

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554**

In the Matter of)	
Modernizing the E-rate Program)	CC Docket No. 13-184
For Schools and Libraries)	
)	

COMMENTS OF AT&T INC.

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ATTACHMENT 1

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A. INTRODUCTION.

AT&T welcomes the opportunity to comment on the proposals included in the Commission’s NPRM to modernize the E-rate program.¹ In the sixteen years since it was established, the E-rate program has successfully transformed the telecommunications and Internet access options for schools and libraries. As the Commission observed, in 1996, only 14 percent of classrooms had access to the Internet and by 2005, 94% of instructional classrooms had Internet access and 98% of public libraries offered public Internet access.²

As the availability of Internet access increased in the nation’s schools and libraries, teachers began to change the way they delivered their curriculum and the demand for digital educational content and applications exploded. The way students learn is transforming and driving the need for all schools and libraries to have bigger and faster broadband connections. Thus, it is time for the Commission to shift the focus of the E-rate fund from supporting basic telecommunications and Internet access services to ensuring that schools and libraries have the

¹ *Modernizing the E-rate Program for Schools and Libraries*, Notice of Proposed Rulemaking, WC Docket No. 13-184 (rel. July 23, 2013) (“NPRM”).

² NPRM at 2 (citing U.S. Department of Education, National Center for Education Statistics, *Internet Access in U.S. Public Schools and Classrooms: 1994-2001* (2002) U.S. Department of Education, National Center for Education Statistics, *Internet Access in U.S. Public Schools and Classrooms: 1994-2005* (2006)).

broadband connections they need to meet the demands of a 21st century education as outlined in President Obama's ConnectEd proposal.³

Recently, the Commission has taken similar steps to refocus its other Universal Service support programs on increasing broadband availability and connectivity across our Nation. For example, the High Cost program is being totally redesigned as the Connect America Fund to ensure that all Americans have access to high-speed broadband services; similarly, the Rural Health Care program supports high-capacity broadband services to healthcare providers in rural America; and the Lifeline program is running a low-income broadband pilot program to gather data about how Lifeline can be used to support broadband adoption.⁴

To date, the E-rate program has had no specific broadband-related goals; it continues to fund any and all eligible telecommunications and/or Internet access services that applicants request. But now it is time to align the E-rate program with the Commission's goal of making broadband available to all Americans. Therefore, AT&T strongly supports the Commission's goal of ensuring that our nation's students and communities have ubiquitous access to high-speed broadband connections.

As discussed below, AT&T believes that the Commission can take great strides toward achieving this goal by implementing several of the proposals discussed in the NPRM. However, AT&T is concerned that some of the Commission's proposals, which do not directly relate to its goal of ensuring access to high-speed broadband, would impose burdensome requirements that

³ See http://www.whitehouse.gov/sites/default/files/docs/connected_fact_sheet.pdf (last visited September 10, 2013).

⁴ See *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663 (2011); *Lifeline and Link Up Reform and Modernization et al.*, WC Docket Nos. 12-23, 11-42, 03-109, CC Docket No. 96-45, Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Rcd 6656 (2012); *Rural Health Care Support Mechanism*, WC Docket No. 02-60, Report and Order, 27 FCC Rcd1 6678 (2012).

could impede achievement of that objective. The Commission should not waste time on these inquiries.

AT&T respectfully comments as follows.

B. ENSURING ACCESS TO 21ST CENTURY BROADBAND TO SUPPORT DIGITAL LEARNING.

I. The Commission Should Prioritize Funding for Broadband Connections to Schools and Libraries that Have Inadequate or No High-Speed Broadband.

AT&T agrees that the Commission should create a mechanism that prioritizes broadband connectivity over other services that, to date, have been eligible for funding. As part of that effort, AT&T also believes the Commission should first address the needs of schools and libraries that still have inadequate or no broadband service by giving first priority to these applicants. In particular, it should target support to those schools and libraries that still lack access to adequate (or indeed any) high-speed broadband connections. It could do so, for example, by creating a fund that operates outside of the existing discount hierarchy to provide such schools and libraries with an express lane to the funds necessary to acquire broadband services.

Likewise, the Commission must ensure that such schools and libraries have adequate internal connections to make effective use of such high-speed broadband services. As the Commission acknowledges, there are many E-rate applicants that have never received program funding for internal connections, and therefore have paid for these projects from their local budgets or gone without. Unfortunately, many have gone without.⁵ Consequently, in many cases, even if a school or library can obtain a high-speed broadband connection to its building, that connection is useless because inside wiring and electronics or internal wireless connections

⁵ See Comments of Fund for Learning, CC Docket No. 02-6 at pg. 2 (filed April 8, 2013).

are missing or inadequate.⁶ Therefore, the Commission should address this gap by prioritizing funding to schools and libraries that have inadequate internal connections to support their broadband connectivity.

