



Report to the Ranking Member,
Committee on Commerce, Science,
and Transportation, U.S. Senate

July 2024

TELECOMMUNICATIONS

Administration of Universal Service Programs Is Consistent with Selected FCC Requirements

GAO Highlights

Highlights of [GAO-24-106967](#), a report to the Ranking Member, Committee on Commerce, Science, and Transportation, U.S. Senate

Why GAO Did This Study

Broadband is essential to Americans' lives. FCC designated USAC as the sole administrator of four universal service programs that support access to broadband and other telecommunications services at reasonable rates. USAC administers disbursements of about \$8 billion in subsidies each year through these four programs that aim to improve access in high-cost areas, and for low-income consumers, schools, and rural health-care facilities.

GAO was asked to review several aspects of USAC's governance. This report examines USAC's efforts to (1) establish and report on its goals in the last 6 years, (2) manage its operating budgets in accordance with selected FCC requirements, including recent trends in its expenditures, and (3) maintain an ethics policy consistent with FCC requirements.

GAO reviewed statutes, regulations, FCC orders, and the relevant agreements between FCC and USAC. GAO also reviewed documents from 2018 through 2023 related to USAC's goals, budget and expenditures, and ethics program. In addition, GAO assessed USAC's policies against applicable FCC requirements identified in a memorandum of understanding. GAO interviewed FCC officials, USAC executives, and three individuals serving currently or previously on USAC's Board. GAO selected these individuals to obtain diverse perspectives based on their experience, constituency, and role on USAC's Board.

View [GAO-24-106967](#). For more information, contact Andrew Von Ah at (202) 512-2834 or vonaha@gao.gov.

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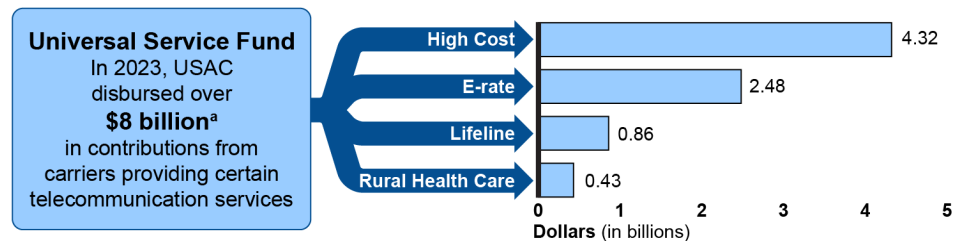
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Administration of Universal Service Programs Is Consistent with Selected FCC Requirements

What GAO Found

The Universal Service Administrative Company (USAC) is a not-for-profit, private corporation responsible for managing the multi-billion-dollar Universal Service Fund to promote access to broadband and other telecommunications services (see figure). In managing this fund, USAC is subject to requirements established by the Federal Communications Commission (FCC) through regulations, orders, and memorandums of understanding. USAC operates under the leadership of an executive team and oversight from both FCC and USAC's Board of Directors.

Funds Disbursed by USAC for Four Universal Service Programs in Calendar Year 2023



Source: GAO analysis of Universal Service Administrative Company (USAC) information on actual payments from the Universal Service Fund. | GAO-24-106967

^aIn 2023, USAC expended 3 percent of fund outlays on its operations.

In the last 6 years, USAC collaborated internally and with FCC to develop annual goals—such as goals related to modernizing Universal Service Fund processes—to meet FCC requirements. According to USAC executives, after FCC provided feedback, USAC finalized the goals and used them to establish performance targets. In addition, USAC developed plans with FCC input to help track its progress and modified these plans quarterly to respond to FCC feedback. Also, FCC required monthly reporting from USAC on programs it administers. USAC met the requirements through monthly reports and meetings with FCC's Office of the Managing Director.

GAO found that USAC's processes for managing its operating budget and expenditures align with selected FCC requirements, and that USAC's operating expenditures increased in recent years. A memorandum of understanding requires the Board to oversee USAC's operations. USAC established policies accordingly, such as requiring Board oversight of merit-based pay. Regarding trends in USAC's operating expenditures, GAO found the expenditures increased by 27.5 percent in calendar years 2018 through 2023. USAC attributed the increase to replacing obsolete legacy systems and strengthening program integrity. For example, USAC doubled the number of staff working on one program to better combat waste, fraud, and abuse.

USAC maintains a written ethics policy consistent with FCC requirements. Specifically, GAO found that USAC provided FCC a written copy of its most recent ethics policy and notified FCC of any updates made to the policy. In addition, USAC requires its Board and employees to annually disclose financial interests in entities with which USAC has a relationship, among other things.

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Abbreviations

FCC	Federal Communications Commission
MOU	memorandum of understanding
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OMD	Office of the Managing Director
USAC	Universal Service Administrative Company
USF	Universal Service Fund

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July 23, 2024

The Honorable Ted Cruz
Ranking Member
Committee on Commerce, Science, and Transportation
United States Senate

Dear Mr. Cruz:

Broadband has become essential to Americans' daily lives for employment, education, health care, public safety, and more. The Federal Communications Commission (FCC) has established programs and policies to promote universal access to broadband and other telecommunications services at reasonable rates, as authorized by the Telecommunications Act of 1996.¹ FCC's four Universal Service Fund (USF) programs disburse a total of about \$8 billion in subsidies each year.

FCC has designated the Universal Service Administrative Company (USAC) as the sole administrator of these programs.² Specifically, USAC is responsible for collecting USF contributions and disbursing program support, analyzing data to inform FCC policies, and promoting participation in the programs. As a not-for-profit, private corporation, USAC is not a federal agency or other establishment in the executive branch of the U.S. government. USAC's Board of Directors, executives, and staff are not federal employees. Therefore, certain federal requirements and standards do not explicitly apply to USAC. Instead, USAC is subject to requirements established by FCC through regulations, orders, and memorandums of understanding (MOU) between the two parties.

Members of Congress and others have raised questions about how USAC administers the multi-billion-dollar USF and whether FCC is adequately monitoring USAC's operations, especially those related to its goals, finances, and efforts to prevent conflicts of interest. In addition, the

¹Telecommunications Act of 1996, Pub. L. No. 104-104, § 101(a), 110 Stat. 56, 71–72 (codified, as amended, at 47 U.S.C. § 254).

²*Changes to the Board of Directors of the National Exchange Carrier Association, Inc., Federal-State Joint Board on Universal Service*, Report and Order, 13 FCC Rcd. 25058, 25059–60 (1998); see also 47 C.F.R. § 54.701.

Infrastructure Investment and Jobs Act required FCC to report on options for improving FCC's effectiveness in achieving universal service goals.³ Further, we and FCC's Office of Inspector General have made recommendations to FCC to improve USF programs, and FCC has not yet taken steps to fully implement 30 of these recommendations as of April 2024 (see app. I).

You asked us to review several aspects of USAC's governance. This report examines USAC's efforts to (1) establish goals and monitor and report on progress in the last 6 years; (2) manage its operating budget in accordance with selected FCC requirements, including recent trends in its expenditures; and (3) maintain an ethics policy consistent with FCC requirements.

To address these objectives, we reviewed statutes, regulations, FCC orders, the relevant MOUs between FCC and USAC, and our reports assessing all four of FCC's USF programs as well as the Affordable Connectivity Program.⁴ We also interviewed FCC officials and USAC executives. Because certain federal requirements and standards do not apply to USAC, we assessed USAC's activities against applicable requirements established by FCC. We did not examine issues related to our objectives pertaining to litigation that was ongoing at the time of our review.

To examine USAC's efforts to establish goals and monitor and report on progress in the last 6 years, we reviewed documentation related to USAC's operational goals from calendar year 2018 through calendar year 2023—which are separate from FCC's goals for the USF programs. We reviewed how USAC monitored and reported on its progress, including its plans related to FCC's four USF programs and other operational areas.

To examine USAC's efforts to manage its operating budget in accordance with selected FCC requirements and recent trends in expenditures, we reviewed documents, including USAC's: (1) filings with FCC related to USAC's operating budget and USF programs; (2) annual reports from 2018 through 2023; (3) expenditure approval authority policy and

³Pub. L. No. 117-58, § 60104(c), 135 Stat. 429, 1206 (2021). FCC published its report in 2022. Federal Communications Commission, *Report to Congress on the Future of the Universal Service Fund* (Washington, D.C., Aug. 2022).

⁴For a complete list of our previous work in this area, see the Related Products page at the end of this report.

processes; (4) employee handbook; and (5) compensation policy. We also reviewed reports by independent auditors. We evaluated USAC's policies and processes against 10 requirements selected from the MOU related to USF programs. We also reviewed USAC's operational expenditures from 2018 through 2023. In addition, we summarized information on FCC's reported process for determining the quarterly contribution factor (see app. II).

