

April 18, 2017

Chris Henderson
Universal Service Administrative Company
700 12th Street NW, Suite 900
Washington, DC 20005

Re: *USAC's Performance as Schools and Libraries Program Administrator*

Dear Mr. Henderson,

I am writing about recent issues with the Universal Service Administrative Company's (USAC) administration of the schools and libraries universal service support program (E-Rate). E-Rate is a key component of the Universal Service Fund and helps millions of students in America benefit from digital learning. That is why, four years ago, I said that "E-Rate is a program worth fighting for."

Unfortunately, it has come to my attention that there are serious flaws in USAC's administration of the E-Rate program—flaws that relate to the process by which schools and libraries apply for E-Rate funding and that are in fact preventing many schools and libraries from getting that funding. Despite assurances from prior FCC leadership that these problems were being addressed, they appear to have persisted, to the detriment of students, library patrons, and taxpayers across the country.

The specific problem involves USAC's development and roll-out of the online E-Rate Productivity Center (EPC). The prior administration issued USAC a directive in 2014 to make the E-Rate process fast, simple, and efficient. It approved USAC's establishment of the EPC system as part of that directive. The EPC was designed to be an Internet portal that every school or library seeking E-Rate funding had to use for purposes of their applications. It was supposed to cost \$19 million to establish. USAC began negotiations for its implementation in 2014.

Things have not gone according to plan. The EPC was originally scheduled to be fully operational for applicants by the opening of the funding year 2016 filing window. Yet today it is still not adequately functional; critical E-Rate processes are still operated out of the legacy IT system instead of EPC. For example, the entire invoice system remains in the legacy IT system and will remain there until late summer.

EPC implementation issues have created major headaches for applicants requesting E-Rate funding. For instance, despite the Commission's direction to USAC to process funding commitments or denials for all workable funding requests by September 1 of the funding year, many applicants are still waiting for funding commitment decision letters for funding year 2016. Issuance of commitment adjustments, revised funding commitment decision letters, and appeals resolutions have been similarly delayed. USAC has failed to fulfill specific commitments made to applicants even as it rolled out EPC system upgrades. USAC has frequently failed to devise solutions for applicants, instead requiring extensive FCC involvement, including from my office, to resolve problems. These and many other problems suggest that my predecessor's assurance that issues with EPC were nearing resolution—in a June 3, 2016 letter to Senator Ron Johnson—was not accurate.

Finally, in terms of cost, the original estimate of \$19 million for implementation is proving to be far understated. I understand that over \$30 million has already been spent, and that estimates for the final total cost may be over double that amount—\$60 million or greater.

Compounding these system failures is the lack of full transparency with the Commission. On many occasions, USAC has not fully apprised the Commission about program issues that directly and materially affect applicants, such as system outages during critical application periods. For example, on October 28, 2016, a critical invoice filing deadline, the FCC's Wireline Competition Bureau learned from E-Rate stakeholders that they could not receive an invoice deadline extension because of a design flaw in USAC's Invoice Deadline Extension Tool and that USAC's designated alternative, the "Submit a Question" tool, also didn't work. Because USAC did not notify the Commission of this issue, it fell to the Bureau to devise an impromptu solution and extend the invoice-extension deadline for E-Rate participants. Although USAC has focused a considerable amount of time and money on developing its stakeholder outreach functions, this effort has not significantly improved the experience of applicants who have been forced to deal with a multitude of filing issues, nor has it enhanced USAC's transparency with the Commission.

The current state of affairs is unacceptable. I seek your unqualified commitment that USAC will administer the E-Rate program in a manner that fully complies with Commission direction; works for applicants and participants; and promptly apprises the FCC of all relevant information concerning implementation. Specifically, I seek your commitment to implement the following directives:

- *USAC focus on administration of E-Rate.*—USAC must ensure that it is taking all necessary measures to swiftly resolve issues that continue to plague the system. These efforts should focus first on supporting and completing the basic EPC functionality needed to ensure that applicants can apply for and receive their funds, and perform other necessary tasks, in a timely fashion. Only after these basic system issues have been resolved should USAC focus on activities ancillary to proper administration.
- *USAC must be fully transparent with and accountable to the Commission.*—It is unacceptable for Commission staff to first learn of problems from applicants rather than USAC itself. USAC must give the Commission timely and accurate information. That means USAC must be fully transparent with the Commission so that we may work together to achieve the goals of the E-Rate program.
- *USAC must identify alternative options to assist applicants even in the event of IT failures.*—USAC must work to proactively identify and implement alternative options to assist applicants when EPC fails, consistent with the program's rules. This may mean that USAC manually issues commitments, commitment adjustments, revised funding commitment decision letters, and appeals resolutions outside of the EPC system. Notably, USAC currently has a contract with SOLIX valued at \$38 million to process applicant funding applications and other application requests. SOLIX should make sure applicants receive timely assistance, even if this requires SOLIX to use manual processes. In short, USAC must be solution- and customer-service oriented no matter the IT situation.

The E-Rate program is critical to the goals of universal service—it connects students and library patrons everywhere with digital opportunity. But the program's mission can be achieved only with proper administration. The problems I've identified have persisted and have plagued schools and libraries for too long; we must solve them, and soon. Please respond to this letter with USAC's plan to address these issues by May 18, 2017. If you have any questions, please feel free to contact Nicholas Degani in my office at (202) 418-2277.

Sincerely,

Ajit V. Pai
Chairman
Federal Communications Commission