

FCC FACT SHEET*
Maximizing Efficiencies in the Universal Service Administration
Notice of Proposed Rulemaking – WC Docket No. 26-173

Background: The Notice of Proposed Rulemaking (Notice) seeks comment on and proposes measures aimed at strengthening the Commission’s management and administration of the Universal Service Fund (USF). If adopted, the Notice will propose to improve the administration of the Fund by seeking comment on four areas: 1) the processes used today by the Universal Service Administrative Company (USAC) to administer the USF and the Commission’s oversight of those processes; 2) USAC’s role and responsibilities related to USF administration; 3) operating costs associated with USF administration; and 4) the impact of USAC’s Board of Directors (Board) on USF administration. The Notice would also propose ways to improve the efficiency of audits of USF program beneficiaries and contributors and to ensure that the Commission is able to timely recover all improperly disbursed funding. Additionally, the Notice would seek comment on whether changes to the structure of USF administration and the composition of USAC’s Board could benefit USF administration. These proposals are aimed at strengthening the administration, management, and oversight of the USF and ensuring the efficient use of finite USF funds.

What the Notice Would Do:

- Seek comment on ways to streamline USAC processes or otherwise improve the transparency, accountability, and cost effectiveness of USF administration, and propose to require USAC to report publicly on its speed of operations.
- Seek comment on ways to improve the efficiency of audits of USF program beneficiaries and ensure that the Commission is able to timely recover improperly disbursed funding.
- Propose modifying the Commission’s rules to codify the administrator’s ability to audit non-service provider beneficiaries of USF programs.
- Propose modifying the Commission’s rules governing audit controls to codify USAC’s ability to calculate recoveries by extrapolating from a statistically valid sample of disbursements.
- Seek comment on ways to minimize the costs of USF administration.
- Propose to update the Commission’s rules to reflect how USF funds are held in and disbursed from the U.S. Treasury.
- Seek comment on the structure of USF administration and whether changes should be made to the administrator or its current responsibilities related to USF administration.
- Seek comment on updating Commission rules regarding the USAC Board of Directors, including: (1) enhancing measures taken to ensure Board members avoid conflicts of interest, (2) reducing the size of the Board, and (3) modifying the composition of the Board as well as Board committees.

* This document is being released as part of a “permit-but-disclose” proceeding. Any presentations or views on the subject expressed to the Commission or its staff, including by email, must be filed in WC Docket No. 26-173, which may be accessed via the Electronic Comment Filing System (<https://www.fcc.gov/ecfs>). Before filing, participants should familiarize themselves with the Commission’s *ex parte* rules, including the general prohibition on presentations (written and oral) on matters listed on the Sunshine Agenda, which is typically released a week prior to the Commission’s meeting. See 47 CFR § 1.1200 *et seq.*

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of)
)
Maximizing Efficiencies in Universal Service) WC Docket No. 26-173
Administration)

NOTICE OF PROPOSED RULEMAKING*

Adopted: [] Released: []

Comment Date: (30 days after publication in Federal Register)
Reply Comment Date: (60 days after publication in the Federal Register)

By the Commission:

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I. INTRODUCTION

1. Today, the Commission initiates a proceeding to strengthen its management and

* This document has been circulated for tentative consideration by the Commission at its August open meeting. The issues referenced in this document and the Commission’s ultimate resolutions of those issues remain under consideration and subject to change. This document does not constitute any official action by the Commission. However, the Chairman has determined that, in the interest of promoting the public’s ability to understand the nature and scope of issues under consideration, the public interest would be served by making this document publicly available. The Commission’s *ex parte* rules apply and presentations are subject to “permit-but-disclose” *ex parte* rules. *See, e.g.*, 47 CFR §§ 1.1206, 1.1200(a). Participants in this proceeding should familiarize themselves with the Commission’s *ex parte* rules, including the general prohibition on presentations (written and oral) on matters listed on the Sunshine Agenda, which is typically released a week prior to the Commission’s meeting. *See* 47 CFR §§ 1.1200(a), 1.1203.

administration of the Universal Service Fund (USF or Fund) and the Commission's oversight of the Universal Service Administrative Company (USAC). In this Notice of Proposed Rulemaking (Notice), we seek to improve the administration of the Fund by seeking comment on four areas related to USF administration: (1) current USF administration processes, *i.e.*, the processes used today by USAC to administer the USF and the Commission's oversight of those processes; (2) the structure of USF administration, that is, USAC's role and responsibilities related to USF administration; (3) operating costs associated with USF administration; and (4) the impact of USAC's Board of Directors on USF administration.

2. Since the appointment of USAC as the permanent administrator of the USF in 1998, no comprehensive reform of USAC has been conducted. Given the passage of time since the creation of USAC and the changes that the Commission has made to the USF programs in the intervening years, we seek comment on preventing waste in administrative expenses and enhancing USAC's internal processes in the administration of USF programs. Building on the Wireline Competition Bureau's (WCB or Bureau) and Office of the Managing Director's (OMD) inquiry into ways to improve the administration of the USF,¹ we begin today a comprehensive review of the administration of the USF to ensure that funds are used for their intended purpose and the administration of those funds is efficient, fair, and cost-effective.

II. BACKGROUND

3. As set forth in section 254 of the Communications Act of 1934, as amended (Act), the USF is intended to ensure the availability of affordable telecommunications services to consumers living in high-cost areas, low-income consumers, eligible schools and libraries, and rural health care providers.² The universal service programs are funded by contributions remitted by telecommunications carriers providing interstate and international telecommunications services and from certain other providers of interstate telecommunications.³ In 1998, USAC, a subsidiary of the National Exchange Carrier Association (NECA) and a private not-for-profit corporation that operates under the Commission's oversight, was created to serve as the administrator of the USF.⁴

4. USAC's function is purely administrative.⁵ As the USF administrator, USAC's operations are prescribed by Commission regulations and subject to strict Commission oversight.⁶ In that

¹ As part of the Commission's top-to-bottom review of USF programs, on April 15, 2026, the Wireline Competition Bureau and the Office of Managing Director released a Public Notice seeking comment on potential reforms to the operations and management of USAC. *Wireline Competition Bureau and Office of the Managing Director Seek Comment on Reforms of USAC Processes and Oversight*, CC Docket Nos. 96-45, 97-21, Public Notice, DA 26-367 (WCB/OMD Apr. 15, 2026) (*USAC Reform Public Notice*).

² 47 U.S.C. § 254.

³ See 47 U.S.C. § 254(d).

⁴ *Changes to the Board of Directors of the National Exchange Carrier Association, Inc., Federal-State Joint Board on Universal Service*, CC Docket No. 97-21 and 96-45, Third Report and Order and Fourth Order on Reconsideration and Eighth Order on Reconsideration, 13 FCC Rcd 25058, 25058, para. 1 (1998) (*Eighth Reconsideration Order*). USAC was not originally designated the permanent administrator of the USF programs due to concerns that as a subsidiary of NECA it might be biased in favor of local exchange carriers and might not fully represent all parties. However, the Commission concluded that USAC had demonstrated fair representation necessary to be the permanent administrator. *Eighth Reconsideration Order*, 13 FCC Rcd at 25066, para. 15.

⁵ See 47 CFR § 54.702(c); see also *Report in Response to Senate Bill 1768 and Conference Report on H.R. 3579*, 13 FCC Rcd 11810, 11818, para. 14 (1998).

⁶ The USF programs are administered in accordance with section 254 of the Communications Act of 1934, as amended (the Act), 47 U.S.C. § 254; Title 47, Part 54, *Universal Service*, of the Code of Federal Regulations;

(continued....)

context, USAC is responsible for the “efficient, effective, and competitively neutral” management of the USF programs,⁷ including activities related to collection and disbursement of program support, producing timely and relevant data and analysis to inform the Commission in the Commission’s policy-making and oversight of the USF and the USF programs, and advising the Commission on the operational requirements of implementing proposed and adopted Commission rules and policies.⁸ Consistent with Congress’s directive, USAC has no authority to make policy, interpret unclear provisions of the statute or rules, or interpret the intent of Congress, and USAC must seek guidance from the Commission when the Act or the Commission’s rules are unclear.⁹

5. Within these strictures, USAC has administered the universal service support mechanisms and been responsible for billing contributors and collecting contributions to the universal service support mechanisms. USAC administers the USF in accordance with the Commission’s rules and orders. USAC also engages in frequent consultations with the Commission and its staff, including WCB, OMD, and the Enforcement Bureau, in addition to the Office of the Inspector General. The Commission provides USAC with oral and written guidance, as well as regulation through its rulemaking process.

6. The USF consists of four programs, each administered by USAC: (1) the universal service mechanism for high cost areas, providing financial support to eligible telecommunications carriers serving high-cost areas; (2) the universal service mechanism for schools and libraries (known as the E-Rate program), providing discounted telecommunications services, Internet access, and internal connections to eligible schools and libraries; (3) the universal service mechanism for low income consumers, assisting low-income customers with discounted installation and monthly broadband and telephone services; and (4) the universal service mechanism for rural health care (RHC), providing discounted services to rural health care providers.¹⁰ Additionally, USAC administers the USF contributions mechanism that provides data on quarterly program demand and the contribution base to the FCC and bills and collects contributions from USF contributors to fund the four programs and USAC’s operations.¹¹

7. More recently, the Commission directed USAC to administer programs established under
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orders, written directives, and other instructions promulgated by the Commission or its bureaus and offices; and other laws as applicable, including government and Commission accounting requirements. *Comprehensive Review of Universal Service Fund Management, Administration, and Oversight*, Report and Order, 22 FCC Rcd 16372 (2007) (*2007 USF Program Management Order*); *Comprehensive Review of Universal Service Fund Management, Administration, and Oversight*, WC Docket No. 05-195, Notice of Inquiry, 23 FCC Rcd 13583 (2008) (generally describing management, administration, and oversight over USAC including the newly adopted Memorandum of Understanding (MOU) between the FCC and USAC); and *Application of Generally Accepted Accounting Principles for Federal Agencies and Generally Accepted Government Auditing Standards to the Universal Service Fund*, Order, 18 FCC Rcd 19911, 19912-13, paras. 4-6 (2003) (*GovGAAP Order*). The most recent version of the MOU was signed in 2024. Memorandum of Understanding between the Federal Communications Commission and the Universal Service Administrative Company, <https://www.fcc.gov/sites/default/files/usac-mou.pdf> (signed Oct. 17, 2024) (USAC MOU).

⁷ 47 CFR § 54.701(a).

⁸ See, e.g., 47 CFR § 54.709 (USAC provides financial projections that the Commission uses in computing the amounts of universal service contributions); § 54.702(b) (USAC is responsible for billing, collection, and disbursement activities).

⁹ See *Report in Response to Senate Bill 1768 and Conference Report on H.R. 3579*, 13 FCC Rcd 11810, 11818, para. 14 (1998).

¹⁰ See 47 CFR § 54.702(a).

