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RECOVERY ACT

Broadband Programs Awards and Risks to Oversight

Statement of Mark L. Goldstein, Director
Physical Infrastructure Issues



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Highlights of [GAO-11-371T](#), a testimony before the Subcommittee on Communications and Technology, Committee on Energy and Commerce, House of Representatives

Why GAO Did This Study

Access to broadband service—a high-speed connection to the Internet—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 of 2009 (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 Recovery Act required the agencies to award all funds by September 30, 2010.

This testimony addresses (1) NTIA’s and RUS’s efforts to award Recovery Act broadband funds and (2) the remaining risks that NTIA and RUS face in providing oversight for funded projects. To conduct this work, GAO reviewed and summarized information from prior GAO work. GAO also reviewed NTIA and RUS reports on the status of the agencies’ programs and gathered information from the agencies on steps taken to respond to prior GAO recommendations.

In past work, GAO recommended that the agencies take several actions, such as developing contingency plans to ensure sufficient resources for project oversight. NTIA and RUS have taken some steps to address GAO’s recommendations.

View [GAO-11-371T](#) or key components. For more information, contact Mark L. Goldstein at (202) 512-2834 or goldsteinm@gao.gov.

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RECOVERY ACT

Broadband Programs Awards and Risks to Oversight

What GAO Found

NTIA and RUS awarded grants and loans for several hundred broadband projects in two funding rounds. By the end of fiscal year 2010, NTIA and RUS awarded grants and loans to 553 broadband projects across the country (see table below). These projects represent almost \$7.5 billion in awarded funds, which exceeds the \$7.2 billion provided by the Recovery Act because RUS—which awards loans that must be repaid to the government—has authority to provide funds in excess of its budget authority. In its review of the first funding round, GAO found that NTIA and RUS, with the help of the agencies’ contractors, consistently substantiated information provided by award recipients’ applications. GAO has not evaluated the thoroughness of the process used by the agencies in the second round of funding.

Even with steps taken to address project oversight, risks to the success of the broadband programs remain. GAO previously reported that NTIA and RUS face several challenges to successfully overseeing the broadband programs. These challenges include (1) monitoring and overseeing a combined total of 553 projects that are diverse in scale, scope, and technology and (2) conducting project oversight activities after the expiration of Recovery Act funding on September 30, 2010. Because of these challenges, in two previous reports, GAO recommended that NTIA and RUS take several actions to ensure that funded projects receive sufficient oversight. For example, GAO recommended that NTIA and RUS develop contingency plans to ensure sufficient resources for oversight of funded projects beyond fiscal year 2010. The agencies have taken several actions to address GAO’s recommendations and improve oversight of funded projects—both agencies developed oversight plans, RUS secured contractor support through fiscal year 2013, and NTIA established audit requirements for commercial awardees. Even with these actions, GAO remains concerned about the oversight of the broadband programs. In particular, GAO believes the agencies, and especially NTIA, need to do more to ensure their oversight plans reflect current fiscal realities.

Projects Awarded Federal Funding by NTIA and RUS as of September 30, 2010

(Dollars in millions)

Agency	Federal funds awarded	Projects awarded funding
NTIA grants	\$3,936	233
RUS grants and loans	3,529 ^a	320
Total	\$7,465	553

Source: NTIA and RUS documents.

^aThis amount is based on a total budget authority of more than \$2.4 billion, which includes more than \$2.3 billion for grants and about \$87 million to support loans.

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to participate in this hearing to discuss oversight of the broadband programs funded through the American Recovery and Reinvestment Act of 2009¹ (Recovery Act). Access to broadband—which offers a higher speed Internet connection than dial-up and always-on connectivity—is seen as vital to economic, social, and educational development. However, 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 National Telecommunications and Information Administration (NTIA)² and \$2.5 billion for the Department of Agriculture’s Rural Utilities Service (RUS). Specifically, the Recovery Act authorized NTIA to create the Broadband Technology Opportunities Program (BTOP) to support broadband infrastructure deployment, public computer centers, and innovative projects to stimulate demand for, and adoption of, broadband.³ Similarly, RUS established the Broadband Initiatives Program (BIP) to support broadband infrastructure projects in rural areas. The Recovery Act required NTIA and RUS to 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.

