



# PUBLIC NOTICE

**Federal Communications Commission**  
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## **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**

**Comments Due: May 15, 2026**

By this Public Notice, the FCC's Wireline Competition Bureau and the Office of the Managing Director seek comment on potential reforms to the operations and management of the Universal Service Administrative Company (USAC),<sup>1</sup> which administers the Federal Communications Commission's (FCC or Commission) Universal Service Fund (USF).

### **USAC History**

USAC was originally established as a subsidiary of the National Exchange Carrier Association (NECA), which the Commission established in 1983 as an association of incumbent local exchange carriers to administer the interstate access tariff and revenue distribution processes, to advance the goal of affordable telecommunications services for all Americans.<sup>2</sup> USAC, however, was not and is not subject to NECA's management or operational control, and instead operates pursuant to FCC rules, guidance, and direction.

After the passage of the Telecommunications Act of 1996, the Commission expanded the universal service support mechanisms to ensure the delivery of affordable telecommunications for all Americans including low-income consumers, rural health care providers, and schools and libraries and appointed NECA as the temporary Administrator of these mechanisms.<sup>3</sup> As a condition of its appointment as the temporary Administrator, the Commission directed NECA to establish an independent subsidiary to temporarily administer the high cost and low income support mechanisms.<sup>4</sup> NECA created

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<sup>1</sup> USAC, a subsidiary of the National Exchange Carrier Association (NECA), is the private not-for-profit corporation created to serve as the Administrator of the USF. 47 CFR § 54.701(a); *Changes to the Board of Directors of the National Exchange Carrier Association*, Third Report and Order in CC Docket No. 97-21, 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, 25063-25070, paras. 10-20 (describing USAC's responsibilities and history) (1998) (*USAC Appointment Order*). The role and responsibilities of the USAC are generally described in 47 CFR Part 54 – Subpart H – Administration (§§ 54.701-54.717).

<sup>2</sup> See *MTS and WATS Market Structure*, CC Docket No. 78-72, Phase I, Third Report and Order, 93 FCC 2d 241, 333-34 (1984); 47 CFR § 69.601.

<sup>3</sup> *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, First Report and Order, 12 FCC Rcd 8776, 9216-9217, para. 866 (1997) (*First Universal Service Report and Order*).

<sup>4</sup> *Id.*

the Universal Service Administrative Company to “administer temporarily the universal service support mechanisms for high cost areas and low-income consumers, as well as perform billing and collection functions associated with the universal service support mechanisms for schools and libraries and rural health care providers.”<sup>5</sup> Shortly after USAC’s creation, the Commission directed NECA to create two unaffiliated, not-for-profit corporations to administer portions of the schools and libraries and rural health care programs.<sup>6</sup> In response, NECA created the Schools and Libraries Corporation and Rural Health Care Corporation to be managed by staff with substantial education, rural health care, and telecommunications expertise.<sup>7</sup>

In 1998, the Commission designated USAC as the permanent administrator of the USF programs and directed it to reorganize into a single entity responsible for administering all of the universal service support mechanisms, including billing, collection, disbursement, and certain additional common functions, in order to increase efficiency and establish clear lines of accountability.<sup>8</sup> USAC was structured to take into account each support mechanism through divisions that would perform the duties and functions of the Schools and Libraries Corporation, the High Cost and Low Income Committee, and the Rural Health Care Corporation as directed by the committees of the USAC Board.<sup>9</sup>

USAC’s function is purely administrative. As the USF Administrator, USAC’s operations are prescribed by FCC regulations and subject to FCC oversight.<sup>10</sup> In that context, USAC is responsible for the “efficient, effective, and competitively neutral”<sup>11</sup> management of the USF programs, 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

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<sup>5</sup> *Changes to the Board of Directors of the National Exchange Carrier Association, Inc.; Federal-State Joint Board on Universal Service*, CC Dockets Nos. 96-45, 97-21, Report and Order and Second Order on Reconsideration, 12 FCC Rcd 18401, paras. 1-2 (1997) (*Universal Service Second Order on Reconsideration*).

