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RECOVERY ACT

Preliminary Observations on the Implementation of Broadband Programs

Statement of Mark L. Goldstein, Director
Physical Infrastructure Issues





Highlights of [GAO-10-192T](#), a testimony before the Committee on Commerce, Science, and Transportation, U.S. Senate

Why GAO Did This Study

Access to broadband service is seen as vital to economic, social, and educational development, yet many areas of the country lack access to, or their residents do not use, broadband. To expand broadband deployment and adoption, the American Recovery and Reinvestment Act (the Recovery Act) provided \$7.2 billion to the Department of Commerce's National Telecommunications and Information Administration (NTIA) and the Department of Agriculture's Rural Utilities Service (RUS) for grants or loans to a variety of program applicants. The agencies must award all funds by September 30, 2010.

This testimony provides preliminary information on the challenges NTIA and RUS face; the steps taken to address challenges; and the remaining risks in (1) evaluating applications and awarding funds and (2) overseeing funded projects. This statement is based on related ongoing work that GAO expects to complete in November. To conduct this work, GAO is reviewing relevant laws and program documents and interviewing agency officials and industry stakeholders. While this testimony does not include recommendations, GAO expects to make recommendations in its November report.

[View GAO-10-192T or key components.](#)
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RECOVERY ACT

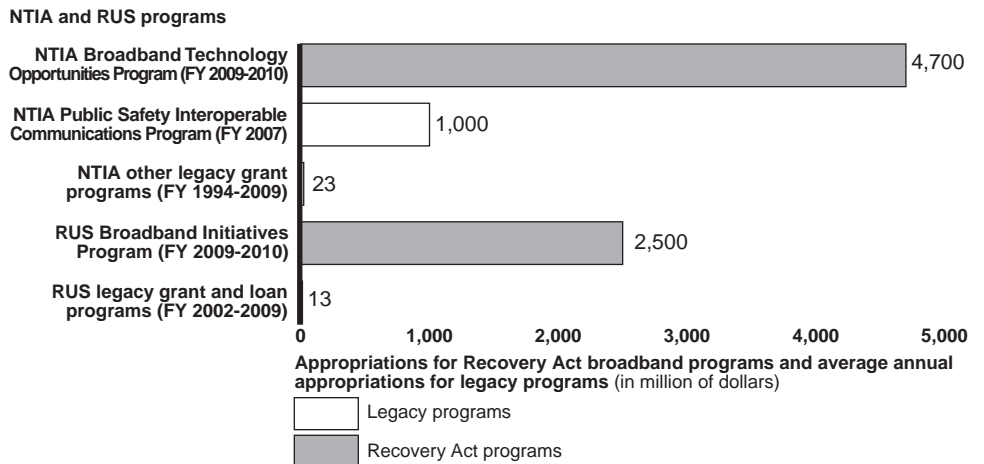
Preliminary Observations on the Implementation of Broadband Programs

What GAO Found

Application evaluation and awards. NTIA and RUS face scheduling, staffing, and data challenges in evaluating applications and awarding funds. NTIA, through its new Broadband Technology Opportunities Program, and RUS, through its new Broadband Initiatives Program, must review more applications and award far more funds than the agencies formerly handled through their legacy telecommunications grant or loan programs (see fig.) NTIA and RUS initially proposed distributing these funds in three rounds. To meet these challenges, the agencies have established a two-step application evaluation process that uses contractors or volunteers for application reviews and plan to publish information on applicants' proposed service areas to help ensure the eligibility of proposed projects. While these steps address some challenges, the upcoming deadline for awarding funds may pose risks to the thoroughness of the application evaluation process. In particular, the agencies may lack time to apply lessons learned from the first funding round and to thoroughly evaluate applications for the remaining rounds.

Oversight of funded projects. NTIA and RUS will oversee a significant number of projects, including projects with large budgets and diverse purposes and locations. In doing so, the agencies face the challenge of monitoring these projects with far fewer staff per project than were available for their legacy grant and loan programs. To address this challenge, NTIA and RUS have hired contractors to assist with oversight activities and plan to require funding recipients to complete quarterly reports and, in some cases, obtain annual audits. Despite these steps, several risks remain, including a lack of funding for oversight beyond fiscal year 2010 and a lack of updated performance measures to ensure accountability for NTIA and RUS. In addition, NTIA has yet to define annual audit requirements for commercial entities funded under the Broadband Technology Opportunities Program.

Recovery Act Broadband Grant and Loan Programs Are Larger Than Legacy Programs



Source: GAO analysis of NTIA and RUS data.

Mr. Chairman and Members of the Committee:

We appreciate the opportunity to participate in this hearing to discuss the implementation and oversight of the broadband programs funded through the American Recovery and Reinvestment Act¹ (the Recovery Act). As you know, access to broadband is seen as vital to economic, social, and educational development, yet many areas of the country lack access to, or their residents do not use, broadband. The Recovery Act appropriated \$7.2 billion to extend access to broadband throughout the United States. Of the \$7.2 billion, \$4.7 billion was appropriated for the Department of Commerce's (DOC) National Telecommunications and Information Administration (NTIA) and \$2.5 billion for the Department of Agriculture's (USDA) Rural Utilities Service (RUS). Specifically, the Recovery Act authorized NTIA, in consultation with the Federal Communications Commission (FCC), to create the Broadband Technology Opportunities Program (BTOP) to manage competitive grants to a variety of entities for broadband infrastructure, public computer centers, and innovative projects to stimulate demand for, and adoption of, broadband. Of the \$4.7 billion, up to \$350 million was available pursuant to the Broadband Data Improvement Act for the purpose of developing and maintaining a nationwide map featuring the availability of broadband service, with some funds available for transfer to FCC for the development of a national broadband plan to help ensure that all people in the United States have access to broadband. Similarly, RUS established the Broadband Initiatives Program (BIP) to make loans and to award grants and loan/grant combinations for broadband infrastructure projects in rural areas.