If the Commission sets aside funding for broadband connections and the internal connections necessary to support the broadband applications, it would enable schools and libraries with inadequate or no broadband service to or within their buildings to catch up with institutions that already have access to broadband facilities and services. This is likely the best and most efficient way to address the needs of the schools and libraries that have been unable to gain access to high-speed broadband under the current program rules.

II. The E-rate Program Must Be Technology Neutral.

AT&T is concerned that the proposals and inquiries in the Broadband Connectivity section of the NPRM are heavily focused on issues related to schools and libraries utilizing dark fiber and the construction issues associated with building private fiber networks, leaving the impression that the Commission assumes that private fiber networks are the only way that schools can obtain access to high speed broadband. Any such assumption is incorrect. Other technology platforms, such as hybrid-fiber loops, wireless data, satellite, and cable, are capable of delivering high speed broadband to E-rate applicants, and do so more efficiently and economically than fiber in certain circumstances. Accordingly, the Commission cannot make private fiber networks the only, or indeed the “favored,” solution to achieve its goal of ensuring schools and libraries have access to high-speed broadband connections that are capable of supporting current and future educational applications. Rather, it must ensure that the E-rate program provides comparable support for all technology platforms on a technology-neutral basis, consistent with long-standing E-rate policies.

⁶ NPRM at ¶ 143.

Since its inception, the E-rate program has been administered in a technology neutral fashion.⁷ The FCC has afforded applicants the flexibility to select the services and technologies of their choice because the Commission recognized that the technology needs of schools and libraries are complex and unique.⁸ It found that, rather than forcing applicants to conform to FCC-mandated technology requirements, schools and libraries should be permitted to develop technology plans based on their individual educational needs and objectives, and to select the services and equipment that best meet those needs and objectives, *so long as they select the most cost-effective means* of meeting their technology goals.⁹ This principal is just as important today to ensure the most cost effective use of program funds to purchase broadband connections. While it is appropriate for the Commission to narrow the eligibility standards to enable and encourage the purchase of high-speed broadband, the schools and libraries must be able to select the most cost-effective solution from all of the available technologies and architectures; if the Commission prioritizes one solution over another, it will force applicants to select a specific broadband architecture without regard for the unique geographic or economic circumstances of each entity, which could unnecessarily inflate the overall cost of the program and deprive the program of the means to meet other needs.

In any event, providing support to build *private* fiber networks to schools and libraries that already have access to cost-effective high-speed broadband services would be grossly inefficient and wasteful of limited E-rate funding. Doing so would also be in direct conflict with

⁷ *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, ¶ 29 (1997).

⁸ *Id.* See also *Schools and Libraries Universal Service Support Mechanism*, Second Report and Order and Further Notice of Proposed Rulemaking, 18 FCC Rcd 9202 (2003) at paras. 17 – 21.

⁹ 47 C.F.R. §54.503(c)(2)(vii).

the bold steps the Commission has taken to transform the high-cost Universal Service program. Under the Connect America Fund, support will now be targeted for the deployment of broadband facilities in areas that lack them today. E-rate is first and foremost a Universal Service program; and thus, it should adhere to the same policy goals that drove the transformation of the High Cost program. As noted above, schools can and should determine what solutions are most cost-effective for their budgets. But, the FCC must first establish rules that ensure that E-rate funding is used cost-effectively to meet the national goal of linking all communities with high-speed broadband. Thus, there is no sound policy reason to utilize government money to build additional, and especially private, networks in areas where high-speed broadband is already being provided commercially.

Furthermore, private fiber networks in many (if not most) cases may not be the most cost-effective or efficient method for a school or library to access high-speed broadband. In addition to the cost to lay the fiber, applicants also would have to purchase electronics to light the fiber and regeneration equipment to ensure the integrity of the signal, in addition to incurring the costs to configure, test and maintain the network. Such costs must be included in comparing the cost of deploying a private fiber network to the cost of other alternatives for obtaining high-speed broadband to determine which alternative is the most cost-effective solution. Failure to do so would compare apples-to-oranges and, almost certainly, waste limited E-rate resources. And, if the Commission hopes to meet the President's goal of ubiquitous broadband connectivity within five years, it must consider the time to build and self-provision private fiber networks.