To examine USAC's ethics policies, we reviewed USAC's documentation related to its ethics program, including policies and procedures. We interviewed FCC and Office of Government Ethics officials to help determine what, if any, federal ethics requirements apply to USAC.⁵ We assessed USAC's ethics documentation against applicable requirements contained in the MOUs. We also interviewed a non-generalizable sample of individuals who have served on USAC's Board to obtain their perspectives of directors' roles and responsibilities. The individuals included one former and two current directors with a variety of roles and at least 1 year of Board experience. Appendix III describes our objectives, scope, and methodology in greater detail.

We conducted this performance audit from July 2023 to July 2024 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

Applicable FCC Requirements

As a not-for-profit, private corporation, USAC is not part of FCC or any other federal entity. Therefore, certain federal requirements and standards do not explicitly apply to USAC. USAC, however, is subject to requirements established by FCC through regulations, orders, and the

⁵The Office of Government Ethics is responsible for, in consultation with other specified entities, providing the overall direction for executive branch policies that prevent conflicts of interest among executive branch officers and employees. It is also responsible for developing rules pertaining to conflicts of interest and ethics in the executive branch. 5 U.S.C. § 13122.

two parties' MOUs.⁶ These requirements reflect some of the provisions and practices applicable to government entities.

Specifically, FCC has directed USAC to follow certain federal requirements. For example, a federal statute requires executive agencies to establish and maintain systems of accounting and internal controls that provide effective control over, and accountability for, assets for which the agency is responsible.⁷ As part of this requirement, executive agencies must establish internal accounting and administrative controls consistent with standards prescribed by the Comptroller General.⁸ Although this statute does not apply to USAC, the MOU between FCC and USAC directs USAC to have internal controls. Specifically, USAC is to implement an internal control structure consistent with the standards and guidance contained in Office of Management and Budget Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.⁹ The circular, which directs agencies to develop and implement an internal control system that manages risks such as fraud, includes standards based on *Standards for Internal Control in the Federal Government*.¹⁰

In addition, FCC involves USAC in its processes for complying with other federal requirements. For instance, a federal statute generally requires that executive agencies prepare and submit audited financial statements for each fiscal year to Congress and the Office of Management and Budget.¹¹ Under this requirement, FCC's audited financial statements are to cover its accounts and reflect the overall financial position of its offices, bureaus, and activities. While this requirement applies to FCC instead of USAC, USAC participates in FCC's compliance. For example, FCC lists

⁶FCC and USAC entered into an MOU to facilitate the efficient management, oversight, and execution of FCC's USF programs. FCC and USAC also entered into MOUs regarding the other programs USAC administers. For the purposes of this report, discussion about FCC and USAC's MOU refers to the MOU on USF programs unless specifically indicated otherwise.

⁷31 U.S.C. § 3512(b)(3).

⁸31 U.S.C. § 3512(c)(1).

⁹Office of Management and Budget, *Management's Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular A-123 (Washington, D.C.: July 15, 2016).

¹⁰See GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

¹¹31 U.S.C. § 3515.

the USF as an FCC component for financial statement purposes, and an independent auditor reviews USAC information. As agreed upon in the MOU, USAC is to discuss audit findings from the annual financial statement with FCC and implement recommendations.

USAC's Responsibilities and Organization

As the sole administrator of the USF, USAC is responsible for managing FCC's four USF programs. Each of the four programs has a specific focus:

- E-Rate provides subsidies to help schools and libraries afford broadband and other telecommunications services;
- High Cost provides subsidies to telecommunications carriers offering broadband and voice services in high-cost areas;¹²
- Lifeline provides subsidies to help low-income consumers afford broadband and voice services; and
- Rural Health Care provides subsidies to help connect rural health care providers with broadband and voice services.

USAC is responsible for collecting USF contributions and administering USF disbursements with FCC approval. FCC regulations prohibit USAC from making policy; interpreting unclear statutory provisions, unclear rules, or the intent of Congress; or advocating for positions before FCC unrelated to USF administration.¹³ FCC regulations also allow aggrieved parties to seek FCC review of USAC decisions.¹⁴

USAC carries out its administrator responsibilities under (1) the oversight of a Board of Directors and (2) the leadership of an executive team, headed by a chief executive officer. The executive team comprises a chief administrative officer, chief financial officer, chief information officer, general counsel, four USF programmatic vice presidents and two operational vice presidents. This team oversees USAC's four USF

¹²High Cost includes subprograms such as (1) the Connect America Fund; (2) inter-carrier compensation support; (3) legacy frozen High-Cost support that FCC has capped at a specified level, and which does not increase; (4) the Rural Digital Opportunity Fund; and (5) traditional cost-based support. See GAO, *Telecommunications: FCC Should Enhance Performance Goals and Measures for Its Program to Support Broadband Service in High-Cost Areas*, [GAO-21-24](#), (Washington, D.C.: Oct. 1, 2020).

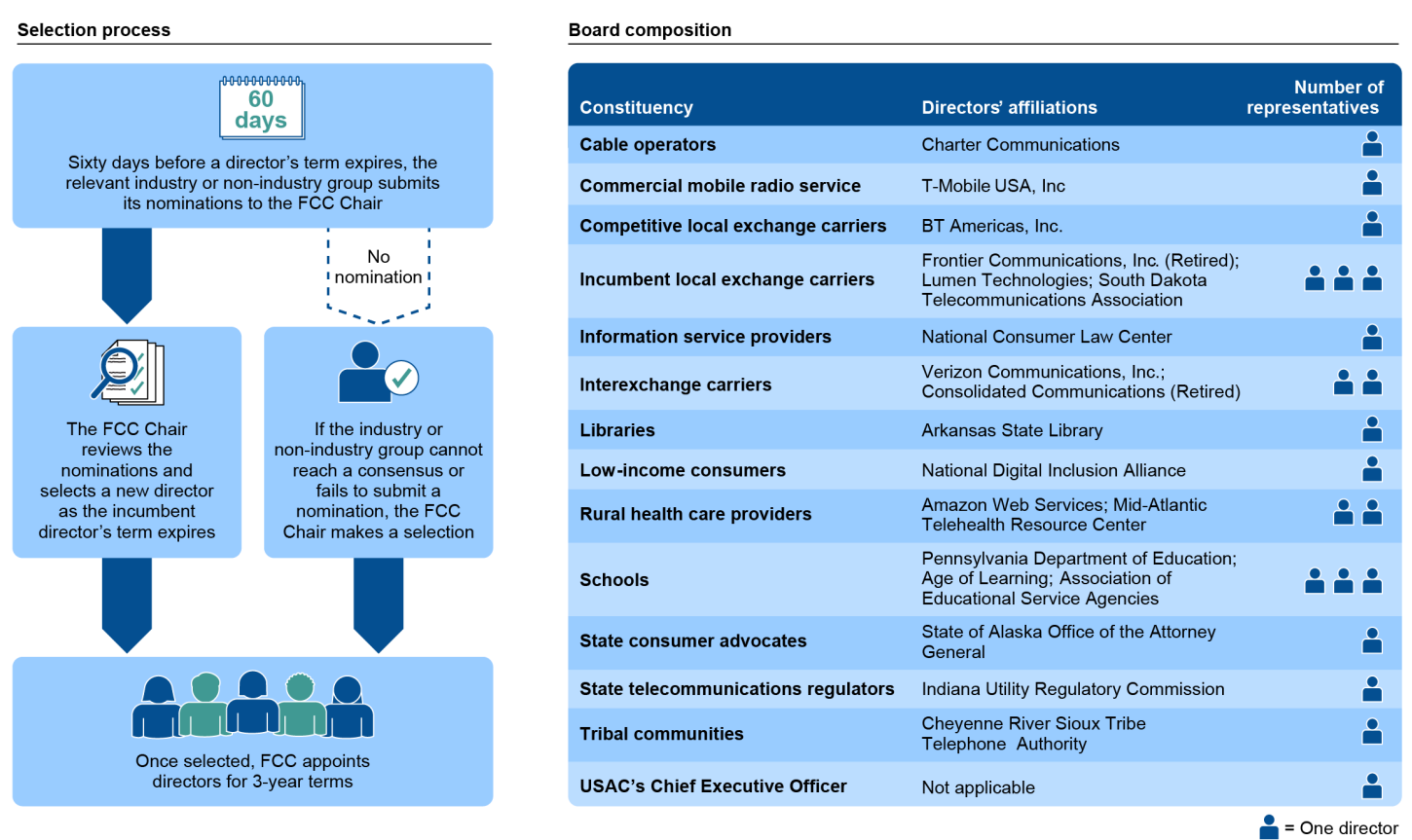
¹³47 C.F.R. § 54.702.

