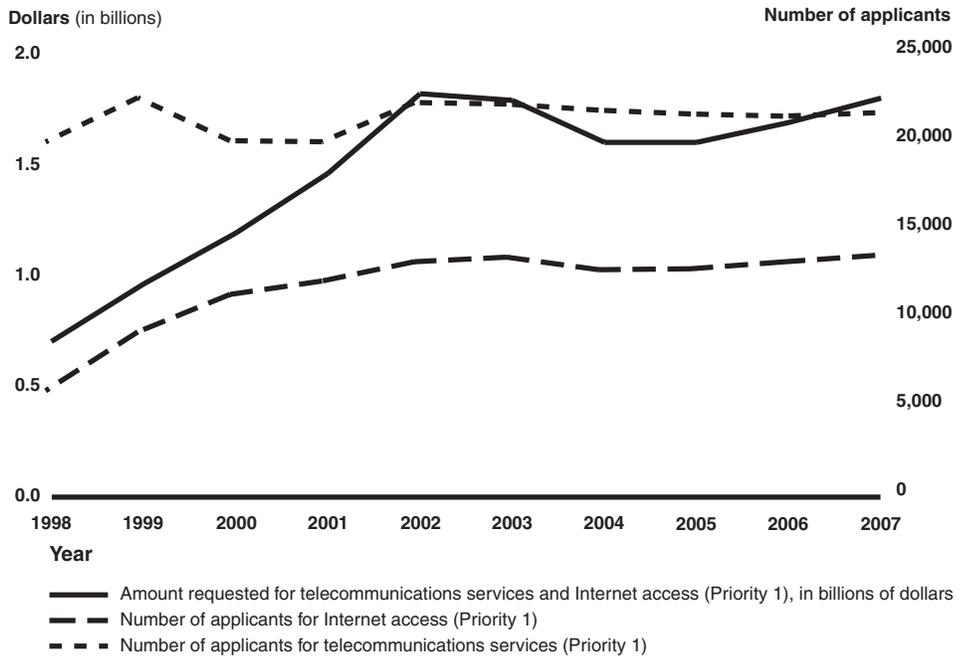
Source: GAO analysis of USAC data.

In contrast, the number of applicants and amounts requested for Priority 2 services have declined for the past several years, accounting for most of the decline in the overall amount of funding requested. The amount of funding requested for Priority 2 services declined 50 percent from 2002 through 2007. (See fig. 4.) The ratio of funding requested for Priority 2 services to that requested for Priority 1 services has also shifted significantly. From 1998 through 2002, funding for Priority 2 services was sought at a rate of 2.3 to 1 over funding for Priority 1 services, while from 2003 through 2007, this ratio was 1.4 to 1.

Figure 4: Requests for Internal Connections, by Number of Applicants and Amounts Requested, 1998-2007
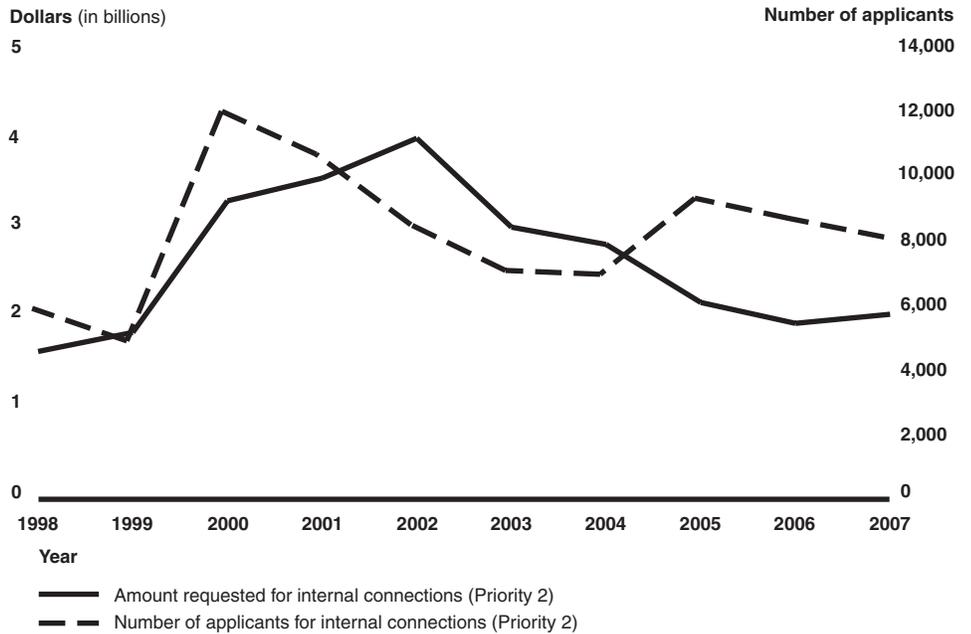
Source: GAO analysis of USAC data.

The following factors may help explain the decrease in requests for Priority 2 services (internal connections).

- In 1999, the second funding year, Priority 2 requests were funded down to the 20 percent discount level, which means that all eligible requests could be funded.[30] As a result, according to USAC, many entities with lower discounts applied the following years, hoping that the Priority 2 cutoff point would be similarly low; this is consistent with the dramatic increase in the number of applicants and amount requested in 2000. But the cutoff point in the following 3 years was in the 80 percent range, and, as a result, according to USAC officials, there was a gradual drop-off in Priority 2 requests from entities with lower discounts. According to FCC, entities with low discount levels stopped applying for Priority 2

[30]In 1999, requests for E-rate funding exceeded the $2.25 billion cap. However, as a result of modifying and denying some funding requests during the PIA process, the fundable part of the requests did not exceed the funds available. According to USAC, in all other years, requests (both before and after the PIA review) exceeded available funds.

funding because they knew that their requests would not receive funding.

- A second factor is an FCC rule implemented in 2005 that limited applicants' receipt of Priority 2 funding to 2 out of every 5 years, reducing the number of applicants for these services in a given year.[31] FCC adopted this rule in order to make funding for internal connections available to more eligible schools and libraries on a regular basis.

The emphasis on Priority 1 services is likely to continue, according to our analysis of survey responses on future information technology goals.[32] We asked respondents about a number of goals related to telephone and Internet connectivity and equipment needed to make use of such connectivity; items in the survey included both those eligible for E-rate discounts and those not eligible. [33] Our analysis of responses to this question shows that participants are somewhat more focused on goals related to maintaining existing information technology services than on those related to adding new capabilities. For instance, we estimate that providing telephone services is a goal for 96 percent of participants and providing access to the Internet is a goal for 91 percent to 94 percent[34] of participants; in contrast, installing or upgrading wiring and components needed for Internet or network access is a goal for 73 percent to 74 percent of participants.[35] Similarly, when we asked what participants' highest-priority information technology goals were, the E-rate-eligible expenses cited most often were providing (1) telephone services, (2)

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[31]*In the Matter of Schools and Libraries Universal Service Support Mechanism*, Third Report and Order and Second Further Notice of Proposed Rulemaking. 18 FCC Rcd 26912 (2003).

[32]Unless indicated otherwise, survey estimates have an error rate of ±4 percent at the 95 percent confidence level.

[33]The complete list of information technology goals we asked about can be found in the electronic supplement that accompanies this report, GAO-09-254SP.

[34]We estimate that providing Internet access for student or library patron use is a goal for 91 percent of beneficiaries and providing it for administrative or operational use is a goal for 94 percent of beneficiaries.

[35]Specifically, we estimate that installing or upgrading components needed for network or Internet access is a goal for participants as follows: Wired access for administrative or operational use is a goal for 73 percent of participants; wired access for instructional or library patron use is a goal for 73 percent; wireless access for administrative or operational use is a goal for 74 percent; and wireless access for instructional or library patron use is a goal for 73 percent.

additional bandwidth to locations already equipped with Internet access, and (3) Internet access for student or library patron use. According to our analysis of survey responses, the highest-priority goal of participants is increasing the number of or replacing existing computers for student or library patron use but the E-rate program does not cover either.

While the E-rate program's statutory purpose is to help schools and libraries obtain advanced telecommunication services, it is not clear whether the growing emphasis on Priority 1 services and the corresponding decline in emphasis on Priority 2 services represent the most efficient and effective use of the program resources.[36] As the Office of Management and Budget (OMB) noted in a 2005 assessment of the E-rate program, given the increase in schools' and libraries' level of Internet connectivity, it is no longer clear that the program serves an existing need.[37] Similarly, it is difficult to determine whether the program's funding structure—including the priority rules and the discount matrix, which contributes to the trends in funding—is the best way to distribute funding in a manner consistent with the program's intent. As we discuss below, FCC does not have specific, outcome-oriented performance goals or long-term goals for the program, and therefore the agency does not have a basis on which to determine whether the growing emphasis on Priority 1 services is appropriate. FCC's rule-making proceeding on universal service reform, which is discussed in more detail in the following section, has been ongoing since 2005, but FCC has not made a determination—either as part of this proceeding or otherwise—as to what changes, if any, should be made to the overall structure of the program to better achieve the goals of the act.

[36]The Telecommunications Act of 1996 sought to ensure that eligible schools and libraries have affordable access to and use of services within the definition of universal service under subsection (c)(3) for educational purposes at discounted rates. 47 U.S.C. §254(h)(1)(B).

[37]See, http://www.whitehouse.gov/omb/expectmore/detail/10004450.2005.html. OMB's E-rate assessment was last updated in August 2007.

Increased Commitments for Priority 1 Services Leave Less Funding for Priority 2 Services

Similar to the trend in funding requests, funding commitments also show a growing emphasis on Priority 1 services. During the first years of the program, more funding was committed for Priority 2 services than for Priority 1 services, but this trend reversed in 2004 and continued through 2007, as figure 5 shows. Although commitments for Priority 2 services increased in 2007, they were outweighed by commitments for Priority 1 services by 64 percent.

Figure 5: Amounts Committed for Telecommunications Services, Internet Access, and Internal Connections, 1998-2007

Dollars (in billions)

Internal connections (Priority 2)
Telecommunications services (Priority 1)
Internet access (Priority 1)
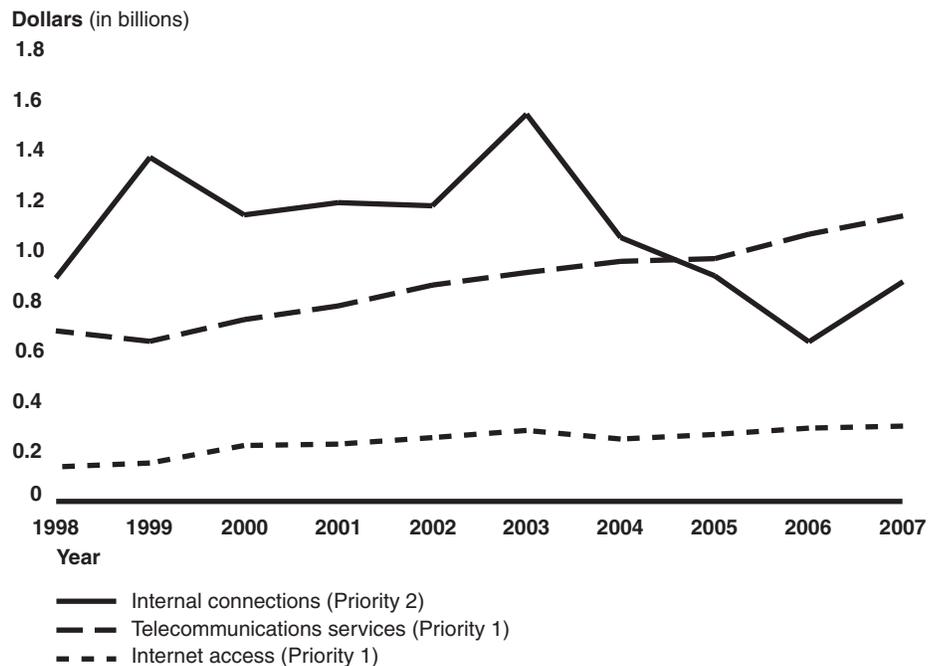
Source: GAO analysis of USAC data.

From 1999 through 2007, the amounts committed annually for telecommunications services increased each year for a total increase of 79 percent, and the amounts committed annually for Internet access nearly doubled. The increase in amounts committed for Priority 1 services is a result of individual applicants receiving a greater proportion of the funding they request, and not a result of an increasing number of requests because, as noted earlier, the number of requests for these services has not been growing at a substantial rate. As figure 6 shows, the proportion of requested funding that applicants receive as a commitment has been increasing, with about half of applicants receiving 75 percent or more of

the amount they requested in 2000 and almost 80 percent of applicants
receiving 75 percent or more in 2007.

**Figure 6: E-rate Applicants, by Percentage of Original Funding Request Received,
1998-2007**
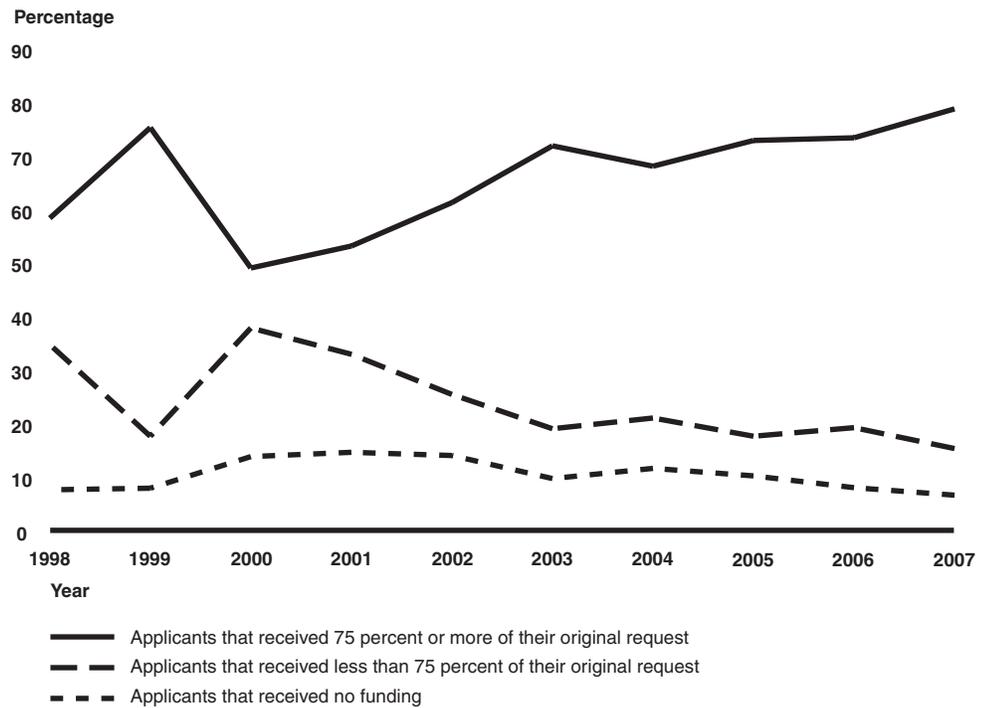
Source: GAO analysis of USAC data.

In addition to the proportion of dollars committed in each of these service
categories, the proportion of participants that receive commitments in
these categories is important, particularly when considering whether
funds are being targeted appropriately. Based on our survey, we estimate
that 99 percent of participants have used E-rate to pay for telephone
services, and around 75 percent have used E-rate to pay for access to the
Internet, whereas 36 percent to 38 percent of participants have used E-rate
to install or upgrade wired internal connections[38] and 20 percent to 24

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[38]The proportion of participants that we estimate to have used E-rate for *wired*
connections includes 36 percent who have used the connections for administrative or
operational use and 38 percent who have used the connections for student or library patron
use.

percent have used it to install or upgrade wireless internal connections.[39] USAC stated that it is likely that the lower usage levels for internal connections are due to the inherent limitations that the funding cap places on access to Priority 2 funding.