As part of our ongoing efforts to monitor Recovery Act programs, we issued two reports that reviewed NTIA’s and RUS’s respective implementation of BTOP and BIP.⁴ In those reports, we provided information on the agencies’ efforts to evaluate grant and loan applications and award funds, as well as on challenges the agencies face in overseeing funded projects. We made several recommendations to NTIA

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

²Congress subsequently rescinded \$300 million of the funding provided for NTIA that had not been awarded previously. Pub. L. No. 111-226 § 302, 124 Stat. 2389, 2404 (2010).

³Of the \$4.7 billion, up to \$350 million was made available for the purpose of developing and maintaining a nationwide map featuring the availability of broadband service, with some funds available for transfer to the Federal Communications Commission for the development of a national broadband plan.

⁴GAO, *Recovery Act: Further Opportunities Exist to Strengthen Oversight of Broadband Stimulus Programs*, [GAO-10-823](#) (Washington, D.C.: Aug. 4, 2010), and *Recovery Act: Agencies Are Addressing Broadband Program Challenges, but Actions Are Needed to Improve Implementation*, [GAO-10-80](#) (Washington, D.C.: Nov. 16, 2009).

and RUS in those reports to address the process by which the agencies reviewed funding applications, and to improve the agencies' oversight and monitoring of funded projects. My testimony today summarizes and updates information from those reports by discussing (1) NTIA's and RUS's efforts to award Recovery Act broadband funds and (2) remaining risks that NTIA and RUS face in providing oversight for funded projects.

To conduct our work, we reviewed and summarized information from our existing reports and prior testimony.⁵ We reviewed NTIA and RUS reports on the status of BTOP and BIP awards. We also gathered additional information from NTIA and RUS on steps taken by the agencies to respond to recommendations in our prior reports. We conducted all of our work in accordance with generally accepted government auditing standards. Additional information on our scope and methodology is available in each issued product.

NTIA and RUS Awarded Grants and Loans for Several Hundred Broadband Projects in Two Funding Rounds

By the end of fiscal year 2010, NTIA and RUS awarded grants and loans to 553 broadband projects across the country (see table 1). These projects represent almost \$7.5 billion in funds awarded, which exceeds the \$7.2 billion provided by the Recovery Act because an agency such as RUS that awards loans can award and obligate funds in excess of its budget authority.⁶ NTIA awarded more than \$3.9 billion in grant funding to 233 projects for various purposes, including 123 broadband infrastructure projects, 66 public computer center projects, and 44 projects designed to encourage broadband adoption. NTIA reported that the vast majority of its broadband infrastructure projects were investments in middle-mile infrastructure projects, which are intended to provide a link from the Internet backbone to the networks of local broadband service providers, such as cable or phone companies. Based on a budget authority of more than \$2.4 billion, RUS awarded funds to 320 projects, including more than \$2.3 billion for grants and about \$87 million for loans. According to RUS,

⁵GAO, *Recovery Act: Preliminary Observations on the Implementation of Broadband Programs*, [GAO-10-192T](#) (Washington, D.C.: Oct. 27, 2009).

⁶RUS received \$2.5 billion for both grants and loans. For grants, the face amount of each grant is charged against RUS budget authority. Because loans, unlike grants, must be repaid to the government, RUS uses a complex formula to calculate charges against its budget authority. The Federal Credit Reform Act of 1990 requires RUS to account for the budgetary impact of loans by estimating the expected net loss (or gain) of loans. This net amount, which is estimated by calculating the net present value of all cash flows to and from RUS over the lifetime of the loans, is referred to as the subsidy cost of the loans. RUS must charge the subsidy cost of loans to its budget authority.

the budget authority of \$87 million for loans supports almost \$1.2 billion in total loans, and a combined loan and grant award amount of more than \$3.5 billion. According to RUS, the vast majority of its awards and funding amounts went to last-mile projects, which are intended to provide connections from Internet service providers to homes, businesses, or other users.

Table 1: Projects Awarded Federal Funding by NTIA and RUS as of September 30, 2010

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NTIA and RUS awarded the BTOP and BIP grants, loans, and loan/grant combinations in two funding rounds. NTIA and RUS initially proposed using three separate funding rounds during the 18-month window to award the entire \$7.2 billion. We reported that under this approach each funding round would operate under a compressed schedule that would impose challenges on applicants in preparing their project applications, as well as on the agencies in reviewing these applications to meet their statutory deadlines. NTIA and RUS subsequently revised their plans and issued the awards in two funding rounds.

