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

Comments of
The Small Company Coalition

IN RE: REFORMS OF USAC PROCESSES AND OVERSIGHT

CC Docket Nos. 96-45, 97-21

Secretary, Federal Communications Commission

The Small Company Coalition ("SCC" or "Coalition") commends the Commission for taking on the important task of holding the Universal Service Administrative Company ("USAC") and its processes accountable in these docket items by seeking comment from its stakeholders, including the member companies of our Coalition.

As an organization whose sole purpose is to represent the voices of our rural and Tribal carriers and communities we serve, the SCC has long sought to ensure that the same scrutiny under which our companies operate should be regularly and equally applied to the regulatory agencies themselves; such self-inspection serves as a crucial act of ensuring that they are good stewards of the governmental and public funding which they have been entrusted to administer. In this same vein, as part of their fiduciary responsibilities, it is critical that the regulatory agencies prune outdated and onerous requirements and policies which—when not effectively serving their purpose—have a particularly encumbering effect on smaller providers and their limited resources.

Before addressing several of the specific questions proposed in the April 15, 2026 Public Notice, the SCC would like to state more broadly that refining USAC's practices, and particularly their audit processes and procedures, has long been on our radar, as we've shined a light on this issue since our inception in 2012. This has been done through advocacy efforts in the Capitol as well as the building of a written record over the years[1].

We appreciate that the FCC, and by extension, USAC, must perform a balancing act: keen oversight of publicly-managed funds is essential to mitigating potential fraud, waste, and abuse on the part of recipients; yet, overzealous regulation or poorly calibrated auditing processes and

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[1] The SCC's most recent filings involving issues pertaining to USAC can be found at these links: https://www.smallcompanycoalition.com/_files/ugd/2df08a_e0a8c2fdbbe342c4abf36d0b9700358c.pdf and https://www.smallcompanycoalition.com/_files/ugd/2df08a_7a413fe9255b48df87b07ede1c1d3d40.pdf

procedures often have an inhibitive effect on honest rural broadband providers trying to serve their communities.

It is the SCC's position that this balancing act is currently skewed in the direction of excessive or inefficient oversight, especially with respect to USAC's overdrawn, opaque audits conducted on small broadband providers with proven records of exemplary service. Naturally, herein lies the key: not that companies (including those within the SCC) aren't audited, but rather, that the audits themselves are better targeted from the start, more specific in their scope, conducted by recognized experts within the telecommunications industry, and performed in a reasonable timeframe that fully respects the limited resources at the disposal of the small rural and Tribal companies.

We hope not only to illuminate these concerns, among others, below, but also to provide recommendations on how the FCC and USAC might be able to improve the efficiency of the regulatory processes and procedures.

Current State of USAC Operations:

- **Question:** What improvements to USAC are appropriate, and how can the Commission effectuate these improvements?

  Response: With respect to what improvements to USAC are appropriate, the SCC's recommendations are documented throughout these comments. Regarding the second part of the question pertaining to how the Commission can effectuate the improvements, after the Commission has assessed and evaluated the feedback received from the SCC and other interested parties, it should summarize the relevant directives in a document submitted to USAC for implementation.

- **Question:** How can the Commission create additional efficiencies in USAC administration? Which areas or processes are most in need of streamlining today? Are there past examples of new efficiencies in USAC operations or operations of other organizations that could serve as a model for USAC?

  Response: With respect to the first question, the FCC should consider designating a department or a group within the agency to oversee and monitor USAC's adherence to and implementation of the directives included in the proposed FCC document referred to in the response to the previous question. Regarding the second question, given the potential significant savings that could be realized through the improvement of USAC's auditing processes and procedures, for the reasons documented throughout these comments, it's the SCC's position that such processes and procedures are most in need of streamlining today. Finally, regarding the third question, specific examples of new or improved efficiencies in USAC's operations are contained throughout these comments. In summary, it is critical for USAC to periodically review its policies and procedures to ensure that they remain relevant and best suited to fulfill its fiduciary responsibility to operate in the most efficient and effective manner possible. This is especially important in the dynamic telecommunications industry.