¹¹ See 47 CFR § 54.702(b).

Congressional appropriations in response to the COVID-19 pandemic.¹² These programs included the Emergency Broadband Benefit Program and Affordable Connectivity Program, which provided eligible low-income households with discounted broadband services and certain connected devices;¹³ the Emergency Connectivity Fund, which provided schools and libraries with support for eligible services and equipment for remote learning;¹⁴ and portions of the COVID-19 Telehealth Program, which provided support for eligible health care providers to purchase telecommunications services, information services, and devices necessary to provide critical connected care services during the COVID-19 pandemic.¹⁵

8. Earlier this year, the Wireline Competition Bureau released the *USAC Reform Public Notice* seeking comment on a broad inquiry into potential reforms to the operations and management of the USF.¹⁶ The Public Notice sought comment on a wide variety of topics including operations and management, stakeholder experience with the administrator in terms of engagement and efficiency, the audit process, and governance of the USAC Board.¹⁷ Multiple commenters highlighted the need for reform in USAC processes, stating that USAC could improve in transparency and efficiency in its decision making and review processes.¹⁸ Several commenters stated that USAC could improve efficiency and transparency in its audit process by having uniform audit procedures across programs.¹⁹ Other commenters recommended modifications to the composition of USAC's Board, stating that Board members should be selected based on their expertise in financial management, audit, risk management, information security, and program administration as opposed to solely choosing Board members based on nominations from respective stakeholder groups.²⁰

¹² See, e.g., Coronavirus Aid, Relief, and Economic Security Act, Pub. L. No 116-136, 134 Stat. 281 (codified at 15 U.S.C. § 9001 *et seq.*) (CARES Act); Infrastructure Investment and Jobs Act, Pub. L. No 117-58, 135 Stat. 429, (codified at 23 U.S.C. § 101 *et seq.*) (IIJA).

¹³ See *Promoting Telehealth for Low-Income Consumers, COVID-19 Telehealth Program*, WC Docket Nos. 18-213, 20-89, Report and Order, 35 FCC Rcd 3366 (2020); see also Memorandum of Understanding Between the Federal Communications Commission and the Universal Service Administrative Company Regarding the Affordable Connectivity Program, at paras. 1- 5 (Oct. 17, 2024), https://www.fcc.gov/sites/default/files/mou_fcc-usac-acp-final.pdf.

¹⁴ See *Establishing Emergency Connectivity Fund to Close the Homework Gap*, WC Docket No. 21-93, Report and Order, 36 FCC Rcd 8696 (2021).

¹⁵ COVID-19 Telehealth Program, WC Docket No. 20-89, Report and Order, 36 FCC Rcd 1613, 1613-14, paras. 2, 4 (2021).

¹⁶ See *USAC Reform Public Notice*.

¹⁷ *USAC Reform Public Notice* at 3-5.

¹⁸ State E-Rate Coordinators' Alliance Comments, CC Docket Nos. 96-45 and 97-21, at 10-11 (rec. May 15, 2026) (SECA Comments) (stating that the USF would benefit by adopting performance goals to govern USAC's processing and issuance of formal decision letters of other forms and post-commitment requests); Small Company Coalition Comments, CC Docket Nos. 96-45 and 97-21, at 6-7 (rec. May 15, 2026) (SCC Comments) (stating that shot clocks and deadlines to USAC's review processes would create more efficiency); Elevate Services Group Comments, CC Docket Nos. 96-45 and 97-21, at 4-5 (rec. May 15, 2026) (Elevate Comments) (stating that USAC should have shot clocks for USAC decisions).

¹⁹ See CTIA Comments, CC Docket Nos. 96-45 and 97-21, at 8 (rec. May 15, 2026) (CTIA Comments); The Association for Broadband without Boundaries, CC Docket Nos. 96-45 and 97-21 at 6-7 (rec. May 15, 2026) (WISPA Comments); SCC Comments 5-6.

²⁰ Carol Matthey Comments, CC Docket Nos. 96-45 and 97-21, at 4-5 (Matthey Comments) (stating that Board members should have expertise in administrative financial management, information technology, risk management, and federal program management); Summit Ridge Group (SRG) Comment, CC Docket Nos. 96-45 and 97-21, at 10-

(continued....)

III. DISCUSSION

9. At the outset, we seek comment broadly on ways to strengthen the administration, management, and oversight of the Fund. Efficient, accountable, and timely administration of the USF is necessary to achieve Congress’s direction to the Commission in Section 254 of the Act. However, poor management of those administrative tasks could lead to increased administrative costs, drawn-out application and audit processes, and unchecked waste, fraud, and abuse—all paid for by contributors and their rate-paying customers. As the steward of the Fund, and to ensure that USF administration is effective, efficient, and competitively neutral, we seek broad comment below on the operations, structure, costs, and management of the USF administrator. Are there additional measures that the Commission can implement to safeguard the USF from waste, fraud, and abuse? Are there ways to better effectuate the USF’s statutory purpose of making access to affordable telecommunications services available to Americans nationwide? Commenters should provide specific recommendations for change and discuss the costs and benefits of their proposals in specific, rather than general, terms. Commenters should also note whether their recommendations require changes to the Commission’s rules.

A. Program Governance to Ensure the Efficient Use of Finite USF Funds for USF Administration

10. The Commission has a responsibility to ensure the efficient use of finite USF funds. In this section, we explore the current state of USAC’s operations and the Commission’s oversight of those operations, with particular emphasis on improvements to the audit and recovery processes, enhancing the speed of operations, and streamlining other internal USAC processes. We seek comment on ways the Commission can create efficiencies in USAC’s administration of the USF.²¹

1. Efficiencies in USF Operations

11. We seek comment on which USAC processes need streamlining or other improvement to promote transparency, accountability, and cost effectiveness in USF administration. In what situations does a lack of transparency increase burdens on participating providers, or cause unnecessary confusion in program administration? What additional accountability measures could the Commission implement to support our efforts to ensure that USF administration is efficient and effective?

12. We seek comment as to whether a high-level performance review of USAC’s administration, beyond current Commission oversight processes, would be beneficial. When the Commission appointed USAC the permanent administrator, it determined that a review of USAC’s performance would help “ensure that it is administering universal service in an efficient, effective, and competitively neutral manner,” but a formal review has never been conducted.²² Should such a review be conducted regularly, going forward? Under what time frames should such review take place? We seek comment as to whether such review should include an opportunity for stakeholder input.

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12 (SRG Comments) (stating that Board members should be independent directors with expertise in financial management, audit, information security, and program administration).

²¹ See CTIA Comments at 4-6 (stating that USAC could be more efficient if it provided transparency regarding its processes and procedures such as the process that places USF contributors in “Red Light” status for overdue debt with USAC and USAC could be more transparent with a public report of a detailed breakdown of administrative costs and budget).

²² *Eighth Reconsideration Order*, 13 FCC Rcd at 25070, para. 21. See also 47 CFR § 54.701(a). The Government Accountability Office issued a report on USAC’s compliance with, among other things, certain Commission requirements relating to USAC’s adoption of goals and metrics for its operations along with USAC’s operating budget. *Report, Telecommunications: Administration of Universal Service Programs is Consistent with Selected FCC Requirements*, GAO-24-106967 (2024) (*GAO 2024 USAC Report*).

13. Should the Commission establish a mechanism by which stakeholders can raise concerns regarding the impact of USAC's processes on the efficient, effective and competitively neutral administration of the universal services support mechanisms? What should be the critical components and outcomes of such process? Are there processes in one USF program that could be applied to another USF program? Similarly, we invite commenters to discuss whether their experience with the administration of other government funding programs, such as state universal service programs or other federal or state broadband grant programs, could be beneficial examples to inform the administration of the USF.²³ Are there examples of operational efficiencies in other government funding programs that could be applied to the administration of the USF? Are there operational inefficiencies that could be improved using artificial intelligence (AI)? What processes could be improved with AI, if any? Should AI be used to reduce operational turnaround times and costs? In what ways should it be used? Would efficiency in stakeholder engagement be improved with using AI resources to respond to stakeholder questions? How should any privacy and information security concerns be balanced with potential benefits of using AI in relation to our USF programs? What would be the financial impact of incorporating AI into the administration of USF? If AI is incorporated, what safeguards need to be put in place to ensure data integrity, governance, and quality assurance?

2. Speed of Operations

14. In the *USAC Reform Public Notice*, WCB and OMD sought comment on changes that could improve USAC processes and reduce undue delays. Several stakeholders have commented that clear deadlines and shot clocks for various USAC operations would increase efficiency and transparency regarding the timing of decisions.²⁴ We propose to require USAC to publicly report turnaround times or other metrics regarding responsiveness to add transparency around decision-making, and we seek comment on that proposal. What metrics on USAC decision-making and processes do stakeholders find helpful to have publicly available? Should such public reporting be included in existing USAC quarterly reports and appendices, or in separate reporting dashboards? We also propose to require USAC to monitor upcoming filing deadlines and the filing status of parties impacted by those deadlines and communicate to individual stakeholders regarding their filing status prior to the deadlines.²⁵

15. To reduce undue delays in USF administration, would it be beneficial for the Commission to establish deadlines or "shot clocks" for specific USAC processes? For example, the Commission could require USAC to follow a timeline for certain processes like application review,

²³ For example, Oregon has the Oregon Lifeline program which provides a monthly discount on phone or high-speed internet service for low-income Oregon households. See Oregon Public Utility Commission, *Oregon Lifeline*, <https://www.oregon.gov/puc/Pages/Oregon-Lifeline.aspx> (last visited June 9, 2026). The U.S. Department of Agriculture's (USDA) Rural Utilities Service (RUS) provides loans, grants, and a combination of the two to facilitate broadband deployment in areas of rural America without sufficient access to broadband. See U.S. Department of Agriculture, Rural Development, *Telecom Programs*, <https://www.rd.usda.gov/programs-services/telecommunications-programs> (last visited June 9, 2026).

²⁴ Several commenters suggested clear deadlines for USAC decisions, verifications, application and invoice review, and audits. See WISPA Comments at 6 (stating that "shot clocks" and deadlines for various USAC decisions, verification, and appeals would improve communication and accountability); SHLB Comments, CC Docket Nos. 96-45 and 97-21, at 14 (rec. May 15, 2026) (SHLB Comments) (stating that the Commission should consider ways to review and establish guidance for USAC on deadlines and timelines for application, invoicing, and other USAC actions); SCC Comments at 7.

²⁵ We remind stakeholders that it is their responsibility to ensure timely compliance with all filing deadlines. Stakeholders will continue to have this responsibility even if the Commission requires USAC to provide the proposed additional notice to program participants; a lack of notice from USAC will not excuse or cure a failure to timely file a form or provide other required information.

similar to how the Commission has a timeline of 180 days for its consideration of applications for transfers or assignments of licenses or authorizations relating to mergers.²⁶ If the Commission took this approach, which specific USAC processes might benefit from a shot clock? Should we apply a shot clock only to workable applications, excepting those that require further information from applications or additional guidance from the FCC? How will actions taken when a shot clock expires affect future audits or recovery proceedings?