The increasing success of applicants requesting Priority 1 services has implications for the amount of funding available in future years for Priority 2 services and, accordingly, for how FCC manages the E-rate program and whether the program's existing structure is still suitable to best meet the current technology needs of schools and libraries. From 2002 through 2007, requests for Priority 1 services averaged 69 percent of available funding; if a substantially higher proportion of such requests had been funded, a smaller percentage of funding would have been available for Priority 2 requests. As it was, from 1998 through 2007, after eligible requests for Priority 1 services were satisfied, only about one-third of all requests for Priority 2 services were able to be funded. Without clearly defined, long-term goals, as well as specific short-term goals, FCC lacks a basis for determining if allocating funding in this manner is appropriate.

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[39]The proportion of participants that we estimate to have used E-rate for *wireless* connections includes 20 percent who have used the connections for administrative or operational use and 24 percent who have used the connections for student or library patron use.

## A Substantial Amount of Committed Funding Is Not Disbursed

Of the $19.5 billion in E-rate funding committed to schools and libraries between 1998 and 2006,[40] $5.0 billion—more than one-quarter—was not disbursed.[41] Starting in 2003, funds that were not disbursed in a given year were carried forward to subsequent years to be available for commitment, thereby increasing the amount that could be committed beyond the $2.25 billion cap. The amount of committed funding not used includes $2.6 billion for Priority 1 services and $2.4 billion Priority 2 services. Figure 7 shows the percentage of committed funding that was disbursed in each service category each year from 1998 through 2006.

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[40]For the purposes of reporting on the disbursement rate for committed funds, we examined data through 2006 because, for many applicants, the deadlines for using 2007 funding have not passed.

[41]Schools, libraries, and eligible consortia must use recurring services for which discounts have been committed within the funding year for which the discounts were sought. The deadline for implementation of nonrecurring services will be September 30 following the close of the funding year. An applicant may request and receive from USAC an extension of the implementation deadline for nonrecurring services if it satisfies one of the following criteria:

(1) The applicant's funding commitment decision letter is issued by USAC on or after March 1 of the funding year for which discounts are authorized;

(2) the applicant receives a service provider change authorization or service substitution authorization from USAC on or after March 1 of the funding year for which discounts are authorized;

(3) the applicant's service provider is unable to complete implementation for reasons beyond the service provider's control; or

(4) the applicant's service provider is unwilling to complete installation because funding disbursements are delayed while USAC investigates their application for program compliance. 47 C.F.R. §54.507(d)

Figure 7: Percentage of Committed Funding That Was Disbursed, by Service Category, 1998-2006
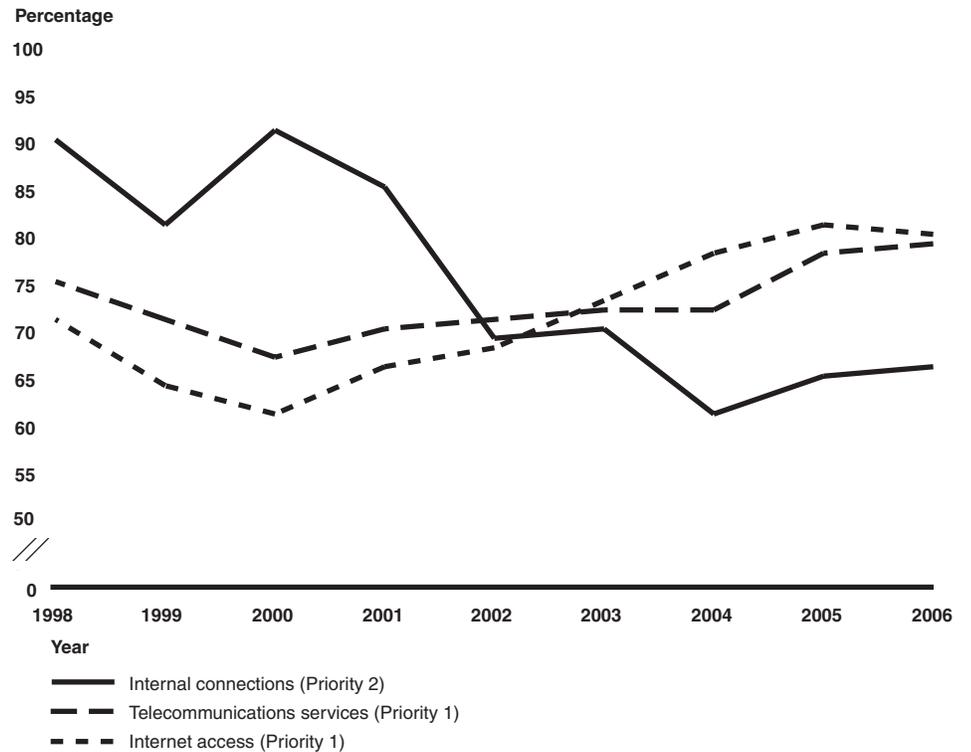
Source: GAO analysis of USAC data.

Underuse of committed funding is widespread among participants, but the proportion of participants using a higher percentage of the funds committed to them is rising. Thirty-five percent of participants in 2006 received disbursements for less than 75 percent of the funds that were committed to them, including 9 percent that did not receive any disbursement, but the percentage of participants receiving disbursements for 75 percent or more of their committed funds increased each year from 2001 to 2006 (see fig. 8). Similarly, the proportion of participants that did not receive any disbursement has been declining since 1999. Nonetheless, the overall disbursement rate has not increased because applicants that ultimately do not receive disbursements equal to their funding commitment are receiving relatively larger commitments.

Figure 8: Proportion of Entities Receiving Disbursements for 75 Percent or More of Funding Commitment, Less than 75 Percent of Funding Commitment, and None, 1998-2006

Percentage

Entities that used 75 percent or more of committed funds
Entities that used less than 75 percent of committed funds
Entities that used none of their committed funds
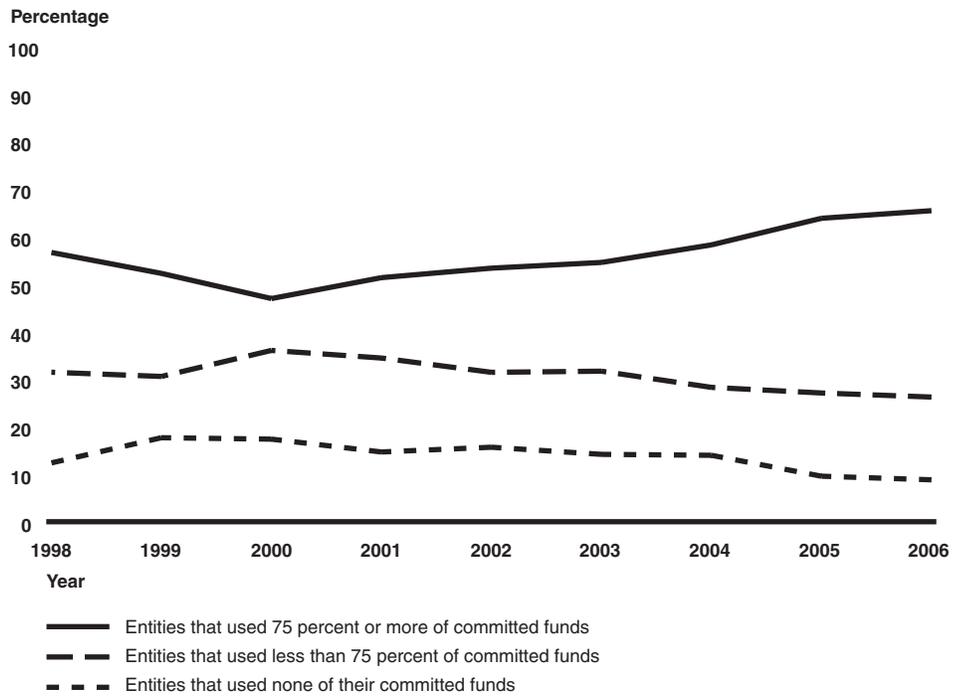
Source: GAO analysis of USAC data.

For a number of reasons, participants may not use the full amount of their funding commitment:

- *Participants' expenditures are less than the amounts applied for.* Applicants may overestimate costs for Priority 1 services, such as telephone bills and Internet access charges, to ensure sufficient funding for the year. Based on our survey, we found that lower-than-projected costs of Priority 1 services was a major reason for not using all committed funds for an estimated 54 percent of participants[42] and a minor reason for an additional 20 percent of participants.[43] State E-rate officials we met with noted that there is no disincentive to "aim high" in the amount of funding requested. Additionally, some of these officials

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[42]The 95 percent confidence interval for this estimate is from 47 percent to 62 percent.

[43]The 95 percent confidence interval for this estimate is from 14 percent to 27 percent.

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told us that participants may have planned for Priority 2 services projects or upgrades, but changes in their circumstances resulted in project delays or cancellations. For example, in the time between applying for funding and receiving the commitment decision, the local funds needed for the project may no longer be available or the construction of a new school, including the installation of network wiring, could be delayed.

- *Participants do not seek reimbursement for the full amount of E-rate eligible expenses because of the complexity of paperwork and lack of staff expertise.* According to state E-rate officials we spoke with, bills and invoices from service providers are complicated, and participants do not always identify all items eligible for reimbursement in part because it can be unclear which items are eligible and which are not, particularly for Priority 1 services. Moreover, participants are commonly dealing with multiple applications covering 2 or 3 funding years at once. This complexity makes billing even more complicated because it can be difficult to determine which year's funding commitment is associated with which bill.

In addition, school and library staff responsible for E-rate administrative tasks face challenges associated with turnover and availability. Based on our survey, we estimate that about one-quarter of the individuals at schools and libraries responsible for E-rate-related tasks have 3 years or less experience with the E-rate program. Several state E-rate officials we met with said that when new employees take over for someone who has left, they may not know it is necessary to apply for reimbursements for the prior year's commitments. These officials also noted that most individuals who are responsible for E-rate tasks have other primary job responsibilities, and E-rate is not their first priority.

USAC officials also identified a number of factors that can affect the timeliness with which disbursements are made:

- Priority 2 projects do not have to be completed within the funding year and are subject to a variety of automatic extensions for delivery of service, as well as extensions that can be requested by the applicant.

- Larger funding requests may take USAC longer to review, which results in a later funding decision and later installation of the project by the applicant. Moreover, larger projects take longer for the applicant to complete than smaller projects.

- Invoice reviews for larger projects may take longer for USAC to complete.

- In some instances where heightened scrutiny on applications or law enforcement action is involved, disbursements may be held up for a period of time while the issues are resolved.

As a result of these conditions, according to FCC and USAC officials, earlier funding years have incrementally more funds disbursed than more recent years. Finally, USAC noted that some committed funds are also not disbursed because when a service provider or beneficiary submits invoices for payment, USAC may identify services or uses that are not eligible for reimbursement.

We reported in 2000 on the issue of undisbursed funds in the E-rate program, recommending that FCC take steps to identify factors affecting the rate at which funds are disbursed, and to address these factors. The following actions were taken in response to this recommendation:

- FCC and USAC agreed to commit funds above the $2.25 billion cap and used this approach between August 2001 and September 2004. FCC then determined that the Antideficiency Act applies to the Universal Service Fund.[44] Once this determination was made, funding commitments were considered obligations for the purposes of the act, and therefore USAC could no longer commit funds above the cap without larger budgetary resources being made available.[45]

- In 2003, FCC amended its rules to allow unused funds from prior funding years to be carried forward on an annual basis and be available for commitment the next funding year; previously, these funds were used to reduce the amounts telecommunications companies were

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[44]The Antideficiency Act (ADA) prohibits an officer or employee of the U.S. government from making obligations in excess or in advance of available budgetary resources. See 31 U.S.C. §§ 1341, 1342 and 1517. We previously reported on the applicability of the ADA to the E-rate program. See GAO, *Telecommunications: Greater Involvement Needed by FCC in the Management and Oversight of the E-Rate Program*, GAO-05-151 (Washington, D.C.: Feb. 9, 2005).

[45]An obligation is a definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received, or a legal duty on the part of the United States that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States. Payment may be made immediately or in the future. An agency incurs an obligation, for example, when it places an order, signs a contract, awards a grant, purchases a service, or takes other actions that require the government to make payments to the public or from one government account to another. See GAO, *A Glossary of Terms Used in the Federal Budget*, GAO-05-734SP (Washington, D.C.: September 2005).

required to pay into the Universal Service Fund.[46] FCC has carried forward funding several times since this change was made, including $650 million in June 2007 and $600 million in June 2008.

- FCC implemented new policies to provide applicants with flexibilities that were intended to facilitate the use of funds, such as the ability to change service providers or modify the services originally requested.

- FCC and USAC established new deadlines for notification of the receipt of services.

Additionally, FCC required USAC to file quarterly estimates of unused funds from prior funding years when it submits its projection of demand for E-rate funds for the upcoming quarter. According to FCC, the estimates are used solely to determine how much funding to carry over. Despite these changes, the proportion of disbursed funds is now lower, on average, than it was when we made the recommendation. The proportion of committed funds that were disbursed from 1998 through 2000 averaged 79 percent but averaged only 72 percent annually from 2001 through 2006 (see fig. 9).

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[46]*In the Matter of Schools and Libraries Universal Service Support Mechanism*, Third Report and Order and Second Further Notice of Proposed Rulemaking, 18 FCC Rcd 26912 (2003).

Figure 9: Disbursed Funds, by Percentage and Dollars, 1998-2006
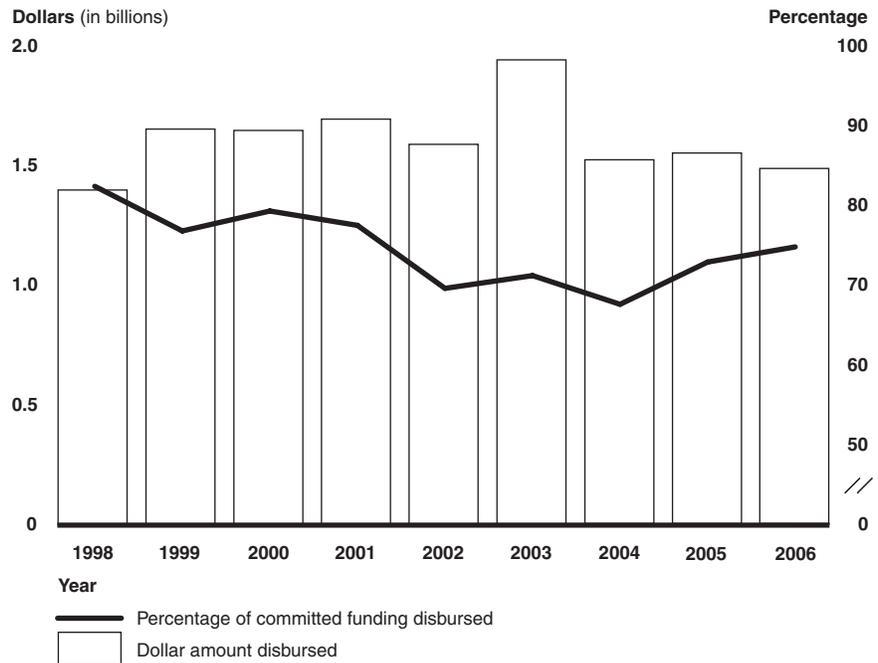
Source: GAO analysis of USAC data.

Unused funding is problematic because it has the potential to reduce the number of participants that will receive commitments for Priority 2 services in a given year, even when unused funds are carried over to subsequent years. Because Priority 1 services always receive priority for funding, commitments for Priority 2 services may or may not be made, based on the level of commitments for first-priority services. Carrying over unused funds may result in more funding for Priority 2 services requests, but only if commitments for Priority 1 services remain stable or decline, neither of which is the current trend. Thus, some applicants for Priority 2 services, who would receive funding if aggregate requests and commitments were more consistent with actual disbursements, do not receive funding in the current environment.