- **Question:** What challenges are there to reforming the processes administered by USAC, and how should these challenges be addressed?

  Response: Any time an organization is tasked with reforming its policies and procedures, there must be a concentrated effort to "think outside the box" and avoid the tendency to cling to the old or outdated way things were done in the past—in other words, the organization must avoid the tendency to follow a particular policy or procedure simply because that's the way it was always done in the past. With that said, USAC must be ready and willing to exercise the operational discipline to overcome the challenges associated with implementing the directives that will result from the FCC's reform effort.

Operations and Internal Management Processes:

- **Question:** Are there USAC processes that cause undue delay or burden on program participants?

  Response: Simply stated, yes, especially with respect to USAC's auditing processes and procedures. The SCC has a long history of raising concerns about the inefficiencies associated with USAC's audits. For example, the following excerpt has been taken from a 2017 white paper[2] sponsored by the SCC and prepared by the Alexicon Telecommunications Consulting, Inc.:

  > Instead of continuing an obviously inefficient and cost-ineffective audit process, the SCC recommends the FCC heed its own advice and pay further attention to

[2] The white paper can be found at this link: https://www.smallcompanycoalition.com/copy-of-letters-filings.

materiality concerns. In its recent Report and Order addressing the comprehensive review of the Part 32 Uniform System of Accounts, the FCC stated:

> "We also agree with Alexicon that 'it would be beneficial to NECA and its pool members if the Commission adopted a definition of materiality that provided guidance related to NECA's review procedures.' Indeed, more particular guidance may be especially important for carriers receiving legacy universal service support because federal support is tied to the reported cost of such carriers. We adopt the general materiality guidelines promulgated by the Auditing Standards Board."[3]

The SCC suggests a similar approach to ensuring the proper use of federal high-cost support funds. For example, the FCC could rely on independent auditors for testing compliance with certain USF rules and reporting results. Furthermore, the FCC should make more efforts to identify high-risk or known "bad actors" for audits and further review, instead of undergoing costly audits of the smallest companies with little or no chance for material recovery (due to the relatively small amount of support received, unless foul play is detected). To this end, the FCC and USAC must develop, via an orderly and public process, methods to identify the highest audit risks (in terms of likelihood of material repayment of funds) so that audit resources can be most efficiently expended.

To further illustrate the burden on program participants associated with USAC's inefficient auditing policies and procedures, the following excerpt was taken from the SCC's comments filed with the Congressional USF Working Group[4] in September of 2025:

> USAC has earned a reputation in the industry for conducting highly inefficient audits that can take as long as several years and even longer to complete from start to finish. For example, the SCC knows of a very small incumbent local exchange carrier that was subjected to a USAC audit, which entailed four CPAs traveling from the west coast and spending three days conducting the onsite fieldwork in

[3] *In the Matter of Comprehensive Review of the Part 32 Uniform System of Accounts*, Report and Order (FCC 17-15), WC Docket No. 14-130 (rel. February 24, 2017) at 26

[4] The SCC's comments filed with the Congressional USF Working Group can be found at this link: https://www.smallcompanycoalition.com/_files/ugd/2df08a_e0a8c2fdbbe342c4abf36d0b9700358c.pdf

> Pennsylvania. It also entailed numerous data requests prior to and after the onsite visit. After dragging on for approximately one year, the audit was finally closed resulting in a net finding of $241. Additionally, the SCC is aware of a consulting firm that oversaw a year-long audit of one of its small local exchange carrier clients whereby the final determination of findings was an overpayment by USAC of fourteen cents ($0.14). In addition to the time and effort spent by this small carrier during the course of the audit, the total fees paid to the consultants to compile all of the data, attend meetings, participate on calls, provide information, and conduct extensive research, was almost $150,000.

