

GAO

Report to the Subcommittee on
Commerce, Justice, State, the
Judiciary, and Related Agencies,
Committee on Appropriations, U.S.
Senate

May 2001

SCHOOLS AND LIBRARIES PROGRAM

Update on E-Rate Funding



G A O

Accountability * Integrity * Reliability

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United States General Accounting Office
Washington, DC 20548

May 11, 2001

The Honorable Judd Gregg
Chairman
The Honorable Ernest F. Hollings
Ranking Member
Subcommittee on Commerce, Justice, State,
the Judiciary, and Related Agencies
Committee on Appropriations
United States Senate

As you know, the Telecommunications Act of 1996 expanded the traditional definition of universal service—affordable, nationwide telephone service—to include eligible schools and libraries.¹ Among other things, the act authorized the Federal Communications Commission (FCC) to implement a program to assist these institutions in acquiring advanced telecommunications services. Under FCC's program, (often referred to as the "e-rate" program), schools and libraries can receive discounts from vendors on the cost of eligible telecommunications services, Internet access, and internal connections (the equipment needed to deliver these services). The discounts range from 20 to 90 percent, with higher discounts going to applicants in low-income and rural areas.² FCC appointed the Universal Service Administrative Company (USAC) as the program's permanent administrator, although FCC retains responsibility for overseeing the program's operations and ensuring compliance with its

¹Generally, educational institutions that meet the definition of "schools" in the Elementary and Secondary Education Act of 1965 are eligible to participate in the e-rate program. Libraries eligible to receive assistance from a state's library administrative agency under the Library Services and Technology Act are eligible for support unless their budgets are part of a school's budget. Individual e-rate applications can cover single schools or libraries, whole school districts or library systems, consortia, or schools in entire cities and states.

²The program measures how economically disadvantaged the schools and libraries are by the number of students eligible to participate in the national school lunch program. Urban and rural designations are based on the Metropolitan Statistical Area (MSA) listing.

rules.³ USAC's Schools and Libraries Division (SLD) is responsible for carrying out the program's day-to-day operations.

To obtain e-rate support, eligible schools and libraries must submit an application to SLD specifying the services they wish to purchase, how much discount funding they would need, and the vendors they have selected to provide the services. SLD reviews each application and commits (i.e., sets aside) program funds for eligible requests. If the total amount of program funding requested by all applicants exceeds the program's funding cap (currently \$2.25 billion annually), priority is given to supporting requests for telecommunications services and Internet access. Any remaining funds are then used to support internal connection requests, starting with applicants with the highest discount level (90 percent) and moving downward through lower discount levels until the available funds are committed.

Schools and libraries do not receive funding directly from the program. The committed funds are held by USAC, which reimburses vendors directly for the discounted portion of the e-rate-approved services that they provide. In accordance with its internal control procedures, SLD will not approve payments of committed funds until (1) the applicant submits a form certifying that it has begun to receive e-rate-supported services from its vendor and (2) the vendor or the applicant has filed an invoice form requesting reimbursement for these services. Once SLD reviews these forms and approves payment, USAC disburses program funds to the vendors.

In our December 2000 report on e-rate issues, we included data on the amount of program funds requested, committed, and approved for payment during the first 2 program years (1998 and 1999), broken out by state.⁴ Funding commitments for the third program year (2000) were not

³USAC was originally established as a subsidiary of the National Exchange Carrier Association (NECA) to administer the high-cost and low-income universal service support mechanisms. USAC currently performs billing, collection, and disbursement functions for all universal service support mechanisms, including the e-rate program. These mechanisms are funded through a universal service fund. Under the act, every telecommunications carrier providing interstate service must contribute to this fund, unless exempted by FCC. The Commission also requires certain other telecommunications service providers, such as pay phone service providers, to contribute to the universal service fund.

⁴*Schools and Libraries Program: Application and Invoice Review Procedures Need Strengthening* (GAO-01-105, Dec. 15, 2000).

yet available because SLD and FCC had not finished making all of their commitment decisions at the time we concluded our review. After subsequent discussions with Subcommittee staff, we agreed to provide state-level data on (1) the amount of funds requested and committed for all 3 program years and (2) an update on the amount of committed funds approved for payment during the first 2 program years. In addition, we have included a preliminary estimate of the amount of e-rate funding requested for the fourth program year (2001).