We recently reported on the long-standing problem of unused funds in federal grant programs, and although the E-rate program is not technically a grant program, it has features in common with grant programs that make

some degree of comparison appropriate.[47] Our report noted that unused balances in expired grant accounts, which may be caused by poorly timed communications with grantees, are noteworthy because they can hinder the achievement of program objectives. We found that when agencies made concerted efforts to address the problem, they were able to decrease the amount of undisbursed funding in expired grant accounts.

The E-rate Application Process Poses Difficulties for Some Entities, Which FCC and USAC Are Taking Steps to Address

The overall participation rate among E-rate-eligible entities is about 63 percent, with public schools participating at a substantially higher rate than private schools and libraries, based on 2005 data. We found that a key circumstance influencing nonparticipation was the burdensome nature of program participation. Among eligible entities that do participate in the program, our survey results show that program participation is generally viewed as becoming easier but that several program requirements are still difficult to complete, particularly those related to the application for funding. Moreover, we found that a substantial amount of funding is denied because applicants do not correctly carry out application procedures. In recent years, FCC and USAC have made changes intended to ease the process of participation for eligible schools and libraries, but the primary focus of FCC remains the prevention and detection of waste, fraud, and abuse in the program.

Participation in E-rate Program Highest among Public Schools in 2005, but Obstacles Exist for Other Entities

The participation rate among all types of E-rate-eligible entities is about 63 percent, based on 2005 data.[48] Public schools—which, at more than 100,000, constitute the largest group of eligible entities—have an overall participation rate of 83 percent, but different types of public schools participate at different rates. Magnet schools[49] participate at a higher than

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[47]GAO, *Grants Management: Attention Needed to Address Undisbursed Balances in Expired Grant Accounts*, GAO-08-432 (Washington, D.C.: Aug. 29, 2008).

[48]We defined participation as entities that were included on a certified application for funding. Participation figures were based upon matching USAC entities with entities from U.S. Department of Education databases. Unless otherwise noted, all of the percentage estimates based upon matching of entity records have an overall error rate of 3.4 percentage points or less at the 95 percent level of confidence.

[49]According to the U.S. Department of Education, magnet schools were originally introduced to increase racial integration and reduce minority group isolation; they continue to serve this purpose as well as to provide additional options to children whose current schools need improvement, and to serve as laboratories of successful educational practice.

average rate (90 percent), and charter schools,[50] vocational schools, and special education schools all participate at lower than average rates (37 percent, 52 percent, 41 percent, respectively). Private schools have a participation rate of 13 percent, and library systems and library branches participate at a rate of 51 percent and 31 percent, respectively.[51] Figure 10 provides the number of participants and participation rates for public and private schools and library branches and systems.

[50]According to the U.S. Department of Education, charter schools are public schools that operate with greater autonomy than many noncharter public schools. States vary in their charter school laws, but, in general, these schools are exempted from many state regulations in exchange for explicit accountability for results, spelled out in the terms of their charter or contract with a state-approved authorizing (i.e., oversight) agency.

[51]FCC and USAC officials noted that the participation rate for private schools was lower than they expected. The data set we received from USAC listed 5,122 private schools that applied for E-rate funding for funding year 2005; the data set we received from the Department of Education listing all private schools in the United States showed 29,752 private schools for the 2005-2006 school year. We were able to match 3,914 USAC schools with a school in the Department of Education database. We derived the private school participation rate by dividing the 3,914 matched schools by the 29,752 total private schools.

Figure 10: Participation of Public Schools, Private Schools, and Libraries in the E-rate Program, by Number and Percentage, 2005

Number

120,000
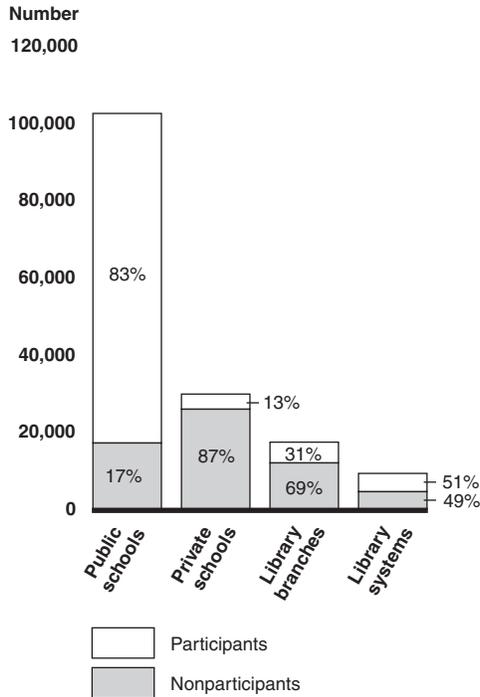
Source: GAO analysis of USAC and Department of Education data.

In terms of characteristics, we found that participating public schools have a higher proportion of students eligible for the national school lunch program, averaging 45 percent, compared with nonparticipating public schools' average of 36 percent. Participating private schools have more students per teacher (14.1) than nonparticipating private schools (11), but this ratio for public schools—16—is the same regardless of E-rate participation. Participating libraries tend to have more resources than those that do not participate. For example, on average, participating library systems have 18 full-time, paid staff members and operating revenues of $1.28 million, compared with nonparticipants' average staff size of 11 and operating revenue of $816,000. Participating library systems also have larger service area populations, averaging about 37,000, than nonparticipating library systems, which average just under 26,000. GAO-09-254SP, an electronic supplement to this report, provides additional details on the differences between participating and nonparticipating groups.

Through our analysis of responses from survey respondents who had not participated in the program every year, our interviews with a selection of nonparticipating schools and libraries, and information obtained from beneficiary stakeholder groups, we identified a number of circumstances that influence nonparticipation. These circumstances may not be applicable for all entities that do not participate, but they provide some insight into issues that some nonparticipants are facing, particularly the following:

- *Burdensome nature of program participation.* Among the six nonparticipants we spoke with and the comments we received from survey respondents, the predominant reason for nonparticipation was that the application process is too complex, takes too much time, or requires too many resources. Four of the six nonparticipants we spoke with—two libraries and two public schools—cited the difficult or cumbersome nature of the application process as a reason for not participating. Among 28 survey respondents who responded to an open-ended question on reasons for nonparticipation, 5 stated that the program is too complicated or difficult or that their staff did not have enough time for the required tasks; another 4 stated that the amount of time required to participate in the program was not worth the return. Another 5 respondents said they intended to apply for funding but missed an application deadline. Additionally, a 2007 survey of public libraries by the American Library Association (ALA) estimated that 38 percent of libraries did not participate in E-rate because the application process is too complicated.[52]

- *Internet filtering requirements.* Public libraries may be reluctant to participate in E-rate because of the requirement that recipients of Internet access or Priority 2 funding install Internet content filters in accordance with the Children's Internet Protection Act. Both of the nonparticipating libraries we spoke with cited this as a reason for nonparticipation, and ALA, based on responses to its survey, estimates that 34 percent of libraries do not apply for E-rate because of this requirement. One library official we spoke with said that Internet filters inhibit access to free and open communication. Additionally, according

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[52]American Library Association and the College of Information's Information Institute at Florida State University, *Libraries Connect Communities: Public Library Funding and Technology Access Study 2006-2007* (Chicago: Office for Research and Statistics, 2007). Estimates from the ALA survey are based on a sample, but GAO was not able to determine the margin of error associated with this percentage. In the ALA survey, respondents were allowed to select more than one answer in response to the question on why they do not participate; as a result, response categories total to more than 100 percent.

to this official, if adult users want to access blocked information, library workers have to take the time to manually turn filters off and then back on, which creates an administrative burden.

- *Inability to prove discount percentage.* As discussed previously, the primary mechanism participants use for calculating their discount rate is student eligibility for the National School Lunch Program. However, some private schools do not participate in this program and therefore use an alternative FCC-approved method, such as surveying families of children who attend the school to determine the family's income. One nonparticipating private school we spoke with said it had been unable to collect this information because families may consider the information personal or sensitive and be reluctant to provide it. According to USAC officials, without this information, applicants are entitled to receive the lowest discount rate under the program—20 percent. Representatives of the National Association of Independent Schools also noted the inability to prove discount percentages as one of the main reasons why private schools do not participate in E-rate.

FCC has been aware for some years that a portion of eligible entities do not participate in the E-rate program. For example, in conducting research for our December 2000 report on the E-rate program, we learned from FCC officials that they had finalized a new performance plan for the E-rate program that included tactical goals for increasing participation by urban low-income school districts and rural school districts, as well as rural libraries and libraries serving small areas, all of which had below-average participation rates. During our 2005 review of the E-rate program, when we asked FCC officials about the plan, we were told that it had not been implemented and that none of the FCC staff currently working on E-rate were familiar with the plan.

Most recently, FCC, in its 2007 report and order on the Universal Service Fund, directed USAC to contact a sample of the economically disadvantaged schools and libraries that have not participated in the E-rate program, determine why these schools and libraries do not participate, and assist them, if necessary, at the beginning of the application process.[53] Although USAC has stepped up its outreach efforts, it has not taken steps specifically to target and assist nonparticipants.

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[53]*In the Matter of Federal-State Joint Board on Universal Service, Comprehensive Review of the Universal Service Fund Management, Administration, and Oversight,* Report and Order, 22 FCC Rcd. 16372 (2007).

Participants' Views of
E-rate Requirements and
USAC's Data on Applicant
Errors Highlight
Difficulties

Among the schools and libraries that received E-rate funding, we found that many believe program participation has generally gotten easier, rather than harder. We asked survey respondents whether they found participating in the E-rate program easier, more difficult, or about the same as in 2005. Of those who had been participating in the program since that time, we estimate that 15 percent find the program more difficult, with the remaining respondents evenly split between finding the program easier and finding it to be about the same.[54] (See fig. 11.[55])

Figure 11: Participants' Views on Whether Participating in the E-rate Program Is Easier, More Difficult, or about the Same, Compared with 2005

Confidence interval: displays the upper and lower bounds of the 95 percent confidence interval for each estimate

Source: GAO.
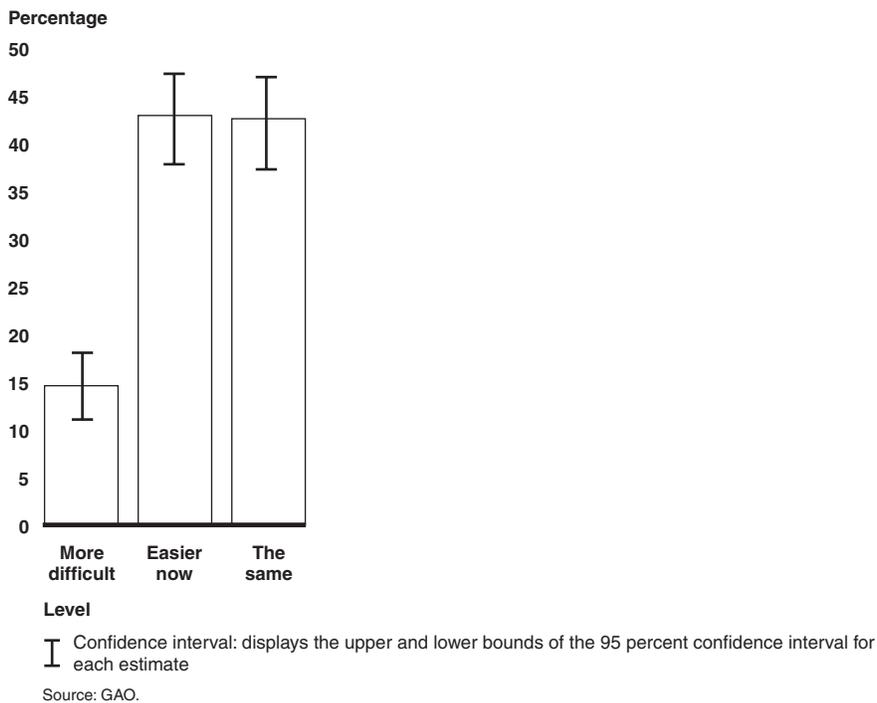
While relatively few participants believe that the program has become more difficult, some aspects of the program pose difficulties for

[54]The 95 percent confidence interval for the estimate of participants who found participating in the E-rate program easier is from 38 percent to 48 percent; for those who found participating about the same, the interval is from 38 percent to 47 percent.

[55]Percentages and analyses are based on those expressing an opinion and exclude those indicating "don't know or no experience within last 3 years."

participants. When we asked survey respondents about the ease or difficulty of specific aspects of program participation, we identified nine program elements that one-third or more of participants consider to be very or somewhat difficult, as shown in figure 12.

Figure 12: Percentage of Participants That Find Program Elements Very or Somewhat Difficult

Program element

Program element	Percentage
Preparing appeals of funding decisions	~53
Preparing the technology plan	~40
Cost-allocating products, services, or locations	~40
Preparing service substitution requests	~40
The overall process of applying for funding	~39
Participating in selective review	~39
Participating in application review	~37
Determining the eligibility of products/services	~37
Complying with competitive bidding requirements	~33
Preparing the Item 21 attachment	~31
Entering information in USAC's online forms	~28
Working with service providers to prepare requests for reimbursement	~25
Receiving timely reimbursement	~23
Calculating discount percentages	~15
Determining eligibility of locations	~15
Using committed funding within the time allowed	~8

Percentage (0 to 60)

☐ Percentage of beneficiaries that find the requirement very or somewhat difficult

⊢——⊣ Confidence interval: displays the upper and lower bounds of the 95 percent confidence interval for each estimate

Source: GAO.

Note: The Item 21 attachment is a required part of the application for funding in which applicants describe, in detail, the services for which they are requesting funding.

Several of the program elements identified by participants as difficult relate to the application process, including preparing the technology plan and allocating costs by use or location. Notably, a program element found to be among the most difficult was the overall process of preparing the application for funding. The question we asked on the overall process encompassed such elements as determining the eligibility of products and services and complying with competitive bidding requirements.

Participating in the selective review process was found to be difficult by 39 percent[56] of the participants who had experience with this process. Additionally, of participants who had knowledge or experience with preparing appeals of funding decisions, 53 percent[57] found this aspect of the program to be difficult, making it the most difficult element, according to our survey responses.[58]

A number of survey respondents provided comments indicating that although individual program elements may not be overly difficult or time consuming, having such a large number of requirements to fulfill causes difficulty. Comments included the following:

- "[The E-rate program is] very complex, lots of steps, lots of time lines to keep track of. A very labor intensive process."

- "I can't stress enough the amount of time that it takes to do E-rate work. It is not just the applications, but the work-load required for the [application] reviews has been very high."

- "E-rate has been making the process simpler and easier to file the past few years. It is still a very exhausting process to ensure everything has been done correctly. It seems no matter what precautions you take, errors still exist."

Also illustrative of the extent to which applicants have difficulty navigating program rules is the rate of funding denials due to applicant error. Each year, applicant errors account for the denial of a substantial

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[56]The 95 percent confidence interval for this estimate is from 34 percent to 44 percent.

[57]The 95 percent confidence interval for this estimate is from 47 percent to 59 percent.

[58]Based on our survey, we estimate that 57 percent of participants have experience with the appeals process.

amount of E-rate funding.[59] Of the approximately $33 billion in funding that was requested between 1998 and 2007 but that did not result in a funding commitment, about 23 percent was denied because applicants did not correctly carry out application procedures.[60] However, the proportion of funding denied due to applicant error declined from 31 percent in 2002 to 4 percent in 2007.

FCC's Office of Inspector General has examined participant noncompliance with program rules and, in 2008, reported that such noncompliance puts the E-rate program at risk of significant improper payments.[61] The Inspector General audited funding requests from 260 E-rate participants that received funding in 2007 and found that two of the most frequently identified types of noncompliance resulting in improper payments were disregarding FCC program rules and inadequate documentation[62] USAC noted that in the cases of noncompliance attributable to lack of documentation, there may not be actual noncompliance with the requirements.

A number of resources exist to help participants successfully complete program requirements, both through USAC and through other sources. We asked survey respondents about the usefulness of a number of these resources, as shown in figure 13. The resource most frequently cited as useful was paid consultants, with an estimated 79 percent of respondents[63]

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[59]Denials can take the form of total funding denials, in which case no funding is awarded, or partial funding denials, in which a commitment is made that is less than the amount of funding that was requested.