NTIA and RUS have taken many important steps to implement the broadband provisions in the Recovery Act. NTIA, RUS, and FCC held a series of public meetings in March 2009, explaining the overall goals of the new broadband programs. NTIA and RUS also sought public comments from interested stakeholders on various challenges that the agencies would face in implementing the broadband programs through these meetings and by issuing a Request for Information. NTIA and RUS received over 1,500 comments. FCC, in a consultative role, provided support in developing technical definitions and participated in the public meetings. NTIA and RUS initially indicated that they would award Recovery Act broadband program funds in three jointly-conducted rounds. On July 1, 2009, Vice President Joe Biden, Secretary of Commerce Gary

¹Pub. L. No.111-5, 123 Stat. 115 (2009).

Locke, and Secretary of Agriculture Tom Vilsack announced the release of the first joint Notice of Funds Availability (NOFA) detailing the requirements, rules, and procedures for applying for BTOP grants and BIP grants, loans, and loan/grant combinations.² Subsequently, the agencies held 10 joint informational workshops throughout the country for potential applicants to explain the programs, the application process, and the evaluation and compliance procedures, and to answer stakeholder questions. NTIA and RUS coordinated and developed a single online intake system whereby applicants could apply for either BTOP or BIP funding. NTIA and RUS must award all funds by September 30, 2010, and both BTOP and BIP projects must be substantially complete within 2 years and fully complete no later than 3 years following the date of issuance of their award.

My testimony today discusses (1) the challenges and risks, if any, NTIA and RUS face in evaluating applications and awarding funds, and the steps they have taken to address identified risks, and (2) the challenges and risks, if any, the agencies face in overseeing funded projects, and the steps they have taken to address identified risks. My testimony presents preliminary observations based on ongoing work we expect to complete this fall.

To conduct our work, we are reviewing FCC, NTIA, and RUS program documentation. We are also interviewing relevant staff from the three agencies regarding their agencies' efforts to implement the broadband provisions of the Recovery Act. We are reviewing relevant laws and regulations; guidance from the Office of Management and Budget (OMB), DOC and the Department of Justice, and the Domestic Working Group; and prior GAO reports. We are comparing the agencies' efforts to the laws, regulations, and guidance to identify strengths and weaknesses in their efforts. To determine what reporting and audit requirements will apply to recipients of NTIA and RUS funding, we are reviewing the Single Audit Act,³ agency regulations and documents, and OMB guidance, and interviewing agency officials. Finally, we are interviewing stakeholder organizations representing a range of interests, including associations representing wireline, wireless, cable, and satellite service providers; consumer advocates; telecommunication policy researchers; and state telecommunications regulators to obtain their views on the potential

²74 Fed. Reg. 33104 (2009).

³31 U.S.C. ch. 75.

challenges and risks facing the agencies. We are conducting this performance audit, which began in April 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.

NTIA and RUS Have Taken Steps to Address Scheduling, Staffing, and Data Challenges; However, Some Risks Remain

NTIA and RUS face scheduling, staffing, and data challenges in evaluating applications and awarding funds. The agencies have taken steps to meet these challenges, such as adopting a two-step evaluation process, utilizing nongovernmental personnel, and publishing information on the applicant's proposed service area. While these steps address some challenges, the agencies lack the needed time to apply lessons learned from the first funding round and face a compressed schedule to review new applications. As a result, the agencies may risk awarding funds to projects that are not sustainable or do not meet the priorities of the Recovery Act.