¹⁴47 C.F.R. Part 54, Subpart I.

program divisions and six others, including the Finance Division and the Audit and Assurance Division.

USAC’s Board comprises 20 individuals who serve 3-year terms, apart from a chief executive officer, who is a permanent Board member. FCC regulations govern both the Board’s composition and the selection of its directors, the process of which is outlined in figure 1.¹⁵

Figure 1: Selection Process, Composition, and Affiliations for USAC’s Board of Directors, as of May 2024



Source: GAO analysis of Federal Communications Commission (FCC) and Universal Service Administrative Company (USAC) information; GAO (icons). | GAO-24-106967

Note: The chief executive officer position follows a similar selection process. The Board of Directors submits a nomination to the FCC Chair for approval and appointment. If the Board does not reach consensus or fails to submit a nomination, the FCC Chair selects the chief executive officer. Unlike the other Board members, the chief executive officer is a permanent member of the Board.

¹⁵47 C.F.R. § 54.703.

Directors' constituencies include various industry and non-industry groups, but USAC's policies state the Board's primary responsibility is to advance USAC's overall interests. Directors provide leadership and guidance for administering the USF. According to USAC's bylaws, no director may receive compensation for service on the Board, but directors are entitled to reimbursement for expenses incurred as a direct result of Board participation.¹⁶ Under USAC policies, other key Board responsibilities include approving USAC's operating budget, and certain procurements based on established dollar thresholds.

USAC's Funding Mechanism

Minimizing the Burden of the Contribution Factor

In 2011, the Federal Communications Commission (FCC) established a goal to minimize the burden of the contribution factor on consumers and businesses. However, the Universal Service Fund contribution factor has grown from about 6 percent of end-user revenues in 2000 to about 33 percent in the second quarter of 2024, as contributors' total telecommunications revenues declined.

In 2020, we recommended that FCC ensure the performance measure for its goal to minimize the universal service contribution burden on consumers and businesses take into account user-fee leading practices, such as equity and sustainability considerations. As of May 2024, FCC had not yet implemented the recommendation.

Source: GAO, *Telecommunications: FCC Should Enhance Performance Goals and Measures for Its Program to Support Broadband Service in High-Cost Areas*, [GAO-21-24](#), (Washington, D.C.: Oct. 1, 2020) and GAO analysis of FCC information. | GAO-24-106967

USAC is primarily funded by the USF, which are federal resources held by the U.S. Treasury. In 1996, Congress authorized the USF as a permanent, indefinite appropriation (i.e., appropriations that, at the time of enactment, are for an unspecified amount and that remain available without further congressional action).¹⁷ By statute, carriers providing interstate telecommunications services must contribute to the USF unless exempted by FCC.¹⁸

Each quarter, FCC calculates a contribution factor based on the needs of USF programs and assesses it as a percentage of the carriers' interstate and international end-user telecommunications revenue. (See app. II for details on how FCC determines the quarterly contribution factor.) The carriers generally pass these costs on to customers, and the costs may be a line-item expense on customers' bills. FCC does not assess revenues from the provision of broadband service for contributions to the fund.

Annual disbursements from USF contributions have remained fairly stable from 2018 through 2023, at about \$8 billion per year. USAC administered disbursements for the four USF programs.¹⁹

¹⁶See 47 C.F.R. § 54.703(f).

¹⁷See 47 U.S.C. § 254.

¹⁸47 U.S.C. § 254(d). While FCC may also require other interstate telecommunications providers to contribute to the USF, this report refers generally to "telecommunications carriers" when discussing USF contributors.

¹⁹In 2023, USAC administered USF disbursements of about \$4.32 billion for High Cost, \$2.48 billion for E-rate, \$860 million for Lifeline, and \$430 million for Rural Health Care.

In addition, since 2021 USAC has administered non-USF programs authorized in response to the COVID-19 pandemic.²⁰ Specifically, FCC received appropriations totaling about \$25 billion for programmatic and administrative expenses for the following three programs:

- the COVID-19 Telehealth Program to provide telehealth support;
- the Emergency Connectivity Fund to help schools and libraries offer the tools and services for remote learning; and
- the Affordable Connectivity Program to provide eligible low-income households discounts on the cost of their broadband service and certain devices.²¹

USAC Established Goals and Developed Tracking Plans to Monitor and Report on Progress in the Last 6 Years

USAC Collaborated Internally and with FCC to Establish Goals

During the time period we reviewed, FCC provided direction and requirements regarding USAC's administration of USF and other programs. According to USAC executives, USAC collaborated internally to annually develop its goals to meet requirements established by FCC. Specifically, USAC executives and their division leaders internally discussed USF program goals, staff resource plans, and any operational plans for the year. Based on these discussions, USAC established its goals for the year. For example, in 2023 USAC established a goal to implement a new audit and compliance system to better track audits,

²⁰Each of these non-USF programs was funded with definite appropriations (i.e., a specific amount of money) from the U.S. Treasury General Fund. The CARES Act authorized the COVID-19 Telehealth Program. Pub. L. No. 116-136, 134 Stat. 281, 531 (2020). The American Rescue Plan Act of 2021 authorized the Emergency Connectivity Fund Program. Pub. L. No. 117-2, § 7402(c), 135 Stat. 4, 109. The Infrastructure Investment and Jobs Act authorized the Affordable Connectivity Program, which built upon and replaced the Emergency Broadband Benefit Program authorized by the Consolidated Appropriations Act, 2021. Pub. L. No. 117-58, § 60502, 135 Stat. 429, 1238-44 (2021) (amending Pub. L. No. 116-260, div. N, § 904, 134 Stat. 1182, 2129-36 (2020)).

²¹This reported amount includes appropriations for the previous Emergency Broadband Benefit Program, which became the Affordable Connectivity Program. For a complete list of our previous work in this area, see the Related Products page at the end of this report.

internal control testing, and fraud risk investigations. This goal originated from internal discussions identifying the need to automate and otherwise improve the tracking of audits, recommendations, and outcomes, according to USAC executives.

After USAC shared its goals for the year with FCC, FCC provided feedback on the goals and USAC finalized its goals, according to USAC executives. Once approved, USAC used the goals to establish annual performance appraisal targets against which USAC measured staff performance twice a year.

From 2018 through 2023, USAC developed goals that fell under four operational categories—improving operational effectiveness, strengthening the customer experience, monitoring and implementing internal controls, and maintaining a positive culture.²² (See table 1 for examples of USAC’s goals for 2023.) While USAC updated these goals each year, we found that the goals generally addressed similar areas. For example, each year USAC identified goals related to modernizing the processes that support USF programs but identified different aspects of modernization each year. Specifically, USAC identified one of its goals as establishing processes that are simple, fast, and efficient. In 2019, USAC identified a goal of upgrading tools and software to enhance user capabilities; and in 2021, it identified a goal of embarking on thoughtful modernization.

²²In 2018, USAC developed an additional category—mission critical performance-focused culture. However, USAC did not include this category in its goals from 2019 through 2023.

Table 1: Examples of USAC’s Goals for Calendar Year 2023

Operational categories	Selected goals
Improving operational effectiveness	Continue modernization for a universal service program, including improving systems to reduce security risks
	Improve Universal Service Fund program integrity and process efficiencies
Strengthening the customer experience	Acknowledge customer complaints within 2 days with a targeted resolution timeline of less than 30 days
	Provide program participants access to open datasets
Monitoring and implementing internal controls	Complete program assessment for a universal service program
	Maintain 95 percent or higher compliance rate in accordance with federal information security requirements
Maintaining a positive culture	Maintain workforce vacancy rate of less than 10 percent
	Ensure staff have clear goals and all managers complete the performance initiatives on time

Source: GAO summary based on Universal Service Administrative Company (USAC) documents. | GAO-24-106967

USAC Developed Tracking Plans and Reported Monthly to FCC to Monitor Progress

To help track its progress, USAC developed 18-month plans, with FCC input, for its programs and operations. USAC has separate 18-month plans for each of the USF programs, the Affordable Connectivity Program, and additional plans for other operational areas, such as information technology. The 18-month plans we reviewed divided projects into successive levels of detail including specific milestones with the project status and its end dates. For example, USAC planned to establish a data collection system in 2023 for the Affordable Connectivity Program to meet its transparency requirement under the Infrastructure Investment and Jobs Act.²³ USAC included this project and eight related milestones in its 18-month plan for information technology and completed the effort in September 2023.

