United States Department of Agriculture
Office of Inspector General

American Recovery and Reinvestment Act of 2009—Broadband Initiatives Program—Pre-Approval Controls

Audit Report 09703-0001-32
March 2013

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What Were OIG's Objectives

Our audit objectives were to assess RUS' internal controls over the approval of BIP loan and grant applications, including, but not limited to, if RUS' controls were adequate to ensure projects were eligible and whether RUS took actions to mitigate the risks of overbuilding in service areas.

What OIG Reviewed

We statistically sampled and reviewed 86 approved BIP applications to test the application process, which totaled $783.9 million of about $3.5 billion in program-level Recovery Act funding allocated to BIP.

What OIG Recommends

Generally, we recommended that, for future programs, RUS avoid funding broadband projects in areas that are already served by RUS-subsidized providers, publish and follow clearly defined project completion expectations, and focus broadband funding on rural areas that do not have access to this technology.

OIG reviewed how RUS awarded about $3.5 billion in Recovery Act program-level funding to provide sufficient access to high-speed broadband service to facilitate rural economic development.

What OIG Found

With the passage of the American Recovery and Reinvestment Act of 2009 (Recovery Act), Congress authorized the Rural Utilities Service's (RUS) Broadband Initiatives Program (BIP) to help bring broadband to rural areas of the United States where residents might otherwise not have access to this important technology.

The Office of Inspector General (OIG) found that RUS complied with the provisions of the Recovery Act in how it implemented the program and did not question the eligibility of any RUS-funded BIP projects in our sample. Additionally, we determined that RUS took action to address prior audit recommendations relating to BIP, that controls over contractor reviews of applications were adequate, and that coordination with the National Telecommunications and Information Administration and the Federal Communications Commission was adequate. However, we did find that RUS funded BIP projects that sometimes overlapped preexisting RUS-subsidized providers and approved 10 projects, totaling over $91 million, even though the proposed projects would not be completed within the 3-year timeframe RUS established and published. We also found that the agency could have implemented the program so that it would have focused more exclusively on rural residents who do not already have access to broadband.

RUS does not agree with OIG's opinion on how certain aspects of BIP were carried out and stated that RUS developed processes that met the intent of the Recovery Act to promote rural economic development by bringing broadband service to underserved areas of rural America.

United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: March 29, 2013

AUDIT NUMBER: 09703-0001-32

TO: Dallas Tonsager
Under Secretary
Rural Development

John C. Padalino
Acting Administrator
Rural Utilities Service

ATTN: John Dunsmuir
Acting Director
Financial Management Division

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: American Recovery and Reinvestment Act of 2009 - Broadband Initiatives Program - Pre-Approval Controls

This report presents the results of the subject audit. Your written response to the official draft report, dated March 18, 2013, is included in its entirety at the end of this report. Excerpts from your response and the Office of Inspector General's (OIG) position are incorporated into the relevant sections of the report.

Based on your agency's written response, we are able to accept management decision on Recommendations 1, 5, and 6. We can accept the Rural Utilities Service's management decision on Recommendations 2, 3, 4, and 7, once we have been provided with the information, as outlined in the report sections' OIG Position.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendations for which management decisions have not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.

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Background and Objectives

Background

The Rural Utilities Service (RUS), an agency in the Rural Development mission area, has been responsible for administering several distinct broadband programs for the past 11 years. Congress and the administration acted in 2001 and 2002 to initiate pilot broadband loan and grant programs within RUS. Subsequently, section 6103 of the Farm Security and Rural Investment Act of 2002 authorized a loan and loan guarantee program to provide funds for the costs of the construction, improvement, and acquisition of facilities and equipment for broadband service in eligible rural communities.[1] RUS operates two assistance programs exclusively dedicated to financing broadband deployment: the Rural Broadband Access Loan and Loan Guarantee Program and the Community Connect Grant Program.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (Recovery Act) was signed into law and allocated a total of $7.2 billion for broadband programs—$2.5 billion to RUS for the Broadband Initiatives Program (BIP) and $4.7 billion to the National Telecommunications and Information Administration's (NTIA) Broadband Technology Opportunities Programs (BTOP). RUS worked in collaboration with the Department of Commerce's NTIA to support the Recovery Act and implement these new Recovery Act broadband programs. RUS was to provide $2.5 billion in BIP grants, loans, and loan guarantees for broadband infrastructure in any area of the United States, provided that at least 75 percent of the area to be served was a rural area[2] without sufficient access to high-speed broadband service to facilitate rural economic development.[3] The $2.5 billion budget authority allowed RUS to provide about $3.5 billion in program-level funding.[4]

The Recovery Act also provided that no area of a project funded by BIP may receive funding to provide broadband service under BTOP, and that priority for awarding BIP funds was to be given (1) to project applications for broadband systems that will deliver end users a choice of more than one service provider; (2) to projects that provide service to the highest proportion of rural residents who do not have access to broadband service; (3) for project applications from borrowers or former borrowers under title II of the Rural Electrification Act of 1936 and for project applications that include such borrowers or former borrowers; (4) to project applications that demonstrate that, if the application is approved, all project elements will be fully funded; (5) to project applications for activities that can be completed if the requested funds are

[1] Public Law 107-171.

[2] For purposes of BIP, "rural area" means any area, as confirmed by the 2000 census of the Bureau of the Census, which is not located within: (1) a city, town, or incorporated area that has a population of greater than 20,000 inhabitants; or (2) an urbanized area contiguous and adjacent to a city or town that has a population of greater than 50,000 inhabitants. For purposes of the definition of rural area, an urbanized area means a densely populated territory as defined in the 2000 census.

[3] Public Law 111-5, American Recovery and Reinvestment Act, February 17, 2009.

[4] "Program level" is the sum of the activities supported or undertaken by an agency. Since RUS used BIP funds to make grants and loans, the program level is larger than the budget authority because the loans are expected to be repaid.

provided; and (6) to activities that can commence promptly following approval. The Recovery Act did not assign an order of precedence to the six specified BIP priorities.

For the Recovery Act broadband programs, RUS, NTIA, and the Federal Communications Commission (FCC) cosponsored public meetings to initiate public outreach on the current availability of broadband service in the United States, and ways in which the availability of broadband services could be expanded. To accomplish the outreach, they included 120 panelists—including representatives from consumer and public interest groups, State and local governments, tribal governments, minority and vulnerable populations, industry, academia, and other stakeholders. Each provided comments on how to make the broadband initiatives effective, equitable, and efficient. In addition to the information received about the new programs during the public meetings, prior to issuing general policy and application procedures for each round of BIP funding, RUS requested written comments from the public through a "request for information" issued jointly with NTIA.[5] These requests generally sought public comment to assist RUS in implementing BIP.

On July 9, 2009, via a joint Notice of Funds Availability (NOFA) and solicitation of applications, RUS and NTIA announced general policy and application procedures for broadband initiatives established pursuant to the Recovery Act—the first of two funding rounds. For round one, RUS and NTIA solicited applications for approximately $4 billion in program-level funding for both agencies. The types of BIP projects funded under round one were broadband infrastructure "last mile remote area projects," "last mile non-remote projects," and "middle mile projects."[6] Applicants submitted a separate application for each discrete project by project type. (In this report, we use the terms "project" and "application" interchangeably.)