Results in Brief

Requests for e-rate support have increased steadily from year to year since program funding began in 1998. For the third and fourth program years, total requests greatly exceeded the program's current annual funding cap of \$2.25 billion. For the third program year (2000), the requests exceeded \$4.2 billion. Although SLD had sufficient e-rate funds to support all valid requests for telecommunications services and Internet access for the third year, it could not support requests for internal connections from applicants with discount levels of 81 percent or lower, leaving nearly \$2 billion of the \$3.2 billion requested for internal connections unfunded. For the fourth program year (2001), SLD estimates that applicants requested nearly \$5.2 billion in program funds as of April 17, 2001. This estimate is subject to change as SLD reviews applications to eliminate invalid requests and accepts additional applications postmarked before the deadline. However, it appears that a large proportion of the nearly \$3.5 billion in internal connection requests may go unfunded.

Data from January 2001 indicate that more than \$880 million (24 percent) of the \$3.7 billion committed to applicants for the first 2 program years remains unused. This is a decrease from \$1.3 billion in unused funds (35 percent) at the end of August 2000. Funds that are committed, but unused, are held by USAC in interest-bearing accounts pending requests for reimbursements. FCC and SLD have taken steps to reduce the amount of committed funds that go unspent, including canceling the funding commitments of second-year applicants that have not confirmed that they have begun receiving services associated with these funds. Commenting on a draft of this report, FCC's Managing Director agreed with our analysis and provided some updated information. For example, FCC stated that as of April 2001, the amount of unused funds had decreased further to \$774 million. USAC's Chief Executive Officer commented that our report provides a useful update, and she also clarified USAC's policy on how it maintains its data. Copies of FCC's and USAC's comments are included in appendix II.

Demand for E-Rate Support Is Exceeding the Program's Funding Cap

Table 1 summarizes the funding requests for the first 3 program years at the national level.⁵ (Detailed state-level tables providing data on funding for each program year are found in app. I). SLD's data indicate that applicants requested more than \$2.3 billion in discount funding in the first program year.⁶ Because FCC set the first-year funding level at \$1.925 billion, not all of the requests could be funded. In accordance with FCC's funding priorities, SLD first committed funds to all valid requests for telecommunications and Internet access, and it then committed the remaining funds to valid internal connections requests from applicants with discount levels of 70 percent or higher. During the second program year (1999), FCC raised the funding level to the full \$2.25 billion allowed under the cap. After screening out approximately \$700 million in ineligible requests, SLD found that it had more than enough funds to approve all of the valid requests it received before the initial application deadline. Thereafter, FCC directed SLD to reopen the second-year application period so that the remainder of the funds could be used. In the third program year (2000), applicants requested more than \$4.2 billion in discount funding. Although the amount of funds requested for all categories of service increased from the previous program years, most of the additional funding requests were for internal connections. Because the program's annual funding cap remained at \$2.25 billion, SLD again approved requests using the funding priority rules. SLD was able to fund all eligible requests for telecommunications and Internet access, but it could fund internal connections requests only from applicants with discount levels of 82 percent or higher.

⁵The amounts presented in this report for the first 2 program years differ from those included in our December 2000 report because they reflect more current information. For example, some applicants cancelled funding requests or had their commitments revoked due to the inclusion of ineligible services. Also, in this report we included data for second-year applications received and processed after the initial application period.

⁶These estimates exclude requests that did not meet a filing deadline or include a required certification. However, because of inconsistencies in how SLD maintains its data, we could not exclude the value of requests for ineligible services. Thus, these estimates are likely to overestimate the level of valid requests but underestimate the amount originally requested. We discuss this issue further in appendix I.

Table 1: E-rate Funding Requested for the First 3 Program Years, by Category of Service

Category of service	First program Year (1998)	Second program year (1999)	Third program year (2000)
Internal connections	\$1,484,137,664	\$1,747,716,342	\$3,169,458,246
Internet access	133,100,693	181,203,526	247,451,662
Telecommunications	716,506,732	733,187,591	811,264,432
Total	\$2,333,745,089	\$2,662,107,458	\$4,228,174,339

Note: Columns may not add to totals due to rounding.