16. Considering that gathering additional information from stakeholders can sometimes delay a review or approval process, how does the gathering of additional information process affect a potential shot clock deadline? Under what circumstances could USAC or the FCC pause the shot clock?

17. What other ways could the Commission ensure timely administrative functions while preventing administrative errors and waste, fraud, and abuse in the USF programs? Would using artificial intelligence (AI) tools to review applications, audits, and appeal review processes help reduce delays while maintaining accurate results?

18. We invite commenters to provide specific examples of USAC processes that cause undue delay or burden on USF program participants. We also seek comment on successes USAC has had in improving its operations. What are examples of efficiencies that USAC has put in place that reduced delay or burdens on USF program participants? How could the Commission implement those positive steps elsewhere in USF operations?

3. Audits and Recoveries

19. First, we explore ways to improve the efficiency of audits of USF program beneficiaries, and ways to ensure that the Commission is able to recover all improperly-disbursed funding. Under the Payment Integrity Information Act of 2019 (PIIA), and related guidance from The Office of Management and Budget (OMB), the Commission is required to implement compliance audits to identify, estimate, report (e.g., in OMB's Annual Data Call), and reduce improper payments in its programs.²⁷ The Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular A-123 require that the Commission report on the effectiveness of internal controls and certify, in its Annual Financial Reports, whether these controls effectively protect FCC programs from waste, fraud, and abuse.²⁸

20. As a result of this framework, recipients of USF funds are subject to both random and risk-based compliance audits and other investigations and similar reviews to confirm compliance with

²⁶ See, e.g., FCC, *Informal Timeline for Consideration of Applications for Transfers or Assignments of Licenses or Authorizations Relating to Complex Mergers*, <https://www.fcc.gov/general/informal-timeline-consideration-applications-transfers-or-assignments-licenses-or> (last visited June 30, 2026).

²⁷ See Payment Integrity Information Act of 2019, Pub. L. No. 116-117, 134 Stat. 114 (codified at 31 U.S.C. § 3301 *et seq.*), (PIIA); Office of Management and Budget, Executive Office of the President, OMB Circulars A-50, Audit, Inspection, or Evaluation on Follow-up (2024), <https://www.whitehouse.gov/wp-content/uploads/2024/11/M-25-01-Revised-Circular-A-50.pdf>. Office of Management and Budget, Executive Office of the President, OMB Circular A-123, Management's Responsibility for Internal Control (2026), <https://www.whitehouse.gov/wp-content/uploads/2026/03/OMB-Circular-No.-A-123-2026.pdf>. Office of Management and Budget, Executive Office of the President, OMB Circular A-136, Financial Reporting Requirements (2026), <https://www.whitehouse.gov/wp-content/uploads/2026/05/OMB-Circular-No.-A-136-2026.pdf>. The PIIA also allows OMB to establish pilot programs to test potential accountability mechanisms for compliance with requirements for improper payments and the elimination of improper payments. This citation is not exhaustive. As such, commenters should familiarize themselves with the statutory and regulatory requirements applicable to federal programs and limit suggestions to those that are consistent with the requirements placed on the Commission.

²⁸ See Federal Financial Managers' Financial Integrity Act, Pub. L. No. 97-255, 96 Stat. 814 (codified at 31 U.S.C. § 3512) (1982) (FMFIA).

program rules, which result in monetary recoveries for the USF when appropriate. In order to identify and assess the level of improper payments as well as test beneficiary compliance with Commission rules, in 2010, the Commission directed USAC to conduct Payment Quality Assurance (PQA) assessments and Beneficiary and Contributor Audit Program (BCAP) audits.²⁹ BCAP is an annual compliance program designed to evaluate the compliance of USF beneficiaries and contributors with the Commission's USF rules.³⁰ BCAP audits adhere to the Generally Accepted Government Auditing Standards (GAGAS), and in FCC-approved procedures, USAC tailors its audit samples to program-specific elements such as risk areas, size of disbursements, and beneficiary types.³¹ The PQA program is used to determine the baseline improper payment rate for each Commission program in accordance with the PIIA and the practices of other federal agencies.³² Because PQA assessments are designed to assess and report on improper payment rates on an annual deadline, PQA assessments are limited in scope and typically request information that can be gathered easily in a one-time request. Both types of reviews play an essential role in meeting the Commission's reporting obligations, reducing waste, fraud, and abuse in the USF programs. For example, in 2025 the Bureau issued six orders affirming USAC audit findings, which saved ratepayers over \$9 million.³³

21. Each USF program has its own BCAP audit requirements and USAC's processes for audit-related recovery letters, non-audit-related recovery letters, and appeal decision letters vary across the USF programs.³⁴ Should the Commission consider revisions to its rules to standardize these processes to create uniformity across the programs, or does it make sense for different programs to have different processes?³⁵ Are there BCAP audit approaches or mechanisms from other government programs that the Commission should consider implementing in USF audits? If commenters suggest any changes, they should indicate what, if any, changes are required to the existing rules in Subpart H of Part 54 as they pertain to audits or Subpart I of Part 54 as they pertain to review of decisions issued by USAC.

22. Should we adopt a *de minimis* exemption to random audit requirements such that USF support recipients receiving less than a certain amount of support per year should be exempt from random audits? What should be the dollar amount of USF support received to qualify for a *de minimis* exemption? Should the dollar amount of support received accumulate across USF programs or be program specific to qualify for a *de minimis* exemption from random audits? Do other federal programs employ such exemptions and if so, is it pursuant to a specific statutory exemption? Are there any legal

²⁹ See Letter from Steven VanRoekel, FCC, to Scott Barash, USAC (Feb. 12, 2010), <http://www.fcc.gov/omd/usac/letters/2010/021210-ipi.pdf> (Feb. 12, 2010 USAC Letter).

³⁰ USAC, Beneficiary and Contributor Audit Program (BCAP) and Supply Chain Audit Program (SCAP), <https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-auditprogram-bcap/> (last visited June 17, 2026). The Debt Collection Improvement Act of 1996 (DCIA) sets forth the Commission's policies and procedures pertaining to the collection of debts owed to the Commission. 31 U.S.C. §§ 3701 *et seq.*, 47 CFR §§ 0.11 *et seq.*, 47 CFR §§ 1.1901 *et seq.*

³¹ See, e.g., 47 CFR § 54.702(n).

³² Given the PQA program's compliance requirements and mandated deadlines, we are not seeking comment on and do not seek to modify the process for PQA assessments. References to audits herein do not refer to PQA assessments.

³³ Press Release, FCC, FCC Saves Taxpayers Over \$9 Million Following Audit Reviews (Sept. 10, 2025), <https://www.fcc.gov/document/fcc-saves-taxpayers-over-9-million-following-audit-reviews>.

³⁴ See, e.g., 47 CFR §§ 54.516, 54.320, 54.420, 54.631.

³⁵ Stakeholders suggest that there should be uniformity in the audit process across all USF processes. See USTelecom Comments, CC Docket Nos. 96-45 and 97-21, at 3-6 (rec. May 15, 2026) (USTelecom Comments); CTIA Comments at 8-9; SRG Comments at 10.

barriers to the Commission adopting such an exemption? Would doing so impact our compliance with government-wide financial requirements? What other considerations should determine whether a carrier qualifies for a *de minimis* exemption? How can the Commission ensure no waste, fraud, or abuse of USF support for carriers exempted from random audits? Without random audits of these support recipients, how can we uncover risk areas that may not already be known?

23. *Audits Procedures and Methodology.* Additionally, we propose to amend section 54.707 of the Commission's rules to clarify the administrator's ability to audit non-service provider beneficiaries of USF programs. We propose modifying section 54.707 to explicitly include non-carrier beneficiaries (i.e., schools, libraries, health care providers) within USAC's audit authority. Beneficiaries may be audited pursuant to their application to and participation in USF programs,³⁶ and audits are an important tool in rooting out waste, fraud, and abuse, regardless of where the non-compliance originates. The current text of section 54.707, however, only explicitly mentions "contributors and carriers." We seek comment on amending section 54.707 to explicitly encompass non-carrier beneficiaries. Are there any other types of entities we should include in section 54.707, and why?

24. We further propose to modify section 54.707 of the Commission's rules governing audit controls to codify USAC's ability to calculate recoveries by extrapolating from a statistically valid representative sample of disbursements. Under this proposed change, a statistically valid sample for the disbursements under audit would require a 95 percent confidence level and a 5 percent margin of error for samples. Allowing extrapolations of recoveries based on a statistically valid representative sample could save audit costs for USAC and auditees by limiting audit inquiries only to the sample size needed to determine the appropriate recovery for the whole population of claims or activity by the auditee.³⁷ Should USAC provide the recipient an opportunity to present additional evidence before withholding or recovering support? Should USAC also provide notice to the support recipient before any withholding or recovery, or would the opportunity to present additional evidence constitute sufficient notice to auditees?³⁸

25. We seek comment on codifying the calculation of recoveries based on a statistically valid representative sample of disbursements. If the Commission were to adopt this codification, what guardrails should be in place to ensure that the sample is statistically valid? Should the methodology used by USAC to determine any given sample be made available for review and challenge by auditee? Should auditees be given the opportunity to demonstrate that the proportion of improper disbursements outside of the sample was less than the proportion in the sample? Commenters to the *Public Notice* urged that the Commission exercise caution before broadly applying sampling and extrapolation measures.³⁹ Are there ways the Commission could address these concerns to ensure that extrapolation of audit results is reliable?

26. We also seek comment on any program-specific issues related to extrapolation.

³⁶ 47 CFR §§ 54.504(a)(1)(viii); 54.516(c); 54.631(a); 54.702(n).

³⁷ See William G. Cochran, *Sampling Techniques*, Ch. 1 (3rd ed. 1977) (stating that the principal advantages of sampling include reduced costs, greater speed, greater scope, and greater accuracy).

³⁸ We note that this is consistent with USAC's current practice of giving providers an opportunity to respond to any findings during the audit process. This feedback is taken into consideration before any final decisions are made about audit findings and provided for the Commission's consideration in final reports. If USAC does not agree with the feedback, then audit findings remain in place and stakeholder objections are captured for Commission review.

³⁹ Funds for Learning LLC Comment, CC Docket Nos. 96-45 and 97-21, at 4 (rec. May 15, 2026) (FFL Comment) (stating that sampling and extrapolation are appropriate in certain contexts and should not apply broadly to recovery actions where funding requests are heterogeneous).

Currently, the High Cost program's verifications of broadband deployment and the High Cost program's improper payment rates use extrapolation based on statistically valid representative samples. Are there programs for which extrapolation of audit results to determine recoveries may be more or less viable? For example, would extrapolations across different procurements be permitted in the E-Rate and RHC programs even though each procurement is based on a different competitive bidding process? Should the Commission modify its rules and USAC's audit procedures to codify the use of statistically valid sampling and extrapolation methodology for support recovery across all USF programs?⁴⁰ What methodologies should the Commission consider to determine a statistically valid sample (e.g., obtain a 95 percent confidence level, between 4-6 percent margin of error) for each USF program?