For round two, RUS separately announced a NOFA on January 22, 2010, for approximately $2.2 billion in program-level funding for BIP. There were significant differences in the project requirements for round two projects, compared to the round one requirements. For example, RUS increased the percentage of grant-to-loan funding available. Whereas the round one grant-to-loan ratio was 50/50 (i.e., all successful applications could receive an award comprised of 50 percent loans and 50 percent grants), in round two the grant-to-loan ratio was 75/25. Moreover, the NOFA announced that applications would also be accepted for satellite projects, technical assistance, and rural library broadband grants.

[5] 74 Federal Register (FR) 10716, March 12, 2009, and 74 FR 58940, November 16, 2009.

[6] A "last mile remote area project" is an infrastructure project that provides broadband service to the end-user or to end-user devices only in a remote area(s). (The NOFA defined a "remote area" as an unserved, rural area 50 miles from the limits of a nonrural area.) A "last mile non-remote project" is an infrastructure project that provides broadband service to end users or end-user devices that were not exclusively in remote areas. "Middle mile projects" are projects that do not predominantly provide broadband service to end users or end-user devices, and may include interoffice transport, backhaul, internet connectivity, or special access.

The following table describes how BIP funding was allotted across the two rounds:

Funding Round	Applications Received[7]	Funding Requested (Billions)[8]	Applications Approved	Funding Approved (Billions)
1	1,234	$17.765	61	$0.960
2[9]	856	$11.200	259	$2.569

According to RUS, under round one, all applications that were found eligible for BIP were funded, except seven applications for which the applicants rejected the conditions of the awards. Similarly, under round two, all eligible applications were funded, except 10 for which the applicants did not timely submit "second review" documentation.[10]

The Government Accountability Office (GAO) has issued two audit reports on the Recovery Act broadband programs' application processes and pre-award controls. Both reports covered round one funding. In the first report, GAO found that RUS and NTIA were facing challenges and risks associated with the Recovery Act funding, such as evaluating applications and overseeing funded projects. GAO recommended that the agencies ensure sufficient time to review applications in round two, develop contingency plans for oversight beyond fiscal year (FY) 2010, and develop program performance measures. Both RUS and NTIA agreed with GAO's findings and recommendations.[11]

GAO's second report found that "the agencies consistently reviewed the applications and substantiated the information as specified in the Round 1 funding notice," although post-award oversight was identified as a weakness due to the lack of funding beyond September 30, 2010, for both agencies. GAO therefore recommended that the agencies develop a contingency plan targeting the agencies' oversight resources to ensure that recipients of the Recovery Act funding completed their projects in the manner consistent with their applications and awards. Neither agency took a position on GAO's recommendation but noted steps were being taken to complete their respective programs.[12]

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[7] The number of applications received for round one includes 401 BIP-only applications and 833 joint applications to BIP and BTOP. (Round one provided that applications to fund broadband infrastructure projects in areas which were at least 75 percent rural were required to be submitted to RUS for consideration under BIP. If such applicants intending to serve rural areas also chose to be considered for BTOP funding, then they must have completed the additional elements required of BTOP infrastructure applicants, i.e., completed a "joint application." NTIA made awards to such applications NTIA determined to be meritorious after RUS reviewed the applications and determined not to fund them.)

[8] The amount of funding requested for round one includes $4.974 billion for BIP-only applications and $12.791 billion for joint applications to BIP and BTOP.

[9] Round 2 includes infrastructure, satellite, technical assistance, and rural library broadband grant applications.

[10] RUS used a "second review" as a method of identifying applications that had "various types of flaws" that could be potentially corrected and reconsidered.

[11] *Recovery Act: Agencies Are Addressing Broadband Program Challenges, but Actions Are Needed to Improve Implementation*, GAO-10-80, November 16, 2009.

[12] *Recovery Act: Further Opportunities Exist to Strengthen Oversight of Broadband Stimulus Programs*, GAO-10-823, August 4, 2010.

To assist RUS in achieving its Recovery Act objectives and to minimize the risks of inefficient or improper actions that could put Government funds at risk, the Office of Inspector General (OIG) initiated a multiphase program of oversight related to Recovery Act funding.[13] We coordinated our work with GAO to avoid duplicating one another's efforts. When GAO concluded that it would perform a multi-department review of broadband that included USDA and would follow-up on our 2005 and 2009 audit report findings and recommendations, we deferred to GAO and postponed our initial reviews of BIP until GAO had finished its work. This report presents the results of our first phase of work. OIG has initiated a second phase to assess RUS' controls over BIP awardees' fulfillment of their grant and loan/grant agreements.

Objectives

Our audit objectives were to assess RUS' internal controls over the approval of BIP loan and grant applications. Specifically, we were to determine if: (1) RUS' corrective actions adequately addressed prior OIG and GAO broadband audit recommendations as they relate to BIP; (2) RUS' controls were adequate to ensure BIP participants and projects met eligibility requirements; (3) RUS established effective controls over contractor reviews of BIP applications; (4) RUS effectively coordinated BIP with NTIA and FCC; (5) RUS took actions to mitigate the risks of overbuilding in service areas; and (6) RUS' definitions of "unserved" and "underserved" areas met the intent and purpose of the Recovery Act.

In the conduct of this audit, we determined that RUS had taken corrective action adequate to address prior OIG and GAO broadband audit recommendations as they relate to BIP; that RUS' controls over contractor reviews of BIP applications were adequate; and that RUS coordinated the administration of BIP with NTIA and FCC as required.

[13] The Recovery Act also mandates that OIG provide oversight of programs, grants, and activities funded by the Recovery Act and administered by the U.S. Department of Agriculture (USDA).

Section 1: Broadband Initiatives Program (BIP)

Finding 1: RUS Approved BIP Projects That Overlap Preexisting RUS-Subsidized Projects

OIG found that RUS funded BIP projects that sometimes overlapped preexisting RUS-subsidized broadband projects. While the first round NOFA was silent on the eligibility of such overlapping projects, the second round NOFA specifically stated that areas already served by a RUS incumbent service provider were not eligible for subsequent funding. We found that RUS funded 4 of 86 sample awards—1 in round one and 3 in round two—in areas that were already served by other RUS-subsidized providers.[14] This occurred because RUS did not have exact service area maps for its preexisting funded providers; consequently, it was unable to compare applicants' proposed areas of service with areas that were being served by preexisting awards. For round two, RUS established a 10 percent *de minimis* standard for geographic overlap, even though this standard contradicted its NOFA. OIG notes, however, that without precise maps, correctly judging *de minimis* overlap would be difficult. As a result, RUS officials awarded funding totaling $5.3 million[15] for overlapping services in four project areas, potentially jeopardizing the financial feasibility and sustainability of preexisting RUS-funded broadband projects.[16] Based on our audit sample results, we estimate that 10 projects overlap preexisting RUS projects.[17]

The NOFA for the second round specifically states that "for all applications, the existing service area of RUS borrowers in which they provide broadband service shall not be eligible…. In addition, the service areas of Awardees under the first round … NOFA shall also be ineligible for funding."[18] RUS' applications guide and policy manual for the second round agrees with this requirement in that it states that "existing service areas of RUS borrowers in which they provide broadband service are not eligible for BIP funding."[19] Moreover, this prohibition is consistent with prohibitions under other RUS broadband programs, which provide, generally, that RUS will not fund broadband applications in communities served by existing RUS broadband borrowers since loan security for an existing borrower may be at risk should RUS fund a competing service. There was, however, no such prohibition in the first round NOFA, which RUS issued jointly with NTIA for BIP and BTOP. According to RUS officials, the decision to not include the