Furthermore, USAC needs to do a better job of vetting the CPA firms it contracts with to conduct the audits. With this in mind, as part of the selection process, USAC must be careful to vet the CPA firms to help ensure that the winning bids are awarded to firms that have the necessary expertise, including adequate knowledge of the intricacies of the telecommunications industry (i.e., the FCC's Part 32 Uniform System of Accounts, cost study methodologies, the NECA settlement process, etc.), crucial to effectively conduct the audit.

Along these lines, one of the SCC's member companies has been undergoing a USAC audit conducted by a smaller CPA firm since February of 2025 whereby the audit process has started and stopped several times. For example, the company was told in January of 2026 that the auditors expected to complete their audit in mid-February; however, to the contrary, the number of data requests made in recent months have actually escalated and are ongoing as of mid-May, a full three months and counting beyond the supposed wrap-up date. Also, in addition to the considerable time and effort spent by the company's accounting and regulatory staff, it had to employ the services of its cost consultant to assist with the audit, which has resulted in significant additional consulting fees. Finally, to add insult to injury, the same revenues are currently being subjected to a Program Quality Audit (PQA) being conducted by USAC.

- **Question:** Could changes in the FCC's oversight of and guidance to USAC increase responsiveness for program participants and stakeholders, such as shot clocks or clear deadlines for USAC action?

Response: Yes, changes in the FCC's oversight of and guidance to USAC would not only increase responsiveness for program participants and stakeholders, but it would also help to strengthen a sense of accountability. Along these lines, while the implementation of a shot clock could be helpful, in order for the mechanism to work, it would be imperative for the FCC to ensure that the allotted time was strictly adhered to, which would mean that the shot clock could not be reset by simply raising a question at the end of the allotted time period. Additionally, the FCC should consider establishing deadlines for USAC to conduct its audit from start to finish. As it stands, as indicated previously, the USAC audits can drag on for many months and even years.

- **Question:** Are there any other improvements to USAC's structure or processes that would benefit the USF programs? If those improvements require changes to the Commission's rules, which rules should be updated to improve efficiency, transparency, and accountability in the administration of the USF?

Response: In addition to those improvements discussed throughout these comments, as well as in the SCC's past filings, in order to strengthen USAC's transparency and accountability of the administration of the USF programs, USAC should provide a more thorough explanation regarding significant fluctuations in its operating expenses from one year to the next. For example, based on our review of its annual reports for the years 2021 through 2025, USAC should explain why its total operating expenses have fluctuated so significantly in recent years, as demonstrated by the following table:

Year	Total Operating Expense
2020	204,479,047
2021	251,566,761
2022	328,882,254
2023	368,039,270
2024	328,103,605
2025	266,603,608

Additionally, USAC should provide a more thorough explanation regarding the significant fluctuations in its Professional Fees line items, per the following table:

Year	Professional Fees Expense
2020	20,422,042
2021	40,535,785
2022	120,095,322
2023	133,170,561
2024	99,883,939
2025	53,272,510

Furthermore, as the SCC has pointed out in the past, we strongly urge the FCC to review USAC's financial position, especially as it relates to the "Assets Held for Federal USF," and determine whether this represents a possible overfunding of the USF program. With this in mind, the following table was obtained from Note 3 of USAC's 2024 audit report:

(in thousands)		December 31		
Current Assets		**2024**		**2023**
Cash and cash equivalents	$	5,485,809	$	5,890,637
Accounts receivable		1,345,154		1,348,960
Allowance for credit losses		(650,543)		(570,894)
Total assets held for Federal USF	$	6,180,421	$	6,668,702

The SCC urges the FCC to have USAC explain why the "Liabilities Related to Assets Held for the Federal USF" are exactly the same as the "Total Assets Held for Federal USF." Should the FCC find that the investments held for federal USF represent an excess reserve, then the SCC recommends the FCC expeditiously move to reallocate those funds to either (1) reduce the federal universal service charge, or (2) more fully fund the rate of return USF mechanisms.