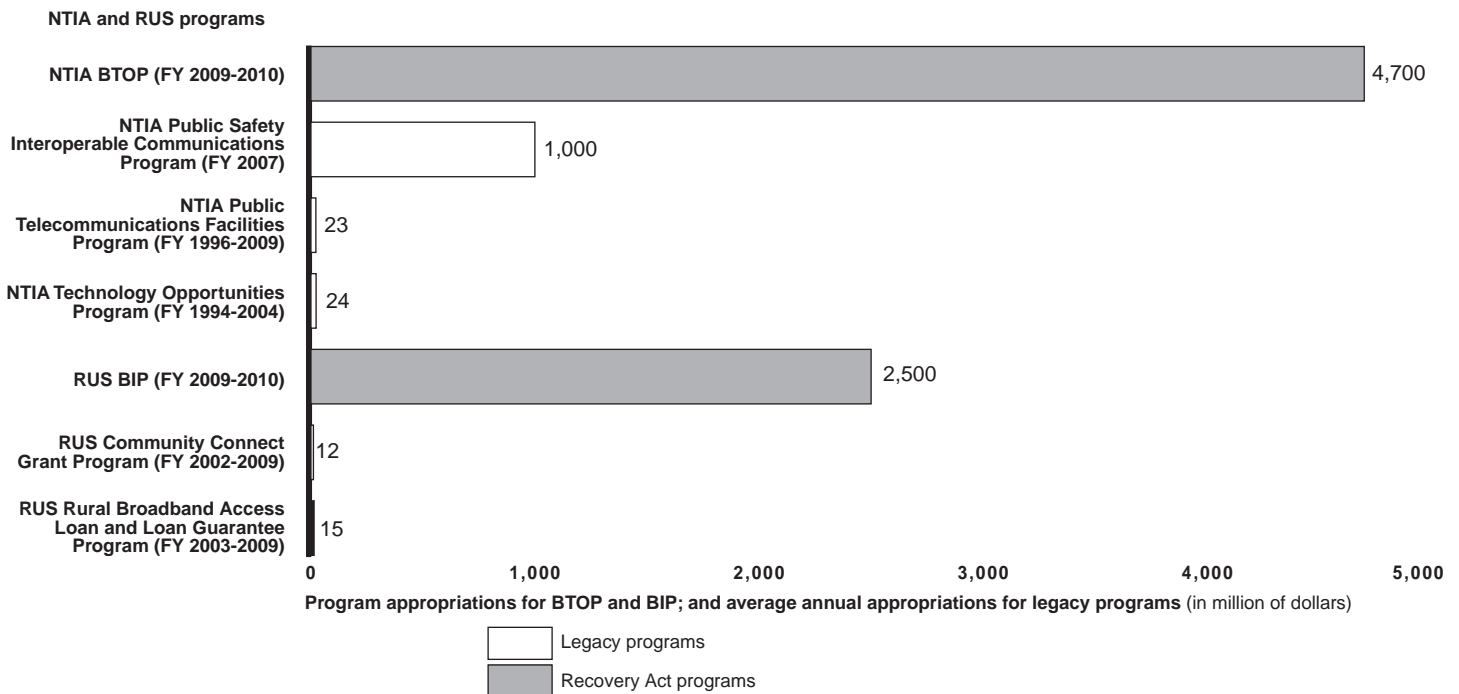
NTIA and RUS Face Scheduling, Staffing, and Data Challenges in the Evaluation of Applications and Awarding of Funds

Scheduling challenges. The agencies have 18 months to establish their respective programs, solicit and evaluate applications, and award all funds. While in some instances a compressed schedule does not pose a challenge, two factors enhance the challenges associated with the 18-month schedule. First, NTIA must establish the BTOP program from scratch, and RUS has existing broadband grant and loan programs, albeit on a much smaller scale than BIP. Second, the agencies face an unprecedented volume of funds and anticipated number of applications compared to their previous experiences.

The funding associated with BTOP and BIP exceed NTIA's and RUS's prior experience with other grant or loan programs (see fig. 1). In comparison to the \$4.7 billion appropriation NTIA received for BTOP, its Public Telecommunications Facilities Program received an average of \$23 million annually and its Telecommunications Opportunities Program received \$24 million annually. NTIA also administered the one-time Public Safety Interoperable Communications Program (PSIC), with an appropriation of about \$1 billion, in close coordination with the Department of Homeland Security (DHS). In comparison to the \$2.5 billion appropriation RUS

received for BIP,⁴ its Community Connect Program's average annual appropriation was \$12 million and its Broadband Access Loan Program's average annual appropriation was \$15 million.

Figure 1: Average Annual Appropriations for NTIA and RUS Telecommunication Grant and Loan Programs



Source: GAO analysis of NTIA and RUS data.

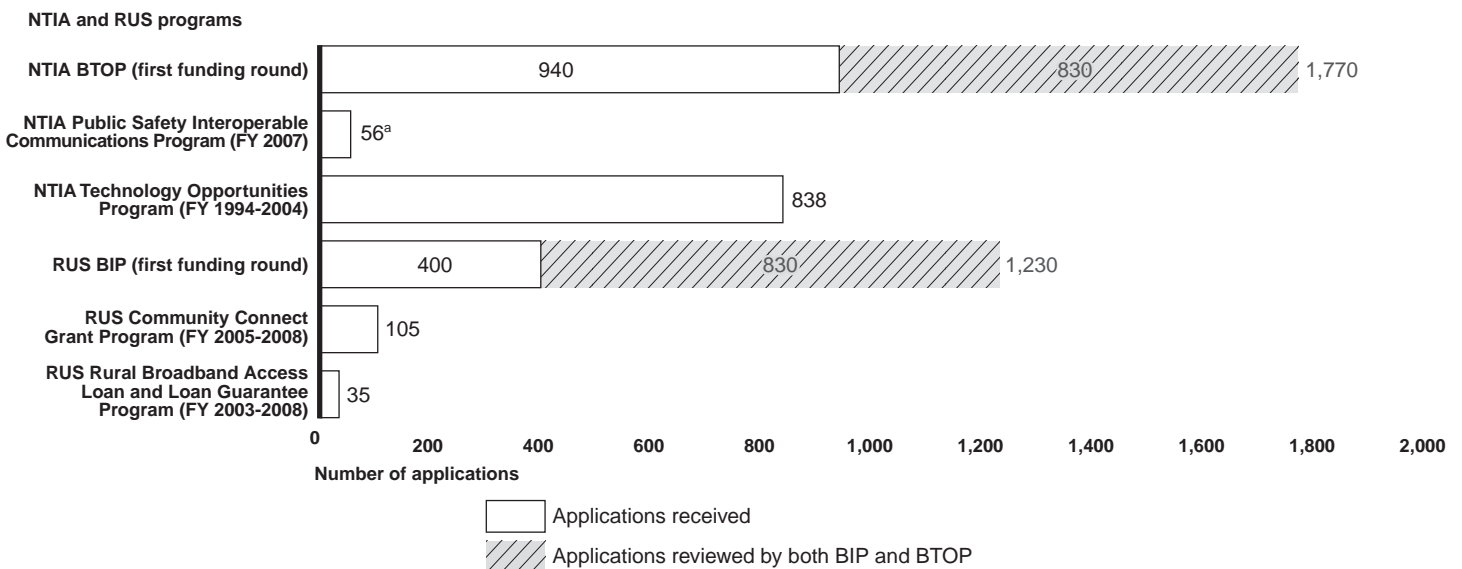
Note: RUS's loan allocation will support a principal amount exceeding the appropriation. For example, RUS expects the \$500 million allocated to loans under BIP will support a total principal amount of loans of about \$7 billion. Similarly, RUS officials indicated that, on average, the corresponding annual total principal amount for loans under the Broadband Access Loan Program was \$300 million.