[14] A RUS incumbent service provider is a broadband provider funded by RUS either through another RUS broadband program or through the first round of Recovery Act funding.
[15] Exhibit A summarizes the monetary results for our audit report.
[16] One overlapping project in round one totaled approximately $1,942,391, and three overlapping round two awards totaled approximately $3,316,160.
[17] We are 95 percent confident that between 4 and 19 projects overlap preexisting RUS projects. For additional sample design information, see exhibit F.
[18] 75 FR 3827, January 22, 2010.
[19] *RUS Broadband Initiatives Program Round Two Application Guide–Last Mile and Middle Mile Projects*, March 9, 2010. *Policy Manual for Implementing Round 2 of the Broadband Initiatives (BIP) Program: Last Mile and Middle Mile Applications*, version 5.1, September 1, 2010. NOTE: The "Summary of Notable Changes" at the forefront of the policy manual states that version 5.0, submitted June 1, 2010, was revised to allow an applicant's service areas to overlap by no more than 10 percent with existing RUS borrower and round one BIP/BTOP awardee service areas. However, that revision is not reflected in version 5.1.

prohibition in the first round NOFA was made at a level higher than USDA because of the joint notice with NTIA, and that decision was contrary to RUS' position. In the first round, existing RUS borrowers were treated like any other incumbent, and RUS took their existing service areas into consideration when determining the eligibility of the applicant's proposed funded service areas.

Despite the second round prohibition against providing funding to areas that already had a preexisting RUS-subsidized provider, RUS approved three applications to serve areas that already had service. RUS officials stated that they wanted to be fair to applicants and, since they did not have detailed maps for the preexisting providers and could not be certain where overlap was occurring, they decided to allow some overlap. They did this despite RUS' policy to generate for each round two application a report that included applicant-identified communities within each service area, communities identified using the applicant-drawn service area shape(s), and communities included in a RUS-provided list of communities currently receiving broadband service from a RUS borrower. This report was specifically designed to help determine if any portion of an application's service area overlapped with the RUS-identified community of an existing RUS borrower that provided broadband.[20]

OIG agrees that RUS did not have the maps it needed to precisely determine the geographic service areas covered by preexisting providers. However, RUS did have records of the communities served by existing providers. By comparing those communities to those in the BIP service areas, OIG was able to determine the numbers of overlapping households. Due to the inadequate maps, we excluded areas outside of these communities, which preexisting borrowers may also have been servicing. It was possible, in other words, to identify overlap in many areas, especially the more populous ones. RUS concurred with the identified overlaps.

Additionally, we found that RUS approved one award in the first round of funding for an area that overlapped preexisting coverage by 2,932 households, at an estimated cost of $1.9 million. While the NOFA for the first round did not prohibit funding for areas that were already being served by an existing RUS provider, OIG questions the decision to fund overlapping coverage. The business prospects of the preexisting provider, who had received a loan of $35.5 million in 2007, could have been harmed by this decision. A small rural market like the one in consideration may not be able to support multiple competing services, and RUS may be, in effect, undercutting some of its providers by funding competition (see exhibit B).

Finally, when RUS determined whether preexisting RUS-funded service existed, it did not consider its own Community Connect Grant Program projects because of the transmission speed of those projects.[21] These projects involved transmission service at a minimum speed of

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[20] *Policy Manual for Implementing Round 2 of the Broadband Initiatives (BIP) Program: Last Mile and Middle Mile Applications*, version 5.1, September 1, 2010, chapter 4, III.A.3.

[21] Community Connect grants are made to communities in the most rural, economically challenged areas where loans would not be sustainable. Individuals are not eligible to apply. Funds are used to construct, acquire, or lease facilities to deploy broadband to residents, businesses, and essential community facilities such as police and fire stations, libraries, schools, and health care clinics. Each project requires matching contributions, must serve a rural area where broadband service does not exist, must provide services to critical communities free of charge for 2 years, and must offer basic service to all premises within the service area.

200 kilobits per second (kbps) from the provider to the consumer (downstream) and from the consumer to the provider (upstream). However, because the definition of broadband for BIP was speeds of at least 768 kbps downstream and 200 kbps upstream, RUS concluded that the communities being served by the Community Connect Grant Program did not have access to broadband.

We found that three BIP applications (outside our sample) were funded to provide service in communities that were funded under the Community Connect Grant Program in recent years. From 2005 to 2007, these providers were awarded grant funds and would be eligible for reimbursement of expenses for 3 years. Given that these projects were required to provide free service to community-critical facilities for the first 2 years of operation, approximately $1.5 million of grant funding could be put in jeopardy by RUS' decision to fund subsequent overlapping service at a faster broadband service speed.

RUS is in the process of enhancing its Broadband Program Mapping Tool to include maps of the service areas for existing providers under both the Community Connect Grant Program and the Rural Broadband Access Loan and Loan Guarantee Program.[22] Specifically, RUS anticipates that, beginning in the second quarter of FY 2013, such existing (and future) providers will be able to use the mapping tool to enter maps of their service areas. These maps will facilitate identification of areas in which a Broadband Program applicant's service area coincides with an existing RUS borrower's or grantee's service area and help prevent overlapping RUS-funded broadband service.

OIG is concerned about RUS' inconsistency with regard to overbuilding competing RUS-funded broadband projects in rural areas where, by definition, there are few potential subscribers and a relatively narrow margin for profit. For the second round of funding, RUS prohibited BIP funding in areas with preexisting RUS-funded providers, but then contradicted its own prohibition. For the first round of funding, RUS allowed such overlapping without exception. We maintain that neither decision contributed to extending broadband to rural residents who lack access to the technology.

Recommendation 1

Assess each BIP-funded project overlapping existing RUS-subsidized providers and, in consultation with the Office of the General Counsel, remove the overlapping areas from the BIP project service area, as practicable.

[22] Currently, RUS' Broadband Loan and Loan Guarantee Program (Broadband Program) Mapping Tool is used by those interested in applying for funding under the Broadband Program. The mapping tool's service area map shows the service areas for pending and approved Broadband Program applications, approved BIP infrastructure applications, and approved round one BTOP last mile applications. It does not show the service areas for approved round two BTOP last mile applications, for pending or approved Community Connect Grant Program applications, or for Broadband Program applications filed prior to March 14, 2011 (the effective date of the interim rule that requires Broadband Program applicants to include a map of each service area using the mapping tool). A November 16, 2012, proposed rule (77 FR 68705) will require Community Connect applicants to submit, through the mapping tool, maps that identify their service area boundaries. NOTE: RUS' mapping tool is different than the comprehensive nationwide inventory map of existing broadband service capability and availability in the United States that the Recovery Act requires NTIA to develop and maintain.

Agency Response

In the agency's response, dated March 18, 2013, Rural Development officials stated RUS provided information to OIG demonstrating that RUS analyzed areas of overlap prior to making awards. To ensure the most accurate assessment of proposed service areas, RUS sent general field representatives (GFR) to the service areas to gather information with respect to applications in round two that potentially overlapped with the service areas of existing RUS-financed projects. The reports prepared by the GFRs contained, among other things, the number of households that overlapped with such existing projects, which the agency evaluated when making an award. The overlaps had little or no impact on the financial feasibility of each project. Moreover, the Office of the General Counsel (OGC) was consulted about potential overlaps and assisted RUS in establishing the *de minimis* standards that were considered when approving the awards. With regard to the recommendation that RUS remove the overlapping areas from the BIP project service area, due to existing contractual arrangements with each awardee, and with the concurrence of OGC, RUS cannot retroactively change the terms of the awards and remove service areas from funded projects.