- In the first funding round, which began in July 2009 and ended in April 2010, NTIA and RUS received more than 2,200 applications and awarded 143 grants, loans, and loan/grant combinations totaling almost \$2.2 billion to a variety of entities in nearly every state and U.S. territory. In our review of the first funding round, we found that NTIA and RUS, with the help of the agencies' contractors—Booz Allen Hamilton and ICF International, respectively—consistently substantiated information provided by award recipients in their applications during the first round of funding.⁷ We reviewed 32 award recipient applications and found that the agencies consistently reviewed the applications and substantiated the information

⁷GAO-10-823.

as specified in the first funding notice. In each of the files, we observed written documentation that the agencies and their contractors reviewed and verified pertinent application materials, and requested additional documentation where necessary.

- In the second funding round, which began in January 2010 and ended in September 2010, NTIA and RUS received more than 1,700 applications and awarded approximately \$5.3 billion in funding for 410 projects. To meet the Recovery Act's September 30, 2010, deadline for awarding broadband funds, NTIA and RUS streamlined their application review processes by issuing separate funding notices that targeted different types of infrastructure projects and reduced the number of steps in the due-diligence review process. NTIA also reduced the basic eligibility factors for BTOP grants from five to three, moved from a largely unpaid to a paid reviewer model to ensure that reviews were conducted in a timely fashion, and decreased the number of reviewers per application from three to two. Although NTIA officials reported that these steps allowed the agency to complete the initial portion of its review ahead of schedule, we have not evaluated the thoroughness of the revised evaluation process used by the agencies in the second round of funding.

Even with Steps Taken to Address Project Oversight, Risks to the Success of the Broadband Programs Remain

We previously reported that NTIA and RUS face several challenges to successfully overseeing the broadband programs. These challenges include:

Number and scale of projects. NTIA and RUS will need to monitor and oversee a combined total of 553 projects that are diverse in scale, scope, and technology. The agencies funded several types of broadband projects dispersed nationwide, with at least one project in every state. NTIA funded middle-mile broadband infrastructure projects for unserved and underserved areas, public computer centers, and sustainable broadband adoption projects. RUS funded both last- and middle-mile infrastructure projects in rural areas across the country. The agencies funded projects using multiple types of technology, including wireline, wireless, and satellite. In addition, the agencies awarded funds to many large projects, which may pose a greater risk for misuse of federal funds than smaller projects. One of RUS's largest projects provided more than \$81 million in grant funding and \$10 million in loan funding to the American Samoa Telecommunications Authority to replace old copper infrastructure with a fiber-optic network to link the main islands of American Samoa; RUS reported that this project will make broadband services available to 9,735 households, 315 businesses, and 106 anchor institutions, and create an estimated 2,000 jobs. One of NTIA's largest BTOP projects received more

than \$154 million, which was awarded to Los Angeles region public safety agencies to deploy a public safety mobile broadband network across Los Angeles County to enable services such as computer-aided dispatch, rapid law-enforcement queries, real-time video streaming, and medical telemetry and patient tracking, among others.

Adding to these challenges, NTIA and RUS must ensure that the recipient constructs the infrastructure project in the entire project area, not just the area where it may be most profitable for the company to provide service. For example, the Recovery Act mandates that RUS fund projects where at least 75 percent of the funded area is in a rural area that lacks sufficient access to high-speed broadband service to facilitate rural economic development; these are often rural areas with limited demand, and the high cost of providing service to these areas make them less profitable for broadband providers. Companies may have an incentive to build first where they have the most opportunity for profit and leave the unserved parts of their projects for last in order to achieve the highest number of subscribers as possible. To ensure that Recovery Act funds reach hard-to-serve areas, recipients must deploy their infrastructure projects throughout the proposed area on which their award was based.