Source: GAO analysis of SLD data, as of January 2001.

For the fourth program year (2001), requests have again increased significantly. SLD's preliminary estimates indicate that applicants have requested almost \$5.2 billion in program funds. As shown in table 2, applicants requested about \$1.7 billion for telecommunications and Internet access. Under the current cap, this leaves only \$517 million from which to fund internal connections requests and other program needs – far less than the nearly \$3.5 billion requested by applicants for this purpose. Although these figures may change as SLD accepts additional valid applications and excludes ineligible requests, it appears likely that there will be insufficient funds to cover the \$1.6 billion in internal connections support requested by applicants in the highest priority level (i.e., those with a 90 percent discount level). According to FCC's priority rules, if the remaining funds are not sufficient to support all of the funding requests within a particular discount level, the total amount of remaining support available is to be divided by the amount of support requested within the particular discount level to produce a pro rata factor. The support level for each applicant within the particular discount level is then reduced by the amount derived from multiplying each applicant's requested amount of support by the pro-rata factor.⁷ SLD officials said that FCC is also considering other prioritization options.

⁷See 47 C.F.R. 507(g)(iv).

Table 2: Estimated Amount of Program Funds Requested by Applicants for Fourth Program Year (as of April 17, 2001)

Discount level	Telecommunications services	Internet access	Internal connections	Total (Percent of total)
20-29	\$2,124,662	\$554,757	\$2,910,514	\$5,589,934 (0.1%)
30-39	9,323,491	1,993,868	3,823,332	15,140,691 (0.3)
40-49	119,085,067	33,981,845	155,050,412	308,117,323 (5.9)
50-59	139,158,034	44,404,260	125,889,608	309,451,902 (6.0)
60-69	177,133,506	88,282,664	211,815,966	477,232,191 (9.2)
70-79	233,790,586	91,319,962	159,073,112	484,183,660 (9.3)
80-89	306,147,139	84,449,009	1,247,026,394	1,637,622,541 (31.5)
90	298,847,831	101,970,713	1,556,519,702	1,957,338,246 (37.7)
Total (Percent of total)	\$1,285,610,370 (24.7%)	\$446,957,078 (8.6%)	\$3,462,109,039 (66.6%)	\$5,194,676,487 (100%)

Note: Columns may not add to totals due to rounding.

Source: Schools and Libraries Division of USAC.

A Significant Amount of Committed Funds Remains Unused

Although demand for program funds has been high, our December 2000 report noted that a significant portion of the funds committed for the first and second program years (1998 and 1999) remained unused. Specifically, as of August 31, 2000, at least 35 percent (\$1.3 billion) of the \$3.7 billion in program funds committed to applicants for these years had not yet been approved for payment. As table 3 below shows, this situation has improved somewhat, with the balance of unused funds decreasing to 24 percent (\$885 million) as of January 2001. According to FCC, as of April 24, 2001, \$774 million in committed funds remained unspent. Most of the decrease is due to additional disbursements of funds committed for the second program year. More of the unused funds may still be disbursed because, under certain circumstances, vendors can request payment for services until September 2001. USAC holds the unused, committed funds in interest-bearing accounts.

Table 3: Amounts of Funds Committed, Approved for Payment, and Unused for the First 2 Program Years, as of January 2001.

Category of service	Funds committed	Funds approved for payment	Unused funds	Percentage of funds unused
First program year (1998)				
Telecommunications	\$916,683,436	\$792,638,769	\$124,044,666	13.5%
Internet access	135,767,598	95,324,145	40,443,453	29.8
Internal connections	679,260,413	507,556,121	171,704,292	25.3
Total	\$1,731,711,446	\$1,395,519,035	\$336,192,411	19.4%
Second program year (1999)				
Telecommunications	\$1,208,059,709	\$924,846,350	\$283,213,359	23.4%
Internet access	145,472,048	87,395,961	58,076,086	39.9
Internal connections	603,783,828	396,799,396	206,984,432	34.3
Total	\$1,957,315,585	\$1,409,041,708	\$548,273,877	28.0%
First 2 program years (1998 and 1999)				
Total	\$3,689,027,031	\$2,804,560,743	\$884,466,288	24.0%

Note: Columns may not add to totals due to rounding.