27. *Recovery Timing.* After USAC issues an audit finding or recovery, a party has 60 days to appeal USAC's decision to the Commission.⁴¹ We seek comment on the appropriate time after the issuance of an audit finding or other recovery action for the Commission to recover funds improperly disbursed. For USF contributions, providers must follow a pay-and-dispute procedure by which a provider pays the invoice in full by the due date or incurs interest, penalties, and potential Debt Collection Improvement Act (DCIA) proceedings regardless of any timely filed appeal. If USAC determines that a billing error was made, the contributor receives a refund.

28. In other programs, however, the filing of an appeal currently stays a recovery.⁴² This approach may encourage gamesmanship and delay the return of improperly disbursed funds. We seek comment on adopting a pay-and-dispute model for all USF programs whereby beneficiaries and service providers would be required to pay a recovery to USAC notwithstanding the filing of an appeal, such as a petition for reconsideration, so long as there has been a relevant Bureau or Commission-level decision.

29. We also seek comment on what rules the Commission would need to alter to adopt a pay-and-dispute model. Should the Commission exempt USF debts from section 1.1910(b)(3)(i) of the Commission's rules, which allows timely appeals and judicial proceedings to stay certain DCIA proceedings?⁴³ Alternatively, should we modify 47 CFR § 1.1910(b)(3)(i) to codify a pay-and-dispute policy, or clarify that payment is due after the Bureau issues an order upholding USAC's finding of improper payment, in the context of USF debts, even if the party subsequently files an application for review? Should the Commission clarify in its rules that an uncontested USAC decision satisfies the requirement that an affected party has been afforded an opportunity for review within the Commission as required by 47 CFR § 1.1912? We seek comment on these options.

30. *Other Best Practices.* Currently, USAC uses audit and other program-specific reviews to detect improper disbursements. When there are either known or highly suspected instances of alleged misuse of funds, failure to comply with program rules, or other potential waste, fraud, or abuse of funds, are there practices and policies that the Commission should consider adopting, consistent with federal law, beyond our existing mechanisms to combat waste, fraud, and abuse? For example, should the

⁴⁰ See Summit Ridge Group Comments, CC Docket Nos. 96-45, 97-21, at 10 (SRG Comments) (recommending codifying the use of statistically valid sampling and extrapolation methodologies across all programs); Cincinnati Bell, Inc. Comments, CC Docket Nos. 96-45, and 97-21, at 1, 4 (rec. May 15, 2026) (CBI Comments) (recommending that if the Commission determines to apply extrapolation to determine recovery calculations, the Commission should codify the requirements to specify when it should apply and to ensure the underlying margin of error used in the audit sampling comports with generally accepted statistical processes).

⁴¹ 47 CFR § 54.720.

⁴² See, e.g., *Schools and Libraries Universal Support Mechanism*, CC Docket No. 02-6, Fifth Report and Order, 19 FCC Rcd 15808, 15813, para. 43 (2004).

⁴³ 47 CFR § 1.1910(b)(3)(i).

Commission establish additional procedures by which the Administrator must hold funding pending confirmation that the disbursement would comply with Commission rules? Are there practices and policies used by other federal agencies to mitigate acts of misconduct and prevent waste or misuse of federal funds that the Commission should consider adopting? Should the administrator expand use of AI in its document review for audits and program compliance?

31. Are there other changes to the audit and recovery process, in addition to those proposed here or in the alternative to these proposals, that may streamline or make the audit and funding recovery process more efficient?

B. Operating Costs of Current USF Administration

32. Next, we turn to USAC's operational costs and ways to minimize administrative costs involved in USF administration. USAC's budget includes expenses related to program operations, corporate costs (e.g., software), and professional expenses (e.g., staff salaries).⁴⁴ USAC's annual operating budget is approved by the Commission and reviewed on a quarterly basis.⁴⁵ The process begins with USAC setting an annual operating budget for administering the USF programs.⁴⁶ USAC develops its annual budget by analyzing USAC's expenditures for the last five years and seeking input about anticipated costs from each of the program managers. This proposed budget then undergoes review by USAC executives.⁴⁷ Once the annual operating budget is internally reviewed and approved, it is submitted to OMD and the USAC Board for review and feedback.⁴⁸ USAC incorporates this feedback, and the Board reviews and approves the anticipated annual budget.⁴⁹ Then, on a quarterly basis, USAC reviews and revises its operating budget.⁵⁰ Then the quarterly budget, which may include revisions for administrative expense projections and expenditures from the last quarter, is sent to the Commission for review.⁵¹ The Commission provides feedback and may request USAC to revise the quarterly budget to incorporate that feedback.⁵² At the end of every year, USAC reports its annual financial statement to the Commission; this statement is subject to change based on the completion of USAC's financial audit the following year.⁵³

33. *Budget.* To streamline USAC's operational costs and ensure the responsible stewardship of USF funds, we seek comment on whether USAC's budget should be subject to a cap.⁵⁴ In 2025,

⁴⁴ See 47 CFR 54.715(a).

⁴⁵ GAO 2024 USAC Report at 12.

⁴⁶ *Id.*

⁴⁷ *Id.*

⁴⁸ GAO 2024 USAC Report at 12.

⁴⁹ *Id.* at 13.

⁵⁰ *Id.*

⁵¹ *Id.*

⁵² *Id.*

⁵³ See USAC, 2025 Annual Report at 19 (2025), https://www.usac.org/wp-content/uploads/about/documents/annual-reports/2025/USAC_2025_Annual_Report.pdf.

⁵⁴ We note that operational costs derived from one-time or limited-time appropriated funding would be excluded from potential cap considerations. This exclusion is intended to address instances such as the appropriated programs.

USAC's total operation expenses were \$266,603,608.⁵⁵ If USAC's budget is subject to a cap, should that cap be a fixed amount, a proportion of disbursed or projected support, or something else? If the cap is a fixed amount, what should that fixed amount be and should it be automatically adjusted each year for inflation? Should inflation adjustments be based on the Gross Domestic Product Chain-type Price Index used for E-Rate and RHC program inflation adjustments, or something else? If a cap is based on a proportion of operating expenses and disbursements, what should that proportion be? In 2025, USAC's operating expenses were 3.06% of operating expenses plus disbursements.⁵⁶ Based on that information, is there a specific proportion of operating expenses plus disbursements that could serve as a USAC budgetary cap? Finally, are there any other mechanisms that could be used to establish a USAC budget cap?

34. We also seek comment on caps for specific purposes within USAC's budget. Should there be guidelines or limits on what percentage of the budget can be spent on specific resources? How much of USAC's budget should be dedicated towards, for example, information technology, outreach, contractors, and audits? Should USAC's administrative budget be reduced or limited? Would a reduction in the number of USAC staff in certain areas impair USAC's ability to successfully administer the USF? Are there any administrative functions and costs that should be cut or performed by Commission staff? Should USAC staff salaries and benefits be reevaluated? What percentage of USAC's budget should be dedicated to staff salaries? Should the FCC modify its MOU to memorialize the process by which USAC transmits its proposed annual budget to the Commission, which would include any foreseeable increase in outside vendor costs and new full-time employees to improve USAC's accountability on cost and how it allocates resources? If so, should an exception be carved out for Commission adoption of new rules or guidance requiring significant changes in the administration of the programs.

35. USAC has external contracts with a variety of third parties, including tasks like audits of contributions and the USF programs, call center operations, certain application reviews, and IT development and maintenance. The Commission oversees USAC's procurements, and procurement processes are governed by the USAC MOU.⁵⁷ We seek comment on stakeholders' experience working with contractors of USAC as compared to working with USAC staff. Are contractors knowledgeable enough about the USF contributions and program rules to effectively audit USF contributors and program participants? Does USAC's use of contractors result in inconsistent results in audits, reviews, and customer service inquiries?

36. *Reporting.* The Commission requires USAC to file with the Commission and with Congress an annual report by March 31 of each year detailing its operations, activities, and accomplishments for the prior year, including actions performed to prevent waste, fraud, and abuse of

⁵⁵ USAC, 2025 Annual Report at 19 (2025), https://www.usac.org/wp-content/uploads/about/documents/annual-reports/2025/USAC_2025_Annual_Report.pdf. The *GAO 2024 USAC Report* explains how the budget is prepared by USAC and is subject to OMD review. *GAO 2024 USAC Report* at pages 12-5. The *GAO 2024 USAC Report* also mentions the how USAC and the USF are incorporated into the FCC financial audit. *Id.* at 3-4, 16-17.

⁵⁶ In 2025, USAC's operating expenses were \$266,603,608, and total disbursements were \$8,450,995,594. Therefore, combined operating expenses plus disbursements is \$8,717,599,202. \$266,603,608 divided by \$8,717,599,202 is 3.06%.

⁵⁷ USAC MOU at 8-11. The USAC MOU requires, among other things, that (i) USAC submit an annual procurement plan and quarterly procurement reports, (ii) OMD provide advance review of certain procurements, (iii) USAC post competitive solicitations above a threshold, and (iv) USAC submit a year-end procurement report with the Commission. *Id.* More recently, OMD has issued additional guidance on USAC on procurements. See Letter from Dan Daly, Managing Director, OMD, to Michelle Garber, Acting Chief Executive Officer, USAC (Apr. 8, 2026) available at <https://www.fcc.gov/universal-service-fund-general-management-and-oversight>.

universal service funds.⁵⁸ Additionally, the Commission requires USAC, on an annual basis, to retain an independent auditor to examine its operations and books of account to determine whether it is properly administering the Fund.⁵⁹ We also note that the Commission requires USAC to maintain its books of account in accordance with generally accepted accounting principles (GAAP), to account for the financial transactions of the USF in accordance with government generally accepted accounting principles (GovGAAP), and to maintain the accounts of the USF in accordance with the U.S. Government Standard General Ledger (USGSL).⁶⁰ Moreover, the USAC MOU requires an agreed-upon procedures review (AUP), which is conducted annually by a third party procured by USAC.⁶¹

37. We seek comment on changes to the USAC annual audit to better enable the Commission to evaluate USAC's ability to efficiently administer the USF.⁶² Are there changes to the USAC annual report or independent financial audit that would be beneficial? Are there other ways to analyze whether USAC's administrative costs not presented by either the annual report or the independent financial audit?⁶³ Should the Commission amend section 54.717 to include other types of review? For example, should the Commission require the external review of the matters generally covered by the AUP to be codified in section 54.717? Or should the Commission retain the flexibility to designate matters subject to the AUP? Should the Commission periodically require external review, through a consultant report, of whether USAC efficiently allocates resources, whether such operations are cost-effective, and ways to improve communications among USAC staff and management to improve implementation and administration of USF programs? If so, and the external review finds that USAC's operations are not cost-effective, what remediation process should the Commission require? How should USAC be required to report on that remediation to the Commission? Are there any other ways to make USAC's operations more cost effective?