Thus, if the Commission decides to provide E-rate funding for dark fiber architectures by funding electronics and special construction charges, it must do so in a technology neutral way and adopt safeguards to ensure that private fiber networks are funded only where proven

necessary, efficient and cost-effective, as the Commission requires in the Rural Healthcare program.¹⁰

III. Any Private Fiber Networks Built Using E-rate Funds Must Operate In Compliance with the Statute.

The NPRM seeks comment on a number of ways to potentially lower construction costs to support broadband to schools and libraries, such as exploring various public-private partnerships and pursuing funding from other public or private sources to off-set the construction costs for broadband.¹¹ These inquiries appear to suggest that schools and libraries could build networks using E-rate funds and sell or share such networks (or network capacity) with third parties, such as state/local governments or R&E networks. To the extent the Commission entertains any such arrangement; it must ensure that schools and libraries comply with the requirements of the Telecommunications Act.

While most would agree that the Telecommunications Act of 1996 is not a model of clarity, the blanket prohibition against resale contained in section 254(h)(3) is strikingly clear. That provision clearly and unequivocally provides that *any* telecommunications services or network capacity provided to a school or library at discounted rates under section 254(h) may not be “sold,” “resold,” or “otherwise transferred” “for money or *any other thing of value.*”¹² The sweeping language of this provision thus would appear to preclude schools or libraries from sharing any services or network capacity funded through universal service to any other entity. In its *Universal Service First Report and Order*, the Commission acknowledged as much, stating that “we interpret Section 254(h)(3) to restrict any resale whatsoever of services purchased

¹⁰ See *Rural Health Care Support Mechanism*, Report and Order, 27 FCC Rcd 1 6678, ¶¶ 73, 125 (2012).

¹¹ NPRM at ¶¶ 163 – 165.

¹² 47 U.S.C.A. § 254(h)(3).

pursuant to a section 254 discount to entities that are not eligible for support.”¹³ Thus, if a school district self-provisions a private fiber network using E-rate funds, it cannot allow a third party, such as an R&E or state/local government network, to utilize spare capacity on the school’s network in exchange for money, or any other thing of value, such as free ports on the R&E network to access the Internet. Congress intended the funds dispersed from the E-rate program to meet the needs of eligible K-12 schools and libraries, not to fund excess capacity for other uses. Consequently, it would be unlawful for schools and libraries to subscribe to services or build out networks with excess capacity and resell or trade this excess capacity to meet the needs of third parties.

IV. Private Fiber Networks Undermine the Commission’s Policy Goals.

In addition to the issues discussed above, it is also unsound public policy to allow schools and libraries to utilize government dollars to become broadband providers. Schools and libraries are in the business of teaching and providing information services to the public, which are demanding enough in our society. They have no background in the challenges of managing broadband networks for third parties and consequently, they are not equipped and should not take on an entirely new role as broadband providers.

More importantly, if E-rate recipients are permitted to obtain funding to build and manage private fiber networks, these private networks would do nothing to provide surrounding communities with broadband service and could reduce the incentive for service providers to deploy broadband to the broader unserved area. The major benefit of providing support to build broadband to anchor institutions, such as schools and libraries and similar institutions, is that once the facilities to provide broadband to those anchors is built, service providers can leverage

¹³ *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, ¶ 566 (1997).

that investment to serve other customers. For example, providing broadband to a school or library, may require the service provider to invest in deploying fiber feeder and remote terminals which could be used to serve other customers. Thus, building-out to anchor institutions not only brings broadband to them, but also to surrounding businesses and residential customers. If E-rate recipients can receive funding to build and manage private fiber networks, service providers may lose those economies of scale and scope, which could undermine the Commission's broadband deployment objectives.

V. The Commission Should Phase Down Funding of Services that Do Not Support Broadband Connectivity.

As the Commission acknowledges, the demand for E-rate dollars has exceeded the funding cap since the inception of the E-rate program, leaving the internal connections needs of the majority of E-rate applicants unmet.¹⁴ So, using simple math, we know that the Commission cannot achieve its proposed broadband goals and leave the current program funding untouched. And even if the current budget could support both the old program and the new goals, it would not be fiscally responsible to continue to utilize funds that are collected from citizens to support technologies and services that are fast becoming obsolete, and which do nothing to help achieve the Commission's goals. If the Commission is to achieve its goal of ensuring all schools and libraries have access to high speed broadband, *both to and within schools and libraries*, the Commission must take a hard look at the current list of eligible services and limit or eliminate support for services that do not further this policy goal. The FCC and the country can no longer afford to simply fund any and all products and services that fall into a broad "education technology" bucket. Instead, the E-rate program should be designed to encourage and enable all schools to access high speed broadband. One way to do this is to only grant E-rate funding to