NTIA and RUS also face an increase in the number of applications that they must review and evaluate in comparison to similar programs (see fig. 2). According to preliminary information from the agencies, they received approximately 2,200 applications requesting \$28 billion in grants and loans in the first funding round. Of these 2,200 applications, NTIA received 940 applications exclusively for BTOP and RUS received 400 applications

⁴RUS received \$2.5 billion for both grants and the cost of loans. RUS stated that it will allocate \$2 billion for grants and \$500 million for loans. RUS expects the \$500 million allocation to support loans with a total principle amount of approximately \$7 billion.

exclusively for BIP and 830 dual applications that both agencies will review. In comparison, NTIA received an average of 838 applications annually for the Telecommunications Opportunities Program; for PSIC, NTIA and DHS received 56 applications from state and territorial governments containing a total of 301 proposed projects. RUS received an average of 35 applications annually for the Broadband Access Loan program and an average of 105 applications annually for the Community Connect Program.

Figure 2: Average Annual Applications for NTIA and RUS Telecommunication Grant and Loan Programs



Source: GAO analysis of NTIA and RUS data.

^aIn 2007, through the PSIC grant program, NTIA coordinated with the DHS's grants office to review 56 grant applications from states and territories, representing about 301 individual projects, and awarding almost \$1 billion in grant funds to assist public safety agencies in enhancing communications interoperability nationwide.

Staffing challenges. NTIA and RUS will need additional personnel to administer BTOP and BIP. NTIA's initial risk assessment indicated that a lack of experienced and knowledgeable staff was a key risk to properly implementing the program in accordance with the priorities of the Recovery Act. In its fiscal year 2010 budget request to Congress, NTIA estimated that it will need 30 full-time-equivalent staff in fiscal year 2009 and 40 more full-time-equivalent staff for fiscal year 2010. While RUS already has broadband loan and grant programs in place and staff to administer them, it also faces a shortage of personnel. RUS's staffing

assessments indicated that the agency will need 47 additional full-time-equivalents to administer BIP.

Data challenges. NTIA and RUS lack detailed data on the availability of broadband service throughout the country that may limit their ability to target funds to priority areas. According to the agencies, priority areas include unserved and underserved areas. The agencies require applicants to assemble their proposed service areas from contiguous census blocks and to identify the proposed service area as unserved or underserved. However, the agencies will be awarding loans and grants before the national broadband plan or broadband mapping is complete. FCC must complete the national broadband plan by February 17, 2010, and NTIA does not expect to have complete, national data on broadband service levels at the census block level until at least March 2010.⁵

NTIA and RUS Have Taken Steps That Address Some Challenges in the Evaluation of Applications and Awarding of Funds

Two-step evaluation process. To address the scheduling and staffing challenges, NTIA and RUS are using a two-step process. In the first step, the agencies will evaluate and score applications based on the criteria in the NOFA, such as project purpose and project viability. During this step, the agencies will select which applications proceed to the second step. After the first step is complete and the pool of potential projects is reduced, the agencies intend to conduct the second step—due diligence, which involves requesting extra documentation to confirm and verify information contained in an application. Since not all applications will proceed to the second step, not all applicants will be required to submit extra documentation which will reduce the amount of information the agencies must review.

Use of nongovernmental personnel. Both NTIA and RUS are using nongovernmental personnel to address anticipated staffing needs associated with the evaluation of applications and awarding of funds. To evaluate applications, NTIA is using a volunteer peer review system, in which three unpaid, expert reviewers examine and score applications; these volunteers must have significant expertise and experience in broadband-related activities, such as the construction and operation of a broadband network. In addition, NTIA will use contractors in an administrative role to assist the expert reviewers. RUS will also use

⁵As required by the Recovery Act, NTIA must make available a national broadband map by February 17, 2011.

contractors to evaluate and score applications. Regardless of who reviews the application, the final selection and funding decisions are to be formally made by a selecting official in each agency.