[60]Other causes of funding requests not resulting in commitments include, for example, reductions in the amounts originally requested and, in the case of applications for Priority 2 services, applicants' discount rate not falling within the discount percentage range.

[61]The Improper Payment Information Act of 2002 requires federal executive branch agencies to review all programs and activities, identify those that may be susceptible to significant improper payments, estimate and report the annual amount of improper payments for those programs, and implement actions to cost-effectively reduce improper payments. In implementing guidance, OMB defines significant improper payments as those that exceed both 2.5 percent of program payments and $10 million in 1 year. Pub.L. No. 107-300., 116 Stat 2350 (Nov. 26, 2002).

[62]FCC Office of Inspector General, *Statistical Analysis of Audits of Universal Service Schools & Libraries Fund* (Washington, D.C., Dec. 12, 2008).

[63]The 95 percent confidence interval for this estimate is from 72 percent to 86 percent.

who expressed an opinion[64] viewing this resource as very or extremely useful. We also found, however, that the use of a consultant had little impact on the reported ease or difficulty of completing required program elements. Other resources found to be most useful were state E-rate coordinators[65] (67 percent[66]), USAC's help desk (61 percent[67]), and USAC's training seminars (57 percent[68]). Notably, for two of the resources applicants found most useful—USAC's help desk and state E-rate coordinators—a substantial percentage of participants—25 percent and 31 percent respectively—responded "do not know/do not use," indicating that sufficient outreach may not have been made to inform applicants of these resources.

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[64]According to our survey, we estimate that about one-quarter of E-rate participants use the services of a paid consultant.
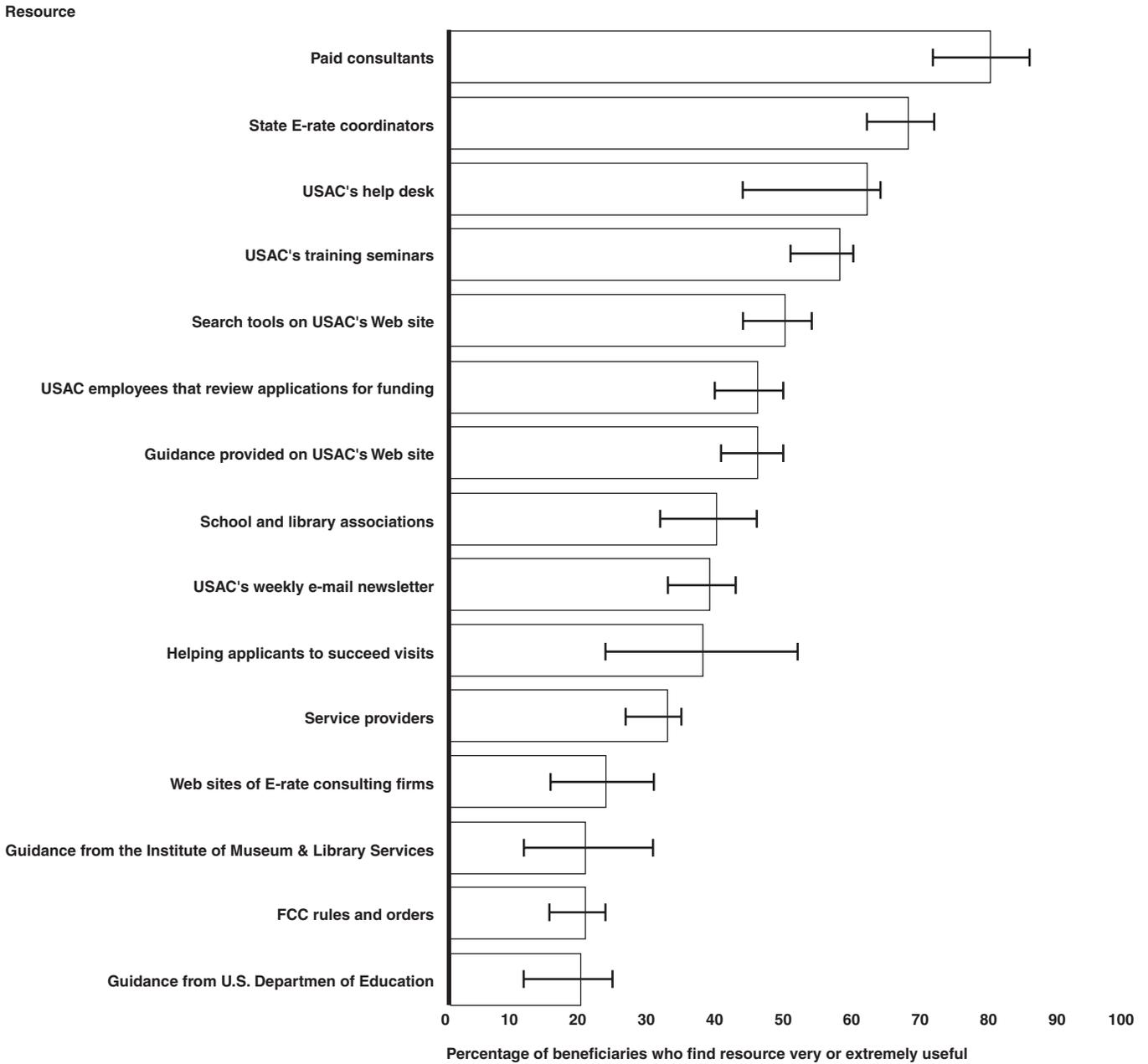
[65]State E-rate coordinators are typically state employees who serve as a resource to applicants in their state. Services that E-rate coordinators provide vary from state to state but include validating applicants' technology plans and providing program training.

[66]The 95 percent confidence interval for this estimate is from 62 percent to 72 percent.

[67]The 95 percent confidence interval for this estimate is from 56 percent to 66 percent.

[68]The 95 percent confidence interval for this estimate is from 51 percent to 64 percent.

Figure 13: E-rate Resources Rated Extremely Useful or Very Useful by Participants

Resource

Resource	
Paid consultants	
State E-rate coordinators	
USAC's help desk	
USAC's training seminars	
Search tools on USAC's Web site	
USAC employees that review applications for funding	
Guidance provided on USAC's Web site	
School and library associations	
USAC's weekly e-mail newsletter	
Helping applicants to succeed visits	
Service providers	
Web sites of E-rate consulting firms	
Guidance from the Institute of Museum & Library Services	
FCC rules and orders	
Guidance from U.S. Departmen of Education	

0   10   20   30   40   50   60   70   80   90   100

Percentage of beneficiaries who find resource very or extremely useful

⊢⊣ Confidence interval: displays the upper and lower bounds of the 95 percent confidence interval for each estimate.

Source: GAO.

FCC and USAC Have Taken Steps to Ease the Process for E-rate Applicants and Continue to Consider Program Improvements

In recent years, FCC and USAC have made changes intended to ease the process of participation for eligible schools and libraries, including the following:

- In response to FCC's finding that a significant number of applications for E-rate funding were being denied for administrative, clerical, or procedural errors, FCC adopted the Bishop Perry order in May 2006, which stated that USAC must provide all E-rate applicants with an opportunity to cure clerical errors and errors related to FCC rules and orders in their applications.[69] FCC and USAC officials told us that the increased outreach between application reviewers and applicants that the order directed has made a substantial difference in the rate of funding denials.

- USAC has increased beneficiary education and outreach efforts by, for example, increasing the number and location of training sessions it provides each fall. USAC officials also told us that they intend to increase the number of staff members dedicated to applicant outreach.

- USAC has increased the number of program elements that can be completed online and has revamped the templates that application reviewers use to communicate with applicants to make them easier for individuals without technical backgrounds to understand.

FCC issued a Notice of Proposed Rulemaking (NPRM) in 2005 to broadly examine many aspects of the Universal Service Fund, including the E-rate program.[70] Although this proceeding has been continuing for well more than 3 years, some matters remain open, including ways to improve the administration of the application process for E-rate funding. It is unclear when FCC will take final action on these matters.[71] We reviewed comments submitted in response to the NPRM's request for possible program

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[69]*In the Matter of Request for Review of the Decision of the Universal Service Administrator by Bishop Perry Middle School New Orleans, LA, et. al.*, 21 FCC Rcd. 5316 (2006).
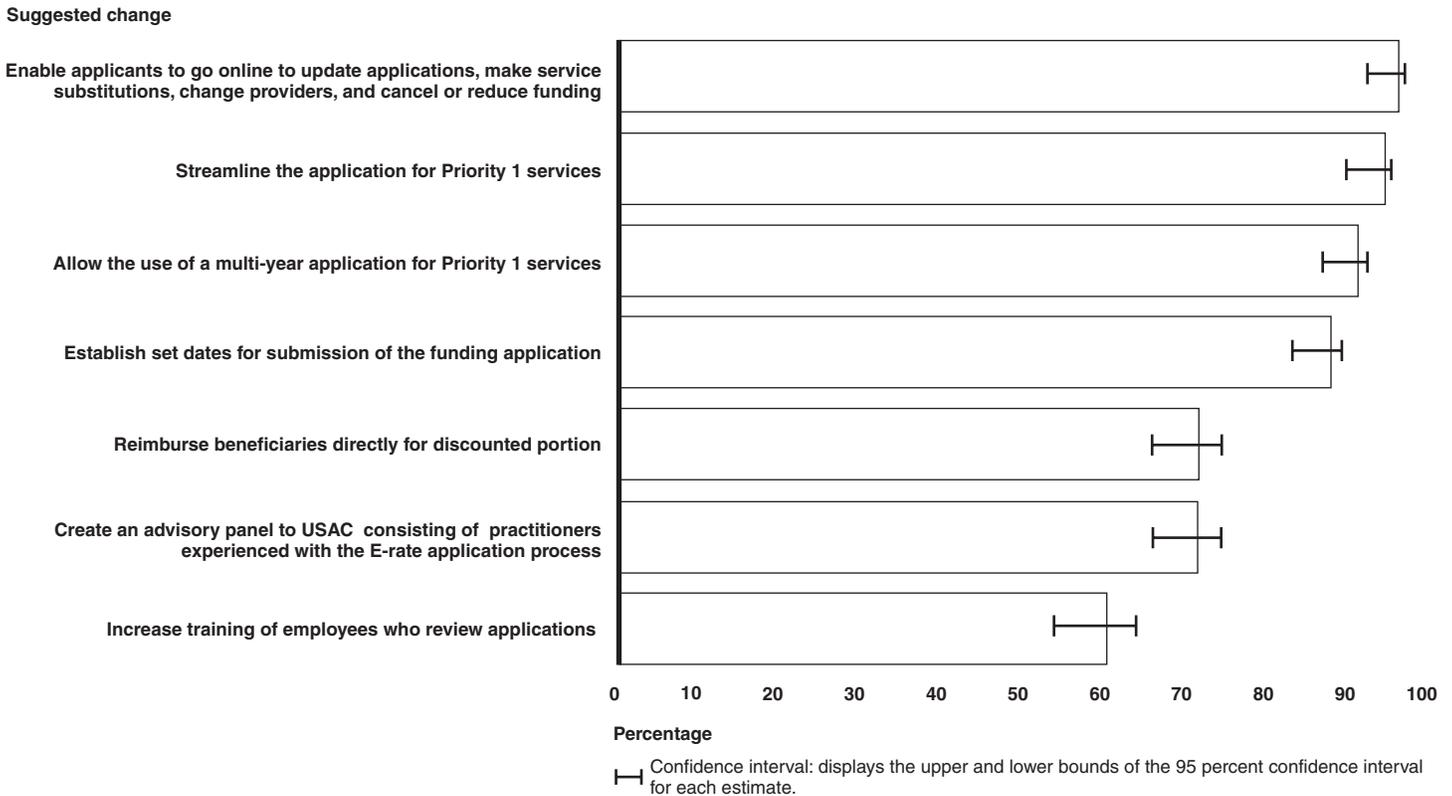
[70]*In the Matter of Comprehensive Review of Universal Service Fund Management, Administration, and Oversight, Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking*, 20 FCC Rcd 11308 (2005).

[71]We reported in 2007 on FCC's rule-making process, noting that dockets may remain open for a number of reasons—for instance, that the docket was intended to be broad with multiple rule makings, that other rule makings take precedence, and that the number of staff available to work on rule makings is limited. See GAO, *Telecommunications: FCC Should Take Steps to Ensure Equal Access to Rulemaking Information*, GAO-07-1046 (Washington, D.C.: Sept. 6, 2008).

improvements to determine what improvements were most commonly suggested and why. We then included questions in our survey to obtain participants' views on whether they favor or oppose these improvements. Figure 14 shows the changes that were strongly or somewhat favored by more than half of participants. The improvements most favored by participants—each was favored by more than four out of five participants—are as follows:

- Enable applicants to go online to update their applications, make service substitutions, correct service provider identification numbers, change providers, and cancel or reduce funding.
- Streamline the application for Priority 1 services.
- Allow the use of a multiyear application for Priority 1 services.
- Establish set dates for submitting the application form.

Figure 14: Changes to the E-rate Program Strongly or Somewhat Favored by More Than Half of Participants

Suggested change

Confidence interval: displays the upper and lower bounds of the 95 percent confidence interval for each estimate.

Source: GAO.

FCC continues to consider comprehensive Universal Service Fund (USF) reform proposals raised in, or in response to, the 2005 NPRM, including ways to simplify the E-rate program; additionally, FCC issued a notice of inquiry in September 2008 to obtain new and refined information from commenters on how to strengthen the management, administration, and oversight of USF programs.[72] FCC officials told us in November 2008 that while they will consider commenters' suggestions on streamlining the E-rate program, they cannot simplify the program if doing so would weaken internal controls aimed at preventing and detecting waste, fraud, and abuse. We agree that FCC should not simplify the program at the expense

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[72]FCC, *In the Matter of Comprehensive Review of the Universal Service Fund Management, Administration, and Oversight*, Notice of Inquiry, 23 FCC Rcd. 13583 (2008).

of a robust system of internal controls but continue to believe that FCC needs to take action to improve the program rather than simply continuing to gather data.

FCC Lacks Performance Goals for E-rate Program, and Recently Adopted Performance Measures Are Inadequate

According to FCC officials, the E-rate program operates under the Universal Service Fund's broad goal of providing telecommunications services to all Americans, but there are no specific goals for the E-rate program. Performance goals and measures are particularly important for the E-Rate program, as they could help the agency make well-informed decisions about how to address the trends described earlier. In 1998, we first recommended that FCC develop specific performance goals and measures for the E-rate program; however, although the agency developed such goals and measures for 3 fiscal years since that time, these goals and measures were inadequate, and FCC currently has no goals. In 2007, FCC adopted two types of performance measures for the E-rate program, but these measures fall short when compared with characteristics of successful performance measures.

FCC Has Made Efforts to Develop Performance Goals and Measures for the E-rate Program, but Has Not Been Successful

Since our first recommendation in 1998 that, in accordance with the Government Performance and Results Act of 1993 (GPRA), FCC establish performance goals and measures for the E-rate program, FCC has taken steps in this direction but still has not successfully met this fundamental requirement of results-oriented management. Table 2 provides details on our past findings related to the E-rate program's performance goals and measures, our recommendations, and FCC's responses.