OIG Position

We accept Rural Development's management decision based on its assertion that, with the concurrence of OGC, RUS cannot retroactively change the terms of the awards and remove service areas from funded projects. However, the evidence RUS provided to OIG during the audit did not demonstrate that, when making awards, RUS evaluated the impact of the overlaps on the financial feasibility of both the overlapping BIP and existing RUS-subsidized projects.

Recommendation 2

To the extent allowed by authorizing legislation, for future programs take steps to avoid funding broadband projects in areas that are already served by RUS-subsidized providers.

Agency Response

Rural Development officials stated that the existing RUS broadband program regulations contain a prohibition on any overfunding, *de minimis* or otherwise, with respect to any program administered by RUS, not just the Broadband Program. See Title 7, Code of Federal Regulations, part 1738, section 102, paragraph (a)(4), 2013 edition (7 CFR 1738.102(a)(4) (2013)).[23]

Notwithstanding the above, the agency cannot ensure that this policy will always continue in the future. A policy of non-overlap must always be weighed against the present needs of rural Americans and take into consideration the modernization and upgrading of telecommunication facilities.

[23] The agency's written response cites 7 CFR 1738.102(4).

OIG Position

We recognize the existing regulation cited by the agency prohibits any part of the funded service area from overlapping with the service area of current RUS borrowers and grantees. We also recognize that the policy that prohibits overlap could change in the future. However, as reported in Finding 1, the second NOFA—like the current program—specifically prohibited BIP funding for areas that were already being served by an existing RUS provider. In order to reach management decision, RUS needs to describe the steps the agency will take to avoid overlap in future programs undertaken with the overlap restriction in place. In addition, RUS needs to describe the steps it will take, in the interest of accountability and transparency, to publicize future changes to the policy of non-overlap, to include publicizing the rationalization for such changes.

Recommendation 3

Implement controls to ensure that existing RUS borrowers' and grantees' service areas maps are entered into the Broadband Program Mapping Tool.

Agency Response

Rural Development officials stated that RUS agreed with OIG's recommendation and is currently developing enhancements to the Mapping Tool that will allow existing borrowers and grantees to submit their service area maps. It is anticipated that these enhancements will be completed by December 30, 2013.

OIG Position

While we agree with RUS' enhancements of the Mapping Tool, in order to reach management decision, the agency needs to describe the controls it will implement to ensure that the existing RUS borrowers' and grantees' service areas maps are entered into the Broadband Program Mapping Tool.

Finding 2: RUS Approved BIP Projects That Did Not Comply With Published Project Completion Timeframes

Of the 86 BIP awards reviewed, we found that RUS approved 10 of the sampled 81 infrastructure awards, totaling over $91 million, even though the applications did not demonstrate that the proposed projects would be completed within the 3-year timeframe required and published in the NOFAs. RUS officials explained that the 3-year timeframe was an administrative decision and not a requirement, and that they did not reject applications if the only concern was whether the project would be completed timely. OIG maintains, however, that since the timely implementation of these projects was a key aspect of the Recovery Act, RUS should have awarded these funds only for projects that would meet its requirement. By stating this requirement in the published NOFAs, but not following it in practice, RUS created a situation where some applicants may not have applied, thinking they would have been disqualified, even as the agency approved others who did apply but did not meet the requirement. Based on our audit sample results, we estimate that 34 awards did not demonstrate that the proposed projects would be completed within the published 3-year timeframe.[24]

The Recovery Act required that priority be given to "activities that can commence promptly following approval." According to both NOFAs, RUS required that the projects "must be fully completed" no later than 3 years following the date of issuance of the award.[25] (We also noted that RUS' March 14, 2011, interim rule for its Rural Broadband Access Loan and Loan Guarantee Program requires that all "applicants agree to complete the build-out of the broadband service described in their application within [3] years from the date the borrower is notified that loan funds are available.")[26]

Of the 86 awards we reviewed, we found that RUS approved 9 infrastructure projects where funds from non-BIP sources were necessary to complete the project, but would not be spent until after 3 years had passed. When we spoke to RUS officials about how these projects did not meet the agency's requirements for timeliness, they stated that the projects' (non-BIP) expenditures after 3 years were to "support additional subscribers coming online and utilizing the fully constructed network." RUS indicated that the "require[ment] to build a complete and functional network" was what was meant by project completion. From RUS' perspective, allowing additional non-BIP expenditures after 3 years to add subscribers was reasonable. OIG contends that, since the project, as submitted, included these additional subscribers, the project was not complete if the additional subscribers had not already been brought online at the time the network was complete. In a tenth case, we found RUS approved an infrastructure project, funded solely by BIP, for which the application did not demonstrate the project would be fully complete within 3 years of the award date—the build-out timeline did not account for the expenditure of all BIP funds by the end of year three.

[24] We are 95 percent confident that between 16 and 52 projects did not demonstrate that the proposed projects would be completed within the 3-year timeframe. For additional sample design information, see exhibit F.
[25] 74 FR 33110, July 9, 2009, and 75 FR 3826, January 22, 2010.
[26] 76 FR 13789, March 14, 2011.

Additionally, in 2011, RUS extended the deadline for project completion until September 2015, which gave all these projects, if they applied for the extension, 5 years to complete their projects. RUS provided "This action is necessary to address issues beyond the control of awardees and the agency... . Weather, seasonal conditions and project volume have posed challenges for interagency and intergovernmental review processes, suppliers of goods and services and awardees." This decision introduced further contradiction to the stated intention of the Recovery Act, which was to fund projects that would be implemented quickly.

OIG maintains that, for future broadband programs, RUS needs to improve how it communicates its expectations for when projects will be completed and it needs to better define what it means to complete a project. Once it establishes clear expectations, it must follow them as it implements its programs so that all applicants and program participants will be treated fairly.

Recommendation 4

To the extent allowed by authorizing legislation, for future broadband programs publish and follow clearly defined project completion expectations.

Agency Response

In the agency's response, dated March 18, 2013, Rural Development officials stated that RUS believes that pursuant to BIP they published and followed clearly defined project completion expectations. RUS expects to do the same in future program implementation efforts. As determined by OIG, all awards approved under BIP were found to meet the eligibility requirements contained in the NOFA.

Additionally, RUS notes that under the agency's Rural Electrification statute, broadband borrowers are required to "agree to complete build-out of the broadband service described in the loan application by not later than 3 years after the initial date on which proceeds from the loan... *are made available*" (*emphasis* added). See Title 7, United States Code, section 950bb(d)(1)(A)(iii). This requirement was clearly explained in the regulation that implemented this statute. See 7 CFR 1738.212.

OIG Position

We recognize the current 3-year build-out requirements in the cited statute. However, the regulation cited in the agency's response does not clearly explain that statutory requirement: instead, that regulation states the network design and build-out schedule must demonstrate "project completion" within 3 years from the date the agency notifies the applicant that loan funds are available,[27] and the regulation does not define "project" or "project completion." (This is similar to the situation we identified with BIP, where both the first and second round NOFAs provide that BIP "projects" must be fully completed no later than 3 years following the date of

[27] 7 CFR 1738.212(a)(7)(ii) (2013).

issuance of the award,[28] and neither NOFA includes a definition for "project" or "project completion.")