Publish applicant information. To address the challenge of incomplete data on broadband service, NTIA and RUS require applicants to identify and attest to the service availability—either unserved or underserved—in their proposed service area. In order to verify these self-attestations, NTIA and RUS will post a public notice identifying the proposed funded service area of each broadband infrastructure applicant. The agencies intend to allow existing service providers in the proposed service area to question an applicant’s characterization of broadband service in that area. If this information raises eligibility issues, RUS may send field staff to the proposed service area to conduct a market survey. RUS will resolve eligibility issues by determining the actual availability of broadband service in the proposed service area. NTIA has no procedure for resolving these types of issues.

The Agencies’ Remaining Schedule May Pose Risks to the Review of Applications

During the first funding round, the compressed schedule posed a challenge for both applicants and the agencies. As mentioned previously, NTIA and RUS initially proposed to utilize three separate funding rounds during the 18-month window to award the \$7.2 billion. As such, each funding round would operate under a compressed schedule. Eight of the 15 industry stakeholders with whom we spoke expressed concern that a small entity would have difficulties in completing an application in a timely manner. The compressed schedule also posed challenges for the agencies. During the first funding round, the agencies missed several milestones. For example, RUS originally intended to select a contractor on June 12, 2009, and NTIA intended to select a contractor on June 30, 2009; however, both agencies missed their target dates, with RUS selecting its contractor on July 31, 2009, and NTIA selecting its contractor on August 3, 2009.

Because of the compressed schedule within the individual funding rounds, NTIA and RUS have less time to review applications than similar grant and loan programs. In the first funding round, the agencies have approximately 2 months to review 2,200 applications. In contrast, from fiscal year 2005 through 2008, RUS took from 4 to 7 months to receive and review an average of 26 applications per year for its Broadband Access Loan Program. NTIA’s Public Telecommunications Facilities Program operated on a year-long grant award cycle. For the PSIC program, NTIA and DHS completed application reviews in roughly 6 months.

Based on their experience with the first funding round, NTIA and RUS are considering reducing the number of funding rounds from three to two. In the second and final funding round, the agencies anticipate extending the window for entities to submit applications. This change will help mitigate the challenges the compressed schedule posed for applicants in the first funding round. However, it is unclear whether the agencies will similarly extend the amount of time to review the applications and thereby bring the review time more in line with the experiences of other broadband grant and loan programs. NTIA officials indicated that the agency would like to make all awards by summer 2010, to promote the stimulative effect of the BTOP program. Alternatively, RUS officials indicated that the agency will make all awards by September 30, 2010, as required by the Recovery Act, indicating a potentially longer review process.

Depending on the timeframes NTIA and RUS select, the risks for both applicants and the agencies may persist with two funding rounds. In particular, these risks include:

- **Limited opportunity for “lessons learned.”** Based on the current schedule, NTIA and RUS will have less than one month between the completion of the first funding round and the beginning of the second funding round. Because of this compressed time frame, applicants might not have sufficient time to analyze their experiences with the first funding round to provide constructive comments to the agencies. Further, the agencies might not have sufficient time to analyze the outcomes of the first round and the comments from potential applicants. As such, a compressed schedule limits the opportunity to apply lessons learned from the first funding round to improve the second round.
- **Compressed schedule to review applications.** Due to the complex nature of many projects, NTIA and RUS need adequate time to evaluate the wide range of applications and verify the information contained in the applications. NTIA is soliciting applications for infrastructure, public computer center, and sustainable adoption projects. Therefore, NTIA will receive applications containing information responding to different criteria and it will evaluate the applications with different standards. Even among infrastructure applications, a wide variability exists in the estimates, projections, and performance measures considered reasonable for a project. For example, in RUS’s Broadband Access Loan Program, approved broadband loans for the highest-cost projects, on a cost-per-subscriber basis, ranged as much as 15, 18, and even 70 times as high as the lowest-cost project, even among projects using the same technology to deploy broadband.

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- **Continued lack of broadband data and plan.** According to NTIA, national broadband data provide critical information for grant making. NTIA does not expect to have complete data for a national broadband map until at least March 2010. Also, as mentioned previously, FCC must deliver to Congress a national broadband plan by February 17, 2010. By operating on a compressed schedule, NTIA and RUS will complete the first funding round before the agencies have the data needed to target funds to unserved and underserved areas and before FCC completes the national broadband plan. Depending on the time frames the agencies select for the second funding round, they may again review applications without the benefit of national broadband data and a national broadband plan.

NTIA and RUS Face Staffing Challenges in Overseeing Funded Projects, and Despite Steps Taken, Several Risks to Project Oversight Remain

NTIA and RUS will need to oversee a far greater number of projects than in the past, including projects with large budgets and a diversity of purposes and locations. In doing so, the agencies face the challenge of monitoring these projects with far fewer staff per project than were available in similar grant and loan programs they have managed. To address this challenge, NTIA and RUS procured contractors to assist with oversight activities and will require funding recipients to complete quarterly reports and, in some cases, obtain annual audits. Despite the steps taken, several risks remain to adequate oversight. These risks include insufficient resources to actively monitor funded projects beyond fiscal year 2010 and a lack of updated performance measures for NTIA and RUS. In addition, NTIA has yet to define annual audit requirements for commercial entities funded under BTOP.