Improving Efficiency:

- **Question:** Are there changes the FCC should make to streamline USAC's audit and recovery processes to improve efficiency?

  Response: In order to better assess the efficiency and cost-effectiveness of the USAC audit and recovery processes, the SCC urges the Commission to implement greater transparency measures regarding the cost of such audits.

  For example, according to the Semi-Annual Audit Recovery Report covering outstanding audit-related recoveries as of February 28, 2026 (CC Docket No. 02-6), USAC has transferred $12,272,132 relating to 46 audits (applicable to the E-Rate Program) to the U.S.

Department of Treasury. While this gives the public an idea of how effective the audits were, it gives no indication of how efficient they were. In other words, what did it cost to recover the $12M? In order to accurately assess the success or failure of USAC's auditing process, it is imperative that USAC disclose the cost of the audits in their reports so that the net recovery can be determined. As an illustration, only reporting the recovery without disclosing the cost associated with such recovery is equivalent to an organization only reporting its revenue in a statement of income. In other words, it's an incomplete picture.

To this same point, the efficiency of the audits may solely be determined based on the associated return on investment. Of course, this can only be assessed if the public knows that level of investment; i.e., if USAC spent $1M to conduct audits that garnered $12M in findings, then those audits would be considered very efficient indeed. On the other hand, if those findings cost $20M to recover, the audits would obviously be highly inefficient.

As a final note on this matter, the SCC urges the Commission to consider implementing a materiality threshold for prospective audits. At a minimum, if the cost to conduct the audit exceeds the total revenue subjected to the audit, and thus the potential findings, then, by definition, this cannot be a cost-effective undertaking, and these resources would be better utilized elsewhere. Furthermore, prior to 2024, USAC used to include a section in its Annual Report titled "USAC Contractors Receiving Greater Than $1 Million," whereby the various CPA firms were listed and categorized by the range (i.e., > $5M, $2-$5M, and $1-$2M) of fees they received[5]. Not only should this information be reinstated in USAC's Annual Report, but it should be further enhanced by including the specific fees paid to the CPA firms along with the number of audits each firm conducted. By providing this level of detail, a quick assessment could made whether the audits are cost-effective by simply dividing the fees paid to each CPA firm by the number of audits they conducted and then comparing the average to the average recovery per audit.

- **Question:** USAC's processes for audit-related recovery letters, non-audit-related recovery letters, and appeal decision letters vary across the USF programs. Should the FCC direct USAC to streamline these processes to create uniformity across the programs? If commenters suggest any changes, commenters should indicate what if any changes are

[5] As an example, refer to this link: https://www.usac.org/wp-content/uploads/about/documents/annual-reports/2023/2023_USAC_Annual_Report.pdf

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.

Response: To the extent possible, it's always a good idea to standardize processes and procedures whenever practical. With that said, the FCC should direct USAC to streamline these processes as deemed appropriate to create uniformity across the programs.

- **Question:** What should be the appropriate length of time after the issuance an audit finding for the Commission to recover funds improperly disbursed to support recipients? Should the timing of a support recovery for improperly disbursed funds be impacted by an administrative appeal?

  Response: Generally speaking, 30 days should be an appropriate length of time after the issuance of an audit finding for the Commission to recover funds improperly disbursed to support recipients. In the event the alleged improperly disbursed funds are impacted by an administrative appeal, additional time should be granted to allow the support recipient to present its arguments as to why the disbursed funds were proper.

- **Question:** 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?

  Response: In light of the SCC's recommendations throughout these comments on how USAC's audit processes and procedures could be improved, we are not clear on whether the Commission would need to modify its rules since it's our understanding that USAC exercises its own judgment with respect to how the audits should be conducted.