Providing oversight after Recovery Act funding has ceased. BTOP and BIP projects must be substantially complete within 2 years of the award date and fully complete within 3 years of the award date. As a result, some projects are not expected to be completed until 2013. As we previously reported, NTIA and RUS officials maintain that site visits, in particular, are essential to monitoring progress and ensuring compliance. However, the Recovery Act did not provide specific funding for the administration and oversight of BTOP- and BIP-funded projects beyond September 30, 2010. To effectively monitor and oversee more than \$7 billion in Recovery Act broadband funding, NTIA and RUS will have to devote sufficient resources, including staffing, to ensure that recipients fulfill their obligations.

Because of these challenges, in our 2009 and 2010 reports, we recommended that NTIA and RUS take several actions to ensure that funded projects receive sufficient oversight:

1. NTIA and RUS should develop contingency plans to ensure sufficient resources for oversight of funded projects beyond fiscal year 2010. Furthermore, we recommended that the agencies incorporate into their risk-based monitoring plans, steps to address

the variability in funding levels for postaward oversight beyond September 30, 2010.

2. NTIA and RUS should use information provided by applicants in the first funding round to establish quantifiable, outcome-based performance goals by which to measure program effectiveness.
3. NTIA should determine whether commercial entities receiving BTOP grants should be subject to an annual audit requirement.

NTIA and RUS have taken several actions to address these recommendations and improve oversight of funded projects. These actions include:

NTIA and RUS developed oversight plans. NTIA has developed and is beginning to implement a postaward framework to ensure the successful execution of BTOP. This framework includes three main elements: (1) monitoring and reporting, (2) compliance, and (3) technical assistance. As part of its oversight plans, NTIA intends to use desk reviews and on-site visits to monitor the implementation of BTOP awards and ensure compliance with award conditions by recipients. NTIA also plans to provide technical assistance in the form of training, Webinars, conference calls, workshops, and outreach for all recipients of BTOP funding to address any problems or issues recipients may have implementing the projects, as well as to assist in adhering to award guidelines and regulatory requirements. Additionally, RUS is putting into place a multifaceted oversight framework to monitor compliance and progress for recipients of BIP funding. Unlike NTIA, which is developing a new oversight framework for BTOP, RUS plans to use the same oversight framework for BIP that it uses for its existing grant and loan programs. The main components of RUS's oversight framework are (1) financial and program reporting and (2) desk and field monitoring. According to RUS officials, no later than 30 days after the end of each calendar-year quarter, BIP recipients will be required to submit several types of information to RUS, including balance sheets, income statements, statements of cash flow, summaries of rate packages, and the number of broadband subscribers in each community. In addition, RUS intends to conduct desk and site reviews.

RUS secured contractor support through fiscal year 2013. RUS extended its contract with ICF International to provide BIP program support through 2013. According to RUS, the agency fully funded the contract extension using Recovery Act funds and no additional appropriations are required to continue the contract through fiscal year

2013. In addition, RUS extended the term of employment through fiscal year 2011 for 25 temporary employees assigned to assist with the oversight of BIP projects.

NTIA established audit requirements for commercial awardees. On May 17, 2010, NTIA reported that for-profit awardees will be required to comply with program-specific audit requirements set forth by the Office of Management and Budget. This audit and reporting requirement will give NTIA the oversight tools it needs to help ensure that projects meet the objectives of the Recovery Act and guard against waste, fraud, and abuse.

Even with these actions, NTIA and RUS have not fully addressed all our recommendations and we therefore remain concerned about the oversight of the broadband programs. First, NTIA's oversight plan assumes the agency will receive additional funding for oversight. For fiscal year 2011, the President's budget request includes nearly \$24 million to continue oversight activities. NTIA reported that it is imperative that it receive sufficient funding to ensure effective oversight. In contrast, the President's budget request does not include additional resources to continue RUS's oversight activities, which the agency in part addressed through the extension of its contract with ICF International. However, should there be a reduction in RUS's fiscal year 2011 budget, the agency will need to assess its impacts and the temporary employment of 25 staff members, as discussed previously. Therefore, we believe the agencies, especially NTIA, need to do more to ensure their oversight plans reflect current fiscal realities. Second, we continue to keep our recommendation regarding performance goals open. NTIA has taken some action on this recommendation, such as creating goals related to new network miles and workstations deployed, but it continues to establish additional goals.

Mr. Chairman and Members of the subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions that you or other members of the subcommittee 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; Matt Barranca; Elizabeth Eisenstadt; Hannah Laufe; and Mindi Weisenbloom also made key contributions to this statement.

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