A Large Number of Projects to Oversee Creates Staffing Challenges

NTIA and RUS will need to oversee a far greater number of projects than in the past. Although the exact number of funded projects is unknown, both agencies have estimated that they could fund as many as 1,000 projects each—or 2,000 projects in total—before September 30, 2010.⁶ In comparison, from fiscal year 1994 through fiscal year 2004, NTIA awarded a total of 610 grants through its Technology Opportunities Program—or an average of 55 grants per year. From fiscal year 2005 through fiscal year

⁶Based on the average request in the first funding round, NTIA and RUS may fund fewer projects than they originally estimated, but those funded projects may be of higher cost. For example, according to NTIA and RUS data, the average funding request for infrastructure projects in the first round was more than \$20 million for BTOP, more than \$12 million for BIP, and more than \$15 million for projects requesting funding from either agency. If NTIA and RUS fund projects at the average requested funding amount—and based on the total available funding for the different types of projects—NTIA and RUS would award about 930 projects in total.

2008, RUS awarded a total of 84 Community Connect grants, averaging 21 grants per year; and through its Broadband Access Loan Program, RUS approved 92 loans from fiscal year 2003 through fiscal year 2008, or about 15 loans per year.

In addition to overseeing a large number of projects, the scale and diversity of BTOP- and BIP-funded projects are likely to be much greater than projects funded under the agencies' prior grant programs. Based on NTIA's estimated funding authority for BTOP grants and RUS's estimated potential total funding for BIP grants, loans, and loan/grant combinations, if the agencies fund 1,000 projects each, as estimated, the average funded amount for BTOP and BIP projects would be about \$4.35 million and \$9 million, respectively. In comparison, from fiscal year 1994 to fiscal year 2004, NTIA's average grant award for its Technology Opportunities Program was about \$382,000 and from fiscal year 2005 to fiscal year 2008, RUS awarded, on average, about \$521,000 per Community Connect grant award. Further, the agencies expect to fund several different types of projects that will be dispersed nationwide, such as infrastructure and public computer center projects.

Because of the volume of expected projects, NTIA and RUS plan to oversee and monitor BTOP- and BIP-funded projects with fewer staff resources per project than the agencies used in similar grant and loan programs (see table 1). NTIA reported that it will need 41 full-time-equivalent staff to manage BTOP; at the time of our review it had filled 33 of these positions. Based on NTIA's estimate of funding 1,000 projects and its estimated 41 full-time-equivalent staff needed, NTIA will have about 1 full-time-equivalent staff available for every 24 projects. NTIA reported that it is continually assessing its resources and is considering additional staff hires. Similarly, RUS reported that it will need 47 full-time-equivalent staff to administer all aspects of BIP, and the majority of these positions were to be filled by the end of September 2009. These 47 staff members are in addition to the 114 full-time-equivalent staff in the Rural Development Telecommunications program which support four existing loan or grant programs.⁷ If RUS funds a total of 1,000 projects, as estimated, based on the 47 staff assigned to BIP, it would have 1 staff of any capacity available for every 21 funded projects. RUS reported that it

⁷These programs are RUS's Telecommunications Infrastructure loan program, the Distance Learning and Telemedicine loan and grant program, the Broadband Access Loan Program, and Community Connect grant program.

could use other staff in the Rural Development Telecommunications program to address BIP staffing needs, if necessary.

Table 1: Estimated NTIA and RUS Full-Time-Equivalent Staff for Grant and Loan Programs

Program	Average number of projects funded per year	Average full-time-equivalent staff per year	Ratio of funded projects to full-time-equivalent staff
NTIA BTOP (FY 2010) (NTIA estimate)	1,000 in FY 2010	41	24 to 1
NTIA Technology Opportunities Program ^a	55	16	3 to 1
RUS BIP (FY 2010) (RUS estimate)	1,000 in FY 2010	47	21 to 1
RUS Broadband Access Loan Program ^b	15	17	.9 to 1

Source: GAO analysis of NTIA and RUS data.

Note: In our review, we did not evaluate whether the per-project staffing levels available to NTIA for its Technology Opportunities Program or to RUS for its Broadband Access Loan Program were appropriate for those programs.

^aNTIA Technology Opportunities Program data are for fiscal years 1994 through 2004.

^bRUS Broadband Access Loan Program data are for fiscal years 2003 through 2008. RUS Community Connect Grant program data are not included here because RUS reported that it does not have full-time staff dedicated to this program.

To Address Project Oversight Challenges, NTIA and RUS Are Procuring Contractor Services and Requiring Funding Recipient Reports and Audits

Contractor services. NTIA and RUS will use contractors to help monitor and provide technical assistance for BTOP and BIP projects. On August 3, 2009, NTIA procured contractor services to assist in a range of tasks, including tracking and summarizing grantees' performance, developing grant-monitoring guidance, and assisting with site visits and responses to audits of BTOP-funded projects. On July 31, 2009, RUS awarded a contract to a separate contractor for a wide range of program management activities for BIP. RUS's contractor will be responsible for a number of grant-monitoring activities, including developing a workflow system to track grants and loans, assisting RUS in developing project monitoring guidance and policies, and assisting in site visits to monitor projects and guard against waste, fraud, and abuse.