In order to reach management decision, RUS needs to describe the steps the agency will take to publish and follow clearly defined project completion expectations.

Additionally, to clarify the statement made by Rural Development officials in the agency's response, OIG reviewed only a sample of the BIP awards and did not question the eligibility of any awards in our sample. We did not determine that all awards approved under BIP were found to meet the eligibility requirements contained in the NOFA.

[28] 74 FR 33109, July 9, 2009, at IV.A.6; 74 FR 33110, July 9, 2009, at V.C.1.b; and 75 FR 3826, January 22, 2010, at III.B.4 and IV.C.2.

Finding 3: RUS Followed Recovery Act's Language but Rural America Could Receive Additional Benefit From an Increased Focus of Funds on Rural Residents Lacking Access to Broadband

RUS complied with provisions of the Recovery Act as the agency implemented BIP. However, we believe the agency could have focused more on promoting economic development in those areas where rural residents lack broadband access. In addition to complying with provisions of the Recovery Act, RUS officials stated that the program was intended to promote economic development rather than to bring broadband to rural citizens of the country that would not otherwise have the technology. Due to RUS' decisions to define eligible service areas geographically, rather than demographically, and also to allow BIP service areas to overlap, the agency did not adequately ensure that broadband infrastructure projects funded by BIP actually provided access to rural residents who would otherwise lack access.

The Recovery Act specified six priorities for awarding BIP funds. The Recovery Act did not assign an order of precedence to these six priorities. One of the six priorities was for projects that proposed to provide service to the highest proportion of rural residents who did not have access to broadband service. Under the two BIP funding rounds, RUS funded three basic project types: broadband infrastructure projects, satellite projects, and technical assistance projects. For satellite projects, RUS required that BIP funds be expended only to reimburse costs for the provision of broadband service to unserved rural premises.[29] For technical assistance projects, RUS required that BIP funds be used to fund the proposed technical assistance for regional broadband development planning activities in rural areas.

OIG recognizes that RUS did focus about 3 percent of total BIP program-level funding on unserved rural areas with its satellite and technical assistance projects. We contend that with the $3.4 billion it spent for infrastructure projects, the agency could have provided increased focus on rural areas without access.

Defining Eligible Service Areas Geographically, Not Demographically

The Recovery Act states that, overall, at least 75 percent of the area served by a BIP project must be a rural area without sufficient access to high-speed broadband. Further, the guidelines give USDA the authority to determine which areas meet this standard.

When RUS implemented the program, it identified service areas as eligible if 75 percent of the *geographic area* was rural. The agency did not consider where the premises in the area were located, however. For example, agency officials determined that one project on the southern side of Chicago was serving an area that was 91 percent rural and 9 percent nonrural, geographically. OIG determined, however, that the 9 percent of the geographic area that was nonrural contained 63 percent of the premises for this project. According to RUS' records, for the 64 round two applications reviewed, 7 had more than 25 percent of the premises in nonrural areas, and 3 of these 7 had more than 60 percent of

[29] Premises include households, businesses, and critical community facilities.

the premises in nonrural areas, including 1 that had more than 96 percent of the premises in a nonrural area (see exhibit C).

Moreover, we found that many of the households in BIP-funded service areas already had access to broadband. For example, for the project on the southern side of Chicago, RUS' records show all of the households (both rural and nonrural) already had access to broadband,[30] yet RUS approved the project and awarded $11.2 million in Recovery Act funding. With $2.2 billion in grants and $1.2 billion in loans from the Recovery Act, RUS approved broadband infrastructure projects that provided access to broadband for a total of 3,155,906 premises that included 2,759,457 households. According to our review of 64 round two applications, 52 percent (249,787 of the 484,035) of the households in the proposed funded service areas were unserved—234,248 households (48 percent) already had broadband access.

Allowing Projects to Overlap Geographically Without Considering the Number of Potential Subscribers in the Overlapping Areas

RUS also allowed broadband providers to overlap areas of BIP coverage, without considering whether the number of potential subscribers in the overlapping area was *de minimis*. This practice also resulted in duplicate broadband coverage, providing competing BIP-funded services in a single area.

Both NOFAs state, generally, that RUS would not fund more than one BIP project in any geographical area.[31] If more than one application under the funding round would serve any overlapping geographic area, the application with the highest score was to be funded; other applications for the same area were to be rejected in their entirety unless RUS, at its discretion, determined that the extent of the overlap was *de minimis* (in other words, that any overlap was too minimal to matter). The second round NOFA also provided that RUS, at its discretion, might readjust round two service areas to eliminate overlapping areas between one or more applications. For round one, RUS defined *de minimis* as less than 10 percent of each application's entire proposed funded service area. For round two, RUS increased the *de minimis* amount to 25 percent of each application's entire proposed funded service area.

From our 81 sampled infrastructure applications, we identified 6 of 64 round two applications overlapping another round two BIP project.[32] Although none of the projects overlapped geographically by more than the *de minimis* standard set by the second round NOFA, we noted that the proportion of an applicant's geographic service area that

[30] In the second round of funding, RUS qualified for funding any rural area in which at least 50 percent of the premises in the area did not have access to broadband service at the rate of 5 megabits per second (upstream and downstream combined). RUS determined that those areas lacked high-speed broadband service sufficient to facilitate rural economic development as required by the Recovery Act. Service offerings for broadband infrastructure projects must still have been within proposed service areas that were at least 75 percent rural as required by the Recovery Act.

[31] 74 FR 33111, July 9, 2009, and 75 FR 3827, January 22, 2010.

[32] None of the 17 round one applications reviewed overlapped another round one application.

overlaps another applicant's area does not directly correlate to the proportion of the applicant's potential subscribership (households) in the overlapping area. We contend that in rural areas the majority of the households will be within a small geographic area, and that allowing geographic overlap without considering population density poses a problem: it does not adequately analyze the risk that an applicant's loss of the overlapping households' broadband subscribership may affect that applicant's ability to generate sufficient revenue to cover expenses. RUS did not document by project the effect of the *de minimis* overlap on the BIP projects' financial feasibility.

Four of the 6 sample round two applications with overlap included 807 households that were also included in other BIP applicants' service areas. (There were no households in the other two sample applications' service areas that overlapped other BIP providers.) OIG estimates that approximately $1.1 million was expended to provide duplicate coverage to the 807 households in the overlapping BIP service areas (see exhibit D).

RUS officials stated they believe they implemented the program following the provisions of the Recovery Act. They maintain that the purpose of BIP was to promote economic development and not necessarily to provide broadband service in otherwise unserved rural areas, which was only one of the six BIP priorities specified in the Recovery Act. RUS officials also stated that serving unserved rural areas is the purpose of the Community Connect Grant Program. In addition, RUS officials stated that the agency had enough funds to approve all BIP projects they determined to be eligible and that, given the abundance of funding, they had no reason to give strict priority to "projects that provide service to the highest proportion of rural residents that do not have access to broadband service." RUS essentially approved all eligible projects.[33] While we recognize that RUS had the discretion to implement BIP in this manner, if it had defined eligible service areas demographically and had not overlapped projects, RUS could have provided greater broadband coverage in rural areas without sufficient access.