¹⁴ NPRM at ¶¶ 143, 174.

products and services that provide or facilitate the use of high-speed broadband. AT&T reviewed the current list of Eligible Services in the Priority 1 category with these considerations in mind, and proposes that the Commission begin to limit and eventually eliminate funding for all circuit-switched and TDM-based services.¹⁵

C. COST EFFECTIVENESS OF E-RATE FUNDS.

I. The Commission Should Encourage Consortium and Bulk Buying Opportunities.

In Section IV of the NPRM, the Commission explores ways to ensure that E-rate applicants purchase services and equipment in a cost-effective manner.¹⁶ The Commission proposes to make it easier for schools and libraries to form consortia because it recognizes that bulk buying results in lower prices. AT&T agrees that pricing for services can be more advantageous for schools and libraries when they purchase under consortia and/or state contracts. Thus, E-rate applicants should be encouraged to utilize these options when they are available.

The NPRM also seeks comment on whether the Commission should treat prices available through a bulk-buying program as the maximum price for which an applicant can seek support.¹⁷ It should not because it cannot. If the Commission sets a maximum rate, the rates offered in the market would rise or fall to the mandated rate and consequently, the Commission would be engaged in rate-making, which exceeds the Commission's statutory authority for the E-rate program. Section 254(h)(B) of the Act only allows the Commission to establish a discount to be

¹⁵ See Attachment 1 (List of services in the Priority 1 category that should be considered for a change in funding priority).

¹⁶ NPRM at ¶ 177.

¹⁷ NPRM at ¶ 188.

applied to interstate services provided by telecommunications carriers to schools and libraries.¹⁸ Further, the Commission’s rate-making authority only applies after it makes a finding that rates are unjust and unreasonable,¹⁹ which the Commission has not done (and the evidence in the marketplace would not support).²⁰

Furthermore, this proposal does not recognize market-based pricing considerations. The FCC has long recognized that customers buying service in large quantities are not similarly-situated to those buying smaller quantities or for longer terms, and thus service providers can sell service to them at a discounted rate without offering that rate to others.²¹ Even the Commission’s lowest corresponding price (“LCP”) rule recognizes these considerations, and provides that LCP is determined by looking at whether the price offered to an applicant for service at issue is the lowest comparable price offered to a similarly-situated customer for a similar service.²² Using rates from bulk buying programs to establish the maximum price for E-rate services thus would be inconsistent with long-standing Commission precedent about both what is a non-discriminatory rate and LCP.

¹⁸ 47 U.S.C § 254(h)(B).

¹⁹ See 47 U.S.C. §205; See also *In The Matter Of Tariffs Implementing Access Charge Reform*, Memorandum Opinion and Order, 13 FCC Rcd. 14683, CC Docket No. 97-250 (1998). Further, the Commission has no apparent authority to establish rates of E-rate service providers that provide services that are not subject to common carrier regulation.

²⁰ See Carrier Ethernet News Feature: Cable MSOs Flexing Their Ethernet Muscle (Aug. 27, 2013), <http://www.carrierethernetnews.com/articles/677787/cable-msos-flexing-their-ethernet-muscle-reports-v/>.

²¹ See *Private Line Rate Structure and Volume Discount Practices*, Report and Order, 97 F.C.C.2d 923, 1984 WL 251067 (1984); See also *Expanded Interconnection With Local Telephone Company Facilities, Amendment Of The Part 69 Allocation Of General Support Facility Costs*, Report And Order And Notice Of Proposed Rulemaking, 7 FCC Rcd, 7369 at ¶ 199 (1992).

²² 47 C.F.R. § 54.500(f).

Furthermore, a price mandate could also lead to unintended consequences because it does not recognize the existence of high-cost areas. As a result, schools and libraries in high-cost areas may not be able to obtain service if service providers are unable to afford to provide service at the mandated rate.

II. The Pricing Transparency Proposals Are Unnecessary and Would Lead to Misleading Results.

The Commission also proposes to increase the transparency of E-rate spending and inquires about numerous ways to increase the transparency of the way E-rate funds are allocated, and whether bid responses and the prices schools and libraries pay for services should be publicly disclosed. The Commission's hypothesis is that schools will demand lower prices if pricing data were available. These proposals are overkill.