In addition to its contractor, RUS intends to use existing field staff for program oversight. RUS reported that it currently has 30 general field representatives in the telecommunications program and 31 field accountants in USDA's Rural Development mission area that may be available to monitor broadband programs. In addition, RUS officials told us that Rural Development has an estimated 5,000 field staff available across the country that support a variety of Rural Development loan and grant programs. Although these individuals do not have specific experience with telecommunications or broadband projects, according to RUS, this staff has experience supporting RUS's business and community development loan programs, and this workforce could be used for project monitoring activities if there were an acute need. Unlike RUS, NTIA does not have field staff. According to NTIA, the agency has been in talks with RUS about sharing some of RUS's field staff to monitor BTOP projects, although no formal agreement is in place.

Recipient reports and audits. To help address the challenge of monitoring a large number of diverse projects, NTIA and RUS have developed program-specific reporting requirements that are intended to provide transparency on the progress of funded projects. Based on our review of the requirements, if NTIA and RUS have sufficient capacity to review and verify that information provided by funding recipients is accurate and reliable, these requirements could provide the agencies with useful information to help them monitor projects. The following reporting requirements apply to BTOP and BIP funding recipients:

- **General recovery act reports.** Section 1512 of the Recovery Act and related OMB guidance requires all funding recipients to report quarterly to a centralized reporting system on, among other things, the amount of funding received that was expended or obligated, the project completion status, and an estimate of the number of jobs created or retained through the funded project, among other information.⁸ Under OMB guidance, awarding agencies are responsible for ensuring that funding recipients submit timely reports, and must perform a data quality review and request further information or corrections by funding recipients, if necessary.⁹

⁸Pub. L. No. 111-5, div. A, tit. XV, § 1512(c),(d) (2009).

⁹See OMB memorandum, M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (June 22, 2009).

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- **BTOP-specific reports.** The Recovery Act requires BTOP funding recipients to report quarterly on their use of funds and NTIA to make these reports available to the public.¹⁰ NTIA also requires that funding recipients report quarterly on their broadband equipment purchases and progress made in achieving goals, objectives, and milestones identified in the recipient's application, including whether the recipient is on schedule to substantially complete its project no later than 2 years after the award and complete its project no later than 3 years after the award. Recipients of funding for infrastructure projects must report on a number of metrics, such as the number of households and businesses receiving new or improved access to broadband as a result of the project, and the advertised and averaged broadband speeds and the price of the broadband services provided.¹¹
 - **BIP-specific reports.** RUS requires BIP funding recipients to submit quarterly balance sheets, income and cash-flow statements, and the number of customers taking broadband service on a per community basis, among other information. BIP funding recipients must also report annually on the number of households; businesses; and educational, library, health care, and public safety providers subscribing to new or improved access to broadband. RUS officials reported that it plans to use quarterly reports to identify specific projects for on-site monitoring and to determine when that monitoring should take place.

NTIA and RUS also require some funding recipients to obtain annual, independent audits of their projects; however, NTIA has yet to determine what annual audit requirements, if any, will apply to commercial grantees (see table 2). The primary tool for monitoring federal awards through annual audits is the single audit report required under the Single Audit Act,

¹⁰Pub. L. No. 111-5, div. B, tit. VI, § 6001(i)(1) (2009).

¹¹BTOP recipients of sustainable adoption and public computer center funding must report project-specific information, such as the increase in the number of households, businesses, and community anchor institutions subscribing to broadband service and the primary uses of the public computer center. 74 Fed. Reg. 33104, 33125.

as amended.¹² We recently reported that the Single Audit is a valuable source of information on internal control and compliance for use in a management’s risk assessment and monitoring processes—and with some adjustments, we said, the Single Audit process could be improved for Recovery Act oversight.¹³ The Single Audit report is prepared in accordance with OMB’s implementing guidance in OMB Circular No. A-133.¹⁴ All states, local governments, and nonprofit organizations that expend over \$500,000 in federal awards per year must obtain an annual Single Audit or, in some cases, a program-specific audit. Commercial (for profit) entities awarded federal funding of any amount are not covered by the Single Audit Act, and states, local governments, and nonprofit organizations expending less than \$500,000 in federal awards per year are also not required to obtain an annual Single Audit under the Single Audit Act.¹⁵ RUS, however, requires all commercial recipients of BIP funds to obtain an annual, independent audit of their financial statements under requirements that also apply to RUS’s existing broadband grant and loan programs.¹⁶ NTIA has yet to determine what annual audit requirements, if any, will apply to commercial grantees.

¹²31 U.S.C. ch. 75. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity’s compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs. The audit report also includes the auditor’s schedule of findings and questioned costs, and the auditee’s corrective action plans and a summary of prior audit findings that includes planned and completed corrective actions. Auditors are also required to report on significant deficiencies in internal control and on compliance associated with the audit of the financial statements. Entities that expend federal awards under only one program may elect to have a program-specific audit in lieu of the single audit.

¹³See GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, [GAO-09-580](#) (Washington, D.C.: Apr. 23, 2009), and *Recovery Act: States’ and Localities’ Current and Planned Uses of Funds While Facing Fiscal Stresses*, [GAO-09-831T](#) (Washington, D.C.: July 8, 2009).

¹⁴OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

¹⁵Under DOC regulations, for-profit hospitals and commercial and other organizations not subject to the Single Audit Act may be subject to an audit requirement to the extent one is included in the federal award document. See 15 C.F.R. § 14.26.