Source: GAO analysis of SLD Data, as of January 2001.

In our December report, we noted that FCC and SLD had not conducted a comprehensive analysis to determine why this situation was occurring. FCC and SLD officials recently told us that they have taken several steps to address this situation, including implementing new policies to provide applicants with flexibility to change service providers or modify the services originally requested. Also, they said that they have established new deadlines for notification of the receipt of services and for submitting invoices. If these deadlines are not met, SLD will recapture the committed funds. For example, in January 2001, SLD sent letters to applicants that had not confirmed that they were receiving services for second-year funding commitments. The letters stated that if the applicants did not confirm by February 15, 2001, that they had begun receiving these services, their funding commitments would be automatically cancelled. According to SLD, these cancellations will make more money available to second-year applicants that submitted requests after the initial application deadline. FCC still needs to determine whether changes to program rules and procedures are needed to address the difficulties that applicants may be having in using committed funds in a timely manner, as recommended in our December 2000 report.

Scope and Methodology

To provide the updated information in this report, we interviewed officials at USAC and SLD and obtained program funding data from them. When using computer-generated data provided by SLD, we tested their reliability against complementary data sets. Limitations on the validity of the data on the amounts of funding that applicants requested are discussed in appendix I. We performed our review from January through April 2001 in accordance with generally accepted government auditing standards

Agency Comments

We provided a draft of this report to FCC and USAC for comment. In response, FCC's Managing Director agreed with our analysis and provided some updated information. USAC's Chief Executive Officer commented that our report provides a useful update, and she also clarified USAC's policy on how it maintains its data. Copies of their comments are included in appendices II and III.

We are sending copies of this report to interested congressional committees; the Honorable Michael K. Powell, Chairman of the Federal Communications Commission; and other interested parties. We will also make copies available to others upon request.

If you or your staff have any questions about this report, please call me or John Finedore at (202) 512-2834. Other major contributors include James R. Sweetman, Jr.; Teresa Russell; and Mindi Weisenbloom.

Sincerely yours,



Stanley J. Czerwinski
Director, Physical Infrastructure Issues

Appendix I: Funding Requested, Committed, and Approved for Payment, 1998-2000

The Schools and Libraries Division of the Universal Service Administrative Company (SLD) provided us with a copy of its database for the first 3 program years (1998-2000), which included funding requests, commitments, and authorized payments of committed funds for each year. The data for program years 1 and 2 were current as of January 22, 2001; and the data for year 3 were current as of January 18, 2001. Because SLD's database is constantly changing as funding decisions and appeal decisions are reached, the data included in this report constitute a snapshot in time.

In addition, the data on requests do not reflect the original amount of discount funding requested by applicants. SLD officials stated that for reasons of efficiency, the database was designed in a way that makes retrieving the amount originally requested for each application an administrative burden. Instead, SLD provided request data that had been modified during application review. For example, some entries in the database reflect the original amounts requested minus funding for ineligible services denied by SLD. Other entries were adjusted to correct mathematical errors made by the applicants in calculating their requests. However, we found that SLD did not consistently maintain this data. For example, SLD modified request information in cases where it denied a small percentage of the funding, but not when it denied the entire request. Also, in the first and third program years, SLD did not review requests for internal connections from applicants with low discount levels because these requests were unlikely to be funded. As a result, there is no way to determine what percentage of these requests was ineligible for funding.

We also found that funding requests that were denied at some point but later restored through the appeal process were not reflected consistently in the database—in some cases, the committed amounts but not the requested amounts were adjusted to reflect the appeal decisions. As a result, some applicants appeared to receive more discount funds than the database showed them requesting. SLD officials stated, however, that no applicant received more discount funding than had been validly requested.

Due to these concerns, we cannot ensure that SLD's request data validly reflect either the original amount requested by the applicants or the amount SLD estimates is eligible for program funding. Instead, they likely reflect a hybrid of these cases. We did not identify similar concerns with the data on commitments or requests approved for payment. Finally, when analyzing the data provided by SLD, we excluded those applications that were cancelled by the applicant or were not eligible for funding because they either missed a filing deadline or did not include a required certification.

