



Highlights of [GAO-05-439T](#), a testimony before the Subcommittee on Oversight and Investigations, Committee on Energy and Commerce, House of Representatives

## Why GAO Did This Study

Since 1998, the Federal Communications Commission's (FCC) E-rate program has committed more than \$13 billion to help schools and libraries acquire Internet and telecommunications services. Recently, allegations of fraud, waste, and abuse by some E-rate program participants have come to light. As steward of the program, FCC must ensure that participants use E-rate funds appropriately and that there is managerial and financial accountability surrounding the funds. This testimony is based on GAO's February 2005 report GAO-05-151, which reviewed (1) the effect of the current structure of the E-rate program on FCC's management of the program, (2) FCC's development and use of E-rate performance goals and measures, and (3) the effectiveness of FCC's program oversight mechanisms.

## What GAO Recommends

In its report, GAO recommends that FCC (1) comprehensively determine which federal accountability requirements apply to E-rate; (2) establish meaningful E-rate performance goals and measures; and (3) take steps to reduce its backlog of appeals. In response, FCC stated that it does not concur with (1) because it maintains it has done this on a case-by-case basis. GAO continues to believe that major issues remain unresolved. FCC concurs with (2) and (3), noting that it is already taking steps on these issues.

[www.gao.gov/cgi-bin/getrpt?GAO-05-439T](http://www.gao.gov/cgi-bin/getrpt?GAO-05-439T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Mark L. Goldstein at (202) 512-2834 or [goldsteinm@gao.gov](mailto:goldsteinm@gao.gov).

# TELECOMMUNICATIONS

## Concerns Regarding the Structure and FCC's Management of the E-Rate Program

### What GAO Found

FCC established the E-rate program using an organizational structure unusual to the government without conducting a comprehensive assessment to determine which federal requirements, policies, and practices apply to it. The E-rate program is administered by a private, not-for-profit corporation with no contract or memorandum of understanding with FCC, and program funds are maintained outside of the U.S. Treasury, raising issues related to the collection, deposit, obligation, and disbursement of the funding. While FCC recently concluded that the Universal Service Fund constitutes an appropriation and is subject to the Antideficiency Act, this raises further issues concerning the applicability of other fiscal control and accountability statutes. These issues need to be explored and resolved comprehensively to ensure that appropriate governmental accountability standards are fully in place to help protect the program and the fund from fraud, waste, and abuse.

FCC has not developed useful performance goals and measures for assessing and managing the E-rate program. The goals established for fiscal years 2000 through 2002 focused on the percentage of public schools connected to the Internet, but the data used to measure performance did not isolate the impact of E-rate funding from other sources of funding, such as state and local government. A key unanswered question, therefore, is the extent to which increases in connectivity can be attributed to E-rate. In addition, goals for improving E-rate program management have not been a feature of FCC's performance plans. In its 2003 assessment of the program, OMB noted that FCC discontinued E-rate performance measures after fiscal year 2002 and concluded that there was no way to tell whether the program has resulted in the cost-effective deployment and use of advanced telecommunications services for schools and libraries. In response to OMB's concerns, FCC is currently working on developing new E-rate goals.

FCC's oversight mechanisms contain weaknesses that limit FCC's management of the program and its ability to understand the scope of any fraud, waste, and abuse within the program. According to FCC officials, oversight of the program is primarily handled through agency rulemaking procedures, beneficiary audits, and appeals decisions. FCC's rulemakings have often lacked specificity and led to a distinction between FCC's rules and the procedures put in place by the program administrator—a distinction that has affected the recovery of funds for program violations. While audits of E-rate beneficiaries have been conducted, FCC has been slow to respond to audit findings and make full use of them to strengthen the program. In addition, the small number of audits completed to date do not provide a basis for accurately assessing the level of fraud, waste, and abuse occurring in the program, although the program administrator is working to address this issue. According to FCC officials, there is also a substantial backlog of E-rate appeals due in part to a shortage of staff and staff turnover. Because appeal decisions establish precedent, this slowness adds uncertainty to the program.