Table 2: Summary of Past GAO Findings and Recommendations on E-rate Performance Goals and Measures and FCC's Response

Year/GAO report number	GAO findings	Recommendation	FCC response to recommendation
1998/GAO/T-RCED-98-243	FCC did not provide specific strategic goals, performance measures, or target levels of performance for the E-rate program, as GPRA requires. (See p. 15.)	FCC should develop performance goals and measures for the schools and libraries program.	FCC responded that our recommendation was reasonable and took measures to address it.
1999/GAO/RCED-99-51	FCC still failed to provide well-defined goals, performance targets, and measures for the E-rate program. (See p. 13.)	We reiterated that the recommendation we made in 1998 for the development of performance goals and measures still needed implementation.	FCC responded that it recognized the importance of our recommendation and intended to address it, but the agency did not indicate when it would do so.
2000/GAO-01-105	After some false starts, FCC developed performance goals and measures for the E-rate program. (See pp. 33-34.)	Not applicable.	Not applicable.
2005/GAO-05-151	The goals and measures that FCC set for fiscal years 2000 through 2002, which measured connectivity in public schools, were not useful in assessing the impact of E-rate program funding. In addition, FCC did not consistently set annual goals for the two other major E-rate beneficiary groups—libraries and private schools. (See pp. 20-22.)	For the second time in 7 years, we recommended that FCC establish performance goals and measures for the E-rate program, consistent with GPRA.	FCC responded that it concurred with our recommendation, noting that it was already taking steps to address the recommendation.

Source: GAO.

In response to our 1998 recommendation that it should develop performance goals and measures, FCC included goals and measures in its annual performance reports, as GPRA required, for 3 fiscal years. But we determined that FCC's goals and measures were not meaningful. For instance, in 1999 FCC set an annual performance goal of ensuring that 30 percent of eligible schools and libraries would have Internet access by the end of fiscal year 2000, even though at that time well over 30 percent of schools and libraries were already connected to the Internet. Further, FCC has not included annual performance goals in its performance reports since 2002.

We reiterated our recommendation in 2005, and FCC, in response, issued an NPRM in which it sought comments on establishing useful outcome, output, and efficiency measures for each of the Universal Service Fund

(USF) programs, including the E-rate program.[73] After reviewing comments submitted in response to the 2005 NPRM, FCC in August 2007 issued an order in which it adopted performance measures for the E-rate program, although as we discuss below, these measures lack key characteristics of successful performance measures.[74] In the order, FCC said it anticipated adopting performance goals as it and USAC gained experience with the performance measures.

When we met with FCC in November 2008 for a status update on their plans for establishing performance goals, officials did not have a clear timeline for establishing such goals, but FCC had issued a notice of inquiry in September 2008, as mentioned earlier, to obtain further stakeholder comments on performance goals and measures for the USF programs, among other things. The notice sought comment on whether FCC should establish additional performance goals and measures, whether FCC has the authority to set long-term goals for the USF programs, and if and when long-term goals are met, whether FCC has the authority to terminate or significantly modify the USF programs. Subsequently, in January 2009, FCC officials told us that the commission chairman at that time had circulated a draft NPRM on the E-rate program addressing performance measures, data collection, approaches for distributing funding, and allowed uses of the funding.[75] However, even if the commission adopted the NPRM, this would not by itself establish performance goals but would instead present the commission's proposal and request for comment on the proposal.

FCC's efforts to date in establishing performance goals and measures have progressed in a piecemeal manner, which indicates a lack of a coherent vision for the E-rate program. As we note, FCC has issued several notices, often in response to our recommendations. In these notices, FCC seeks

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[73]According to the Office of Management and Budget, output measures describe the level of a program's activity, whereas outcome measures describe the intended result from carrying out a program or activity and efficiency measures capture a program's ability to perform its function and achieve its intended results.

[74]*In the Matter of Federal-State Joint Board on Universal Service, Comprehensive Review of the Universal Service Fund Management, Administration, and Oversight,* Report and Order, 22 FCC Rcd. 16372 (2007).

[75]The proposal was placed on circulation on January 7, 2009, under docket number WCB 02-6. FCC's circulation process involves electronically sending written items to each of the commissioners for approval; if approved, the item will be issued as a notice of proposed rulemaking. Items under circulation are not publicly available.

stakeholder comment on proposals for performance goals and measures for the E-rate program and, in some cases, repeatedly seeks comment on the same topic. This pattern indicates that FCC does not have a clear strategic vision for what it intends the E-rate program to accomplish within the broad statutory framework provided by Congress; for example, how can the E-rate program best serve schools and libraries? A coherent strategic vision for the E-rate program could lead to more effective performance goals and measures.

The Performance Measures That FCC Adopted for the E-rate Program Lack Key Characteristics of Successful Performance Measures

In its August 2007 order, FCC adopted two types of performance measures for the E-rate program—one for Internet connectivity and the other for application processing.[76] This order required that USAC measure, and report to FCC annually, data from program participants on broadband connections provided to program participants, including the number of buildings served by broadband services and the bandwidth of these services. According to FCC, the collection of these data—once analyzed collectively—will allow the agency to determine how the E-rate program can better meet the needs of applicants. With respect to performance measures for application processing, the order required that USAC collect, and annually report to FCC, performance data on a number of specific output measures, including the number of applicants served and the discount rate they received, and average dollar amount awarded per funding request number.[77] A memorandum of understanding between FCC and USAC also requires USAC to report to FCC on performance data relative to funding applications. Subsequent to the 2007 order, FCC determined that the performance measurement data would be used, in part, as one element of a performance-based evaluation and compensation program for USAC's executives.[78] FCC officials told us that these data would also be used to publicly demonstrate USAC's performance in implementing the E-rate program.

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[76]*See* 22 FCC Rcd 16372.

[77]USAC assigns funding request numbers to individual funding requests submitted on applications for funding; funding request numbers are used to track the status of the request.

[78]Other elements of USAC's executive compensation program include the speed with which customer complaints are resolved and the success with which recommendations from financial statement audits are implemented.

In addition to the performance measurements specific to the E-rate program, the 2007 order sets forth performance measures applicable to the administration of the Universal Service Fund programs, including the accuracy of billing and disbursements, administrative costs, and the amount of improper payments that are recovered, among other things. The memorandum of understanding further describes the data USAC is to collect related to these administrative performance measures and additionally describes service quality performance measures.[79]

While FCC's efforts to develop performance measures have the potential to eventually produce better information than is currently available on the E-rate program's performance, these measures fall short when compared with the key characteristics of successful performance measures. In our past work, we have found that agencies that are successful in measuring performance strive to establish measures that demonstrate results, address important aspects of program performance, and provide useful information for decision making.[80] Following is a discussion of these characteristics and the extent to which FCC has fulfilled them in developing measures for E-rate performance.

- *Measures should be tied to goals and demonstrate the degree to which the desired results are achieved.* These program goals should in turn be linked to the overall agency goals. However, the measures that FCC has adopted are not based on such linkage because the agency does not currently have performance goals for the E-rate program. By establishing performance measures before establishing the specific goals it seeks to achieve through the E-rate program, FCC may waste valuable time and resources collecting the wrong data and, consequently, not develop the most appropriate measures for results.

[79]Service quality performance measures include requirements that USAC provide notice to program stakeholders of how to file complaints with USAC and track all complaints to determine the response time for each.

[80]See, for example, GAO, *Pipeline Safety: Management of the Office of Pipeline Safety's Enforcement Program Needs Further Strengthening*, GAO-04-801 (Washington, D.C.: July 23, 2004); *Agency Performance Plans: Examples of Practices That Can Improve Usefulness to Decisionmakers*, GAO/GGD/AIMD-99-69 (Washington, D.C.: Feb. 26, 1999); and *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1996). We have also identified specific attributes of successful performance measures linked to these characteristics. See GAO, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, GAO-03-143 (Washington, D.C.: Nov. 22, 2002).

- *Measures should address important aspects of program performance.* For each program goal, a few performance measures should be selected that cover key performance dimensions and take different priorities into account. For example, limiting measures to core program activities enables managers and other stakeholders to assess accomplishments, make decisions, realign processes, and assign accountability without having an excess of data that could obscure rather than clarify performance issues. Also, performance measures should cover key governmentwide priorities—such as quality, timeliness, and customer satisfaction. The two types of performance measures that FCC adopted appear to address certain key performance dimensions—particularly because the connectivity measure centers on the program's statutory goal of providing eligible schools and libraries with access to advanced telecommunications services, and, by selecting just two types of measures, there are fewer chances of obscuring the most important performance issues. The measures also appear to take into account such priorities as timeliness and customer satisfaction. However, again, without first setting specific performance goals for the E-rate program, FCC cannot be sure it has adopted the most appropriate performance measures.

- *Measures should provide useful information for decision making.* Performance measures should provide managers with timely, action-oriented information in a format that helps them make decisions that improve program performance.[81] According to FCC officials, the application-processing data that FCC is currently requiring USAC to collect will be used in making compensation decisions for USAC executives, and it will also be available in USAC's annual report to provide the general public with information on E-rate's performance in this regard. However, the application-processing data are output, not outcome, oriented, and the intended uses of the data do not include such program-management activities as allocating resources or adopting new program approaches if needed. The limited use of these data, combined with the absence of specific program goals, raises concern about the effectiveness of these performance measures.

[81]See, for example, GAO/GGD-96-118 and GAO, *Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results*, GAO-04-38 (Washington, D.C.: Mar. 10, 2004).

Conclusions

In the Telecommunications Act of 1996, Congress said that access to advanced telecommunications for schools and libraries was one of the principles for the preservation and advancement of universal service.[82] In managing the E-rate program, FCC has been guided by how well the program meets the broad, overarching goal of universal service, rather than strategic goals specific to the E-rate program. After 12 years of program operations and committing more than $20 billion in funding awards, FCC has not developed adequate performance goals and measures for the E-rate program. Because we have repeatedly identified the lack of adequate performance goals and measures as a weakness in the E-rate program, we reiterate our 2005 recommendation that FCC define annual, outcome-oriented performance goals for the E-rate program that are linked to the overarching goal of providing universal service. Moreover, we have identified several trends that raise questions about the direction of the program. Is it in the national interest, in an increasingly broadband-oriented world, that a substantial and growing portion of commitments is for telecommunications services such as local and cellular telephone service? Does the program's high participation rate among public schools, but lower participation rate among private schools and libraries, lead to an acceptable distribution of E-rate funding among eligible entities? Without a strategic vision for the program, and accompanying performance goals and measures, it is difficult for FCC to make informed decisions about the future of the program and more effectively target available funding.

Additionally, we have previously identified the program's low disbursement rate as an area of concern. In response to a previous recommendation, FCC took steps to increase the disbursement rate. However, we found that the disbursement rate has not increased and a substantial amount of committed funding is not disbursed. In the current E-rate environment, where requests for funding consistently exceed the annual funding cap, many applicants seeking support for Priority 2 services are denied funding, yet a significant amount of funding committed to applicants is not disbursed. If applications and commitments more closely tracked disbursements—that is, if the disbursement rate were higher—some applicants who were denied funding might have received funding for internal connection projects. Moreover, in light of the nation's current fiscal constraints, it is appropriate to make the most effective possible use of available E-rate funding by minimizing the amounts of committed funds that are not disbursed.

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[82] 47 U.S.C. § 254(b)(6).

Recommendations for Executive Action

To better provide a foundation for effective management of the E-rate program and to ensure that program funds are used efficiently and in a manner to support desired program outcomes, we recommend that the Federal Communications Commission take the following two actions:

- Review the purpose and structure of the E-rate program and prepare a report to the appropriate congressional committees identifying FCC's strategic vision for the program; this report should include the program's long-term goals, whether the vision can be achieved using the existing program structure (e.g., the priority rules and discount matrix), and whether legislative or regulatory changes are necessary.

- Provide information in its annual performance plan on

  - the amount of undisbursed funding associated with commitments that have expired and why these funds were not disbursed, and

  - the actions taken to reduce the amount of undisbursed funding and the outcomes associated with these actions.

Agency Comments and Our Evaluation

We provided a draft of this report to FCC and USAC for their review and comment. FCC and USAC provided technical comments that we incorporated, where appropriate.

In its comments, FCC reiterated the status of its performance goals and measures, as well as the disbursement rate. In particular, FCC noted that it identified goals for the E-rate program when it first adopted the program and recently requested comment on establishing new goals. Further, FCC noted that its performance measures do, or will, meet the three characteristics of successful measures that we identified. We acknowledge the efforts FCC has made to date and recognize the successes of the E-rate program that FCC identified in its letter. However, these efforts are not consistent with successful performance goals and measures. For example, agencies should establish explicit performance goals and measures, use intermediate goals and measures to illustrate progress, and identify projected target levels of performance for multiyear goals. Establishing effective performance goals and measures will help FCC guide the E-rate program. Finally, FCC noted that it has taken action to address the disbursement rate and that our analysis may inaccurately portray a decrease in the disbursement rate since disbursements typically occur over several years and therefore the disbursement rate in the first few years after commitments are made will be lower than in later years. We agree that the disbursement rate in the first few years could be lower than in later years. However, the disbursement rate for every funding year

(including 2001 through 2004) remains less than the rate in 2000, when we made our initial recommendation on this issue. Thus, we modified the text to note that the disbursement rate remains low but is not necessarily decreasing. FCC's full comments and our responses appear in appendix II.

In its comments, USAC noted that it stands ready to work with FCC in developing and reporting additional performance goals and measures. USAC also noted that it is aware of committed funds going unused but that funding years 2005, 2006, and 2007 remain open, implying that the disbursement rate could increase. It further noted that the gap between commitments and disbursements is attributable more to the structure of the program than to USAC's administration of the program. We agree that the disbursement rate associated with commitments made in 2005 through 2007 may increase, but, as mentioned above, the disbursement rate for every funding year remains less than the rate in 2000, when we made our initial recommendation. Lastly, USAC noted that it intends to evaluate the participant survey data to determine whether it can devise strategies to improve program participation. USAC's full comments and our responses appear in appendix III.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate congressional committees, the Chairman of the Federal Communications Commission, and the Chairman of the Universal Service Administrative Company. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you have any questions about this report, please contact me at (202) 512-2834 or goldsteinm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report are listed in appendix IV.

Mark. L. Goldstein
Director, Physical Infrastructure

Appendix I: Objectives, Scope, and Methodology

Our objectives were to address the following questions: (1) What are key trends in the demand for and use of E-rate funding and what are the implications of these trends? (2) To what extent do eligible entities apply for E-rate funds, how well do applicants navigate the E-rate program's requirements, and what steps is the Federal Communications Commission (FCC) taking to facilitate program participation? (3) What are FCC's performance goals and measures for the E-rate program, and how do they compare to key characteristics of successful goals and measures?

The following sections describe the various procedures we undertook to answer these objectives. In addition, we conducted the following background research that helped inform each of our reporting objectives. We reviewed prior GAO reports on E-rate, FCC's Universal Service Monitoring Reports on the E-rate program, and documentation from FCC and the Universal Service Administrative Company (USAC) on the structure and operation of the E-rate program. We interviewed officials from FCC's Office of Managing Director, Office of Inspector General, and Wireline Competition Bureau to identify actions undertaken to address previously identified problems and plans to address issues of concern in the program; and officials from USAC's Schools and Libraries Division, Office of General Counsel, and Office of Finance to collect information on program operations and USAC's actions to implement prior FCC orders on E-rate. We also interviewed representatives of E-rate stakeholder groups, including the U.S. Bureau of Indian Education, the Council of Great City Schools, the National Association of Independent Schools, the American Library Association, the Education and Library Networks Coalition, the State E-rate Coordinators Alliance, and the E-rate Service Provider Association, as well as individual school districts, libraries, and telecommunications companies.

Analysis of E-rate Program Data

To determine trends in the demand for and use of E-rate funding, we obtained data from the Streamlined Tracking and Application Review System (STARS), which is used to process applications for funding and track information collected during the application review process. When analyzing and reporting on the data we took the limitations on how data can be manipulated and retrieved from STARS into consideration since this system was designed to process applications and not to be a data retrieval system. We assessed the reliability of the data by questioning officials about controls on access to the system and data back-up procedures; additionally, we reviewed the data sets provided to us for obvious errors and inconsistencies. Based on this assessment, we

determined that the data were sufficiently reliable to describe broad
trends in the demand for and use of E-rate funding.

We obtained the following data—including annual and cumulative
figures—for funding years 1998 through 2007:[1]

- the number and characteristics of applicants, including their entity
  type, discount level, and location;

- dollar amounts of funding requests, commitments, denials, and
  disbursements, by service category;

- dollar amounts of individual funding requests, commitments, and
  disbursements, for each applicant for each funding year; and

- reasons accounting for funding requests not being granted, by dollar
  amount and by service category.