Table 4 shows the amounts of discount funding requested by applicants, as well as the amounts of discount funding committed to applicants by SLD and approved for payment in the first program year. Tables 5 and 6 present the same information for years 2 and 3, respectively. The data in tables 4 and 5 differ slightly from those presented in our December 2000 report because they are more recent.

Table 4: Funds Requested, Committed, and Approved for Payment in the First Program Year (1998)

State	Funds requested	Funds committed	Funds approved for payment
Alabama	\$56,352,486	\$46,904,698	\$40,810,055
Alaska	15,276,225	13,613,107	8,759,085
American Samoa	3,557,348	3,557,348	2,798,764
Arizona	45,682,133	35,641,528	30,015,387
Arkansas	15,650,841	13,408,504	10,543,027
California	287,517,094	211,712,610	165,574,053
Colorado	25,413,660	14,316,280	11,494,794
Connecticut	33,172,203	24,162,307	21,492,462
Delaware	4,060,210	1,019,235	922,451
District of Columbia	6,724,843	4,866,831	4,624,354
Florida	74,447,357	49,699,726	41,429,911
Georgia	90,609,589	78,370,374	56,795,293
Hawaii	7,181,467	5,891,557	5,172,319
Idaho	6,219,595	4,620,940	3,508,863
Illinois	104,284,467	81,027,851	63,829,587
Indiana	33,278,462	21,908,289	16,264,636
Iowa	26,155,569	7,309,466	5,578,971
Kansas	15,309,464	10,450,532	7,874,258
Kentucky	54,610,400	50,345,985	38,220,231
Louisiana	44,882,023	40,236,482	33,633,146
Maine	3,940,030	3,014,559	2,248,063
Maryland	22,875,785	15,026,602	13,321,165
Massachusetts	42,982,446	30,089,620	24,955,199
Michigan	94,424,272	58,518,651	49,684,389
Minnesota	33,918,346	24,759,157	20,262,210
Mississippi	25,986,317	24,379,441	19,221,563
Missouri	35,528,370	25,221,660	20,637,661
Montana	4,728,651	3,674,052	2,797,163
Nebraska	6,360,346	4,934,595	4,196,382
Nevada	9,839,022	5,380,808	4,067,259
New Hampshire	3,116,485	1,619,911	1,269,257
New Jersey	82,078,787	62,721,247	53,437,478
New Mexico	35,364,048	19,308,898	12,660,849

**Appendix I: Funding Requested, Committed,
and Approved for Payment, 1998-2000**

State	Funds requested	Funds committed	Funds approved for payment
New York	215,656,278	172,102,413	139,168,187
North Carolina	35,652,532	26,918,980	21,035,721
North Dakota	4,509,036	2,583,641	2,191,752
Ohio	74,365,692	58,143,969	50,030,883
Oklahoma	40,862,134	33,697,803	27,888,235
Oregon	14,074,069	9,603,463	7,561,852
Pennsylvania	83,224,045	52,219,758	45,342,395
Puerto Rico	47,647,135	47,646,855	22,056,308
Rhode Island	7,004,329	6,010,398	5,843,552
South Carolina	30,117,056	26,365,435	23,001,684
South Dakota	4,273,080	2,958,618	2,010,585
Tennessee ^a	48,983,537	51,685,706	45,767,927
Texas	197,163,718	129,745,272	114,831,265
Utah	6,586,661	6,386,100	5,216,653
Vermont	3,428,912	2,073,329	1,303,886
Virgin Islands	2,181,929	2,180,444	2,121,557
Virginia	39,082,350	25,575,119	21,269,369
Washington	50,811,355	29,311,208	22,468,500
West Virginia	10,517,798	9,350,687	5,519,416
Wisconsin	63,949,180	38,218,134	31,935,968
Wyoming	2,125,917	1,221,264	853,053
Total	\$2,333,745,089	\$1,731,711,446	\$1,395,519,035

^aThe data indicate that Tennessee applicants received more funding than requested. According to SLD officials, this discrepancy reflects FCC's reversal of an SLD decision to deny funds to the Tennessee Department of Education. SLD officials stated that although SLD updated its data to reflect the funds committed following the reversal, it did not update the amount requested, which had been reduced to reflect the initial denial.

Note: Columns may not add to totals due to rounding.

Source: GAO Analysis of SLD data, as of January 2001.