OIG does not find that RUS' decisions concerning the implementation of the Recovery Act violated the language of the law, but we do believe that RUS could have better implemented BIP to further rural economic development by ensuring program funds were used to provide broadband service to rural residents who otherwise lack sufficient access. We maintain that this is the apparent purpose of BIP, even if the language of the Recovery Act was not precise on all points. In other documents, such as RUS' Request for Information, RUS appears to agree, stating that the purpose of BIP is "to improve access to broadband in rural areas without service or that lack sufficient access to high-speed broadband service, and to facilitate economic development."[34]

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[33] According to RUS, about 2,090 BIP applications were received, and all eligible applications were approved for funding. While a few applications at the end of the second round were not funded because the applicants did not timely provide "second review" documentation, RUS stated those applicants may have been able to get funding under the regular broadband programs.

[34] 74 FR 58940, November 16, 2009, states, "[T]he Recovery Act expands RUS's existing authority to make loans and provides new authority to make grants for the deployment and construction of broadband systems in rural America. The purpose of the expanded RUS broadband authority is to improve access to broadband in rural areas without service or that lack sufficient access to high-speed broadband service, and to facilitate economic development."

After our analysis of RUS' administrative decisions and definitions based on the Recovery Act statutory language and requirements, we concluded that rural America would benefit from RUS focusing its funding on projects that propose to serve rural premises without broadband access. Although RUS implemented BIP in a manner that did not violate the provisions of the Recovery Act, RUS' controls provided less assurance that broadband infrastructure projects funded by BIP provided access to broadband for rural residents who lack access to that important technology.

Recommendation 5

To the extent allowed by authorizing legislation, for future broadband programs implement controls to ensure broadband funds are used effectively to provide broadband to rural residents who lack such access.

Agency Response

In the agency's response, dated March 18, 2013, Rural Developments officials stated that, despite RUS' best efforts to direct funds only to rural areas without broadband access, the business case for sustainable projects in these areas is hard to achieve, given low density, difficult to construct areas, and the inability to attract investors to areas with low returns, which is why many of these areas still do not have service. Despite 100 percent grant financing, many projects in these rural areas are not sustainable long term after the projects have been built, and will remain so, until some type of continuing financial support is addressed.

RUS will continue its practice of evaluating new authorizing legislation to ensure that, to the greatest extent possible, programs are established with a goal of providing broadband service to rural residents that lack such access.

OIG Position

We accept Rural Development's management decision. However, we remain concerned that, despite RUS' "best efforts to direct funds only to rural areas without broadband access" and its "practice of evaluating new authorizing legislation to ensure, that to the greatest extent possible, programs are established with a goal of providing broadband service to rural residents that lack such access," RUS continues to fund projects in other areas as noted in Finding 3.

Recommendation 6

Determine, for overlapping BIP projects, the number of households in the overlapping areas; consider the impact of those households on the financial feasibility of each of the overlapping BIP projects; and adjust the awards, as necessary, to carve out overlapping areas and better ensure the financial feasibility and sustainability of the BIP projects.

Agency Response

Rural Development officials stated that, of the 6 projects which OIG found to overlap other projects, 3 of the projects had respectively 0, 0, and 2 households overlapping, out of 3,841 total

households. The overlap in these projects is essentially non-existent. Of the 3 remaining projects cited by OIG, 2 had overlaps which were extremely *de minimis*: 1 project overlapped 367 households of a total 368,028 households with another project, or 0.09 percent; the other project overlapped 278 households of a total 21,033 households, or 1.32 percent. Only 1 project of the 6 had an overlap near the 10 percent cap, having 160 households of a total 1,660 households overlap with another project, or 9.64 percent. That project was determined to have no effect on the other BIP award. As such, the agency cannot agree that these awards, or the awards that overlapped with them, were a financial threat to the feasibility of any overlapping project that was funded. Moreover, the agency cannot take steps to carve out these areas due to its existing contractual obligations.

OIG Position

We accept Rural Development's management decision based on its assertion that, due to existing contractual obligations, RUS cannot carve out the overlapping BIP areas.

Recommendation 7

To the extent allowed by authorizing legislation, for future broadband programs ensure overlapping service areas are not funded under the same program.

Agency Response

Rural Development officials stated that the issue of funding an overlap of service areas is really the same issue as future funding over existing areas of RUS-subsidized providers and referred OIG to the agency's response to Recommendation 2.

OIG Position

We do not see the issue of overlapping service areas under the same program—particularly under the same funding round—as being factually the same as the issue of overlapping a new RUS-subsidized service area on top of an existing RUS-subsidized service area (as in Finding 1, Recommendation 2). A fundamental difference between the two issues is that in cases where there are multiple applications under the same program funding round that would serve the same geographic area, RUS may determine which applications to fund, if any, and might readjust service areas to eliminate overlapping areas between applications. Nonetheless, in the agency's written response to Recommendation 2, Rural Development officials state that—notwithstanding the existing RUS broadband program regulation's prohibition on any overfunding, *de minimis* or otherwise, with respect to any program administered by RUS—a policy of non-overlap must always be weighed against the present needs of rural Americans and take into consideration the modernization and upgrading of telecommunication facilities.

We recognize the existing regulation cited by the agency (in its response to Recommendation 2) prohibits any part of the funded service area from overlapping with the service area of current RUS borrowers and grantees. That regulation goes on to provide that a service area may be eligible only if no part of the funded service area is included in a pending application before

RUS seeking funding to provide broadband service; if two or more applications are submitted for the same service area, a lending decision must be made on the application that was submitted to the agency first before a lending decision can be made on the other application(s).[35] We also recognize that the policy that prohibits overlap could change in the future.

In order to reach management decision, in the interest of accountability and transparency and to ensure equal and fair access to Federal awards and funds, RUS needs to describe the steps it will take to publicize future changes to the policy of non-overlap (of service areas under the same program), to include publicizing the rationalization for such changes.

[35] 7 CFR 1738.102(a)(5) (2013).

Scope and Methodology

We conducted our audit of RUS' BIP from June 2011 through September 2012. Our audit focused on RUS' internal controls for how it planned, implemented, and approved loan and grant applications for Recovery Act funds. We conducted site visits to RUS' national office in Washington, D.C., and the headquarters offices of ICF International—one of RUS' contract companies—in Fairfax, Virginia.

To accomplish our objectives, we:

- Reviewed the Recovery Act and other laws pertaining to BIP;
- Reviewed regulations, procedures, and guides governing BIP and provided by RUS;
- Examined RUS' instructions to its general field representatives and field accountants to implement BIP;
- Interviewed responsible RUS officials at the national level to obtain management's assertions of the controls used in making the BIP awards;
- Interviewed responsible ICF International officials to determine the controls used in reviewing applications and how they used the RUS mapping tool to determine service area eligibility;
- Reviewed USDA's Federal Managers' Financial Integrity Act report for material internal control weaknesses applicable to the scope of the audit and any corrective action taken or planned to address such weaknesses;
- Reviewed RUS' BIP risk assessment;
- Reviewed RUS' corrective actions taken on prior OIG and GAO broadband audit report recommendations as they pertained to BIP;
- Interviewed responsible NTIA officials to determine the coordination efforts of USDA with the Department of Commerce, as directed by the Recovery Act;
- Examined the methodologies RUS used in making key decisions in prioritizing the applications; and
- Statistically sampled and reviewed 86 ($783,895,685) of 284 ($3,156,641,638) approved applications (BIP awards) to test internal controls over the approval process.[36]

As RUS did not use a computerized system in approving broadband applications, we did not evaluate the effectiveness of an information system or its controls. In addition, RUS did not rely solely upon the RUS mapping tool to determine if an area was eligible for BIP funding: RUS required its Recovery Act field team to verify the eligibility of proposed funded service areas; therefore, we did not evaluate the mapping tool's effectiveness.