38. *Board of Director Costs.* Finally, we seek comment on administrative costs related to USAC's Board of Directors. Currently, the 20-person Board is reimbursed for the costs of travel, lodging, and meals when attending USAC's quarterly board meetings. We seek comment on whether

⁵⁸ 47 CFR § 54.702(g); *see also* *Changes to the Board of Directors of the National Exchange Carrier Association, Inc., Federal State Joint Board on Universal Service*, Third Report and Order and Fourth Order on Reconsideration in CC Docket No. 97-21 and Eighth Order on Reconsideration in CC Docket No. 96-45, 13 FCC Rcd 25058, 25090, para. 63 (1998) (*Eighth Reconsideration Order*).

⁵⁹ 47 CFR § 54.717.

⁶⁰ 47 CFR § 54.702(n); *Application of Generally Accepted Accounting Principles for Federal Agencies and Generally Accepted Government Auditing Standards to the Universal Service Fund*, Order, 18 FCC Rcd 19911, 19912-13, paras. 4-6 (2003) (GovGAAP Order).

⁶¹ USAC MOU page 14 ("An agreed-upon procedures review shall be conducted in accordance with 47 CFR § 54.717. A review of USAC procurement activities shall be included in this annual agreed-upon procedures review. A review of USAC compensation and benefits activities, including compliance with section 54.715 of the Commission's rules, 47 CFR § 54.715, shall be included in this annual agreed-upon procedures review. In addition, USAC procurement activities shall be reviewed periodically through USAC's internal control program, conducted pursuant to OMB Circular A-123.").

⁶² The USF is part of the FCC's reporting entity and USAC is a disclosure entity for purposes of the FCC's annual financial report. *See* Treasury Financial Manual, Chapter 4700, Federal Entity Reporting Requirements For The Financial Report of The United States Government, Appendix 1b, pages 4 and 9 (available at <https://tfx.treasury.gov/tfm/volume1/part2/chapter-4700-federal-entity-reporting-requirements-financial-report-united-states>). As such, we recommend that commenters familiarize themselves with the FCC's annual financial report to ensure their proposals do not conflict with FCC's compliance with government-wide federal financial reporting obligations.

⁶³ *See supra* para. 38 and n.63.

there are more efficient ways to conduct board meetings that do not require such expenditures. We seek comment on the benefit of requiring meetings to be held in-person in Washington D.C., as compared to conducting meetings online.⁶⁴ We propose modifying section 54.703(e) to remove the requirement that all USAC board meetings be held in Washington D.C., and seek comment on that proposal. Would this enable Board meetings to be conducted in a more cost-effective manner?

C. Structure of USF Administration

39. USAC has been the administrator of the USF programs since shortly after the Telecommunications Act of 1996 passed. As previous Commissions have done during periodic reviews of USF administration, we seek comment on the utility of maintaining a permanent administrator of the USF, and the effect of that choice on USF administrative expenses.⁶⁵ What would be the benefits and drawbacks of moving away from having a permanent administrator? Are there other alternatives to a permanent administrator that would increase efficiency, cut costs, and streamline USF administration? If so, what are those alternatives? Should Commission staff handle portions of USF administration directly?

40. We seek comment on whether there is any benefit to having the Commission handle specific functions of USF administration. We ask commenters to identify both the function and the benefit provided by having the Commission bring a particular administrative function “in-house.” In response to the *USAC Reform Public Notice*, one commenter suggested eliminating USAC’s role in billing and collection for USF contributions and instead bringing all contributions functions inside the Commission.⁶⁶ The billing and collection function was assigned to USAC at its creation during a time when the funds were held outside the Treasury in a private bank account. Since that time, the Commission has moved the Universal Service Fund to the U.S. Treasury.⁶⁷ Given that any payment out of the Treasury requires approval by a certifying officer at the Commission,⁶⁸ currently USAC only makes payment recommendations.⁶⁹ We propose updating our rules to remove any obsolete language and accurately reflect how USF funds are held.

41. If the Commission does retain a permanent administrator, should that administrator continue to be USAC or should other candidates be considered? What issues and criteria should the Commission consider in determining whether to explore a different administrator? What should be the basis for revoking the role of permanent administrator, if an entity is named as one and proves not to be a good steward? What other organizations currently have the expertise and infrastructure to administer the USF? If we elect to pursue other options, should the Commission use a Request for Proposals (RFP) process to select a new administrator of the USF or to obtain the services of a contractor or contractors to perform the USF Administrator’s functions? Commenters should discuss the advantages and

⁶⁴ Section 74.703(e) provides that “[a]ll meetings of the Administrator’s Board of Directors shall be open to the public and held in Washington, D.C.” 47 CFR § 54.703(e).

⁶⁵ See *Comprehensive Review of Universal Service Fund Management, Administration, and Oversight*, WC Docket No. 05-195, Notice of Inquiry, 23 FCC Rcd 13583, 13590 at para. 23 (2008).

⁶⁶ For example, Matthey Consulting recommended eliminating USAC’s role in billing and collections for USF contributions. Matthey Comments at 2, 7-8.

⁶⁷ See *Amendment of the Schedule of Application Fees Set Forth in Sections 1.1102 Through 1.1109 of the Commission’s Rules*, MD Docket No. 20-270, Notice of Proposed Rulemaking, 36 FCC Rcd 1618, 1680, para. 229 (2020).

⁶⁸ 31 U.S.C. § 3528.

⁶⁹ USAC’s management of the disbursement process includes submitting all necessary documentation to the Commission’s certifying officials, who review and certify all disbursements of USF support payments from the U.S. Treasury.

disadvantages of a competitive procurement process, as well as the minimum qualifications for potential administrators and the advantages or disadvantages of including a renewal provision in the contract.⁷⁰ Should potential administrators be limited to not-for-profit corporations? How would a change in the administrative structure affect the neutrality of USF administration?

D. USAC's Board of Directors

42. The USAC Board of Directors (Board) was established to ensure significant, meaningful representation from a balanced cross-section of industry and beneficiaries of and contributors to the USF support mechanisms that would enable USAC to implement the USF support mechanisms in a neutral and efficient manner.⁷¹ Although the Commission emphasized the importance of broad representation of stakeholder interests on the Board, it noted that the Board should not be so large that it is unable to give USAC the prompt and effective guidance needed to undertake its responsibilities.⁷²

43. The Commission's rules specify that USAC shall have a twenty-member Board of Directors, which includes the CEO, and mandate three-year Board member terms.⁷³ Except for the CEO, each of the Board members represents a specific constituency—including beneficiaries of or contributors to—the USF.⁷⁴ The Commission's rules contemplate that each Board member will be nominated by its peers, so that each seat on the Board reflects specific stakeholder interests. The Commission Chair reviews the nominations and selects each member of the Board.⁷⁵

44. In response to the *USAC Reform Public Notice*, stakeholders suggested that changes to the Board structure would be beneficial to USF administration.⁷⁶ We seek comment on some of these recommendations, as well as Board-related matters including conflicts of interest, board composition, Board member terms, and Board committees.

45. *Conflicts of Interest.* First, we seek comment on ways that we can ensure that Board members, who represent the companies and organizations most likely to benefit from universal service funding, can avoid conflicts of interest. The MOU between the FCC and USAC states that USAC's Board members "shall avoid any organizational or personal conflicts of interest or the appearance of a conflict of interest in any aspect of the management of the USF, including the USF programs, and the operations of USAC."⁷⁷ A conflict of interest is defined as a situation in which a Board member "has a financial interest, personal interest, or relationship that could impair that person's ability to act impartially and in the best interest of the USF when performing their assigned role, or is engaged in self-dealing."⁷⁸

46. USAC requires Board members to annually disclose personal and familial financial

⁷⁰ We note that the Commission has previously stated that permanence of the Administrator will ensure qualified personnel and prevent disruption to contributors and beneficiaries. *Eighth Order on Reconsideration*, 13 FCC Rcd at 25069-70, para. 20.

⁷¹ *Universal Service Second Order on Reconsideration*, 12 FCC Rcd at 18418, paras. 30, 33-34.

⁷² *Id.*

⁷³ 47 CFR § 54.703(b) and (d), 54.701(b)(1).

⁷⁴ 47 CFR §§ 54.703, 54.704, 54.705.

⁷⁵ 47 CFR § 54.703.

⁷⁶ See *USAC Reform Public Notice*; Carol Matthey Comments, CC Docket Nos. 96-45, 97-21, at 2, 4-6 (rec. May 15, 2026) (Matthey Comments); SHLB Comments at 19; SECA Comments at 11; SRG Comments at 4.

⁷⁷ USAC MOU at 4.

⁷⁸ *Id.*

interests in entities with which USAC has a relationship (e.g., USF beneficiaries or recipients, or a party to legal action against USAC), which is consistent with Commission requirements.⁷⁹ Board members are also required to annually complete an ethics and confidentiality training module. Despite these measures, Board members are required to be representatives of USF contributors and beneficiaries. Since these members are responsible both to their employers and to USAC, the *GAO 2024 USAC Report* noted that this structure leads to the appearance of conflicts of interest.⁸⁰

47. We propose to update and improve the Commission's rules regarding conflicts of interest for all USAC Board members. Does having Board members acknowledge and accept their responsibilities and agree to comply with the provisions within the Board's ethics policy suffice to mitigate potential conflicts of interest?⁸¹ Are there other ways in which the Commission could mitigate potential conflicts?

48. We propose to require Board members to sign USAC's ethics policy annually. Should Commission rules, and not just USAC's ethics policy, require USAC Board members, when acting in their capacity as Board members, to represent the overall interests of USAC as the administrator of the Fund, and not just the interests of the Board member's personal employer or the constituency represented by their seat on the Board? If so, how should the Commission define a conflict of interest for this purpose?

49. Should the Commission adopt additional conflict of interest rules that apply only to USAC Board members? Should Board members be prohibited from inquiring into matters that could benefit their employer or the constituency represented by their seat on the Board? We seek comment on how this would impact individuals' willingness to serve on the USAC Board. Should we exclude certain categories of individuals, such as USF program or contributions consultants, from serving on the USAC Board altogether?

50. *Reducing the Number of USAC Board Members.* Should the Commission reduce the size of USAC's Board? Specifically, we seek comment on reducing the size of the USAC Board from 20 to 13 members. Commenters have advocated for a reduction in the size of USAC's Board, suggesting a reduction of the Board to no fewer than five members and no more than 15 members.⁸² We invite comment on this proposal. Would reducing the size of USAC's Board improve efficiency in the management of USAC?

51. *Modifying USAC Board Composition.* In response to the *USAC Reform Public Notice*, we received recommendations to modify the composition of the USAC Board to ensure that Board members have expertise in administrative areas such as financial management, audits, information security, and program administration.⁸³ Because the USAC Board may benefit from having members of

⁷⁹ *GAO 2024 USAC Report* at 17.