First, most pricing data for services provided to E-rate applicants is already available. Interested parties can determine how E-rate funds are allocated by using USAC's online "Search Commitments Tool," which allows anyone to search for funding commitment data by funding year, applicant name, city, state, or zip code. Similarly, interested parties can obtain most public bid responses and the prices that most schools and libraries pay for services through the applicable state and municipal public records laws.²³ Thus, it would be a duplicative waste of resources for the Commission to require USAC, applicants and/or service providers to collect or report this information to another source.

Furthermore, if the Commission directs USAC to disclose pricing information, the resulting price list would not be informative to schools and libraries as the Commission

²³ For example, states have enacted public records laws, like the federal Freedom of Information Act, that grant public access to information in the possession of public agencies that relate to governmental affairs. See For example: California Public Records Act, CA Govt. Code §§ 6250 - 6276.48; Maryland Public Information Act, SG, §§10-611- 10-630, Annotated Code of Maryland.

suggests;²⁴ but instead, the price list would be misleading to E-rate applicants because broadband services are not commodities, like pencils and paper. High speed broadband services are customized to the unique requirements of each service arrangement and the pricing of these opportunities is based on variables such as speed/capacity, number of ports, and the distance requirements of the opportunity. Therefore, a price list untethered to the specific circumstances of a particular service arrangement would not be informative about whether lower prices exist for a completely different service arrangement.

The Commission states that pricing transparency *may* drive down the prices of E-rate supported services.²⁵ But, it cites no data that suggests that there are problems with the pricing of services supported by the program.

The Commission's competitive bidding requirement, section 202 of the Act, for telecommunications carriers, and the Commission's lowest corresponding price rule, for all other service providers, already ensure that schools and libraries receive the lowest price that a service provider charges to customers that are similarly-situated to a particular school or library for similar services.²⁶ So, to the extent the market is working, (and there is no evidence of a market failure), competition and the Commission's oversight already ensure that prices to schools and libraries are receiving the lowest available rate for a specific service arrangement. Thus, the Commission is attempting to fix a problem that does not exist.

²⁴ NPRM at ¶ 191.

²⁵ *Id.*

²⁶ *See* 47 U.S.C. § 202(b); 47 C.F.R. § 54.500(f).

D. STREAMLINING THE ADMINISTRATION OF THE PROGRAM.

I. The Commission Should Simplify the Disbursement Process Immediately.

AT&T supports the Commission's proposal to streamline the BEAR disbursement process to allow applicants to receive reimbursement directly from USAC. The proposed reform makes sense and is one the Commission should adopt. This proposed change would immediately simplify the disbursement process and make the program more efficient by removing service providers from the middle of the funding disbursement process for BEAR checks. However, reforming the BEAR process is just the first step; the Commission should reform the entire funding disbursement process.

The Commission's proposal acknowledges the inefficient role that service providers play as a "pass-through" in the BEAR disbursement process.²⁷ Similarly, the service provider's role in the Service Provider Invoicing ("SPI") process is just as inefficient and should be reformed as well. Under the SPI process, schools and libraries get an E-Rate discount on their service-provider bills. However, before discounts can be applied to the bills, the service provider, applicant and USAC must go through very time consuming and resource intensive verification processes to ensure that the service provider applies the discounts to the correct line items of each applicable bill.

For example, applicants are required to submit a form called the Item 21 to USAC that provides a high level description of the services included in their funding request.²⁸ However, service providers need information on a much more granular level in order to ensure that each service is discounted and billed accurately. Many applicants have large accounts with multiple

²⁷ NPRM at 261.

²⁸ See <http://www.universalservice.org/sl/applicants/step04/item-21.aspx> (last visited September 11, 2013).

billing account numbers that facilitate the billing for multiple services. Regardless of how large or small the accounts are, the service providers must ensure that they are working with the correct billing accounts and services. Therefore, applicants must provide the specific billing account numbers (“BAN”) associated with their funding requests as well as identify each service under each billing account number that was included in their funding request. This process gets even more complex if the applicant has one BAN that facilitates the billing of multiple services, which in most cases results in the applicant using multiple funding requests in order to comply with the administrative requirements of the program. In that case, the service provider’s bill must reflect the discounts for each of the applicable funding requests. Another complication occurs when the applicant purchases eligible services but shares those services with ineligible locations. Here, the applicant must provide the service provider a cost-allocation factor and the service provider must ensure the allocation is also implemented on their bill. The larger the account, the more time consuming the process becomes for all involved.