[36] The audit universe of 284 awards consisted of the 320 applications approved for ($3,529,090,889) BIP funding, less the 8 awards for which the recipients' headquarters were located in Alaska (6), Hawaii (1), and American Samoa (1), as well as the 28 awards that were rescinded at the time of sampling. For additional sample selection and design information, see exhibits E and F.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Abbreviations

BIP ..... Broadband Initiatives Program
BTOP ..... Broadband Technology Opportunities Program
CFR ..... Code of Federal Regulations
FCC..... Federal Communications Commission
FR ..... Federal Register
FY ..... Fiscal Year
GAO ..... Government Accountability Office
kbps ..... kilobits per second
NOFA ..... Notice of Funds Availability
NTIA ..... National Telecommunications and Information Administration
OIG ..... Office of Inspector General
Recovery Act ..... American Recovery and Reinvestment Act of 2009
RUS ..... Rural Utilities Service
USDA ..... U.S. Department of Agriculture

Exhibit A: Summary of Monetary Results

Exhibit A summarizes the monetary results for our audit report by finding number.

Finding	Recommendation	Description	Amount	Category
1	2	BIP Overlaps Preexisting RUS-Funded Broadband Services	$5,258,551	Funds To Be Put To Better Use – Management or Operating Improvement/Savings
3	7	Overlapping BIP Coverage	$1,119,868	Funds To Be Put To Better Use – Management or Operating Improvement/Savings
Total			**$6,378,419**	

Exhibit B: Overlapping Preexisting RUS-Subsidized Projects

Exhibit B presents information on the sample applications that we determined overlapped a community already approved under another RUS broadband program.

This table shows the sample application number, corresponding existing RUS provider ID number, numbers of households within the overlapping community, and cost per premises, all according to RUS. We added the total excess cost.[37]

Application ID	Existing RUS Provider ID	Total Number of Households Within the Overlapping Community	Cost per Premises	Total Excess Cost
1245	OK1107	2,932	$1,352	$1,942,391*
5266	GA1104	605	$1,072	$648,560
5624	OK1108	490	$3,915	$1,918,350
5271	MO1102	333	$2,250	$749,250
Total				**$5,258,551**

*Applicant requested only 49 percent of the project cost from RUS.

This table shows the BIP applicant ID and the correlative Community Connect Grant Program project location (community), FY approved, and grant amount. We added the 2000 Census Bureau total number of households for the community.

Application ID	Location of Community Connect Project	Fiscal Year Project Was Approved	2000 Census Bureau Total Number of Households	Community Connect Grant Awarded
7360	Pioneer, Louisiana	2005	65	$442,500
1257	Smithville, Oklahoma	2006	50	$417,544
2512	Darbyville, Ohio	2007	94	$603,200
Total				**$1,463,244**

[37] Total number of households within the overlapping community, multiplied by cost per premises.

Exhibit C: Rural Households Without Service

Exhibit C presents a list of the sample round two applications showing RUS' numbers of households, unserved households, rural premises, percent of rural area targeting,[38] percent of rural residents served in unserved areas, distances from the closest nonrural areas, and closest nonrural area names. We added information on the total premises and Census Bureau 2000 population for the closest nonrural area, and calculated the percent of nonrural premises.[39]

Application ID	Total Households	Unserved Households	Total Premises	Rural Premises	Percent of Nonrural Premises	Percent of Rural Residents Served in Unserved Areas	Percent of Rural Area Targeting	Distance (Miles) from Closest Nonrural Area	Closest Nonrural Area Name	Census Bureau 2000 Population Closest Nonrural Area
4216	2,551	1,528	2,781	2781	0.00	59.90	100.00	19	Harrisonburg, VA	40,468
4269	765	467	1,010	1,010	0.00	61.00	100.00	40	Bend, OR	52,029
4470	5,237	4,505	5,998	5,998	0.00	86.00	100.00	36	Watertown, NY	26,705
4512	959	959	995	994	0.10	100.00	100.00	3	Corvallis, OR	49,322
4520	1,221	0	1,280	1,280	0.00	0.00	100.00	13	Kansas City, MO	588,411
4790	873	0	1,036	844	18.53	0.00	100.00	36	Sioux City, IA--NE--SD	96,938
4925	1,007	1,007	1,433	1,433	0.00	100.00	100.00	31	Santa Fe, NM	62,203
5045	62	0	260	260	0.00	0.00	100.00	30	Hinesville, GA	30,392
5094	826	0	1,041	1,041	0.00	0.00	100.00	44	Ottumwa, IA	24,998
5133	11,384	3,467	13,113	11,560	11.84	30.50	98.90	0	Lumberton, NC	20,795
5166	1,016	855	1,721	1,016	40.96	84.20	100.00	3	Asheville, NC	68,889
5258	1,096	0	1,410	1,410	0.00	0.00	100.00	51	Aurora, CO	276,393
5261	6,141	4,423	6,483	5,548	14.42	72.00	100.00	0	Fayetteville, AR	58,047
5262	39,673	29,427	54,940	38,889	29.22	74.20	100.00	0	Jacksonville, FL	735,617
5265	8,977	4,687	20,659	15,164	26.60	52.20	99.60	0	Dalton, GA	27,912
5266	3,383	2,253	4,352	3,556	18.29	66.60	100.00	8	Chattanooga, TN--GA	155,554
5268	34,006	13,207	128,643	102,569	20.27	38.80	100.00	0	Richmond, KY	27,152
5271	5,736	4,585	4,590	4,195	8.61	79.90	100.00	10	Springfield, MO	151,580
5272	752	425	1,182	1,004	15.06	56.50	100.00	2	Jackson, MS	184,256
5279	599	466	587	508	13.46	77.80	100.00	2	Jamestown, NY	31,730
5291	23,188	15,612	33,582	29,565	11.96	67.30	100.00	1	Pittsburgh, PA	334,563

[38] Percent of BIP service area that RUS determined to be rural.
[39] Total Premises minus Rural Premises, divided by Total Premises.