⁸⁰ *Id.*

⁸¹ *GAO 2024 USAC Report* at 16-17.

⁸² See Matthey Comments at 4-5 (stating that the USAC Board should be smaller and that most corporate Boards of USAC's size would be 7-10 Board members). See also *USAC Reform Public Notice* (requesting comment on USAC's operations and management structure, audits, and board structure).

⁸³ See Matthey Comments at 4-6 (stating that USAC Board member expertise should reflect corporate governance and expertise in financial management, information technology, risk management, federal program management instead of USF policy); see also SRG Comments at 4 (stating that Board members should be selected based on financial management, audit, information security, and program administration).

the Board that have expertise in financial management, audits, information security, and program administration, we seek comment on whether to modify the composition of the USAC Board.

52. What are the benefits and drawbacks of modifying the composition of the board so that half the members have expertise in one or more USF programs (e.g., representatives from schools, libraries, or rural areas, service providers, consumer advocates, or state representatives), and the other half of the Board is comprised of individuals not affiliated with any USF stakeholders but that instead have specific substantive areas of administrative expertise (e.g., corporate management, accounting, grant management, auditing, procurement expertise, and information technology)? Should the current constituency categories be merged? Are there any that should be eliminated? What criteria should be used to determine what categories should be modified? Should the categories be eliminated? Is the current level of stakeholder representation necessary for the proper management of USF programs, as one commenter suggested?⁸⁴ How should the Commission compare the benefits of that representation with the potential ethical issues of having representatives with financial interests in the USF participate in oversight of USAC? Is expertise in the USF programs alone enough to provide adequate representation on the Board? What level of administrative experience should Board members have?

53. We also seek comment on other approaches to modifying the composition of the Board, such as selecting Board members based solely on qualifications that would support USAC's administration of the USF. Should we modify the Commission's rules to allow any interested member of the public the opportunity to nominate a USAC Board member? This could broaden the candidate pool and provide Commission leadership the ability to select Board members from among all qualified nominations received.

54. *Terms for USAC Board Members.* Given that staggered terms reduce the likelihood that there will be multiple vacancies pending appointment of replacement Board members, we propose to maintain the staggered three-year terms and seek comment on this approach. We seek comment on whether USAC board members should be subject to term limits and, if so, how many terms should be permitted for each individual. We also seek comment on under what circumstances a USAC Board member may be removed prior to the end of their term.

55. *Updating USAC Board Committees.* The Commission's rules establish three USAC Board Programmatic Committees with responsibility for different USF programs: (1) the High Cost and Low Income Committee; (2) the Schools and Libraries Committee; and (3) the Rural Health Care Committee. There is also an Audit Committee and an Executive Committee. Each of the Programmatic Committees is "vested with the powers and authority necessary to maintain the unique missions and functions of the schools and libraries, rural health care, and high cost and low income support mechanisms, respectively."⁸⁵

56. We seek comment on the extent to which the Board Programmatic Committees are influencing and improving USAC's administration of the four USF programs. We seek comment on whether the Commission should create a committee, with members appointed by the Commission Chair, to provide oversight over USAC's internal administration (e.g., management of IT systems and projects, functions shared across USF programs, and USAC administrative and procurement expenses), to ensure efficient and cost-effective administration of the USF. In light of the proposed reduction to the size of the

⁸⁴ FFL Comments at 5-6 (stating that the strength of the E-Rate program depends on Board members who understand the operational realities of the E-rate applicants and requests that any reform to the Board composition should preserve, and ideally expand, direct representation of the schools and libraries community).

⁸⁵ *Eighth Reconsideration Order*, 13 FCC Rcd at 25075, para. 30.

USAC Board, we also seek comment on how this would impact Board committees. We seek comment on modifying our rules to eliminate Board Programmatic Committees and create committees focused only on audits and on USAC governance and risk.⁸⁶ We seek comment on amending the Commission's rules to require each committee of the USAC Board to implement measures to improve the efficiency and effectiveness of the administration of their respective programs.⁸⁷ What measures should we adopt to meet this goal? We also seek comment on whether the Commission should promulgate additional rules setting forth responsibilities for Board committees and clarify how these committees are subject to Commission oversight.

IV. PROCEDURAL MATTERS

57. *Paperwork Reduction Act Analysis.* This document does not contain proposed information collection(s) subject to the Paperwork Reduction Act of 1995 (PRA), Public Law 104-13. In addition, therefore, it does not contain any new or modified information collection burden for small business concerns with fewer than 25 employees, pursuant to the Small Business Paperwork Relief Act of 2002, Public Law 107-198, see 44 U.S.C. 3506(c)(4).

58. *Regulatory Flexibility Act.* The Regulatory Flexibility Act of 1980, as amended (RFA),⁸⁸ requires that an agency prepare a regulatory flexibility analysis for notice and comment rulemakings, unless the agency certifies that "the rule will not, if promulgated, have a significant economic impact on a substantial number of small entities."⁸⁹ Accordingly, the Commission has prepared an Initial Regulatory Flexibility Analysis (IRFA) concerning the possible impact of potential rule and/or policy changes contained in this *Notice*. The IRFA is set forth in Appendix A. The Commission invites the general public, in particular small businesses, to comment on the IRFA. Comments must be filed by the deadlines for comments on the *Notice* indicated on the first page of this document and must have a separate and distinct heading designating them as responses to the IRFA.

59. *Comments.* Pursuant to sections 1.415 and 1.419 of the Commission's rules, 47 CFR §§ 1.415, 1.419, interested parties may file comments and reply comments on or before the dates indicated on the first page of this document. Comments may be filed using the Commission's Electronic Comment Filing System (ECFS).

- *Electronic Filers:* Comments may be filed electronically using the Internet by accessing the ECFS: <https://www.fcc.gov/ecfs/>.
- *Paper Filers:* Parties who choose to file by paper must file an original and one copy of each filing. If more than one docket or rulemaking number appears in the caption of a proceeding, the Commission's rules require paper filers to submit two additional copies for each additional docket or rulemaking number.⁹⁰
 - Filings can be sent by hand or messenger delivery, by commercial overnight courier, or by first-class or overnight U.S. Postal Service mail. All filings must be addressed to the Commission's Secretary, Office of the Secretary, Federal Communications Commission.

⁸⁶ See 47 CFR § 54.705; Matthey Comments at 6.

⁸⁷ 47 CFR § 54.705.

⁸⁸ See 5 U.S.C. §§ 601 *et seq.*, as amended by the Small Business Regulatory Enforcement and Fairness Act (SBREFA), Pub. L. No. 104-121, 110 Stat. 847 (1996)

⁸⁹ 5 U.S.C. § 605(b).

⁹⁰ 47 CFR § 1.419(c).

- Hand-delivered or messenger-delivered paper filings for the Commission's Secretary are accepted between 8:00 a.m. and 4:00 p.m. by the FCC's mailing contractor at 9050 Junction Drive, Annapolis Junction, MD 20701. All hand deliveries must be held together with rubber bands or fasteners. Any envelopes and boxes must be disposed of before entering the building.
- Commercial overnight mail (other than U.S. Postal Service Express Mail and Priority Mail) must be sent to 9050 Junction Drive, Annapolis Junction, MD 20701. U.S. Postal Service first-class, Express, and Priority mail must be addressed to 45 L Street, NE, Washington, DC 20554.
- Filings sent by U.S. Postal Service First-Class Mail, Priority Mail, and Priority Mail Express must be sent to 45 L Street NE, Washington, DC 20554.

60. *Ex Parte Presentations.* This proceeding shall be treated as a "permit-but-disclose" proceeding in accordance with the Commission's *ex parte* rules.⁹¹ Persons making *ex parte* presentations must file a copy of any written presentation or a memorandum summarizing any oral presentation within two business days after the presentation (unless a different deadline applicable to the Sunshine period applies). Persons making oral *ex parte* presentations are reminded that memoranda summarizing the presentation must: (1) list all persons attending or otherwise participating in the meeting at which the *ex parte* presentation was made, and (2) summarize all data presented and arguments made during the presentation. If the presentation consisted in whole or in part of the presentation of data or arguments already reflected in the presenter's written comments, memoranda or other filings in the proceeding, the presenter may provide citations to such data or arguments in his or her prior comments, memoranda, or other filings (specifying the relevant page and/or paragraph numbers where such data or arguments can be found) in lieu of summarizing them in the memorandum. Documents shown or given to Commission staff during *ex parte* meetings are deemed to be written *ex parte* presentations and must be filed consistent with rule 1.1206(b). In proceedings governed by rule 1.49(f) or for which the Commission has made available a method of electronic filing, written *ex parte* presentations and memoranda summarizing oral *ex parte* presentations, and all attachments thereto, must be filed through the electronic comment filing system available for that proceeding, and must be filed in their native format (e.g., .doc, .xml, .ppt, searchable .pdf). Participants in this proceeding should familiarize themselves with the Commission's *ex parte* rules.

61. *People with Disabilities.* To request materials in accessible formats for people with disabilities (braille, large print, electronic files, audio format), send an e-mail to fcc504@fcc.gov or call the Consumer & Governmental Affairs Bureau at (202) 418-0530 (voice), (202) 418-0432 (TTY)

62. *Providing Accountability Through Transparency Act:* Consistent with the Providing Accountability Through Transparency Act, Public Law 118-9, a summary of this document will be available on <https://www.fcc.gov/proposed-rulemakings>.

63. *Additional Information.* For further information about this *Notice*, contact Stephanie Minnock, Telecommunications Access Policy Division, Wireline Competition Bureau, at Stephanie.Minnock@fcc.gov.

V. ORDERING CLAUSES

64. Accordingly, IT IS ORDERED that, pursuant to sections 1, 2, 4(i)–(j), 201(b), 254, 303(r), and 403 of the Communications Act of 1934, as amended, and section 706 of the Telecommunications Act of 1996, as amended, 47 U.S.C. §§ 151, 152, 154(i)–(j), 201(b), 254, 303(r),

⁹¹ 47 CFR § 1.1200 *et seq.*

403, and 1302, this Notice of Proposed Rulemaking IS ADOPTED.⁹²

65. IT IS FURTHER ORDERED that, pursuant to applicable procedures set forth in sections 1.415 and 1.419 of the Commission's Rules, 47 CFR §§ 1.415, 1.419, interested parties may file comments on this Notice of Proposed Rulemaking on or before 30 days after publication in the Federal Register, and reply comments on or before 60 days after publication in the Federal Register.

66. IT IS FURTHER ORDERED that the Commission's Office of the Secretary, SHALL SEND a copy of this Notice of Proposed Rulemaking, including the Initial Regulatory Flexibility Analysis, to the Chief Counsel for the Small Business Administration (SBA) Office of Advocacy.