According to USAC executives, USAC modifies the 18-month plans every quarter based on FCC feedback and USAC’s progress toward meeting milestones. FCC officials told us they review the 18-month plans to ensure the milestones are aligned with the requirements set by FCC and then monitor progress on meeting milestones. According to FCC, if USAC either misses a milestone or achieves one ahead of schedule, FCC and

²³The Infrastructure Investment and Jobs Act directed FCC to issue rules regarding an annual collection of data relating to the price and subscription rates of internet providers participating in the Affordable Connectivity Program and to make such data electronically available to the public. Pub. L. No. 117-58, § 60502(c), 135 Stat. at 1243. See also *Affordable Connectivity Program*, Fourth Report and Order and Further Notice of Proposed Rulemaking, 37 FCC Rcd. 13773 (2022).

USAC hold internal discussions on why USAC did or did not achieve a milestone and USAC adjusts its 18-month plan as necessary.

USAC executives told us that most of USAC's goals align with milestones in the 18-month plans. For example, in 2022, USAC established a goal to mitigate Lifeline fraud risk threats. In its 18-month plan for information technology, USAC established a milestone to implement an automated deceased subscriber check to prevent fraud, waste, and abuse in the Lifeline program. In another example, in 2023 USAC established a goal to continue Rural Health Care modernization. In USAC's 18-month plan for information technology, USAC included milestones updating how USAC processes standard forms for Rural Health Care. USAC updated the milestones in the 18-month plans as part of its annual planning and goal-setting process. USAC executives told us they review the milestones while planning the programs each year to align the goals and milestones on an annual basis. By contrast, we found USAC does not have 18-month plans for certain internally focused goals, such as the goal to minimize employees' voluntary attrition.

As required by the MOUs, USAC prepares monthly reports on USF and the other programs it administers. Our review of monthly reports found that they provide FCC with detailed information on actions pertaining to the USF programs, including updates on the 18-month plans. These can be updates on specific technology improvements, such as USAC's efforts to consolidate legacy systems supporting E-Rate. The monthly reports also provide information on annual activities that align to the 18-month plans, such as verifying High-Cost providers across the program's various funding mechanisms. USAC also uses these monthly reports to update FCC on USAC's operations and other programs it administers, such as the Affordable Connectivity Program. This can include information on program audits, finance, and information technology projects. According to USAC executives, the monthly reports provide FCC important insight to USAC activities and progress toward meeting its goals, while also giving FCC an opportunity to provide feedback.

USAC and FCC's Office of the Managing Director also meet monthly to discuss metrics related to USF programs. During these meetings, USAC provides updates on items such as improper payments, ongoing audits, and corrective actions when issues are identified. Further, USAC executives and FCC staff reported that they meet more frequently when needed. For example, they held daily meetings to discuss Affordable Connectivity Program implementation and changes to the program as it was implemented.

USAC Manages Its Operating Budget in Accordance with Selected FCC Requirements and Expenditures Have Increased

USAC Established Processes to Manage Its Budget Quarterly with FCC Review and Board Approval

USAC's processes for managing its operating budget include (1) setting an annual operating budget for administering USF programs, (2) reviewing and revising this budget on a quarterly basis, and (3) approving and reporting expenditures.

Setting the annual operating budget for administering USF programs. USAC executives we interviewed described a multi-step process for setting USAC's annual operating budget.²⁴ Specifically, USAC executives told us that its Finance Division:

- establishes a schedule in September for internally developing the operating budget and analyzes each of USAC's divisions' expenditures from the previous 5 years;
- collaborates with the vice presidents of each division to develop a preliminary operating budget for the coming fiscal year; and
- provides a preliminary operating budget for USAC's chief executive officer and chief financial officer to approve.

Once USAC has internally approved its preliminary operating budget for the year, it submits this budget to FCC and USAC's Board for review, feedback, and approval. According to USAC executives and FCC officials, USAC presents its preliminary annual budget to FCC's Office of the Managing Director in December and incorporates any feedback into the final annual budget. In January of each year, USAC submits its final annual budget to FCC for review and feedback as part of the Board meeting materials. The Board's committees review and approve portions

²⁴USAC's fiscal year begins January 1 and ends on December 31.

of the operating budget that correspond with individual USF programs.²⁵ Then the entire Board approves USAC's total operating budget. The Board documents its approval in publicly available meeting minutes.

Reviewing and revising the operating budget on a quarterly basis.

USAC's process for reviewing and revising its operating budget to project its expenses is informed by FCC regulations that direct USAC to project programmatic and administrative expenses each quarter. USAC's quarterly budget projections provide insight for FCC to determine the contribution factor (see app. II). For example, if FCC agreed to increase USAC's administrative expenses, it could either reduce programmatic expenses or increase the contribution factor to collect the necessary funds. According to USAC executives, USAC revises the next quarter's budget based on several factors, including programmatic and administrative expense projections and actual expenditures from the previous quarter.

According to FCC officials and USAC executives, FCC may provide feedback on USAC's quarterly operating budget. (See text box for processes specific to non-USF programs.) FCC officials cited two instances in which FCC had asked USAC to revise its quarterly budget to account for unspent funding from a previous quarter. After USAC provides FCC with its quarterly budget, USAC executives told us that they provide it to the USAC Board for review and approval.

Universal Service Administrative Company (USAC) Budgeted for Non-Universal Service Fund (USF) Programs Differently than USF Programs

According to USAC executives, the Federal Communications Commission (FCC) and USAC handled non-USF program budgets and operating expenditures differently than for USF programs. Specifically, because those non-USF programs received definite appropriations, USAC and FCC reviewed the non-USF budgets on a monthly basis rather than on a quarterly basis as it does with USF programs. In addition, federal statute governed USAC's operating expenses for two non-USF programs by establishing a 2 percent cap and FCC provided USAC a fixed amount of funding for a third non-USF program. FCC and USAC entered into separate memorandums of understanding for each of these non-USF programs.

Source: GAO. | GAO-24-106967

Approving and reporting expenditures. USAC developed several policies to help approve and report its operating expenditures and in

²⁵According to FCC regulations, USAC's Board has three USF program-specific committees: (1) the High Cost and Low-Income Committee; (2) the Rural Health Care Committee; and (3) the Schools and Libraries Committee. FCC regulations require that the Board reviews budgets prepared by each committee, but the Board may not modify the budgets unless such modification is approved by a two-thirds vote of a quorum of the Board.

some cases obtain FCC approval. These include USAC's procurement policy, compensation policy, financial reporting process document, and its internal controls process.

- USAC's procurement policy and related procedures govern USAC activities such as competitive procurement requests for proposals, contract awards, and vendor agreements for measuring vendor performance against USAC's goals. USAC's procurement approval policy describes four types of expenditures and the various individuals or entities that must review and approve expenditures depending on the type and amount of the expenditure. For example, the vice president of the requesting division or their delegate may approve budgeted purchase requests up to and including \$250,000. USAC requires USAC's chief financial officer, chief executive officer, and FCC to approve any budgeted purchase requests over \$250,000.
- USAC's compensation policy establishes guidelines that define how USAC determines employees' compensation, including their base salary, market adjustments, merit pay and bonuses, and overtime.²⁶ For example, the policy states that USAC's chief executive officer is responsible for annually submitting a merit pay proposal for approval by USAC's compensation committee and the Board. In addition, USAC's policy outlines the roles of its general counsel and the Board's chair in establishing and annually reassessing the chief executive officer's salary.²⁷
- USAC's financial reporting process document describes USAC's responsibilities for recording and reporting financial activity for the USF and USAC's operations. For example, the process states that a team within USAC's Finance Division is responsible for analyzing operating costs for each division monthly, comparing month and year-to-date actuals to the Board-approved budget. The Finance Division is charged with distributing these analyses to each division's vice president and provides a consolidated report to USAC's chief financial officer monthly. In addition, the financial reporting process states that

²⁶The USAC Employee Handbook also includes information about USAC's compensation and benefits policies.

²⁷According to USAC's compensation policy, the chief executive officer's salary cannot exceed the rate of basic pay for the federal Office of Personnel Management's Level I of the Executive Schedule. Furthermore, other USAC executives' and directors' salaries are capped at \$10,000 below that level, unless a committee of USAC executives and the Board approve an exception. FCC regulations prohibit compensation for any USAC officers or employees from exceeding the rate of basic pay for Level I of the Executive Schedule, which in 2024 was \$246,400. See 47 C.F.R. § 54.715(b).

USAC must allocate costs to USF programs in accordance with a methodology approved by the Board and filed with FCC.

- A USAC document describes the objectives of and roles and responsibilities for internal control processes to ensure compliance with both USAC's policies and applicable FCC regulations. For example, USAC's Finance Division is responsible for assessing the design and effectiveness of USAC's internal controls over financial operations.

USAC provides information about its operating expenditures to FCC, its Board, and the public. According to USAC executives and FCC officials, USAC provides information to and confers with FCC about USAC's operating expenditures quarterly. Moreover, USAC executives said they provide FCC information for FCC's capital planning, typically each July and November. In addition, USAC's publicly available annual reports outline USAC's operating expenditures and its programmatic disbursements.