In order to provide these data, USAC's subcontractor, Solix, performed
queries on the system and provided the resulting reports to us between
April 2008 and December 2008. Data from the STARS system can change
on a daily basis as USAC processes applications for funding and
reimbursement, applicants request adjustments to requested or committed
amounts, and other actions are taken. As a result, the data we obtained
and reported on reflect the amounts at the time that Solix produced the
data and may be somewhat different if we were to perform the same
analyses with data produced at a later date.

For the purposes of analyzing and reporting on the amounts of funding for
telecommunications services, Internet access, and internal connections
that were requested, committed, and disbursed, we collapsed the six
service categories in USAC's database into three categories, as shown in
table 3.

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[1]We analyzed program requests, commitments, and disbursements on the basis of which
funding year they were associated with rather than in which calendar year or fiscal year the
action occurred. For instance, individual requests for funding year 2007 may have been
submitted in calendar year 2006, and individual commitments for funding year 2007 may
have been made in calendar year 2008.

Table 3: Service Categories Used for Analysis and Reporting

Category used for analysis and reporting	Service categories in original USAC data
Telecommunications services	Telecommunications services
	Dedicated services[a]
Internal connections	Internal connections
	Shared internal connections[b]
	Internal connections maintenance[c]
Internet access	Internet access

Sources: GAO and USAC.

[a]The dedicated services category was used only in funding years 1998 and 1999.
[b]The shared internal connections category was used only in funding years 1998 and 1999.
[c]Internal connections maintenance became a funding category in funding year 2005.

Survey of E-rate Beneficiaries

To obtain information on how well E-rate beneficiaries navigate the program's requirements and procedures, the extent to which they use funds committed to them, and their views on how to improve the program, we conducted a Web-based survey of schools and libraries that participate in the E-rate program (see GAO-09-254SP). To develop the survey questionnaire, we reviewed existing studies about the program, including previous and ongoing GAO work, and interviewed stakeholder groups knowledgeable about the program and issues of concern to beneficiaries. We designed draft questionnaires in close collaboration with a GAO social science survey specialist. We conducted pretests with eight E-rate participants representing different types of applicants—schools, school districts, and libraries—and from rural and urban areas, to help further refine our questions, develop new questions, and clarify any ambiguous portions of the survey. We conducted these pretests in person and by telephone.

We drew our survey sample from Form 471 applications for funding year 2006 that received a commitment greater than zero dollars. For each such application, we obtained data from USAC that included the following: billed entity number (a USAC-assigned, unique identifier assigned to each applicant); entity type; whether the entity is located in an urban, rural, or mixed area; the amount of funds committed for Priority 1 services; and the amount of funds committed for internal connections. Based on these data, we created three stratification variables:

- *Entity type.* The four categories of entities eligible to apply for funding are school districts, schools, libraries, and educational consortia.

Educational consortia—which can be made up of any combination of schools, school districts, and libraries—constituted less than 2.5 percent of the applications in the data set we received and were treated as out of scope for this survey. The remaining three entity types were therefore used for our first stratification variable.

- *Urban/rural status.* Applicants must report whether they are located in a rural or urban area because this information is used to determine their discount level. Three percent of the applications were for entities located in a mixed urban-rural area; we excluded this category of applications as out of scope for this survey. The remaining cases were divided between urban and rural for our second stratification variable.

- *Priority level of funding.* The third stratification variable was the priority level for the funding commitments made for each application. To control the funding priority in our sample, we divided the applications into those associated with beneficiaries that requested (1) only Priority 1 services funding, (2) only internal connections funding, and (3) both. We combined funding priority categories (2) and (3) for analysis of survey results.

Analysis of the application data that we received revealed that many beneficiaries filed more than one application with USAC for funding year 2006 and received funding commitments for these requests.[2] As a result, since our sample design was based on applications and not entities, some entities had more than one application selected. We sent these entities only one survey and weighted their responses accordingly.

The number of applications in each of our sample strata and the sample size are shown in table 4.

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[2]USAC encourages applicants to file separate applications for Priority 1 and Priority 2.

Table 4: Sample Design for Survey of E-rate Participants

Stratum	Entity type	Urban/rural status	Funding priority level	Population size	Sample size
1	School district	Rural	1	8,164	155
2	School district	Urban	1	7,297	139
3	Library	Rural	1	1,766	34
4	Library	Urban	1	2,082	40
5	School	Rural	1	2,010	38
6	School	Urban	1	3,837	73
7	School district	Rural	2	141	20
8	School district	Urban	2	62	20
9	Library	Rural	2	7	7
10	Library	Urban	2	9	9
11	School	Rural	2	150	20
12	School	Urban	2	260	20
13	School district	Rural	3[a]	1,778	34
14	School district	Urban	3	1,603	30
15	Library	Rural	3	83	20
16	Library	Urban	3	80	20
17	School	Rural	3	431	20
18	School	Urban	3	1,191	23
Total				**30,951**	**722**

Source: GAO analysis of USAC data.

[a]Funding priority level 3 includes applications for both Priority 1 services and Priority 2 services.

We used a proportional allocation to assign sample units to strata with an adjustment for strata that had small populations. If the proportional allocation was less than 20, we used either the total number of applications in the stratum if it was less than 20 or set the sample allocation at 20. The stratum sample sizes for our survey were determined to provide a 4 percent overall precision for an attribute measure at the 95 percent level of confidence.

Our goal was to survey individuals who were responsible for completing E-rate-related tasks—such as preparing forms and responding to information requests—for each sampled entity. Our data set included the name and contact information for the individual listed as the contact on Form 471; we sent these individuals the survey. Because some entities employ a consultant to fill out their application and others use a regional

or state official who is responsible for multiple entities' applications, our
sample included different entities that shared the same contact person. We
contacted these individuals to identify an alternate entity-specific contact
to receive the survey. If no such alternate could be found, the original
contact was sent one survey for each sample entity. We contacted such
individuals to make arrangements for them to fill out the questions that
pertained to all applications only once, then separately obtained the
application-specific information for each of their surveys. A total of 697
individuals received questionnaires for our sample of 722 Form 471 E-rate
applications. The results from our sample are weighted to reflect the
population of beneficiaries that use the E-rate program.

We launched our Web-based survey on April 21, 2008, and closed the
survey to responses on June 18, 2008. Log-in information was e-mailed to
all sampled participants. We sent up to three follow-up e-mail messages to
nonrespondents over the next 4 weeks. We then contacted by telephone
those who had not completed the questionnaire. We received responses
for 543 questionnaires, for an overall response rate of 78 percent.

Because we followed a probability procedure based on random selections,
our sample is only one of a large number of samples we might have drawn.
Since each sample could have provided different estimates, we express
our confidence in the precision of our particular sample's results as a 95
percent confidence interval (e.g., plus or minus 4 percentage points). This
is the interval that would contain the actual population value for 95
percent of the samples we could have drawn.

In addition to sampling errors, the practical difficulties of conducting any
survey may introduce nonsampling errors. For example, differences in
how a particular question is interpreted, the sources of information
available to respondents, or the types of people who do not respond can
introduce unwanted variability into the survey results. We included steps
in both the data collection and data analysis stages to minimize such
nonsampling errors. As indicated above, we collaborated with a GAO
social science survey specialist to design draft questionnaires, and
versions of the questionnaire were pretested with eight members of the
surveyed population. In addition, we provided a draft of the questionnaire
to FCC and USAC for their review and comment. From these pretests and
reviews, we made revisions as necessary. We examined the survey results
and performed computer analyses to identify inconsistencies and other
indications of error. A second, independent analyst checked the accuracy
of all computer analyses.

E-rate Participation Analysis

To determine the percentage of eligible entities that participate in the E-rate program and the characteristics of program participants and nonparticipants, we performed a matching analysis using data from the Department of Education and USAC. We obtained three databases from the U.S. Department of Education's National Center for Education Statistics (NCES):

- *Common Core of Data (CCD).* CCD is a program of NCES that annually collects data about all public schools, public school districts, and state education agencies in the United States. We used the most recent complete data set for individual public schools, which was for the 2005-2006 school year.

- *Private School Universe Survey (PSS).* The target population for PSS consists of all private schools in the United States that meet the NCES definition of private schools. Data from the 2005-2006 school year were used.

- *Public Libraries Survey (PLS).* PLS is designed as a universe survey and provides a national census of public libraries and their public service outlets, as well as data on these entities. Data from 2005 were used.

We assessed the reliability of these data sets by (1) reviewing NCES's technical and methodological reports on these studies and (2) examining the data for obvious inconsistencies. We determined that the data were sufficiently reliable to use as sources of summary statistics about program participants and nonparticipants.

We also used data from USAC's STARS system for the 2005 funding year. USAC provided us with data on each entity that was included on applications for the 2005 funding year. We received two files from USAC—one for schools and one for libraries—that included the entity's name, NCES identification number,[3] address, city, state, and ZIP code. The school file also included information on whether each school was public or private; we used this information to separate public from private schools. We assessed the reliability of the STARS data system as discussed previously. Additionally, we examined the data set that we obtained for matching purposes to identify inconsistencies or obvious errors. We found

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[3]The NCES ID is a unique identifier assigned to all public schools. USAC collects this information on the Form 471 application for funding but does not validate the numbers that applicants report.

that some of the data fields were not fully completed. For example, there
were a number of records with missing data, incomplete data, and
incorrect NCES identification numbers. However, we concluded that the
incomplete nature of some of the records did not significantly affect our
intended purpose of identifying program participants, and we therefore
determined that the data were sufficiently reliable.

We matched USAC's public school data against CCD, USAC's private
school data against PSS, and USAC's library data against the PLS from
NCES. To identify which entities in the NCES data sets were E-rate
participants, we used SAS, a statistical software application, to compare
USAC records with NCES records, matching first on identification
numbers, then on combinations of entity names, states, cities, ZIP codes
and street addresses. When this procedure could find no exact match, we
used an SAS function that measures asymmetric spelling distance between
words (SPEDIS), to determine the likelihood that entity names from the
two data sets did match and to generate possible pairs of matching
entities. The possible matches for an entity were written to a spreadsheet,
which we reviewed manually to select the best possible match. For both
computerized and manual matches, we assessed a random sample of the
matches to calculate error rates for the analysis. Based upon our sample
results, we estimate the error rate for matching records between the USAC
and the Department of Education's databases as 1.7 percentage points.[4]
Unless otherwise noted, all of the percentage estimates cited in the report,
which are based upon matching of entity records, have an overall error
rate of 3.4 percentage points or less at the 95 percent level of confidence.
Having identified whether each entity in the NCES data sets participated in
the E-rate program, we then ran summary statistics on data fields of
interest for the groups of participants and nonparticipants.

Nonparticipant Interviews

To better understand why eligible entities do not participate in the E-rate
program, we obtained anecdotal, nongeneralizeable information through
interviews with six nonparticipants. These entities included library
systems, public school districts, and private schools and were located in
both urban and rural areas. We identified nonparticipant interviewees by
asking the State E-rate Coordinators Alliance for the names of schools that
they knew did not participate and by searching in USAC's online database

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[4]This estimate has a confidence interval from 0.3 percent to 3.4 percent at the 95 percent
level of confidence.

of program participants for entities that were not listed has having applied
for funding. We asked interviewees about their reasons for not
participating in the E-rate program, potential future changes to the
program that could result in their participaton, and sources of funding that
they use to pay for information technology and telecommunications
expenses.

Document Review and Interviews with FCC and USAC on Performance Goals and Measures

We reviewed the Telecommunications Act of 1996 to determine what the
performance goals and measures for the E-rate program are and how the
measures compare to key characteristics of successful performance
measures. We then reviewed our past products and other literature on
results-oriented management and effective practices for setting
performance goals and measures. We compared this information to the
program goals and measures that FCC set forth in agency
documentation—including an order, proposed rulemaking, strategic plan,
and performance and accountability reports. We also reviewed the Office
of Management and Budget's Program Assessment Rating Tool 2003 report
on the E-rate program's effectiveness and its 2007 update to this report. In
addition, we interviewed officials from FCC's Wireline Competition
Bureau, Office of Managing Director, and Office of Inspector General, and
officials from USAC to obtain their views on and plans to implement E-
rate performance goals and measures.

We conducted this performance audit from July 2007 to March 2009 in
accordance with generally accepted government auditing standards. Those
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. We believe that the evidence
obtained provides a reasonable basis for our findings and conclusions
based on our audit objectives.

Appendix II: Comments from the Federal Communications Commission

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

March 10, 2009

OFFICE OF
THE CHAIRMAN

Mr. Mark Goldstein
Director, Physical Infrastructure
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Goldstein:

Thank you for the opportunity to review the draft General Accountability Office (GAO) report regarding long-term goals, performance measures and participation rates related to the Schools and Libraries Universal Service program, also known as the E-rate program.

I have been a long-standing supporter of the E-rate program and its goal of ensuring that schools and libraries have access to affordable telecommunications and advanced services. During its 11-year existence, the E-rate program has helped thousands of schools and libraries improve their technological capabilities. Pursuant to section 254 of the Communications Act of 1934, as amended (the Act), the Commission designated "telecommunications services" and certain additional services eligible for support under the E-rate program.[1] Since the inception of the E-rate program, schools and libraries have received more than $23.7 billion in funding commitments.[2] E-rate funding has provided millions of school children, teachers and library patrons access to modern telecommunications and information services. In a study released in 2006, the National Center for Education Statistics (NCES) found that nearly 100 percent of public schools in the United States had Internet access, and 97 percent of these schools used broadband connections to access the Internet.[3] Today, Internet access in public schools is nearly ubiquitous; before the E-rate program was established in 1997, only 78 percent of public schools had any Internet access at all. In 1997, only 27 percent of public school instructional classrooms had Internet access; that figure increased to 94 percent in 2005.[4] A 2006 study found that 99 percent of public library branches are connected to the Internet, 98 percent of which offer public Internet access.[5]

The Commission is dedicated to achieving the universal service goals of section 254 of the Act, and therefore welcomes suggestions on making additional improvements to the E-rate program. In its draft report, the GAO offers two major recommendations. First, the GAO recommends that the Commission report to Congress on its strategic vision for the E-rate program, including the long-term goals for the program, and whether the existing structure of the program is suitable to achieve this vision or whether legislative or regulatory changes are necessary to help achieve this vision.[6] Second, the GAO

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[1] 47 U.S.C. § 254(c)(1), (c)(3); 47 C.F.R. §§ 54.502, 54.503.
[2] See Universal Service Administrative Company, Schools and Libraries Division website,
http://www.sl.universalservice.org/funding/y1/national.asp (1998-2008 data).
[3] U.S. Dept. of Education, Institute of Education Sciences, Internet Access in U.S. Public Schools and Classrooms:
1994-2005, 4-5 (2006), http://nces.ed.gov/pubs2007/2007020.pdf.
[4] Id. at 14, 16.
[5] Information Use Management and Policy Institute, College of Information, Florida State University, Public
Libraries and the Internet 2006: Study Results and Findings, 1 (2006),
http://www.ii.fsu.edu/projectFiles/plinternet/2006/2006_plinternet.pdf.
[6] GAO Report at 49.

recommends that the Commission include in its annual performance plan a report on steps the
Commission will take to reduce the amount of E-rate funding that is committed but not disbursed.[7]

In response to the GAO's first recommendation regarding a strategic vision for the E-rate program, it is
vital for all of the Commission's universal service programs, including the E-rate program, to have
established goals. When it first adopted a structure for the program, the Commission identified goals for
the program and established priorities accordingly. As the Commission noted in its *Universal Service
First Report and Order*, the E-rate program was intended to ensure that eligible schools and libraries have
affordable access to modern telecommunications and information services that would enable them to
provide educational services to all parts of the nation.[8] To implement this goal, the Commission
established funding priorities for the E-rate program, placing a higher priority on funding for
telecommunications and Internet access (Priority 1 services) than on internal connections (Priority 2
services).[9] The Commission also determined that schools with a higher poverty rate and schools located
in rural areas would receive additional funding to assist them in meeting their telecommunications and
information services needs.[10] Accordingly, a greater portion of E-rate funding is allocated to Priority 1
services than to Priority 2 services, and poor and rural schools receive more E-rate funding than more
affluent and urban schools.[11]

See comment 1.