FEDERAL COMMUNICATIONS COMMISSION

Marlene H. Dortch
Secretary

⁹² Pursuant to Executive Order 14215, 90 Fed. Reg. 10447 (Feb. 24, 2025), this regulatory action has been determined to be significant under Executive Order 12866, 58 Fed. Reg. 51735 (Oct. 4, 1993).

APPENDIX A

Initial Regulatory Flexibility Analysis

1. As required by the Regulatory Flexibility Act of 1980, as amended (RFA),¹ the Federal Communications Commission (Commission) has prepared this Initial Regulatory Flexibility Analysis (IRFA) of the policies and rules proposed in the *Notice of Proposed Rulemaking (Notice)* assessing the possible significant economic impact on a substantial number of small entities. The Commission requests written public comments on this IRFA. Comments must be identified as responses to the IRFA and must be filed by the deadlines for comments specified on the first page of the *NPRM*. The Commission will send a copy of the *Notice*, including this IRFA, to the Chief Counsel for Advocacy of the Small Business Administration (SBA).² In addition, the *Notice* and IRFA (or summaries thereof) will be published in the Federal Register.³

A. Need for, and Objectives of, the Proposed Rules

2. The *Notice* seeks comment on ways to strengthen the administration, management, and oversight of the Universal Service Fund (USF or Fund) and its administrator, the Universal Service Administrative Company (USAC). The Commission is required by section 254 of the Communications Act of 1934, as amended, to promulgate rules to implement the universal service provisions of section 254, which allow for the availability of affordable telecommunications services to consumers living in high-cost areas, low-income consumers, eligible schools and libraries, and rural health care providers.⁴ On May 8, 1997, the Commission adopted rules that reformed its system of universal service support mechanisms so that universal service is preserved and advanced as markets move toward competition.⁵ USAC is responsible for administration of the USF programs, including activities related to collection and disbursement of program support, and producing timely and relevant data and analysis to inform the Commission's policymaking and oversight of the USF and the USF programs. Since the appointment of USAC as the permanent administrator of USF in 1998, no major review of USAC has been conducted. Given the passage of time since the Commission last conducted a wide-ranging review of USAC and its relevant processes, we seek comment on strengthening USAC's internal processes and improving its management structure to increase efficiency in the administration of USF programs.⁶ As part of our ongoing commitment that our standards continue to serve the public interest, we also seek comment on

¹ 5 U.S.C. §§ 601 *et seq.*, as amended by the Small Business Regulatory Enforcement and Fairness Act (SBREFA), Pub. L. No. 104-121, 110 Stat. 847 (1996).

² *Id.* § 603(a).

³ *Id.*

⁴ 47 U.S.C. § 254.

⁵ *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd. 8776, 9118-19, paras. 655-56 (1997).

⁶ In seeking comment, we note that the Commission, as a federal agency, is required to comply with a number of government-wide statutes, regulations, and policies that pertain to the management of federal funds, the management of federal programs, and/or the requirements placed on entities that administer federal programs on behalf of a federal agency. As part of its ongoing oversight of USAC, the Commission provides USAC with guidance on USAC's role in ensuring compliance with such government-wide requirements. Memorandum of Understanding between the Federal Communications Commission and the Universal Service Administrative Company at 13 (signed Oct. 17, 2024), <https://www.fcc.gov/sites/default/files/usac-mou.pdf> (USAC MOU). We do not herein seek comment on changing policies or procedures in any way that would undermine compliance with such statutes, regulations, or policies. Commission letters to USAC pertaining to many oversight topics can be found at <https://www.fcc.gov/universal-service-fund-general-management-and-oversight> (includes letters dating back to 2006).

whether the Commission's oversight framework for USAC implements best practices, including standards for accountability and transparency.

B. Legal Basis

3. The proposed action is authorized under sections 1, 2, 4(i)–(j), 254, 201(b), 303(r), and 403 of the Communications Act of 1934, as amended, of the Telecommunications Act of 1996, as amended, 47 U.S.C. §§ 151, 152, 154(i)–(j), 201(b), 254, 303(r), and 403.⁷

C. Description and Estimate of the Number of Small Entities to Which the Proposed Rules Will Apply

4. The RFA directs agencies to provide a description of and, where feasible, an estimate of the number of small entities that may be affected by the proposed rules, if adopted.⁸ The RFA generally defines the term “small entity” as having the same meaning as the terms “small business,” “small organization,” and “small governmental jurisdiction.”⁹ In addition, the term “small business” has the same meaning as the term “small business concern” under the Small Business Act.¹⁰ A “small business concern” is one which: (1) is independently owned and operated; (2) is not dominant in its field of operation; and (3) satisfies any additional criteria established by the SBA.¹¹ The SBA establishes small business size standards that agencies are required to use when promulgating regulations relating to small businesses; agencies may establish alternative size standards for use in such programs, but must consult and obtain approval from SBA before doing so.¹²

5. Our actions, over time, may affect small entities that are not easily categorized at present. We therefore describe three broad groups of small entities that could be directly affected by our actions.¹³ In general, a small business is an independent business having fewer than 500 employees.¹⁴ These types of small businesses represent 99.9% of all businesses in the United States, which translates to 34.75 million businesses.¹⁵ Next, “small organizations” are not-for-profit enterprises that are independently owned and operated and not dominant in their field.¹⁶ While we do not have data regarding the number of non-profits that meet that criteria, over 99 percent of nonprofits have fewer than 500 employees.¹⁷

⁷ 47 U.S.C. §§ 151, 152, 154(i)–(j), 201(b), 254, 257, 303(r).

⁸ 5 U.S.C. § 603(b)(3).

⁹ *Id.* § 601(6).

¹⁰ *Id.* § 601(3) (incorporating by reference the definition of “small-business concern” in the Small Business Act, 15 U.S.C. § 632). Pursuant to 5 U.S.C. § 601(3), the statutory definition of a small business applies “unless an agency, after consultation with the Office of Advocacy of the Small Business Administration and after opportunity for public comment, establishes one or more definitions of such term which are appropriate to the activities of the agency and publishes such definition(s) in the Federal Register.”

¹¹ 15 U.S.C. § 632.

¹² 13 CFR § 121.903.

¹³ 5 U.S.C. § 601(3)–(6).

¹⁴ See SBA, Office of Advocacy, *Frequently Asked Questions About Small Business* (July 23, 2024), https://advocacy.sba.gov/wp-content/uploads/2024/12/Frequently-Asked-Questions-About-Small-Business_2024-508.pdf.

¹⁵ *Id.*

¹⁶ 5 U.S.C. § 601(4).

¹⁷ See SBA, Office of Advocacy, *Small Business Facts, Spotlight on Nonprofits* (July 2019), <https://advocacy.sba.gov/2019/07/25/small-business-facts-spotlight-on-nonprofits/>.

Finally, “small governmental jurisdictions” are defined as cities, counties, towns, townships, villages, school districts, or special districts with populations of less than fifty thousand.¹⁸ Based on the 2022 U.S. Census of Governments data, we estimate that at least 48,724 out of 90,835 local government jurisdictions have a population of less than 50,000.¹⁹

6. The rules proposed in the *Notice* will apply to small entities in the industries identified in the chart below by their six-digit North American Industry Classification System (NAICS)²⁰ codes and corresponding SBA size standard.²¹ Where available, we also provide additional information regarding the number of potentially affected entities in the industries identified below.

Table 1. 2022 U.S. Census Bureau Data by NAICS Code

Regulated Industry (Footnotes specify potentially affected entities within a regulated industry where applicable)	NAICS Code	SBA Size Standard	Total Firms²²	Total Small Firms²³	% Small Firms
Wired Telecommunications Carriers ²⁴	517111	1,500 employees	3,403	3,027	88.95%

¹⁸ 5 U.S.C. § 601(5).

¹⁹ See U.S. Census Bureau, 2022 Census of Governments –Organization, <https://www.census.gov/data/tables/2022/econ/gus/2022-governments.html>, tables 1-11.

²⁰ The North American Industry Classification System (NAICS) is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy. See www.census.gov/NAICS for further details regarding the NAICS codes identified in this chart.

²¹ The size standards in this chart are set forth in 13 CFR § 121.201, by six digit North American Industrial Classification System (NAICS) code.

²² U.S. Census Bureau, "Selected Sectors: Employment Size of Firms for the U.S.: 2022." Economic Census, ECN Core Statistics Economic Census: Establishment and Firm Size Statistics for the U.S., Table EC2200SIZEEMPfirm, 2025, and "Selected Sectors: Sales, Value of Shipments, or Revenue Size of Firms for the U.S.: 2022." Economic Census, ECN Core Statistics Economic Census: Establishment and Firm Size Statistics for the U.S., Table EC2200SIZEREVfirm, 2025.

²³ *Id.*

²⁴ Affected Entities in this industry include Cable Television Distribution Services, Carrier RespOrgs, Competitive Access Providers, Cable Companies and Systems (Rate Regulation), Cable System Operators (Telecom Act Standard), Competitive Local Exchange Carriers (CLECs), Competitive Local Service Providers, Direct Broadcast Satellite (DBS), Facilities-Based Carriers (International Telecom Carriers), Home Satellite Dish (HSD) Service, Incumbent Local Exchange Carriers (Incumbent LECs), Interexchange Carriers (IXCs), Local Exchange Carriers (LECs), Open Video Systems, Operator Service Providers (OSPs), Operators of Common Carrier Non-Common Carrier Undersea Cable Systems, Other Toll Carriers, Providers of International Telecommunications Transmission Facilities, Satellite Master Antenna Television (SMATV) Systems aka Private Cable Operators (PCOs), and Wired Broadband Internet Access Service Providers.

Regulated Industry (Footnotes specify potentially affected entities within a regulated industry where applicable)	NAICS Code	SBA Size Standard	Total Firms²²	Total Small Firms²³	% Small Firms
Wireless Telecommunications Carriers (except Satellite) ²⁵	517112	1,500 employees	1,184	1,081	91.30%
All Other Telecommunications ²⁶	517810	\$40 million	1,673	1,007	60.19%
Libraries and Archives	519210	\$21 million	2,030	1,891	93.15%
Administrative Management and General Management Consulting Services	541611	\$24.5 million	10,1761	69,836	68.63%
All Other Support Services	561990	\$16.5 million	10,554	7,571	71.74%
Schools	611110	\$20 million	14,088 ²⁷	14,087	99.99%
Offices of Physicians Except Mental Health Specialists	621111	\$16 million	138,120	104,486	75.65%
Offices of Physicians - Mental Health Specialists	621112	\$13.5 million	11,973	8,376	69.96%
Offices of Dentists	621210	\$9 million	121,011	105,588	87.25%

²⁵ Affected Entities in this industry include 1.4 GHz Band Licensees, 1670–1675 MHz Services, 2.3 GHz Wireless Communications Services, 218-219 MHz Service, 220 MHz Radio Service – Phase I and Phase II, 3650-3700 MHz Band, 39 GHz Service, 600 MHz Band, 700 MHz Guard Band Licensees, Advanced Wireless Services - AWS Services, Aeronautical en route Services, Aeronautical Fixed Radio Services, Air-Ground Radiotelephone Services, Aviation and Marine Radio Services, Broadband Personal Communications Service, Broadband Radio Service and Educational Broadband Service, Carrier RespOrgs, Cellular Radiotelephone Service, Experimental Radio Service (Other Than Broadcast), Fixed Microwave Services, Future 24 GHz Licensees, Government Transfer Bands, Incumbent 24 GHz Licensees, Local Multipoint Distribution Service (LMDS), Location and Monitoring Service (LMS), Low Power Auxiliary Station (LPAS) Licensees, Lower 700 MHz Band Licenses, Marine Radio Services, Multichannel Video Distribution and Data Service (MVDDS), Multiple Address Systems, Narrowband Personal Communications Services, Offshore Radiotelephone Service, Paging Services, Personal Radio Services, Private Land Mobile Radio - 900 MHz Band, Private Land Mobile Radio Licensees (PLMR), Public Safety Radio Licensees, Rural Radiotelephone Service, Specialized Mobile Radio Licenses, Upper 700 MHz Band Licenses, Wireless Broadband Internet Access Service Providers, Wireless Carriers and Service Providers, Wireless Communications Services, Wireless Telephony.