Table 5: Funds Requested, Committed, and Approved for Payment in the Second Program Year (1999)

State	Funds requested	Funds committed	Funds approved for payment
Alabama	\$33,574,488	\$26,341,929	\$21,138,280
Alaska	15,850,548	11,572,864	8,711,612
American Samoa	2,703,821	2,703,821	2,356,670
Arizona	53,409,676	38,150,606	29,858,064
Arkansas	12,729,836	10,316,474	7,608,097
California	381,263,218	235,517,675	158,015,725
Colorado	14,637,982	12,354,214	9,685,922
Connecticut	44,597,278	32,109,207	28,784,565
Delaware	1,403,126	1,371,571	1,220,631
District of Columbia	21,795,155	9,427,956	1,921,400
Florida	109,698,532	73,718,033	49,678,520
Georgia	103,128,251	91,048,416	52,704,100
Hawaii	6,145,771	5,329,023	3,458,578
Idaho	5,859,594	4,728,506	3,449,685
Illinois	193,040,643	161,365,691	131,358,046
Indiana	27,579,682	22,803,861	16,858,891
Iowa	12,444,522	7,941,063	5,050,069
Kansas	19,237,766	14,932,360	11,781,778
Kentucky	73,781,430	56,905,176	34,126,421
Louisiana	46,528,820	37,635,994	32,377,213
Maine	5,847,337	3,614,466	2,349,611
Maryland	27,720,784	22,048,893	16,459,133
Massachusetts	42,536,703	32,999,872	25,370,141
Michigan	109,578,156	78,885,150	61,479,449
Minnesota	40,874,343	29,397,790	21,036,816
Mississippi	35,466,473	29,997,805	24,269,505
Missouri	34,193,367	28,768,900	19,986,646
Montana	4,227,761	3,725,173	3,010,520
Nebraska	8,167,701	6,741,507	4,868,229
Nevada	5,202,240	3,137,231	2,080,680
New Hampshire	1,740,403	1,269,103	826,587
New Jersey	68,479,713	43,906,311	27,751,146
New Mexico	32,766,672	29,106,091	23,818,103
New York	254,122,382	192,668,511	147,700,157
North Carolina	44,007,444	36,692,607	28,172,063
North Dakota	2,520,972	2,187,730	1,625,846
Northern Mariana Islands	95,401	95,401	43,940
Ohio	52,293,847	43,133,998	28,606,871
Oklahoma	73,808,674	33,903,196	25,390,269

**Appendix I: Funding Requested, Committed,
and Approved for Payment, 1998-2000**

State	Funds requested	Funds committed	Funds approved for payment
Oregon	14,319,445	10,952,270	6,643,764
Pennsylvania	93,968,541	56,197,419	41,984,917
Puerto Rico	68,206,779	67,279,777	37,441,100
Rhode Island	8,143,900	7,823,910	5,453,141
South Carolina	59,831,982	28,657,229	23,727,570
South Dakota	3,030,240	2,114,491	1,160,034
Tennessee	69,042,221	62,773,984	42,991,894
Texas	183,636,552	134,955,191	100,492,975
Utah	6,482,067	5,729,296	4,453,263
Vermont	1,972,646	1,589,727	958,016
Virgin Islands	2,997,929	2,347,516	1,895,757
Virginia	36,609,504	25,177,652	18,758,834
Washington	41,834,364	32,769,036	20,503,669
West Virginia	9,395,817	9,361,363	4,538,108
Wisconsin	34,184,790	26,064,005	20,160,172
Wyoming	5,390,171	4,968,551	2,888,517
Total	\$2,662,107,458	\$1,957,315,585	\$1,409,041,708

Note: Columns may not add to totals due to rounding.

Source: GAO Analysis of SLD data, as of January 2001.