USAC's Processes Align with Selected FCC Requirements and Independent Auditors Routinely Examine Some Processes

FCC requirements. We found that USAC's processes for managing its operating budget and expenditures align with selected requirements established or identified by FCC in the MOU. For example, the MOU requires USAC's Board to oversee activities and operations consistent with FCC regulations and USAC established policies and processes to do so. Specifically:

- the Board's bylaws require that the Board oversees USAC's business and affairs and that programmatic committees review USAC's activities (e.g., developing and administering program application processes), among other things.
- USAC's compensation policy cites the Board's responsibility for reviewing the policies themselves, along with some of USAC's decisions (e.g., USAC management's recommendation for merit-based salary increases for USAC staff).
- USAC's procurement policy and process narrative documents identify the Board's role in approving award recommendations over \$250,000.

Additionally, the MOU requires, and USAC's approval authority policy acknowledges, that USAC must seek FCC's advance approval of certain procurements. Furthermore, the MOU requires USAC to provide a procurement report to FCC annually for all procurements from the prior fiscal year over a certain threshold. We found that USAC's practices aligned with this requirement.

Audits. FCC requires that USAC undergo several annual routine audits, including independent auditors' reviews of the annual USF financial statement, and agreed-upon-procedures that test aspects of USAC's governance and operational processes.²⁸ In addition, USAC is part of FCC's annual information security audit.²⁹ FCC meets independently with auditors prior to, during, and after their reviews, according to FCC.

USAC is also party to additional audits by independent auditors, FCC's Office of Inspector General, and USAC's own audit division. These audits may review issues related to USAC's budget and expenditures. For example, USAC hired an independent auditor to review USAC's compensation practices for 2018. The auditor, Crowe Horwath LLP, reported six significant findings, including the absence of a written compensation policy and procedures, insufficient documentation of certain actions (e.g., severance, terminations, vacation payouts to active employees), and compensation exceeding applicable thresholds. USAC developed a corrective action plan to address the 17 recommendations from the auditor's report. For 2020, FCC included agreed-upon-procedures steps related to the findings. The independent auditor did not observe any further deficiencies.

To address audit findings, USAC develops corrective action plans. For example, the agreed-upon-procedures audit for 2020 examined USAC's compliance with the MOU's advance approval for procurement requirements. The auditors found one instance in which there was no evidence of approval by all required officials for a non-competitive purchase. USAC concurred with the finding. USAC executives said the reason for the error was a misalignment between USAC's approval policy, its procedures, and its software workflow. According to an FCC official,

²⁸FCC's financial report includes a USF financial statement. See, for example, Federal Communications Commission, *Agency Financial Report Fiscal Year 2023* (Nov. 15, 2023). In an agreed-upon procedures review, auditors perform procedures and report findings without providing an opinion or conclusion.

²⁹The Federal Information Security Modernization Act of 2014 requires federal agencies in the executive branch to develop, document, and implement an information security program to protect the information and systems that support the agencies' operations and assets. See Pub. L. No. 113-283, § 2(a), 128 Stat. 3073, 3079–81 (codified at 44 U.S.C. § 3554(b)). Each agency is also required to have an annual, independent evaluation of the information security program and practices of that agency to determine the effectiveness of such program and practices. *Id.*, § 2(a), 128 Stat. at 3082 (codified at 44 U.S.C. § 3555).

FCC has staff that tracks audit findings and works with USAC to ensure it addresses any recommendations.

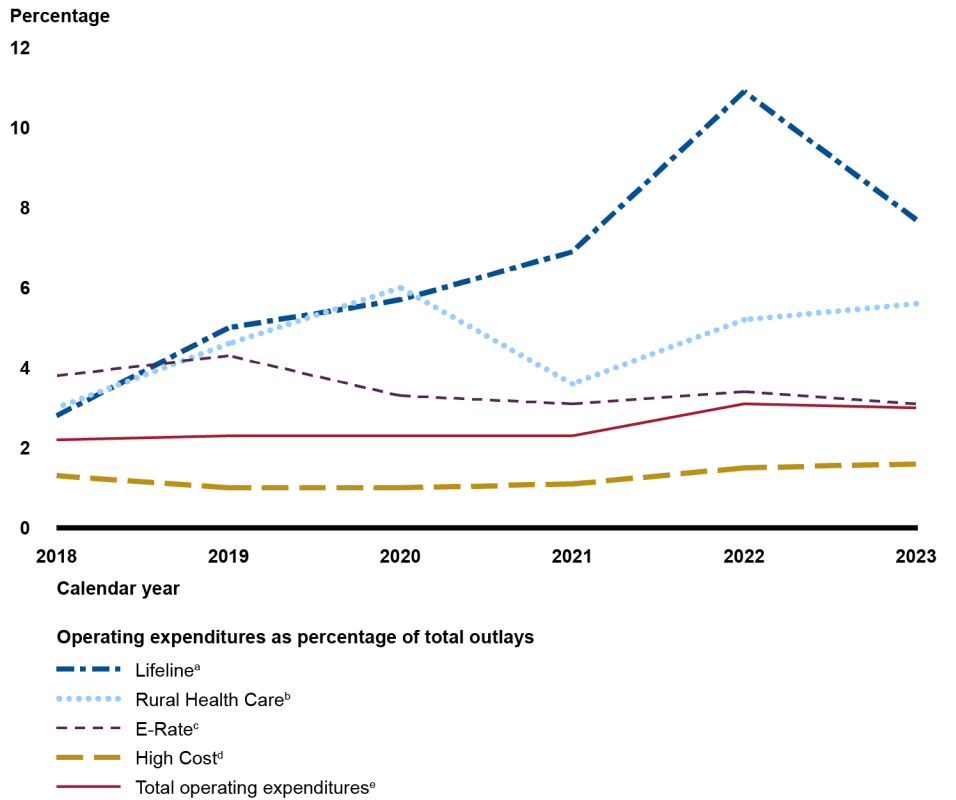
USAC's Operating Expenditures Increased from 2018 through 2023

In analyzing USAC's annual reports, we found USAC's operating expenditures related to USF programs increased by 27.5 percent from 2018 through 2023. USAC attributed the increase to replacing obsolete legacy systems and strengthening program integrity. In addition, the share of USF outlays going to USAC's operating expenditures increased from 2.2 percent to 3 percent from 2018 through 2023.³⁰ (See fig. 2.) Thus, USAC expended a larger share of USF outlays on its annual operations compared to two non-USF programs that were subject to a 2-percent statutory cap.³¹

³⁰USF outlays include the issuance of checks, disbursement of cash, or electronic transfer of funds for either programmatic or administrative expenses.

³¹The two programs subject to a 2-percent statutory cap on operating expenditures are the Emergency Connectivity Fund Program and the Affordable Connectivity Program. For the third non-USF program, FCC capped USAC's administration costs at \$6.6 million of the approximately \$450 million in appropriations.

Figure 2: USAC Operating Expenditures as a Percentage of Universal Service Fund Outlays, by Program for 2018—2023



Source: GAO analysis of Universal Service Administrative Company (USAC) information. | GAO-24-106967

Notes: The Federal Communications Commission (FCC) established four Universal Service Fund programs to foster universal deployment of and affordable access to broadband and other telecommunications services. USAC administers those programs.

^aLifeline provides subsidies to help low-income consumers afford broadband and voice services. FCC reformed how USAC determined Lifeline eligibility, requiring USAC to develop a centralized process and data system to check applicants' eligibility for Lifeline during this period.

^bRural Health Care provides subsidies to help connect rural health care providers with broadband and voice services. In 2021, USAC closed a backlog of applications for the program, temporarily increasing programmatic outlays, according to USAC executives.

^cE-Rate provides subsidies to help schools and libraries afford broadband and other telecommunications services.

^dHigh Cost provides subsidies to telecommunications carriers offering broadband and voice services in areas that are costly to serve.

^eThe total does not include outlays from FCC's 3-year Connected Care Pilot program that offered health care providers subsidies for network equipment and services for providing telehealth services to low-income patients and veterans.