  With that said, rather than modify its rules, the FCC should direct USAC to implement the common sense changes touched upon throughout these comments, such as basing the selection process on the potential recovery as opposed to a random selection process. Additionally, consideration should be given to developing a mechanism to "red flag" abnormalities that warrant investigation and possible auditing procedures. Furthermore, USAC should ensure that the firms hired to conduct the audits adhere to a shortened timeline to conduct their fieldwork from start to finish instead of the current practice of leaving the process open-ended.

The SCC would be more than willing to meet with the FCC and/or USAC to explain in further detail how the auditing process and procedures could be improved.

- **Question:** 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? Are there practices and policies used by other federal agencies to quickly mitigate against potential acts of misconduct, and prevent waste or misuse of federal funds that the Commission should consider adopting?

  Response: It is the SCC's belief that once there is 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, the situation is addressed in a timely manner via the existing mechanisms to combat waste, fraud, and abuse. Accordingly, the SCC refrains from making any recommendations with respect to these questions.

Improving Audit Processes:

- **Question:** What changes, if any, should be made to the USAC annual audit to make it more efficient and cost-effective?

  Response: The SCC does not have any knowledge of how USAC's annual audit is conducted by the independent CPA firm, and accordingly, we are not in a position to weigh-in on this matter.

- **Question:** Are there ways to make USAC's administration more cost effective?

  Response: The SCC does not have any knowledge of how to make USAC's administration more cost effective as it pertains to the performance of its annual audit by the independent CPA firm. Accordingly, we are not in a position to weigh-in on this matter.

- **Question:** Should there be any modifications to the USAC MOU between the Commission and USAC? Should the USAC MOU require a proposed annual budget from USAC for each year?

Response: The SCC does not have any knowledge of USAC's MOU between the Commission and USAC, and accordingly, we are not in a position to weigh-in on this matter.

Board Composition:

- **Question:** What changes to USAC's Board of Directors could the Commission consider to promote more efficient administration of USF support?

  Response: Other than to say that each of the members of USAC's Board of Directors should be knowledgeable about the intricacies of the telecommunications industry in order to effectively oversee and provide guidance to USAC's management personnel, we are not in a position to weigh-in on this matter.

- **Question:** Should the composition of the Board be modified to include new stakeholders or independent directors? Are there any areas of expertise that are not represented on the USAC Board?

  Response: See the response to the previous question.

- **Question:** Should the size of the USAC Board be changed?

  Response: The SCC doesn't have the appropriate knowledge of USAC's Board to address this question.

- **Question:** Should there be changes to the USAC Board nomination and selection process?

  Response: The SCC doesn't have the appropriate knowledge of USAC's Board to address this question.

- **Question:** Under what circumstances may the Commission Chairperson remove a Board member prior to the end of their term?

  Response: The SCC doesn't have the appropriate knowledge of USAC's Board to address this question.

- **Question:** Should the Commission's rules establishing Divisions and Committees of the USAC Board be modified?

  Response: The SCC doesn't have the appropriate knowledge of USAC's Board to address this question.

Conflicts of Interest:

- **Question:** What changes should the Commission make to strengthen and improve its oversight regarding potential conflicts of interest for USAC Board members?

  Response: The SCC doesn't have the appropriate knowledge of USAC's Board to address this question.

- **Question:** Should the Commission rules, and not just USAC's ethics policy, require USAC Board members, when acting in their capacity as Board members, to represent the interest of the USF, and not just the Board member's personal employer or constituency?

  Response: The SCC doesn't have the appropriate knowledge of USAC's Board to address this question.

Conclusion:

Once again, we thank the Commission for its initiative to improve USAC's auditing processes and procedures as well as other aspects of USAC's operations, all in an effort to help it to enhance efficiencies and effectively fulfill its fiduciary responsibilities. As a reminder, the Coalition is available to assist the FCC and/or USAC in this effort and we look forward to continued fruitful dialogue in this matter.

Respectfully submitted,

Executive Committee