<sup>6</sup> *Id.* at 18416, para. 26.

<sup>7</sup> *Id.* at para. 28.

<sup>8</sup> *USAC Appointment Order*, 13 FCC Rcd at 25058, para. 1. 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. *USAC Appointment Order*, 13 FCC Rcd at 25066, para. 15.

<sup>9</sup> *Id.* at para. 12.

<sup>10</sup> 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; 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*); see also *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 between the FCC and USAC). The MOU has been updated on a number of occasions since 2007. 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).

<sup>11</sup> 47 CFR § 54.701(a).

proposed and adopted Commission rules and policies.<sup>12</sup> 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 rules are unclear.<sup>13</sup>

### USAC Reform

Given the passage of time since the FCC 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.<sup>14</sup> As part of our ongoing commitment that our standards continue to serve the public interest, we also seek comment on whether the Commission's oversight framework for USAC implements best practices, including standards for accountability and transparency.

**Current State.** First, we seek comment on the current state of USAC operations and on any ways the administration of the USF should be reformed or made more efficient to better effectuate the USF's statutory purpose. We ask that commenters address the following questions:

- What improvements to USAC are appropriate, and how can the Commission effectuate these improvements? We ask that commenters identify whether these improvements require changes to the Commission's rules and provide other relevant details on how the Commission can accomplish these improvements.
- 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?
- What challenges are there to reforming the processes administered by USAC, and how should these challenges be addressed?

**Operations and Internal Management Processes.** Second, we seek comment on what changes are needed to USAC operations and internal management processes to maximize efficiency, transparency, accountability, and speed of operations. We ask that commenters address the following questions:

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

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<sup>12</sup> 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 responsible for billing, collection, and disbursement activities).

<sup>13</sup> 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).

<sup>14</sup> In seeking comment, we note that the FCC, 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 FCC provides USAC with guidance on USAC's role in ensuring compliance with such government-wide requirements. USAC MOU at 13. 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).

be updated to improve efficiency, transparency, and accountability in the administration of the USF?<sup>15</sup>

**Improving Efficiency.** Next, we seek comment on improving the efficiency of USAC's role in the recoveries of USF funds and audits of USF program beneficiaries,<sup>16</sup> and ways to ensure that the Commission is able to recover all improperly-disbursed funding subject to recovery. Recipients of USF funds are subject to both random and risk-based compliance audits as well as other investigations and similar reviews to confirm compliance with program rules, which result in monetary recoveries for the USF when appropriate. We ask that commenters address the following questions related to audits and recoveries:

- Are there changes the FCC should make to streamline USAC's audit and recovery processes to improve efficiency?
- 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 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.
- 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?
- 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?<sup>17</sup>
- 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?

**Improving Audit Processes.** Next, we seek comment on audits of USAC processes. Each year, USAC must retain an independent auditor to examine its operations and books of accounts to determine whether it is properly administering the USF.<sup>18</sup> We ask that commenters address the following questions

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<sup>15</sup> See, e.g., 47 CFR §§ 54.701-54.717.

<sup>16</sup> USAC's Beneficiary and Contributor Audit Program (BCAP) is designed to assess universal service beneficiaries' and contributors' compliance with FCC rules. Beneficiary and Contributor Audit Program (BCAP) and Supply Chain Audit Program (SCAP), <https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/>. The Debt Collection Improvement Act of 1996 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.*

<sup>17</sup> When extrapolation from a statistically valid sample to an entire population occurs, the confidence level represents the frequency (e.g., 90% or 95%) as to the certainty that the sample results represent the broader group or population. Additionally, the margin of error, which is variation in the sample, should be observed; higher variability means greater uncertainty in the extrapolated estimates.

<sup>18</sup> 47 CFR § 54.717. We also note that the Commission requires USAC to maintain its books of account in accordance with generally accepted accounting principles (GAAP) and to account for the financial transactions of the USF in accordance with government generally accepted accounting principles (GovGAAP). See 47 CFR § 54.702(n); *Application of Generally Accepted Accounting Principles for Federal Agencies and Generally Accepted*

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related to annual audits of USAC:

- What changes, if any, should be made to the USAC annual audit to make it more efficient and cost-effective?
- Are there ways to make USAC’s administration more cost effective?
- 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?