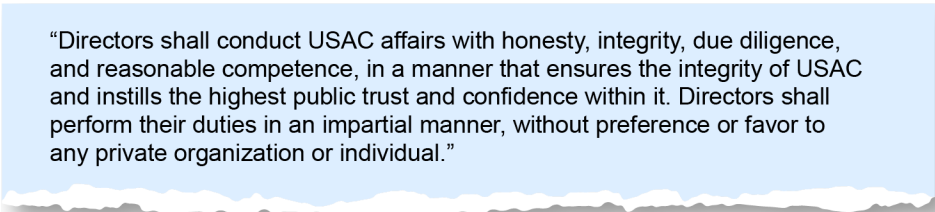
According to USAC, actions USAC took at FCC’s direction increased operating expenditures for USF programs as a percentage of total annual USF outlays. For example, in 2016, FCC directed USAC to implement improvements to the Lifeline program to combat waste, fraud, and abuse, including requiring a centralized process and data system to check applicants’ eligibility for Lifeline subsidies.³² To administer these changes, USAC executives told us that USAC incurred additional operating expenditures such as: increasing the number of staff working on the Lifeline program from 33 to 76; and with FCC approval, procuring an outside vendor to review Lifeline applications. According to USAC, Lifeline programmatic outlays decreased during this period as well, as these program improvements removed or prevented ineligible participants from enrolling.

FCC officials said that FCC reviews USAC’s overall expenditures and supplements its review with USAC’s monthly reports comparing the quarterly operating budget to actual expenditures. USAC executives said that USAC handles unexpected expenditures on a case-by-case basis, but that USAC notes ways to offset them in USAC’s reports to FCC.

USAC Has an Ethics Policy for Its Board and Employees Consistent with FCC’s Requirements

We found that USAC maintains a written ethics policy, provides the most recent copy to FCC, and notifies FCC in writing of any changes to the policy, consistent with requirements set by FCC in the MOU. USAC’s ethics policy is its Statement of Ethical Conduct and it maintains separate policies for its Board and for its employees. See figure 3 for an excerpt from the Board’s ethics policy.

Figure 3: Selection from USAC’s Statement of Ethical Conduct for Its Board of Directors



“Directors shall conduct USAC affairs with honesty, integrity, due diligence, and reasonable competence, in a manner that ensures the integrity of USAC and instills the highest public trust and confidence within it. Directors shall perform their duties in an impartial manner, without preference or favor to any private organization or individual.”

Source: GAO presentation of a Universal Service Administrative Company (USAC) document; 32 pixels/stock.adobe.com (ripped paper image). | GAO-24-106967

³²See *Lifeline and Link Up Reform and Modernization, et al.*, Third Report and Order, Further Report and Order, and Order on Reconsideration, 31 FCC Rcd. 3962 (2016).

In addition to USAC's ethics policy, USAC has several requirements for its Board and employees. These include:

- **Acknowledging the ethics policy.** USAC requires all employees to sign the policy each year. By contrast, a USAC executive told us that by agreeing to serve on the Board, directors acknowledged and accepted their responsibilities and agreed to comply with the provisions within the Board's ethics policy.
- **Completing ethics training.** USAC requires the Board and its employees to complete annual ethics training, which emphasizes the importance of conducting USAC business in an ethical manner. USAC tracks completion in its learning management system using third-party software.
- **Awarding contracts.** The USAC Board and employees may not award any noncompetitive contracts to a USAC affiliate or to an entity with a representative serving on the USAC Board.
- **Disclosing financial interests and potential conflicts.** USAC requires the Board and its employees to annually disclose personal and familial financial interest in entities with which USAC has a relationship (e.g., USF beneficiaries or recipients, or a party to legal action against USAC).

Additionally, if a director has or may have a conflict of interest, USAC's general counsel generally recommends directors recuse themselves from Board votes involving the conflicted matter. For example, a USAC executive told us that a director's relative interned with a USAC vendor. After disclosing this potential conflict of interest to USAC's general counsel, the director abstained from a Board vote involving that vendor. Additionally, a current director said that another director consistently abstains from votes involving an employer, a USAC vendor.

For 2023, an independent audit found that selected employees had signed the ethics policy, completed mandatory ethics training, and completed the annual financial disclosure form.³³ The auditor also noted that USAC provided additional ethics resources to the Board and its employees including access to USAC's:

³³This finding is consistent with prior agreed-upon procedures audits for 2019 through 2022.

-
- Ethics Officer, to whom directors and employees could communicate ethics concerns;
 - intranet page, Ethics@USAC, which contained the ethics policy, financial disclosure form, and frequently asked questions about ethics; and
 - quarterly ethics newsletter, “Ethical USAC,” in which the Ethics Officer highlights important ethics issues such as gift guidance to coincide with end-of-year holidays.

The representatives of USF contributors and beneficiaries who serve as directors on USAC’s Board are responsible both to their constituencies and to USAC, which can create the appearance of a conflict of interest. However, in a 1997 order to establish USAC, FCC explained its intent to create a Board comprising diverse participants representing a wide variety of industry and beneficiary interests, which would mean the Board should function, as a whole, in a competitively neutral and unbiased manner.³⁴ An FCC official told us no one group had an outsized influence because the Board represented many different viewpoints.

Additionally, according to USAC’s ethics policy for the Board, directors ultimately must use their position to represent USAC’s overall interests. The Board policy also notes that directors bring to the attention of the Board the particular sensitivities and concerns of their constituency. A former director we spoke with characterized this role as primarily change management. For example, one director said that after USAC changed a USF website, several constituents contacted the director to request that USAC provide training on navigating the site. The director communicated this request to the Board and to USAC.

Agency Comments

We provided a draft of this report to FCC for review and comment. FCC provided written comments, which we have reproduced in appendix IV, and technical comments, which we incorporated as appropriate.

³⁴*Changes to the Board of Directors of the National Exchange Carrier Association, Inc., Federal-State Joint Board on Universal Service*. Report and Order, 12 FCC Rcd 18400, 18417—18 (1997).

As agreed with your office, 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 Chairwoman of FCC, the Chief Executive Officer of USAC, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-2834 or at vonaha@gao.gov. Contact points for our Office of Congressional Relations and Public Affairs may found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix V.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrew Von Ah". The signature is fluid and cursive, with a long horizontal stroke at the end.

Andrew Von Ah
Director, Physical Infrastructure Issues

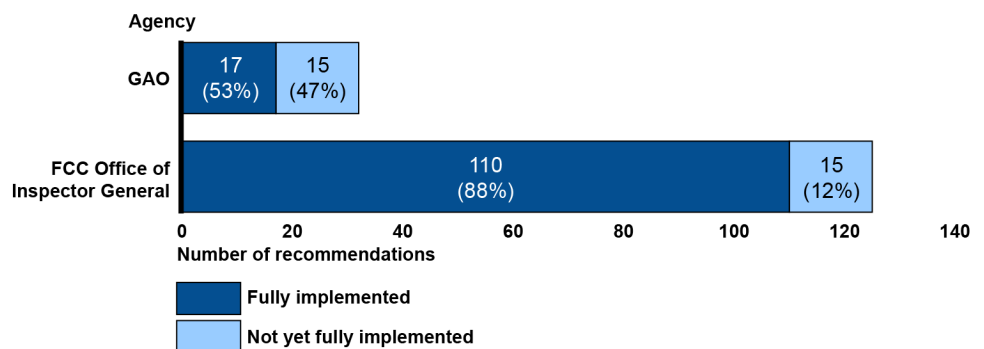
Appendix I: FCC’s Efforts to Address Recommendations Concerning USF Programs Since 2017

In the last 6 years, the Federal Communications Commission (FCC) took action to address 17 recommendations we made related to Universal Service Fund (USF) programs and 110 such recommendations made by FCC’s Office of Inspector General (OIG).¹ However, there are still several USF-related recommendations that FCC has not yet fully implemented as described below.

To identify USF-related recommendations, we queried our internal recommendation and accomplishment database and our public-facing website, www.gao.gov, and obtained recommendation information from FCC’s OIG. We considered fully implemented recommendations as those FCC had taken action to address in the last 6 years.² We considered recommendations “not yet fully implemented” as those FCC had not taken action to fully address by April 30, 2024.

During the time period we reviewed, we found FCC had taken action to fully implement 127 recommendations from us and FCC’s OIG concerning USF programs. As of April 30, 2024, FCC had not yet taken actions to fully implement 30 USF-related recommendations. (See fig. 4.)

Figure 4: FCC’s Efforts to Address Recommendations Concerning Universal Service Fund Programs Since 2017



Source: GAO analysis of GAO and Federal Communications Commission (FCC) and Office of Inspector General information. | GAO-24-106967

Note: We analyzed FCC efforts to implement recommendations from October 1, 2017 to April 30, 2024. We reviewed recommendations not yet fully implemented as of April 30, 2024.

¹These four programs are High Cost, Lifeline, E-Rate, and Rural Health Care. For additional information on these four programs, see the Related Products page at the end of this report.

²We analyzed FCC efforts to implement recommendations from October 1, 2017 to April 30, 2024.

Fully implemented recommendations. FCC has taken actions to fully implement 17 of our recommendations. For example, FCC took action to provide tribal access to the centralized application for determining Lifeline availability (i.e., the National Verifier) by holding seminars to address tribal-centered concerns about it. Also, FCC took action to change the National Verifier domain name from “.org” to “.gov” to convey site security to users.