As evidenced by the fact that nearly all schools and libraries have Internet access, the E-rate program is
meeting the goals established at the program's initiation: (1) providing access to modern
telecommunications and information services; and (2) making these services affordable. The
Commission, however, disagrees with the report's suggestion that the E-rate program may no longer serve
an existing need.[12] On the contrary, the continuance of the E-rate program is absolutely essential to
maintain the current level of Internet connectivity and to continue to provide schools and libraries access
to improved telecommunications and information services as technology advances.

See comment 2.

Given the pace at which society and technology move today, it is important to conduct periodic reviews
of the Commission's goals to examine whether those goals remain valid or if adjustments are necessary.
As the statistics above demonstrate, the program has been successful in getting schools and libraries
connected to the Internet. Now, as those connections become obsolete or insufficient, we need to take the
next step to ensure that American schools and libraries remain competitive and on the forefront of
technology. The E-rate program will be an essential component, I am sure, of a national broadband
strategy as our nation works towards greater access to, and adoption of, high-speed broadband services.
High-speed services are essential to handle the applications available today, including online distance
learning and videoconferencing. Schools will need E-rate funding for both the initial implementation of
high-speed broadband access, as well as for the on-going costs to maintain and continuously improve

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[7] *Id.*
[8] *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776,
9002, para. 424 (1997) (*Universal Service First Report and Order*).
[9] *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Fifth Order on Reconsideration and Fourth
Report and Order, 13 FCC Rcd 14915, 14938, para. 36 (1998); 47 C.F.R. § 54.507(g).
[10] *Universal Service First Report and Order*, 12 FCC Rcd at 9049-50, paras. 520-21.
[11] In addition, the GAO notes that more funding for Priority 1 services is being disbursed although the requested
dollar amounts have not increased. See GAO Report at 13. The Commission is pleased that the increase in Priority
1 funding is a result of applicants receiving a greater proportion of their requested funding. Given that the
Commission has determined that Priority 1 telecommunications and Internet access services are the most crucial to
schools and libraries, an increase in applicants' success rate in receiving these funds is a positive development.
[12] GAO Report at 18.

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See comment 3.

their networks.[13] The Commission has taken the initial actions necessary to conduct this evaluation as part of its ongoing comprehensive review proceeding.[14] Specifically, the Commission recently requested comment on establishing new goals, both short-term and long-term, for the E-rate program.[15] Once the Commission has developed these new goals, it will revise its policies as necessary to achieve them.

The GAO is, of course, correct that performance measures can assist an agency in determining success in reaching its programmatic goals, as long as those measures are directly related to the goals of the program. The Commission established two performance measures for the E-rate program in an August 2007 order: one for Internet connectivity and another for application processing.[16] Although the GAO report does not recommend specific measures for the Commission to adopt, it states that the Commission's recent attempts to develop measures are inadequate. The GAO states that successful performance measures should be tied to goals; should address important aspects of program performance; and should provide useful information for decision making.[17] According to the GAO, the Commission's E-rate performance measures address important aspects of program performance, but do not meet the other two characteristics of successful performance measures.[18] We agree that the E-rate performance measures address important aspects of program performance, but believe they can meet the other two identified criteria as well, i.e., they will be tied to goals and will provide useful information for decision-making.[19] We also note that the Commission has established measures for USAC administrative tasks as part of the memorandum of understanding between the Commission and USAC.

Permit me to inject one note of caution as we consider further performance measures for the E-rate program. Performance measures that are not directly tied to results that the program can produce could be distinctly unhelpful. For example, it would be difficult to directly establish the effect of E-rate funds on student learning because there are so many variables involved in educational achievement, such as course work, quality of teaching, and parental influence. Internet access is one of many educational resources for students and teachers, albeit a factor of growing importance in the digital era. The Commission has

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[13] *See* State Educational Technology Directors Association, High-Speed Broadband Access for All Kids: Breaking Through the Barriers, 22-23 (2008), http://www.setda.org/c/document_library/get_file?folderId=270&name=DLFE-211.pdf.

[14] *Comprehensive Review of the Universal Service Fund Management, Administration, and Oversight*, WC Docket No. 05-195, Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking, 20 FCC Rcd 11308 (2005) (*Comprehensive Review NPRM*); *Comprehensive Review of the Universal Service Fund Management, Administrations, and Oversight*, WC Docket No. 05-195, Notice of Inquiry, FCC 08-189 (2008) (*2008 NOI*).

[15] *See 2008 NOI* at para. 29.

[16] *Comprehensive Review of the Universal Service Fund Management, Administrations, and Oversight, Federal-State Joint Board on Universal Service, Schools and Libraries Universal Service Support Mechanism, Rural Health Care Support Mechanism, Lifeline and Link-Up, Changes to the Board of Directors of the National Exchange Carrier Association*, WC Docket No. 05-195, CC Docket No. 96-45, CC Docket No. 02-6, WC Docket No. 02-60, WC Docket No. 03-109, CC Docket No. 97-21, Report and Order, 22 FCC Rcd 16372, 16389-94, paras. 38-49 (2007) (*Comprehensive Review Order*).

[17] GAO Report at 44.

[18] *Id.*

[19] At the time these measures were established, the Commission did not establish goals for these measures because current performance levels needed to be determined before establishing targeted performance levels. As the Commission noted in that order, we may adopt targets or establish a deadline for the processing of certain types of applications. *See Comprehensive Review Order* at 16392, para. 45. The Commission also believes that these measures will provide useful information for programmatic decision-making. The Internet connectivity measure will help the Commission to determine existing levels of Internet connectivity for E-rate program participants and whether these levels are sufficient given today's available applications. The application processing measure will help the Commission determine whether changes should be made to the application timeline so that schools can receive funding commitments far enough in advance of the school year to plan their telecommunications and information services expenditures.

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sought comment on additional measures in its recent notice of inquiry as part of its on-going comprehensive review proceeding.[20] We should carefully consider the comments we have received to ensure that any measures the Commission adopts are meaningful and constructive.

Another item the Commission is currently examining as part of the comprehensive review proceeding is the E-rate application process.[21] We agree that reducing burdens on applicants is important. This has been something I have pushed for since I came to the Commission almost eight years ago. As the report's survey found, some applicants find the process to be complicated and difficult.[22] The report implies that the application process, among other reasons, may result in a lower participation rate for some constituencies, specifically private schools.[23] As the report notes, public schools' participation in the E-rate program directly correlates to their rate of participation in the National School Lunch Program (NSLP), with schools with more NSLP-eligible students participating in E-rate at higher rates. The non-participation of private schools in NSLP would therefore predict a lower E-rate participation rate as well. We also strongly concur in the GAO's conclusion that the program should not be simplified at the expense of waste, fraud and abuse controls.[24]

The Commission is pleased that the survey indicates that a majority of respondents believe the E-rate application process has become easier to navigate in the past three years. Furthermore, GAO's review of data indicates that only 4 percent of applications were denied due to applicant error in 2007 – a significant decrease from 31 percent in 2002. We believe that this lower denial rate is the direct result of Commission actions taken in the *Bishop Perry Order* and other recent E-rate orders in which the Commission directed the universal service fund administrator, the Universal Service Administrative Company (USAC), to assist applicants in correcting errors rather than deny funding in the first instance. For example, in the *Bishop Perry Order*, the Commission directed USAC to allow applicants to correct certain ministerial and clerical errors.[25] In the *Aiken Order*, the Commission directed USAC to give applicants an opportunity to remove ineligible services from their applications, or to provide additional documentation to prove the eligibility of a service.[26] These and other on-going directives to USAC should improve applicant access to E-rate funding.

The GAO's second recommendation is that the Commission should report annually in its performance plan on reducing the amount of E-rate funding that is committed but not disbursed.[27] It is important to note that the GAO report itself concedes that there are many legitimate reasons that the amount of committed funds are greater than the amount that is ultimately disbursed during any given funding year.[28] Many applicants overestimate the amount of funds that they will use. Some applicants may not request full reimbursement. In addition, particularly with Priority 2 services, applicants frequently request

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[20] *See 2008 NOI* at para. 25.
[21] *Comprehensive Review NPRM*, 20 FCC Rcd at 11324, para. 37 (2005).
[22] GAO Report at 31.
[23] GAO Report at 28-30. We note that GAO's statement that only 13 percent of private schools participate is flawed because GAO's calculations excluded approximately 1,200 private schools that were listed in USAC's database as participants in the E-rate program.
[24] GAO Report at 40.
[25] *Request for Review of the Decision of the Universal Service Administrator by Bishop Perry Middle School, et al., Schools and Libraries Universal Service Support Mechanism*, File Nos. SLD-487170, *et al.*, CC Docket No. 02-6, Order, 21 FCC Rcd 5316 (2006) (*Bishop Perry Order*).
[26] *Request for Review of the Decision of the Universal Service Administrator by Aiken County Public Schools, et al., Schools and Libraries Universal Service Support Mechanism*, File Nos. SLD-397612, *et al.*, CC Docket No. 02-6, Order, 22 FCC Rcd 8735 (2007) (*Aiken Order*).
[27] GAO Report at 49.
[28] GAO Report at 23-24.

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See comment 4.

extensions that may push their receipt of committed E-rate funds beyond the funding year in which the funds were committed.

The report's contention that disbursements have been declining in recent years is not accurate. Disbursements may be delayed for a long period due to an applicant's extension request or appeal, which can sometimes take significant time to resolve. Therefore, simply comparing an older year's disbursement rate to a more recent year's disbursement rate, as GAO has done, can result in a flawed analysis because the later year's funds are undisbursed when they might be merely delayed. For example, a more accurate comparison would be to compare funding year 2002 disbursements four years later in 2006 to funding year 2005 disbursements four years later in 2009.[29]

That being said, I am pleased to report that the Commission has taken action to address gaps between committed funding and disbursed funding. One contributing factor to this gap is that, due to the requirements of the Anti-Deficiency Act, USAC cannot commit funding in excess of the funding cap, even though actual disbursements will be less than the amount committed. The Commission and USAC have established policies to help applicants better utilize their approved funding in a timely manner, such as allowing applicants to change service providers or substitute other services. At this time, the Commission does not believe that it should shorten the amount of time that applicants have to complete projects, especially given that many schools can only install wiring and other types of equipment when school is closed during the summer. The Commission would welcome, of course, any specific suggestions GAO may have based on methods that may have proven successful in other programs.

Once again, we appreciate GAO's recommendations. We agree that the Commission should continue to examine the E-rate program's goals to ensure that it is achieving the important universal service goals of providing needed technology to the nation's schools and libraries. We look forward to working with you on this in the future.

Sincerely,
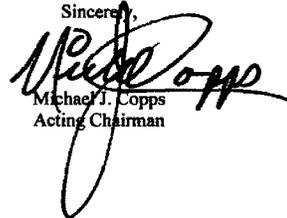
Michael J. Copps
Acting Chairman

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[29] The funding year 2002 disbursement rate after four years was 70 percent while the funding year 2005 disbursement rate after four years was 74 percent.

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The following are GAO's comments on the Federal Communications
Commission's letter dated March 10, 2009.

GAO's Comments

1. We acknowledge the efforts that FCC has made to develop
   performance goals; however, the goals FCC identified are not
   consistent with successful performance goals. For example, agencies
   should establish explicit performance goals and measures, use
   intermediate goals and measures to illustrate progress, and identify
   projected target levels of performance for multiyear goals.

2. We are not suggesting that the E-rate program may no longer serve an
   existing need; this was the conclusion of the Office of Management
   and Budget (OMB). Rather, we note that without performance goals,
   FCC does not have a basis on which to determine whether the growing
   emphasis on Priority 1 services is appropriate. We cite OMB's
   conclusion to emphasize that effective performance goals would help
   FCC guide the E-rate program.

3. We agree that FCC's performance measures address one characteristic
   of successful measures—measures should address important aspects
   of program performance. However, FCC's measures do not currently
   meet the remaining two characteristics, as FCC noted that the
   measures "*will* be tied to goals" and "*will* provide useful information to
   decision-making." [emphasis added]

4. We agree that the disbursement rate for more-recent funding years
   may increase due to applicants seeking extensions, which can take
   time to resolve. As a result, we modified the report to note that the
   disbursement rate remains low but is not necessarily decreasing.
   However, the disbursement rate for every funding year, including 2001
   through 2004, remains less than the rate in 2000 when we made our
   initial recommendation to address the low disbursement rate.

Appendix III: Comments from the Universal Service Administrative Company

USAC
Universal Service Administrative Company

Via Electronic Mail

March 6, 2009

Mark L. Goldstein
Director, Physical Infrastructure Issues
U.S. Government Accountability Office
441 G Street, Room 2T23
Washington, DC 20548

Re: Response to Draft Report to Congressional Requestors on the E-rate Program

Dear Mr. Goldstein:

This letter responds to the draft Government Accountability Office (GAO) Report to Congressional Requestors on the federal Universal Service Schools and Libraries Program (commonly referred to as the E-rate Program) administered by the Universal Service Administrative Company (USAC). USAC is pleased to submit its response and clarify certain report findings as they relate to USAC and its role as administrator of the E-rate Program. This response is divided into three sections, two of which respond to GAO recommendations and a third to address additional issues noted by the GAO.

1. Lack of Performance Goals

GAO's first recommendation is that the Federal Communications Commission (FCC or Commission) "[r]eview the purpose and structure of the E-rate program and prepare a report to the appropriate congressional committees identifying FCC's strategic vision for the program."[1] GAO recommends that the FCC's report include long-term goals for the E-rate program, whether the existing program structure will result in achieving the strategic vision, and whether any legislative or regulatory changes are required.[2] While the draft report acknowledged that the FCC has adopted performance measures for the E-rate program, and noted that USAC reports on a number of performance measures as required by FCC orders and the FCC-USAC Memorandum of Understanding, the GAO found that the current performance measures established by the Commission do not align with GAO and Office of Management and Budget (OMB) standards used in developing successful performance goals and measures.[3] The draft report states that the current measurements established by the FCC have the potential to result in enhanced information about the performance of the E-rate program, but states that these

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[1] United States Government Accountability Office Report to Congressional Requestors, Long-Term Strategic Vision Would Help Ensure Targeting of E-Rate Funds to Highest-Priority Uses, GAO-09-253, Draft Report March 2009, page 49 (*GAO Draft Report*) (revised draft provided to USAC on Feb. 17, 2009).
[2] *GAO Draft Report*, page 49.
[3] *GAO Draft Report*, pages 42-48.

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measurements are inadequate.[4] USAC stands ready to work with the Commission in
developing and reporting additional performance measures and goals. USAC notes,
however, that reporting other performance measures may require collection and analysis
of additional data that USAC is presently not authorized to collect.

GAO's recommendation arises in part out of its analysis of trends in E-rate program
funding indicating that there has been a growing emphasis on Priority 1
(telecommunications services and Internet access services) funding requests and a
decreasing emphasis on Priority 2 (internal connections and basic maintenance of internal
connections) funding requests over time. Based on its survey of program participants, the
draft report states that GAO expects this trend to continue because the vast majority of
program participants – 99% – stated that they used E-rate funding to pay for telephone
service[5] with 96% stating that providing telephone service was one of their information
technology goals.[6] USAC believes it is important to emphasize that the
telecommunications services funded by USAC include a wide range of high-speed digital
transmission services in addition to "telephone service."[7] For example, school districts
across America use these telecommunications services to tie their schools together,
allowing for not only access to the Internet but also for distance learning, allowing
students to access classes that would otherwise not be offered. These
telecommunications lines also are crucial for the collection of school-based data used in
mandatory local and state school reporting, including attendance and test scores. Schools
and libraries in remote areas use satellite-based telecommunications to access the Internet
in locations where traditional terrestrial broadband connections do not exist or the terrain
makes such connections prohibitively expensive.