**Board Composition.** We also seek comment on the composition of USAC’s Board of Directors. The Commission’s rules specify the number of members of USAC’s Board of Directors, the composition of the Board by stakeholder group, the selection process for Board members, and Board member terms.<sup>19</sup> We ask that commenters address the following questions related to USAC’s Board:

- What changes to USAC’s Board of Directors could the Commission consider to promote more efficient administration of USF support?
- 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?
- Should the size of the USAC Board be changed?
- Should there be changes to the USAC Board nomination and selection process?
- Under what circumstances may the Commission Chairperson remove a Board member prior to the end of their term?
- Should the Commission’s rules establishing Divisions and Committees of the USAC Board be modified?

**Conflicts of Interest.** Finally, we seek comment on preventing USAC Board member conflicts of interest.<sup>20</sup> The USAC MOU prohibits USAC’s Board members from having “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.”<sup>21</sup> We ask that commenters address the following questions:

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

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*Government Auditing Standards to the Universal Service Fund*, Order, 18 FCC Rcd 19911, 19912-13, paras. 4-6 (2003) (*GovGAAP Order*). The Administrator must also maintain the accounts of the USF in accordance with the U.S. Government Standard General Ledger (USGSGL). *Id.*

<sup>19</sup> 47 CFR § 54.703.

<sup>20</sup> We note that in 2024, the Government Accountability Office issued a report on USAC’s compliance with, among other things, certain FCC requirements relating to USAC’s operating budget and USAC’s ethics policy. Report, Telecommunications: Administration of Universal Service Programs is Consistent with Selected FCC Requirements, GAO-24-106967 (2024) (GAO 2024 USAC Report), <https://www.gao.gov/products/gao-24-106967>.

<sup>21</sup> USAC MOU at 4. In addition, the USAC MOU provides that “USAC shall maintain a written Ethics Policy and provide the Commission with a copy. USAC shall advise the Commission in writing with respect to any changes in its Ethics Policy within thirty (30) calendar days of any such change.” *Id.* The USAC MOU also contains additional conflict of interest provisions that apply to procurements. *Id.* at 8, 9, and 11.

- Should the Commission adopt new conflict of interest rules?
- Should certain individuals/entities be prohibited from serving on the USAC Board due to conflicts of interest?

*Instructions for Filing Comments.* Interested parties may file 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). See *Electronic Filing of Documents in Rulemaking Proceedings*, 63 FR 24121 (1998).

- Electronic Filers: Comments may be filed electronically using the Internet by accessing the ECFS: <http://apps.fcc.gov/ecfs/>.
- Paper Filers: Parties who choose to file by paper must file an original and one copy of each filing.
- Filings can be sent 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.**
- 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

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*Availability of Documents.* Comments, reply comments, and *ex parte* submissions will be publicly available online via ECFS.<sup>22</sup>

*Ex Parte Rules.* The proceeding this Public Notice initiates shall be treated as a "permit-but-disclose" proceeding in accordance with the Commission's *ex parte* rules.<sup>23</sup> 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 *ex parte* 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 section 1.1206(b) of the Commission's rules.<sup>24</sup> In proceedings governed by

<sup>22</sup> Documents will generally be available electronically in ASCII, Microsoft Word, and/or Adobe Acrobat.

<sup>23</sup> 47 CFR §§ 1.1200 *et seq.*

<sup>24</sup> 47 CFR § 1.1206(b).

section 1.49(f) of the Commission's rules,<sup>25</sup> 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 ECFS in the docket 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.

For further information, please contact Matthew Baker, Telecommunications Access Policy Division, Wireline Competition Bureau, by email at [Matthew.Baker@fcc.gov](mailto:Matthew.Baker@fcc.gov).

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<sup>25</sup> 47 CFR § 1.49(f).