Table 6: Funds Requested, Committed, and Approved for Payment in the Third Program Year (2000)

State	Funds requested	Funds committed	Funds approved for payment ^a
Alabama	\$50,710,884	\$18,713,260	
Alaska	17,607,525	11,964,037	
American Samoa	2,244,050	2,070,977	
Arizona	96,843,614	44,964,866	
Arkansas	31,108,114	17,340,649	
California	969,806,036	471,583,366	
Colorado	31,663,757	14,146,345	
Connecticut	53,830,139	24,483,956	
Delaware	6,549,312	1,395,743	
District of Columbia	31,157,789	9,399,918	
Florida	156,486,845	53,436,513	
Georgia	102,403,176	48,088,233	
Guam	3,867,079	851,958	
Hawaii	7,008,124	2,578,090	
Idaho	6,683,896	2,659,172	
Illinois	167,208,884	114,262,677	
Indiana	43,833,548	19,343,927	
Iowa	12,415,130	5,272,539	
Kansas	26,524,499	7,753,611	
Kentucky	67,982,997	26,241,771	
Louisiana	94,048,641	25,466,300	
Maine	7,745,848	3,447,627	
Maryland	38,135,968	19,003,465	
Massachusetts	58,806,297	46,330,905	
Michigan	171,698,201	52,716,366	
Minnesota	38,715,045	17,431,029	
Mississippi	40,501,639	30,408,084	
Missouri	100,761,574	72,293,461	
Montana	4,806,143	3,122,080	
Nebraska	10,545,041	6,111,282	
Nevada	7,611,262	4,040,753	
New Hampshire	2,891,263	1,241,405	
New Jersey	80,263,298	42,113,321	
New Mexico	44,819,180	18,681,934	
New York	443,760,003	275,364,966	
North Carolina	67,029,785	27,392,726	
North Dakota	3,310,760	1,721,543	
Northern Mariana Islands	2,675,060	498,872	
Ohio	93,490,811	60,904,057	

**Appendix I: Funding Requested, Committed,
and Approved for Payment, 1998-2000**

State	Funds requested	Funds committed	Funds approved for payment^a
Oklahoma	80,273,048	24,481,411	
Oregon	26,186,696	10,484,221	
Pennsylvania	93,659,840	52,235,284	
Puerto Rico	112,360,240	76,756,365	
Rhode Island	5,644,445	4,293,060	
South Carolina	90,817,598	51,111,807	
South Dakota	12,420,638	1,794,575	
Tennessee	83,657,683	46,535,680	
Texas	359,698,078	153,408,129	
Utah	11,166,132	5,095,243	
Vermont	2,483,252	1,670,053	
Virgin Islands	870,425	731,860	
Virginia	41,754,344	18,488,337	
Washington	43,460,608	18,189,878	
West Virginia	16,303,211	5,425,793	
Wisconsin	47,311,975	25,396,199	
Wyoming	2,554,913	1,126,779	
Total	\$4,228,174,339	\$2,102,066,459	\$329,830,464

^aSLD did not finish committing third-year funds until December 2000. Although we have included the total amount approved for payment as of January 2001 for informational purposes, not enough time has passed to warrant a state-level breakdown of this data.

Note: Columns may not add to totals due to rounding.

Source: GAO Analysis of SLD data, as of January 2001.

Appendix II: Comments From the Federal Communications Commission

FEDERAL COMMUNICATIONS COMMISSION
Washington, D. C. 20554

OFFICE OF
MANAGING DIRECTOR

May 1, 2001

Mr. Stanley J. Czerwinski
Director, Physical Infrastructure Issues
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Czerwinski:

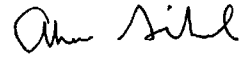
Thank you for the opportunity to comment on GAO's Draft Report *Schools and Libraries Program: Update on E-Rate Funding*. As your report indicates, the amount of E-Rate funds committed to applicants in Years 1 and 2 of the program but not disbursed has continued to decrease as applicants complete the invoicing process. I wanted to take this opportunity to update you on events since the data for this report was collected, and outline actions we have taken to increase the amount of committed funds ultimately used by applicants. I have also enclosed a response from Universal Service Administrative Company (USAC).

The Draft reports that the \$1.3 Billion of committed funds not yet disbursed to applicants as of August 2000 was reduced to \$885 million as of January 2001. Since that time, it has been reduced even further, to \$774 million, as of April 24 as schools and libraries receive the services for which the funds were committed and complete the invoicing process. It is important to note that of this \$774 million, \$314 million is Year 1 program money that was used to offset carrier contributions to the fund pursuant to Commission order in 1999. The remaining funds are from Year 2 of the program. We expect it to continue to decrease as deadlines for using the funds and submitting invoices approach.