In addition, FCC has taken action to fully implement 110 recommendations from the OIG. For example, FCC took action to work with statisticians to estimate the risk of High-Cost improper payments. Also, FCC took action to define key data fields for the E-Rate program's data systems, which helped FCC improve its use of data to understand and manage fraud risks.

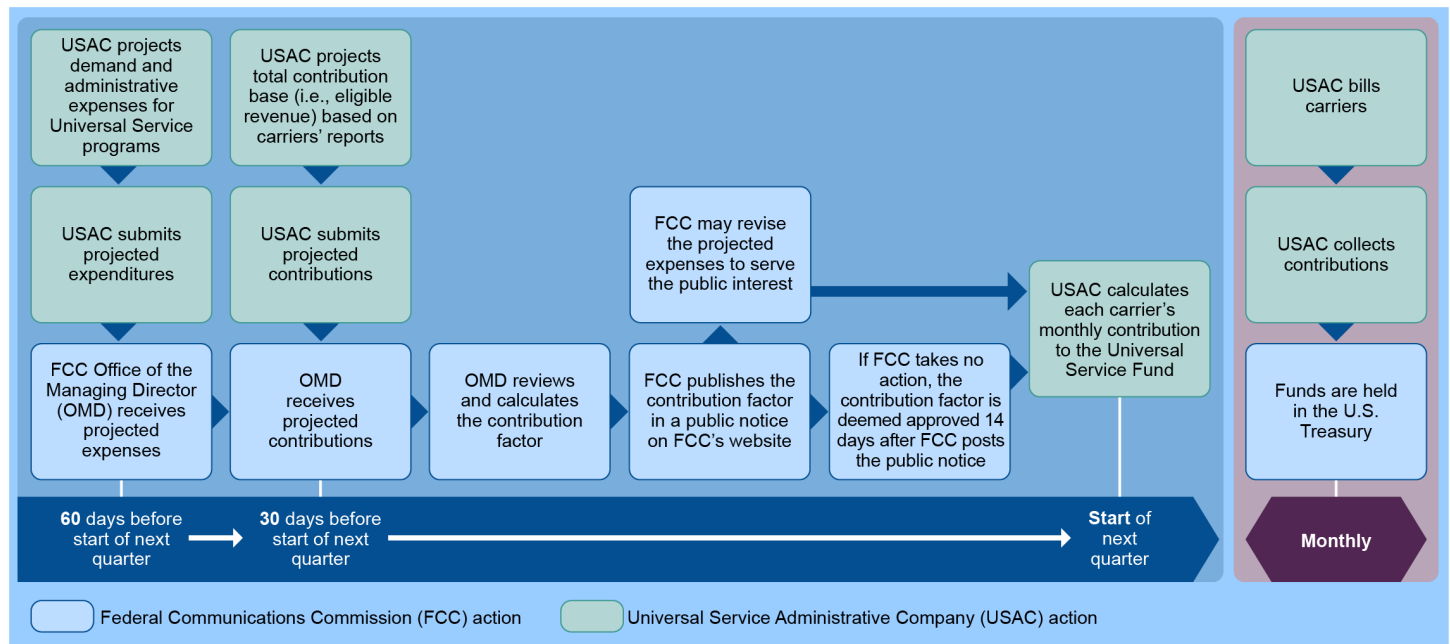
Not yet fully implemented recommendations. Of our 15 recommendations that FCC has not yet taken actions to fully implement, seven are for High Cost, seven for Lifeline, and the remaining recommendation for E-Rate. For example, FCC has not taken action to: (1) revise High-Cost performance goals so they are measurable and quantifiable; (2) educate eligible consumers about Lifeline; or (3) conduct a pilot program for off-premises E-Rate access.

Of the 15 recommendations from OIG that FCC has not yet taken actions to fully implement, one is for High Cost, two are for Lifeline, and two are for E-Rate. For example, FCC has not taken action to: (1) target High-Cost improper payments; (2) ensure those with access to Lifeline data have undergone background investigations; or (3) educate E-Rate applicants on the competitive bidding process. The remaining 10 recommendations concern the USF contribution process, information technology configuration management, access controls, and FCC's use of an application called the Financial Assistance Broker Submission for awards. This application controls how federal agencies submit transaction level data for financial assistance awards to [USASpending.gov](https://USA Spending.gov).

Appendix II: FCC’s Process for Determining the Universal Service Fund’s Quarterly Contribution Factor

Federal statute generally requires telecommunications carriers providing interstate telecommunications services to contribute to the Universal Service Fund (USF).¹ According to Federal Communications Commission (FCC) regulations, FCC is responsible for determining the quarterly contribution factor—the percentage of interstate and international telecommunications revenue that telecommunications carriers must contribute to the USF.² (See fig. 5.)

Figure 5: FCC’s Process for Determining Telecommunications Carriers’ Contributions to the Universal Service Fund



Source: GAO analysis of FCC regulations, orders, public notices, and a memorandum of understanding with USAC. | GAO-24-106967

Notes: By statute, every telecommunications carrier providing interstate telecommunications services must contribute to the federal Universal Service Fund, unless exempted by FCC. Telecommunications Act of 1996, Pub. L. No. 104-104, § 101(a), 110 Stat. 56, 73 (codified at 47 U.S.C. § 254(d)). Other entities providing interstate telecommunications may also be required to contribute to the Universal Service Fund. *Id.*

¹Telecommunications Act of 1996, Pub. L. No. 104-104, § 101(a), 110 Stat. 56, 73 (codified at 47 U.S.C. § 254(d)). FCC also retains the authority to require any other provider of interstate telecommunications to contribute to the USF if required by the public interest. *Id.* Additionally, FCC may exempt some telecommunications carriers from contributing to the USF if their contributions would be de minimis. *Id.* Although entities other than telecommunications carriers may be required to contribute to the USF, this report refers generally to “telecommunications carriers” when discussing USF contributors.

²47 C.F.R. § 54.709(a).

Projecting expenses and carriers' total revenue. To help determine the quarterly contribution factor, FCC regulations direct the Universal Service Administrative Company (USAC) to project expenses and the total eligible revenue. Specifically, FCC directs USAC to:

- project the demand (e.g., expected programmatic expenses) and administrative expenses for universal service programs;
- submit those projected expenditures to FCC's Office of the Managing Director 60 days before the start of each quarter;
- use carriers' reported revenue from the prior calendar year to project carriers' total eligible revenue for each quarter; and
- submit the projected revenue to FCC's Office of the Managing Director 30 days before the start of each quarter.³

Calculating the contribution factor. Each quarter, FCC's Office of the Managing Director reviews USAC's projections and calculates the contribution factor, as shown in figure 6.⁴

Figure 6: FCC Formula for Calculating the Quarterly Contribution Factor

$$\text{Universal Service Fund quarterly contribution factor} = \frac{\text{Projected Universal Service Program expenses}}{(\text{Total eligible revenues} - \text{Projected contributions})}$$

Source: GAO analysis of Federal Communications Commission (FCC) regulations. | GAO-24-106967

FCC is responsible for drafting a public notice and publishing it to FCC's website. FCC regulations provide FCC up to 14 days to revise the amounts of the projected demand and administrative expenses to serve the public interest. If FCC takes no action within 14 days of releasing the public notice, FCC regulations state that the factor is deemed approved for the next quarter.

Calculating and collecting individual carriers' contributions. FCC regulations require USAC to calculate an individual telecommunication carrier's monthly contribution to the USF. Specifically, USAC is generally required to apply the contribution factor to carriers' interstate and

³The Office of the Managing Director administers and manages FCC's budget and financial programs, and distributes official documents, among other things.

⁴FCC established this formula in its regulations. See 47 C.F.R. § 54.709(a)(2).

**Appendix II: FCC's Process for Determining
the Universal Service Fund's Quarterly
Contribution Factor**

international end-user telecommunications revenues to calculate their individual contributions. In addition, FCC regulations require carriers to make monthly contributions. USAC is responsible for billing and collecting contributions to the USF, which are held in the U.S. Treasury.

Appendix III: Objectives, Scope, and Methodology

This report examines governance issues related to the Universal Service Administrative Company (USAC). Specifically, this report examines USAC's efforts to (1) establish goals and monitor and report on progress in the last 6 years; (2) manage its operating budget in accordance with selected requirements from the Federal Communications Commission (FCC), including recent trends in its expenditures; and (3) maintain an ethics policy consistent with FCC requirements.