AT&T suggests that the Commission change today’s cumbersome disbursement model to a much simpler model that is less taxing on applicants and service providers. Specifically, USAC could provide funding directly to schools and libraries, so they, in turn, can pay their service providers directly. For example, USAC could place E-Rate funds into dedicated accounts for applicants that receive funding approval through the current process. Successful applicants could then draw on this account to pay for E-Rate services in a manner akin to a regular market transaction. The goal of the Act, that Universal Service subsidize schools’ and libraries’ purchase of communications services, would still be achieved; but applicants would no longer need to complete additional paperwork to verify their funding requests to service providers. Instead, applicants could certify to compliance with any procedures that are required

to ensure the funds are only accessed and used in compliance with the rules. Likewise, service providers could certify to compliance with the program rules applicable to service providers. This simplified process would place schools and libraries in control of their E-Rate funding and make the entire E-Rate process less daunting and time consuming for these often resource-strapped institutions.

II. Program Compliance Audit Requirements Must Apply to All Program Participants.

The NPRM seeks comment on whether it should adopt an annual third-party independent audit requirement that is similar to the audit requirement applicable to ETC's providing Lifeline services.²⁹ AT&T agrees that program compliance audits are important tools for identifying and deterring program rule violations. However, the need for compliance audits must be balanced against the costs and burdens imposed on the program participants. As the Commission acknowledges, USAC already has a Beneficiary and Contributor Audit Program ("BCAP") that serves this purpose,³⁰ and just recently announced that it would begin its first round of service provider audits under this program.³¹ Before the Commission alters the audit requirements for the E-rate program, it should review the effectiveness of the existing audit program. If after reviewing BCAP procedures, the Commission determines that an independent audit requirement is warranted, the Commission must ensure that a service provider is never targeted for a BCAP and an independent audit in the same year.

²⁹ NPRM at ¶ 315.

³⁰ NPRM at ¶ 314.

³¹ See USAC 2013 Spring Service Provider Training at <http://www.usac.org/res/documents/SL/training/2013/10-Audits-Spring.pdf> (last visited September 11, 2013).

Furthermore, the audit program that the Commission selects should not discriminate between program participants. The NPRM inquires about whether the audit requirement should only apply to applicants or service providers that receive funding above a certain threshold. This proposal is shortsighted. Non-compliance is non-compliance regardless of the balance sheet of the entity involved. Thus, the Commission should seek out non-compliance wherever it is occurring. Having an audit requirement that is based on a threshold sends the wrong message to program participants whose funding falls below the audit threshold. These entities essentially would be given carte blanche to comply with program rules, or not, as they see fit.³² Further, this proposal assumes that applicants and service providers that receive funding above the threshold are more likely to commit waste, fraud or abuse. That assumption is dead wrong, as larger entities have more resources to implement internal compliance programs that detect and correct issues in real time. Thus, whatever audit program the Commission adopts must be implemented on a non-discriminatory basis.

³² Furthermore, an audit threshold may incent disingenuous behavior. Applicants may be tempted to avoid participating in consortia to avoid the burdens of complying with audits, which, in turn, could result in them paying more than they otherwise would for supported services. And worse, unscrupulous service providers may be tempted to subdivide their operations into multiple entities, so each entity remains below the threshold.

E. CONCLUSION

AT&T agrees that the E-rate program should be updated to ensure that the nation's schools and libraries are equipped with high speed broadband connections. For the reasons discussed above, the Commission should proceed with reforming aspects of program that are necessary to achieve the broadband connectivity goals and to make the program more efficient, while not imposing unnecessary requirements that make those goals harder to reach.

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ATTACHMENT 1

Below is a list of services that are in the Priority 1 funding category that should be considered for a change in funding priority:

1. Asynchronous Transfer Mode (ATM)
2. DS-1, DS-3
3. Frame Relay
4. Integrated Services Digital Network
5. Switched Multimegabit Data Service (SMDS)
6. T-1, T-3, Fractional T-1
7. Permanent Virtual Circuit (PVC)
8. Trunk Lines
9. Email Service
10. Telephone Dial-up
11. T-1 Lines
12. Paging
13. 800 Service
14. Centrex
15. Local Phone Service
16. Long Distance Telephone Service
17. Plain Old Telephone Service (POTS)
18. 900/976 Call Blocking
19. Custom Calling Services
20. Direct Inward Dialing (DID)
21. Directory Assistance Charges