¹⁶7 C.F.R. § 1773.3. All RUS commercial grantees must obtain an annual audit of their financial statements by an independent, certified public accountant meeting the standards set by RUS.

Table 2: Annual Audit Requirements for BTOP and BIP Funding Recipients

Amount of federal awards expended annually	Type of entity	BTOP annual audit requirements	BIP annual audit requirements
More than \$500,000	Nonprofit organizations, state or local government, or tribal authority	Single audit, OMB Circular A-133	Single audit, OMB Circular A-133
	Commercial organizations	To be determined	Financial statement audit, 7 CFR 1773.3
Less than \$500,000	Nonprofit organizations, state or local government, or tribal authority	To be determined	None
	Commercial organizations	To be determined	Financial statement audit, 7 CFR 1773.3

Source: GAO analysis of NTIA and RUS data.

Several Risks to Project Oversight Remain

Lack of sufficient resources beyond fiscal year 2010. Both NTIA and RUS face the risk of having insufficient resources to actively monitor BTOP- and BIP-funded projects after September 30, 2010, which could result in insufficient oversight of projects not yet completed by that date. As required by the Recovery Act, NTIA and RUS must ensure that all awards are made before the end of fiscal year 2010. Under the current timeline, the agencies do not anticipate completing the award of funds until that date. Funded projects must be substantially complete no later than 2 years, and complete no later than 3 years following the date of issuance of the award. Yet, the Recovery Act provides funding through September 30, 2010. The DOC Inspector General has expressed concerns that “without sufficient funding for a BTOP program office, funded projects that are still underway at September 30, 2010, will no longer be actively managed, monitored, and closed.”¹⁷ NTIA officials told us that NTIA has consulted with the OMB about seeking BTOP funding after September 30, 2010, to allow it to close grants. RUS officials reported that given the large increase in its project portfolio from BIP, RUS’s capacity to actively monitor these projects after its BIP funding expires may be stressed. Without sufficient resources to actively monitor and close BTOP grants and BIP grants and loans by the required completion dates, NTIA and RUS may be unable to ensure that all recipients have expended their funding and completed projects as required.

¹⁷Department of Commerce, *Office of Inspector General Recovery Act Flash Report: NTIA Should Apply Lessons Learned from Public Safety Interoperable Communications Program to Ensure Sound Management and Timely Execution of \$4.7 Billion Broadband Technology Opportunities Program* (Washington, D.C., March 2009).

Lack of updated performance measures. The Government Performance and Results Act of 1993 (GPRA) directs federal agencies to establish objective, quantifiable, and measurable goals within annual performance plans to improve program effectiveness, accountability, and service delivery.¹⁸ Specifically, performance measures allow an agency to track its progress in achieving intended results and help inform management decisions about such issues as the need to redirect resources or shift priorities.

NTIA has established preliminary program performance measures for BTOP, including job creation, increasing broadband access, stimulation of private sector investment, and spurring broadband demand. However, NTIA has not established quantitative, outcome-based goals for those measures. NTIA officials reported that the agency lacks sufficient data to develop such goals and is using applications for the first round of funding to gather data, such as the expected number of households that will receive new or improved broadband service. According to NTIA officials, data collected from applications for the first funding round could be used to develop program goals for future funding rounds.

RUS has established quantifiable program goals for its existing broadband grant and loan programs, including a measure for the number of subscribers receiving new or improved broadband service as a result of the programs. However, according to USDA's fiscal year 2010 annual performance plan, RUS has not updated its measures to reflect the large increase in funding it received for broadband programs under the Recovery Act. In addition, RUS officials told us that the agency's existing measure for the number of subscribers receiving new or improved broadband access as a result of its programs is based on the estimates provided by RUS borrowers in their applications. Consequently, these program goals do not reflect actual program outcomes, but rather the estimates of applicants prior to the execution of their funded projects.

Undefined audit requirements for commercial recipients. At the time of our review, NTIA did not have audit requirements or guidelines in place for annual audits of commercial entities receiving BTOP grants. NTIA officials reported that because BTOP is the first program managed by NTIA to make grants to commercial entities, the agency does not have existing audit guidelines for commercial entities. However, NTIA reported

¹⁸31 U.S.C. § 1115.

that it intends to develop program-specific audit requirements and guidelines that will apply to commercial recipients that receive broadband grants and it plans to have those guidelines in place by December 2009. In the absence of clear audit requirements and guidelines for commercial recipients of BTOP funding, NTIA will lack an important oversight tool to identify risks and monitor BTOP grant expenditures.

Mr. Chairman and Members of the Committee, this concludes my prepared statement. Our future work, which we expect to complete in November, will provide additional information on the implementation and oversight of the broadband programs. We also expect to make recommendations at that time. I would be pleased to respond to any questions that you or other members of the committee might have.

For questions regarding this statement, please contact Mark L. Goldstein at (202) 512-2834 or goldsteinm@gao.gov. Contact points for our Offices of Congressional Relations and Public Relations can be found on the last page of this statement. Michael Clements, Assistant Director; Eli Albagli; Matt Barranca; Elizabeth Eisenstadt; Dean Gudicello; Tom James; Kim McGatlin; Sara Ann Moessbauer; Josh Ormond; and Mindi Weisenbloom also made key contributions to this statement.

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