With regard to Priority 1 funding, GAO reported that "[a]lthough applicants are
becoming more successful, about one quarter of the amount of funding originally
requested for Priority 1 services from 1998 through 2007 still was not funded because,
among other reasons, applicants did not properly complete program requirements or
reduced the size of their original request."[8] USAC suggests that looking at the program
as a whole over this period of time has the potential to result in misleading
generalizations due to recent trends. Commission orders beginning with the Bishop Perry
Order[9] in 2006 have resulted in significant changes in the manner in which the
Commission authorized USAC to administer the program, resulting in decreased funding
denials. For example, in Funding Year 2007, USAC approved 88% of original dollars
requested in Priority 1 funding requests, excluding denials because of the funding
threshold. Excluding applicant-requested cancellations and funding threshold denials,

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[4] *GAO Draft Report*, page 46.
[5] *GAO Draft Report*, page 20.
[6] *GAO Draft Report*, page 17.
[7] *See* USAC Schools and Libraries, Eligible Services List, Schools and Libraries Support Mechanism for
Funding Year 2009 at 2-5.
[8] *GAO Draft Report*, page 19.
[9] *See Request for Review of the Decision of the Universal Service Administrator by Bishop Perry Middle
School, et al., Schools and Libraries Universal Service Mechanism,* File Nos. SLD-487170, et al., CC
Docket No. 02-6, Order, 21 FCC Rcd 5316, 5326-27, FCC 06-54, (2006) *(Bishop Perry Order).*

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USAC approved 95% of original dollars requested. For Funding Year 2008, current data
indicates that USAC is approving 96.63% of original Priority 1 dollars requested,
excluding applicant-requested cancellations and funding threshold denials. Thus, in
recent years the rate of applicant success in securing Priority 1 funding commitments has
increased substantially. USAC expects that a high percentage of Priority 1 applications
will be funded.

2. Undisbursed Funding

GAO reported that "an increasing amount of funding that is committed to participants is
not disbursed."[10] GAO's second recommendation is that the Commission include in its
annual performance plan information regarding "the amount of undisbursed funding
associated with funding commitments that have expired and why these funds were not
disbursed, and the actions taken to reduce the amount of undisbursed funding and the
outcomes associated with these actions."[11]

USAC has long been aware of the issue of committed funds going unused. GAO
acknowledged the actions taken by the Commission and USAC after its 2000 report on
the issue of unused funds in the E-rate program,[12] but states that "[d]espite these changes,
the proportion of disbursed funds is now lower, on average, than it was when we made
the recommendation."[13] In particular, GAO noted that "[t]he proportion of committed
funds that were disbursed from 1998 through 2000 averaged 79 percent but averaged
only 71 percent annually from 2001 through 2005."[14] However, GAO noted that
although "[u]nderuse of committed funding is widespread among participants . . . the
proportion of participants using a higher percentage of the funds committed to them is
rising."[15] GAO concludes that "the overall disbursement rate is declining because
applicants that ultimately do not receive disbursements equal to their funding
commitment are receiving relatively larger commitments."[16] The draft report identified
the many reasons participants in the E-rate program may not use the full amount of the
funding commitment based on GAO's survey of participants in the program, as well as
information provided by the Commission and USAC during the course of the audit.[17]
GAO notes that if commitments were more consistent with disbursements, more
applicants would receive funding for Priority 2 services.[18]

GAO's conclusion that the overall disbursement rate is declining is based on a
comparison of committed amounts to disbursed amounts for Funding Years 1998 through
2005. The data underlying this conclusion, however, as GAO explains, changes on a

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[10] *GAO Draft Report*, page 21.
[11] *GAO Draft Report*, page 49.
[12] *GAO Draft Report*, page 25.
[13] *GAO Draft Report*, page 26.
[14] *GAO Draft Report*, page 26.
[15] *GAO Draft Report*, page 22.
[16] *GAO Draft Report*, page 23.
[17] *GAO Draft Report*, pages 23-25.
[18] *GAO Draft Report*, page 27.

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daily basis as USAC processes commitments, appeals and invoices.[19] Funding Years
2005, 2006 and 2007 remain in process from a disbursements perspective. For example,
for Funding Year 2005, current data indicates that for 402 funding requests with an
associated amount of $51.8 million, applicants have until September 30, 2009, to receive
delivery of services. Current data indicates that: for Funding Year 2005, USAC has
disbursed 74% of the committed amount; for Funding Year 2006, USAC has disbursed
75% of the committed amount; and for Funding Year 2007, USAC has disbursed 61% of
the committed amount. Each of these percentages will increase over time as applicants
receive the goods and services, and as USAC is invoiced by their service providers.
Given the percentage of funds disbursed for Funding Year 2007 at this point in time,
USAC expects the gap between commitments and disbursements to become noticeably
smaller for this funding year.

It is important to note that the conclusion that the overall disbursement rate is declining is
unrelated to the rate at which USAC process invoices and makes payments. USAC's
average time to pay eligible requests for reimbursement is less than 20 days from receipt
of invoice. As a result, the issue identified by GAO is more a matter of USAC not
receiving invoices to process for payment rather than USAC not processing invoices in a
timely manner.

Structure of the E-rate Program

USAC's experience as administrator of the E-rate program suggests that despite the many
measures the Commission and USAC have put in place in an effort to decrease the gap
between commitments and disbursements, the structure of the program will continue to
reflect a downward slope of commitments as compared to disbursements the closer each
funding year is to the current date. Thus the gap is attributable more to the structure of
the program than to USAC's administration of the program. It is vital, therefore, to fully
understand how the structure of the program leads to this result.

There are two major components to the E-rate program: the pre-commitment stage and
the post-commitment stage. While the post-commitment stage necessarily flows from the
pre-commitment stage, program compliance must be tested by USAC at each stage to
ensure program integrity and prevent waste, fraud, and abuse. Pursuant to Commission
rules, USAC commits funds on an annual basis for eligible services based on properly
submitted and supported applications.[20] After services have been provided and invoices
submitted, USAC must review the invoices to ensure that eligible services were provided
to eligible entities within the proper timeframe under the Commission's rules. Priority 1
services must be provided within the funding year, but the provision of Priority 2 services
is subject to automatic extensions as well as extensions upon applicant request. This can,
and frequently does, result in the provision of Priority 2 services (and the resulting
disbursements by USAC for those services) years after the funding year in which the

See comment 1.

See comment 2.

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[19] *GAO Draft Report*, page 52.
[20] *See generally* 47 C.F.R. § 54.501 *et seq.*

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commitment was made.[21] Although FCC rules do not include invoice submission
deadlines, USAC created administrative deadlines for the submission of invoices to more
efficiently administer the program.[22]

This structure results in the possibility that, although funds were committed based on
properly submitted and supported applications, they could not be paid by USAC. Such a
situation would occur, for example, when USAC does not receive an invoice to pay, the
services actually provided were not eligible for funding, the services provided were
provided to an ineligible entity, the services were not provided within the time frame
allowable under FCC rules, and/or the services provided were not the eligible services
approved on the applications and are thus ineligible for a service substitution. To
promote maximum flexibility for participants, the amount of time that applicants and
service providers have to either deliver the products and services and/or to invoice for
those products and services can be extended for a number of different reasons, so there is
not a single deadline by which time all funding must be invoiced for each funding year.
In addition, appeals to USAC and/or the Commission, as well as certain change requests,
such as changing providers or the products and services requested, lead to automatic
extensions of time to invoice, thereby naturally decreasing the percentage of funding
requests that can be fully invoiced at any point in time. Because of the requirement that
applications be submitted on an annual basis, taken together with the extensions possible
for the implementation of Priority 2 services, those services may be provided and
invoiced years after the funding year in which the commitment was made. This is
inherent in the current structure of the E-rate program.

Distinction Between the E-rate Program and Grant Programs

GAO states that "although the E-rate program is not technically a grant program, it has
features in common with grant programs that make some degree of comparison
appropriate."[23] Specifically GAO explains that unused grant money can "hinder the
achievement of program objectives" and that "when agencies made concerted efforts to
address the problem, they were able to decrease the amount of undisbursed funding in
expired grant accounts."[24] The E-rate program's structure described above illustrates an
important distinction between the E-rate program and typical grant programs: USAC
does not play a managerial or supervisory role with regard to the actual provision of
services to schools and libraries. Rather, after USAC makes funding commitments,
USAC's role is to ensure that any payments made are consistent with the program rules
described above to avoid improper payments, and *not* to ensure that all committed funds
are disbursed. While USAC agrees that minimizing the gap between commitments and
disbursements would result in more applicants receiving Priority 2 funding in each
funding year, because USAC does not have the authority or resources to manage or

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[21] *See* 47 C.F.R. § 54.507(d).
[22] *See* Universal Service Administrative Company, Schools and Libraries Program, Administrative
Procedures at 24 (filed Oct. 31, 2008 in CC Docket No. 02-6).
[23] *GAO Draft Report*, page 28 citing GAO, Grants Management: Attention Needed to Address
Undisbursed Balances in Expired Grant Accounts, GAO-08-432 (Washington, D.C.: Aug. 29, 2008).
[24] *GAO Draft Report*, page 28.

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supervise the provision of services or the invoicing for those services, USAC's ability to take steps to close this gap through administrative measures will be limited. Finally, USAC has a routine procedure for "deobligating" unused funds in a timely manner for carry-over into subsequent funding years when directed to do so by the Commission.

Reasons Schools and Libraries Do No Use the Entire Commitment

GAO reported that participants in the program gave the following reasons for why they have not used the entire funding commitment:

- Applicant's actual expenditures are less than the amount they applied for and that was committed to them.

- There is no disincentive to overestimate funding needs.

- Changes in the applicant's circumstances after submitting their applications result in the need to cancel funding requests or delay project implementation.

- Applicants do not submit requests for reimbursement for the full amount of eligible expenses because of the complexity of the requirements and lack of staff expertise.

USAC agrees that under the current structure of the program, there is little reason for applicants to underestimate their funding needs. The GAO reports that "the overall disbursement rate is declining because applicants that ultimately do not receive disbursements equal to their funding commitment are receiving relatively larger commitments."[25] The larger commitments that according to the GAO contribute to the decline in the disbursement rate may therefore be attributable to applicant's overestimating their needs.

Consistent with the results of GAO's survey, USAC's anecdotal experience has been that commitments may not be used because of changes in circumstances, or are used years after the commitment was made. USAC has taken a number of steps to ensure participants are informed of impending deadlines including adding the deadlines to the FCC Form 486 notification letters to applicants and service providers, creating a deadline calculator on the USAC website, verbal reminders on monthly calls with participant groups, news alerts on the USAC website, and notices in the weekly Schools and Libraries Newsbrief sent via e-mail to approximately 22,000 participants. USAC plans to use the results of GAO's survey regarding this issue to devise new targeted outreach and education efforts to assist participants in receiving the appropriate reimbursements.

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[25] *GAO Draft Report*, page 23.

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> USAC Administrative Changes That May Have the Result of Increasing the Gap
> Between Commitments and Disbursements

With Commission approval, USAC has implemented many administrative enhancements
over the years to make funding decisions as quickly as possible without adversely
impacting program integrity. One such type of enhancement has been to streamline the
review of certain categories of Priority 1 funding requests by, among other things,
decreasing the documentation required to support the funding requests. While this
approach results in faster funding commitment decisions, USAC's experience suggests
that it could be a contributing factor to one of the reasons GAO specifically identified as
causing the commitment-disbursement gap – applicants overestimating their Priority 1
costs. Thus, implementing measures to reduce the amount of undisbursed funding such
as requiring more detailed information to support funding requests could result in
increased application review times and delayed funding commitments.

With regard to GAO's recommendation that the Commission report on the reasons
committed funds were not disbursed, USAC will be able to provide the Commission with
internal data relating to the amount of funding denied at the invoicing stage and the
amount of funding for which invoices were not received. However, reporting to the
Commission on why USAC did not receive an invoice related to a committed amount
may require collection and analysis of additional data that USAC is presently not
authorized to collect.

3. Non-participation in the Program and Participants' Views

Although not tied to a recommendation, GAO also reports on participation rates and
schools' and libraries' experience of participating in the program. USAC welcomes this
information, and plans to evaluate this information to determine whether it can devise
strategies to target and assist eligible entities that are currently not participating in the
program, to conduct additional outreach and training to address the challenges
experienced by participants, and to make additional information technology
enhancements to respond to participants' suggestions. USAC plans to use our enhanced
Helping Applicants to Succeed (HATS) program to work with more applicants
individually to resolve their issues and improve their success in the program. However,
some of the improvements favored by applicants – such as streamlining the application
for Priority 1 services, multiyear applications for Priority 1 services, firm application
window dates, and reimbursing applicants directly – are not within USAC's
administrative authority to implement.

Mark L. Goldstein
Director, Physical Infrastructure Issues
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USAC appreciates the opportunity to submit its response to the draft report on the E-rate
Program. Please contact me if you have questions.

Sincerely,

//s//Mel Blackwell
Vice President
Schools and Libraries Division

The following are GAO's comments on the Universal Service
Administrative Company's letter dated March 6, 2009.

GAO's Comments

1. We agree that the disbursement rate for funding years 2005, 2006, and 2007 may increase as applicants receive delivery of services and submit invoices. However, the disbursement rate for every funding year, including 2001 through 2004, remains less than the rate in 2000, when we made our initial recommendation to address the low disbursement rate.

2. We are not suggesting that USAC's administration of the E-rate program is a significant contributing factor to the low disbursement rate. Rather, we identify several factors that appear to contribute to the low disbursement rate, including the incentives inherent in the program. For example, we note that under current program rules, applicants have an incentive to overestimate costs for Priority 1 services. These and other factors that we identify in the report likely contribute to the low disbursement rate.

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact	Mark L. Goldstein, (202) 512-2834 or goldsteinm@gao.gov
Staff Acknowledgments	In addition to the contact named above, Michael Clements and Faye Morrison, Assistant Directors; Eli Albagli; Carl Barden; Jennifer Clayborne; Elizabeth Curda; Abe Dymond; Elizabeth Eisenstadt; Michele Fejfar; Simon Galed; Heather Halliwell; Kristen Jones; Ying Long; John Mingus; Josh Ormond; Betty Ward-Zukerman; Mindi Weisenbloom; and Crystal Wesco made key contributions to this report.

Related GAO Products

Telecommunications: Greater Involvement Needed by FCC in the Management and Oversight of the E-Rate Program. GAO-05-151. Washington, D.C.: February 9, 2005.

Schools and Libraries Program: Update on E-rate Funding. GAO-01-672. Washington, D.C.: May 11, 2001.

Schools and Libraries Program: Update on State-Level Funding by Category of Service. GAO-01-673. Washington, D.C.: May 11, 2001.

Schools and Libraries Program: Application and Invoice Review Procedures Need Strengthening. GAO-01-105. Washington, D.C.: December 15, 2000.

Schools and Libraries Program: Actions Taken to Improve Operational Procedures Prior to Committing Funds. GAO/RCED-99-51. Washington, D.C.: March 5, 1999.

Telecommunications and Information Technology: Federal Programs That Can Be Used to Fund Technology for Schools and Libraries. GAO/T-HEHS-98-246. Washington, D.C.: September 16, 1998.

Schools and Libraries Corporation: Actions Needed to Strengthen Program Integrity Operations before Committing Funds. GAO/T-RCED-98-243. Washington, D.C.: July 16, 1998.

Telecommunications: Court Challenges to FCC's Universal Service Order and Federal Support for Telecommunications for Schools and Libraries. GAO/RCED/OGC-98-172R. Washington, D.C.: May 7, 1998.

Telecommunications: FCC Lacked Authority to Create Corporations to Administer Universal Service Programs. GAO/T-RCED/OGC-98-84. Washington, D.C.: March 31, 1998.

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