To address these objectives, we reviewed statutes, regulations, FCC orders, and the relevant memorandums of understanding (MOU) between FCC and USAC. Because certain federal requirements and standards do not apply to USAC, we assessed USAC's activities against applicable FCC requirements contained in the regulations and MOUs. We also reviewed our reports assessing all four of FCC's Universal Service Fund (USF) programs, as well as the Affordable Connectivity Program.¹ We did not examine issues related to our objectives pertaining to litigation that was ongoing during our review.

To examine USAC's efforts to establish goals and monitor and report on progress in the last 6 years, we reviewed (1) USAC's annual goal documentation from 2018 through 2023; (2) its 18-month plans for tracking progress related to FCC's four USF programs and other operational areas; and (3) its monthly reports to FCC. We reviewed how USAC monitored and reported progress to FCC using these documents and regular meetings. We interviewed FCC officials and USAC executives on the process for establishing annual goals and the relationship between the goals and the 18-month plans. We also interviewed FCC officials on the feedback FCC provides to USAC on USAC's operations.

To examine USAC's efforts to manage its operating budget in accordance with selected FCC requirements, we reviewed policies, procedures, and other documentation. Specifically, we reviewed USAC's: (1) expenditure approval authority policy and processes; (2) employee handbook; (3) compensation policy; (4) financial reporting process; and (5) document describing the objectives of and roles and responsibilities for USAC's internal controls processes. In addition, we reviewed reports by independent auditors, for 2018 through 2022, including annual reviews of

¹For a complete list of our previous work in this area, see the Related Products page at the end of this report.

agreed-upon-procedures established by FCC and USAC and an audit of USAC’s compensation policies and processes for 2018.

We evaluated USAC’s processes against FCC requirements that we selected from the 2018 MOU between FCC and USAC related to USF programs. Specifically, in selecting the requirements for our assessment, we focused on requirements that were: (1) in or referenced by the MOU related to USF programs, (2) applicable to USAC, and (3) related to USAC’s management of its operating budget and expenditures. Based on our review we identified 10 requirements, as shown table 2.

Table 2: Selected FCC Requirements for the Universal Service Administrative Company (USAC) Established or Referenced in the 2018 Memorandum of Understanding Related to Universal Service Fund Programs

FCC requirement
USAC Board of Directors will oversee the activities and operations of USAC.
USAC will maintain policies and procedures to ensure effective communication and coordination.
USAC will provide FCC with a procurement plan each year.
The procurement plan shall include: (1) all anticipated procurements and contract modifications for the upcoming fiscal year with an actual or anticipated total contract value in excess of \$100,000; and (2) the procurement name; explanation of need for the procurement; a description of the goods and/or services to be procured; estimated cost; and the type of competition to be used, or the justification for a non-competitive action.
USAC shall provide a fiscal year-end procurement report for all procurements with a total contract value (including options) in excess of \$100,000 no later than February 1 of each year.
USAC shall seek advance approval of procurements pursuant to the Managing Director’s procurement review procedures unless otherwise specified by FCC’s Office of the Managing Director.
USAC procurement activities shall be reviewed periodically through USAC’s internal control program.
USAC shall report periodically and as directed to FCC’s Office of the Managing Director and the Office of Inspector General on its internal control activities.
USAC will implement an internal control structure over its operations consistent with the standards and guidance contained in OMB Circular A-123, including to assess risk in relation to the administration of the Universal Service Fund. ^a
USAC shall obtain and pay for an annual agreed-upon procedures review, an audit conducted by an independent auditor to determine, among other things, whether USAC is properly administering the universal service support mechanisms to prevent fraud, waste, and abuse. ^b A review of USAC procurement activities shall be included in this annual agreed-upon procedures review.

Source: GAO summary of requirements from Federal Communication Commission (FCC) and Office of Management and Budget (OMB) documents. | GAO-24-106967

Notes: FCC and USAC agreed to these requirements in their 5-year Memorandum of Understanding (MOU) related to Universal Service Fund programs, signed December 19, 2018. FCC and USAC extended this MOU, which originally would have expired in December 2023.

^aThe circular establishes requirements and standards based on *Standards for Internal Control in the Federal Government* that management must implement to properly assess and improve internal controls over operations, reporting, and compliance. See Office of Management and Budget, *Management’s Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular A-123 (Washington, D.C.: July 15, 2016) and GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

^bSee 47 C.F.R. § 54.717.

We assessed USAC’s policies, procedures, and other documentation against each of the selected requirements. We also interviewed FCC officials and USAC executives about USAC’s processes. We did not assess the extent to which USAC has complied with its processes.

To examine recent trends in USAC’s operational expenditures, we reviewed USAC’s: (1) filings with FCC related to the quarterly contribution factor; and (2) annual reports from 2018 through 2023. In addition, we summarized information on FCC’s reported process for determining the quarterly contribution factor based on information from FCC regulations, orders, and filings (see app. II).

To determine the extent to which USAC maintains an ethics policy consistent with FCC requirements, established by FCC in the MOUs, we assessed whether USAC’s ethics policy aligned with the MOU. We also interviewed FCC officials and USAC executives on USAC’s ethics policy and related activities.

To obtain directors’ perspectives on their roles and responsibilities, we conducted semi-structured interviews with a non-generalizable selection of three directors. We selected directors to represent different populations (industry, non-industry), constituencies (incumbent local-exchange carriers, schools); roles on the Board (officer, non-officer); and incumbency (incumbent, former director). Each director we selected had served on the Board for at least 1 year. We reviewed publicly available information on the USAC and FCC websites to confirm directors’ constituencies and whether they were industry or non-industry; directors’ roles; and directors’ incumbencies and length of time on the Board. (See table 3.)

Table 3: List of USAC Board Interviewees

Population	Constituency	Role	Incumbency
Industry	Incumbent local-exchange carriers	Officer	Incumbent
Industry	Competitive local-exchange carriers	Officer	Former
Non-industry	Schools	Non-officer	Incumbent

Source: GAO summary based on Universal Service Administrative Company (USAC) and Federal Communications Commission information. | GAO-24-106967

Appendix III: Objectives, Scope, and Methodology

To develop questions for these semi-structured interviews, we reviewed the sections in the MOUs relevant to ethics and USAC's ethics policy and considered interview responses from FCC officials and USAC executives. We also interviewed officials from the Office of Government Ethics about the extent to which federal ethics requirements apply to USAC's ethics program.

Appendix IV: Comments from the Federal Communications Commission



Federal Communications Commission
Office of the Managing Director
Washington, D.C. 20554

July 5, 2024

Andrew Von Ah
Director, Physical Infrastructure
Government Accountability Office
441 G Street NW
Washington, DC 20548

Dear Mr. Von Ah:

Thank you for the opportunity to review the Government Accountability Office's (GAO) draft report, "*Administration of Universal Service Programs Is Consistent with Selected FCC Requirements.*" We appreciate the work of your staff and the time and effort that they put into meeting with the teams both from the Federal Communications Commission (FCC) and the Universal Service Administrative Company (USAC). While we understand that the report does not make any new recommendations to the FCC or USAC, we are writing to provide an update on the previous recommendations that are discussed in your report that the GAO and the FCC's Office of Inspector General (OIG) have made to the FCC.

As noted in your draft report, both GAO and the FCC's OIG have issued several recommendations over the past six years related to the Universal Service Fund (USF) programs. GAO also notes that the FCC has closed 17 recommendations from GAO for a closure rate of 53% and has closed 110 recommendations from the FCC's OIG for a closure rate of 85% during this same time period. However, GAO points out further that as of April 30, 2024 the FCC still has 15 open recommendations from GAO as well as 15 open recommendations from the FCC's OIG. We wanted to provide an update on the FCC's efforts to close these 30 recommendations since this snapshot was taken at the end of April.

With regard to the 15 open GAO recommendations, the FCC has since submitted documentation to GAO for five, or one third, of these recommendations to demonstrate that the FCC has taken the necessary corrective action to close these recommendations. In addition, with regard to the 15 open OIG recommendations, the FCC has since submitted documentation to its OIG for 12, or eighty percent, of these recommendations to demonstrate that the FCC has taken the necessary corrective action to close these recommendations, and the FCC's OIG has thus far closed one of those 12 recommendations as a result. The FCC is working diligently to implement corrective actions to close the remaining open recommendations from GAO the FCC's OIG and hopes to obtain more closures in the near future.

Thank you again for the work of your team; we greatly appreciate your working with the FCC throughout this engagement.

Sincerely,

MARK
STEPHENS
Mark Stephens
Managing Director

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Appendix V: GAO Contact and Staff Acknowledgments

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Staff Acknowledgments

In addition to the contact named above, Sally Moino (Assistant Director); Jaclyn Mullen (Analyst in Charge); Eric Hudson, Jim Lager, Alicia Loucks, Ryan Nary, Josh Ormond, Michael Soressi, Andrew Stavisky, and Alicia Wilson made key contributions to this report.

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