We agree with your analysis that we should make every effort to reduce the amounts of funds that are committed but not disbursed. To that end we have made several program changes that directly address the barriers applicants have faced in purchasing the services for which the funds have been committed. For instance, in the first years of the program applicants did not have the flexibility to change service providers or modify services after their original application. We have now afforded them that flexibility. We have continued to decrease the time between the application process and the commitment of funds so that applicants have the entire program year to use the services for which they applied. We have also established deadlines for submitting invoices for services, and established a process for applicants to release funds no longer needed, so that those funds can be used for other program purposes.

We will continue to work with USAC to identify other opportunities to address this issue. We look forward to other insights you may be able to provide and thank you for your continued contributions to the E-rate's success.

Sincerely,



Andrew S. Fishel
Managing Director

Enclosure

Appendix III: Comments From the Universal Service Administrative Company

ORIGINAL



Universal Service Administrative Company

Cheryl L. Parrino
Chief Executive Officer

April 30, 2001

The Honorable Michael K. Powell
Chairman
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

RE: Response of the Universal Service Administrative Company to Draft GAO Report
Concerning the Schools and Libraries Support Mechanism

Dear Chairman Powell:

The United States General Accounting Office (GAO) has issued a draft report entitled "Schools and Libraries Program: Update on E-Rate Funding." This report, coupled with a second draft GAO report entitled "Schools and Libraries Program: Update on State-Level Funding by Category of Service," provide useful updates to funding information initially reported in GAO's December 2000 report on the Schools and Libraries Support Mechanism entitled "Schools and Libraries Program: Application and Invoice Review Procedures Need Strengthening." On behalf of the Universal Service Administrative Company (USAC), the administrator of the Schools and Libraries Support Mechanism, we would like to comment on one of GAO's draft findings.

In the "Update on E-Rate Funding" draft report, GAO observes in footnote 6 on page 2 and in Appendix I that there are inconsistencies in the way that the Schools and Libraries Division (SLD) of USAC maintains data concerning funding requests. GAO has accurately described USAC's operational procedures. We believe, however, that an explanation of the rationale for the manner in which funding request data are maintained may provide helpful perspective to readers of the report.

In the course of USAC's review of requests for funding submitted by schools and libraries to determine whether discounts are proper, if SLD identifies a limited amount of ineligible components, then SLD reduces the amount of the funding requests in order to eliminate the ineligible costs. SLD's program integrity assurance staff records an explanation of the reduction in the SLD tracking system, and the reduction ultimately will be conveyed to the applicant and service provider in the Funding Commitment Decision Letter. The SLD tracking system retains the original funding request in a history table, but it is time - and resource - consuming to extract that original funding request. GAO recognized the administrative burden to extract the data concerning the original funding requests and agreed to work with the modified request. The modified request is consistent with the ultimate

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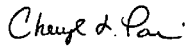
Chairman Michael K. Powell
April 30, 2001
Page 2

funding commitment, which is the most important figure for the applicant's purposes, as well as for program integrity assurance and auditing purposes.

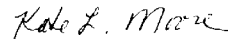
If the review of a funding request leads to a decision to deny a request (for example, more than a limited amount of the request is for ineligible services), SLD does not modify the request before denying. This is simply an efficiency issue: we would be expending resources with no real benefit to the program. In particular, when it is determined that available funds will be insufficient to fund requests below a certain discount percentage, such requests are denied without review – again, to avoid using Universal Service Support Mechanism funds to conduct reviews that will produce no benefit and will have no impact on the program.

We believe that our maintenance of funding request data is efficient and consistent with the need to ensure the integrity of the Schools and Libraries Support Mechanism.

Sincerely,



Cheryl L. Parrino
Chief Executive Officer, USAC



Kate L. Moore
President, Schools and Libraries Division
of USAC

cc: Commissioner Ness
Commissioner Furchtgott-Roth
Commissioner Tristani
Dorothy Attwood, Chief, Common Carrier Bureau
Andy Fishel, FCC Managing Director
Kyle Dixon, Legal Advisor to Chairman Powell
Jordan Goldstein, Legal Advisor to Commissioner Ness
Sam Feder, Legal Advisor to Commissioner Furchtgott-Roth
Sarah Whitesell, Legal Advisor to Commissioner Tristani

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