²⁶ Affected Entities in this industry include Earth Stations (except Satellite Telecommunications Carriers), Internet Service Providers (Non-Broadband), Non-Carrier RespOrgs, Non Licensee Owners of Towers and Other Infrastructure, Online Access Service Providers, Radar Station Operations, Satellite Telemetry Operations, Satellite Tracking Stations, Telecommunications Relay Service (TRS) Providers, Telemetry and Tracking System Operations and VoIP Service Providers (via Client-Supplied Telecommunications Connections).

²⁷ U.S. Census Bureau, Annual Survey of School System Finances Tables, 2023 Public Elementary-Secondary Education Finance Data, <https://www.census.gov/data/tables/2023/econ/school-finance/secondary-education-finance.html>, 2023 Tables, "Individual Unit Tables" (Excel Spreadsheet).

Regulated Industry (Footnotes specify potentially affected entities within a regulated industry where applicable)	NAICS Code	SBA Size Standard	Total Firms²²	Total Small Firms²³	% Small Firms
Offices of Chiropractors	621310	\$9 million	38,673	30,425	78.67%
Offices of Optometrists	621320	\$9 million	18,582	16,425	88.39%
Offices of Mental Health Practitioners Except Physicians	621330	\$9 million	39,395	30,210	76.68%
Offices of Physical Occupational & Speech Therapists & Audiologists	621340	\$12.5 million	31,682	25,139	79.35%
Offices of Podiatrists	621391	\$9 million	6,546	5,737	87.64%
Offices of All Other Miscellaneous Health Practitioners	621399	\$10 million	29,775	18,206	61.15%
Family Planning Centers	621410	\$19 million	1,671	1,238	74.09%
Outpatient Mental Health and Substance Abuse Centers	621420	\$19 million	9,647	6,837	70.87%
HMO Medical Centers	621491	\$44.5 million	56	25	44.64%
Kidney Dialysis Centers	621492	\$47 million	516	367	71.12%
All Other Outpatient Care Centers	621498	\$25.5 million	8,942	7,160	80.07%
Medical Laboratories	621511	\$41.5 million	4,527	3,525	77.87%
Diagnostic Imaging Centers	621512	\$19 million	4,717	3,537	74.98%
Home Health Care Services	621610	\$19 million	27,774	20,724	74.62%
Ambulance Services	621910	\$22.5 million	3,002	2,436	81.15%
Blood and Organ Banks	621991	\$40 million	371	258	69.54%
General Medical and Surgical Hospitals	622110	\$47 million	2,280	501	21.97%
Psychiatric and Substance Abuse Hospitals	622210	\$47 million	403	134	33.25%
Specialty Hospitals - Except Psychiatric and Substance Abuse	622310	\$47 million	280	92	32.86%
Nursing Care Facilities	623110	\$34 million	10,663	8,522	79.92%
Emergency and Other Relief Services	624230	\$41.5 million	714	514	71.99%

Table 2. Telecommunications Service Provider Data

2025 Universal Service Monitoring Report Telecommunications Service Provider Data ²⁸ (Data as of December 2024)	SBA Size Standard (1500 Employees)		
	Affected Entity	Total # FCC Form 499A Filers	Small Firms % Small Entities
Wired Telecommunications Carriers ²⁹		4,971	4,531 91.15
Wireless Telecommunications Carriers (except Satellite) ³⁰		608	522 85.86

Table 3. E-Rate Funding Data

Affected Entity ³¹	# Receiving E-Rate Funding Commitments ³²
Schools	101,626
Libraries	11,747

D. Description of Economic Impact and Projected Reporting, Recordkeeping, and Other Compliance Requirements for Small Entities

7. The RFA directs agencies to describe the economic impact of proposed rules on small entities, as well as projected reporting, recordkeeping and other compliance requirements, including an estimate of the classes of small entities which will be subject to the requirements and the type of professional skills necessary for preparation of the report or record.³³

²⁸ Federal-State Joint Board on Universal Service, Universal Service Monitoring Report at 25, Table 1.12 (2025), <https://docs.fcc.gov/public/attachments/DOC-418505A1.pdf>.

²⁹ Local Resellers fall into another U.S. Census Bureau industry (Telecommunications Resellers) and therefore data for these providers is not included in this industry.

³⁰ Affected Entities in this industry include all reporting wireless carriers and service providers.

³¹ The Commission's data for schools and libraries applies to eligible entities defined in 47 CFR § 54.501 that participate in the E-Rate program which provides support to eligible schools and libraries to enable access to high-speed internet access and telecommunications services at affordable rates, consistent with the objectives of universal service.

³² Federal-State Joint Board on Universal Service, Universal Service Monitoring Report at 25, Table 4.3 (2025), <https://docs.fcc.gov/public/attachments/DOC-418505A1.pdf>. In light of the eligibility requirements the Commission estimates the majority of the entities receiving E-Rate funding are small entities under the applicable SBA size standards for schools and libraries.

³³ 5 U.S.C. § 603(b)(4).

8. The *Notice* seeks comment on changes that would improve USAC's operations and management functions, audits and recovery processes, and efficiency of the USAC annual audit. The *Notice* proposes to explicitly include non-carrier beneficiaries, such as participating schools, libraries, and health care providers, within USAC's audit authority. The *Notice* also seeks comment on USAC's board reorganization and streamlining of USAC's budget. Changes to the rules may be associated with new or additional costs to adjust to new compliance obligations, associated audits, collections, evaluation, and appeals for small service providers that voluntarily choose to participate in the USF programs. Small entities may need to hire professionals to comply with the requirements that may be adopted as a result of the proposals and matters discussed in the *Notice*. Changes in rules may be associated with cost to adjust to new compliance rules associated audits, collections, evaluation, and appeals.

9. In accordance with our requests for comments in the *Notice*, small entities are encouraged to provide specific information pertaining to the costs, benefits, and impacts of any potential reporting, recordkeeping, or compliance requirements we discuss. We expect the comments we receive to include information on the costs and benefits, and other pertinent matters that should help us identify and evaluate relevant issues for small entities, including compliance costs and other burdens (as well as countervailing benefits), so that we may develop final rules that minimize such costs and address such issues to the extent possible.

E. Discussion of Significant Alternatives Considered That Minimize the Significant Economic Impact on Small Entities

10. The RFA directs agencies to provide a description of any significant alternatives to the proposed rules that would accomplish the stated objectives of applicable statutes, and minimize any significant economic impact on small entities.³⁴ The discussion is required to include alternatives such as: "(1) the establishment of differing compliance or reporting requirements or timetables that take into account the resources available to small entities; (2) the clarification, consolidation, or simplification of compliance and reporting requirements under the rule for such small entities; (3) the use of performance rather than design standards; and (4) an exemption from coverage of the rule, or any part thereof, for such small entities."³⁵

11. The *Notice* seeks comment throughout on the ways in which operational changes to USAC might impact USF program stakeholders, and on the burdens of those proposed rule changes, and any alternatives, on providers, which includes small providers and beneficiaries participating in the USF programs. For example, the Commission seeks comment on whether to adopt an exemption to the proposed audit requirements for recipients that receive less than a certain amount of USF support, and seeks comment on what amount of support should allow providers or recipients to qualify for this exemption. In considering whether and how to update rules to recover improperly disbursed funds, the *Notice* seeks comment on whether to adopt a revised pay-and-dispute model for all USF programs, which may allow the Commission to recover funds from some providers earlier than required under the current rules.

12. The Commission expects to more fully consider the economic impact and alternatives for small entities following the review of comments filed in response to the *Notice*, including cost and benefit analyses. Having data on the costs and economic impact of proposals and possible approaches we discuss will allow the Commission to better evaluate options and alternatives to minimize any significant economic impact on small entities that may result from the proposals and approaches, if adopted. The Commission's evaluation of this information will shape the final alternatives it considers to minimize any

³⁴ *Id.* § 603(c).

³⁵ *Id.* § 603(c)(1)-(4).

significant economic impact that may occur on small entities, the final conclusions it reaches and any final rules it promulgates in this proceeding.

F. Federal Rules that May Duplicate, Overlap, or Conflict with the Proposed Rules

13. None.

APPENDIX B
PROPOSED RULES

The Federal Communications Commission amends 47 CFR part 54 to read as follows:

PART 54 – UNIVERSAL SERVICE

1. The authority citation for part 54 continues to read as follows:

Authority: 47 U.S.C. 151, 154(i), 155, 201, 205, 214, 219, 220, 229, 254, 303(r), 403, 1004, and 1302 unless otherwise noted.

2. Amend § 54.703 by revising paragraph (e) to read as follows:

§ 54.703 The Administrator’s Board of Directors.

* * *

- (e) All meetings of the Administrator’s Board of Directors shall be open to the public.

3. Amend § 54.707 by revising the first and second sentences of paragraph (a), and adding paragraph (d) to read as follows:

§ 54.707 Audit Control.

(a) The Administrator shall have the authority to audit contributors, and carriers, and beneficiaries (including participating schools, libraries, and health care providers) reporting data to the Administrator. The Administrator shall establish procedures to verify discounts, offsets and support amounts provided by the universal service support programs, and may suspend or delay discounts, offsets, and support amounts provided to a carrier if the contributor, carrier, or beneficiary fails to provide adequate verification of discounts, offsets, or support amounts provided upon reasonable request, or if directed by the Commission to do so. The Administrator shall not provide reimbursements, offsets or support amounts pursuant to [subparts D, K, L and M of this part](#) to a carrier until the carrier has provided to the Administrator a true and correct copy of the decision of a state commission designating that carrier as an eligible telecommunications carrier in accordance with [§ 54.202](#).

* * *

- (d) The Administrator shall have the authority when conducting an audit to calculate a recovery based on extrapolation of a statistically valid sample of disbursements at issue in the audit.