Application ID	Total Households	Unserved Households	Total Premises	Rural Premises	Percent of Nonrural Premises	Percent of Rural Residents Served in Unserved Areas	Percent of Rural Area Targeting	Distance (Miles) from Closest Nonrural Area	Closest Nonrural Area Name	Census Bureau 2000 Population Closest Nonrural Area
5292	2,778	1,445	3,869	3,406	11.97	52.00	100.00	0	Columbia, SC	116,278
5324	4,662	47	5,901	5,901	0.00	1.00	100.00	16	Winchester, VA	23,585
5337	2,399	2,258	3,730	1,321	64.58	94.10	100.00	6	Pine Bluff, AR	55,085
5339	657	0	689	689	0.00	0.00	100.00	31	Fort Dodge, IA	25,136
5382	175	130	283	283	0.00	74.30	100.00	39	Amarillo, TX	173,627
5392	14,493	9,103	24,288	24,288	0.00	62.80	100.00	26	Santa Fe, NM	62,203
5424	2,646	1,453	3,950	3,950	0.00	54.90	100.00	14	Myrtle Beach, SC	22,759
5425	136	90	185	185	0.00	66.20	100.00	42	Bend, OR	52,029
5430	62	0	87	87	0.00	0.00	100.00	53	Greeley, CO	76,930
5491	4,928	504	511	511	0.00	10.20	100.00	0	Sheboygan, WI	50,792
5494	2,955	229	346	346	0.00	7.70	100.00	20	Dubuque, IA--IL	57,686
5526	1,247	299	310	310	0.00	24.00	100.00	18	Ardmore, OK	23,711
5529	2,840	171	166	166	0.00	6.00	100.00	2	Auburn, NY	28,574
5530	10,178	452	428	428	0.00	4.40	100.00	7	Tallahassee, FL	150,624
5549	665	177	226	226	0.00	26.60	100.00	15	Joplin, MO	45,504
5562	3,680	0	7,083	4,443	37.27	0.00	100.00	16	Hickory, NC	37,222
5582	5,307	0	7,442	7,442	0.00	0.00	100.00	8	Bristol, TN	24,821
5607	9,672	610	832	832	0.00	6.30	100.00	0	Concord, NH	40,687
5624	6,824	1,065	912	912	0.00	15.60	100.00	0	Broken Arrow, OK	74,859
5633	2,830	691	629	629	0.00	24.40	100.00	1	Appleton, WI	70,087
5635	17,905	1,594	1,576	1,576	0.00	8.90	100.00	8	Florence, AL	36,264
5728	1,185	0	1,980	1,980	0.00	0.00	100.00	58	Independence, MO	113,288
5729	641	0	1,020	1,020	0.00	0.00	100.00	32	St. Joseph, MO--KS	73,990
5730	1,074	0	1,582	1,582	0.00	0.00	100.00	24	West Des Moines, IA	46,403
5731	1,997	0	2,372	2,372	0.00	0.00	100.00	32	Ottumwa, IA	24,998
5744	373	0	567	564	0.53	0.00	100.00	4	Fort Collins, CO	118,652
5792	1,250	754	1,570	1,570	0.00	60.30	100.00	4	Woodbury, MN	46,463
5818	27,391	2,437	31,293	31,323	-0.10	8.90	100.00	0	Spokane, WA--ID	195,629
5927	4,634	0	5,783	5,783	0.00	0.00	100.00	3	Winston-Salem, NC	185,776
6020	42	42	283	283	0.00	100.00	100.00	141	Midland, MI	41,685
6057	2,438	0	2,595	2,438	6.05	0.00	100.00	28	Madison, WI	208,054

Application ID	Total Households	Unserved Households	Total Premises	Rural Premises	Percent of Nonrural Premises	Percent of Rural Residents Served in Unserved Areas	Percent of Rural Area Targeting	Distance (Miles) from Closest Nonrural Area	Closest Nonrural Area Name	Census Bureau 2000 Population Closest Nonrural Area
6060	2,233	2,233	4,644	4,689	-0.97	100.00	100.00	30	Madison, WI	208,054
6267	37,480	0	1,559	1,322	15.20	0.00	97.50	0	Longview, WA	34,660
6325	5,814	1,593	6,937	6,935	0.03	27.40	100.00	0	Portland, OR--WA	529,121
6389	14,029	3,491	16,115	534	96.69	24.90	100.00	4	Asheville, NC	68,889
6596	1,123	25	2,550	2,535	0.59	2.20	100.00	17	Watertown, NY	26,705
7013	62	10	75	75	0.00	16.10	100.00	44	Greeley, CO	76,930
7158	5,401	605	6,543	6,484	0.90	11.20	100.00	41	Wenatchee, WA	27,856
7282	4,221	0	5,233	5,233	0.00	0.00	100.00	14	Greenville, NC	60,476
7311	956	0	1,742	1,700	2.41	0.00	100.00	66	Burlington, VT	38,889
7340	85,794	0	104,421	38,923	62.72	0.00	90.70	0	Chicago, IL--IN	2,896,016
7445	474	158	1,726	1,726	0.00	33.30	100.00	71	Midland, MI	41,685
7449	126	0	228	228	0.00	0.00	100.00	66	Bay City, MI	36,817

Exhibit D: *De Minimis* Overlap

Exhibit D provides information on sample BIP applications that overlapped a second BIP project. This table shows the overlapping sample and second BIP applicants' BIP identification numbers, the percentages of geographic overlap for each application, total numbers of households in the overlapping applicants' service areas, and sample applicants' costs per premises, all according to RUS. We added the numbers of overlapping households, percentages of overlapping households for the sample applicants,[40] percentages of overlapping households for the second BIP applicants,[41] and costs of the sample applicants' overlapping households.[42]

Sample Applicant's ID	Second BIP Applicant's ID	Percent Geographic Overlap of Sample Applicant	Percent Geographic Overlap of Second BIP Applicant	Number of Overlapping Households	Total Households of Sample Applicant	Percent Household Overlap of Sample Applicant	Total Households of Second BIP Applicant	Percent Household Overlap of Second BIP Applicant	Sample Applicant's Cost per Premises	Cost of Sample Applicant's Overlapping Households
5291	4459	1.46	0.54	367	23,188	1.58	368,028	0.10	$610	$223,870
5266	5455	9.02	1.65	278	3,383	8.22	21,033	1.32	1,072	$298,016
5339	7686	0.39	0.06	2	657	0.30	3,717	0.05	3,791	$7,582
5430	7013	1.29	0.85	0	62	0	62	0	9,103	$0
5526	7468	0.27	3.38	160	1,247	12.83	1,660	9.64	3,690	$590,400
7013	5430	0.85	1.29	0	62	0	62	0	21,890	$0
Total				**807**						**$1,119,868**

[40] Number of overlapping households divided by the total households of sample applicant.
[41] Number of overlapping households divided by the total households of second BIP applicant.
[42] Number of overlapping households multiplied by the sample applicant's cost per premises.

Exhibit E: Statistically Sampled BIP Project Applications

Exhibit E presents information on our sample BIP applications. For each statistically selected sample application, the table below shows the recipients' headquarters State, the BIP application ID number, cluster sample number, cluster stratum, total BIP award, applicable NOFA round, and project type.

Recipient Headquarters State	Application ID	Cluster Sample	Stratum	Total Award	NOFA Round	Project Type
Arkansas	5261	55	1	$7,285,202	2	Infrastructure
Arkansas	5262	55	1	$38,288,349	2	Infrastructure
Arkansas	5265	55	1	$5,129,575	2	Infrastructure
Arkansas	5266	55	1	$4,665,116	2	Infrastructure
Arkansas	5268	55	1	$27,644,292	2	Infrastructure
Arkansas	5271	55	1	$10,328,319	2	Infrastructure
Arkansas	5272	55	1	$1,005,566	2	Infrastructure
Arkansas	5279	55	1	$855,901	2	Infrastructure
Arkansas	5291	55	1	$20,497,604	2	Infrastructure
Arkansas	5292	55	1	$3,050,160	2	Infrastructure
California	484	9	3	$3,852,862	1	Infrastructure
California	961	9	3	$5,483,010	1	Infrastructure
Colorado	888	14	3	$1,513,850	1	Infrastructure
Colorado	2971	14	3	$4,328,431	1	Infrastructure
Colorado	5258	14	3	$11,147,200	2	Infrastructure
Colorado	5430	14	3	$791,947	2	Infrastructure
Colorado	5744	14	3	$5,172,500	2	Infrastructure
Colorado	7013	14	3	$1,641,785	2	Infrastructure
Colorado	SAT03	14	3	$14,159,250	2	Satellite
Colorado	SAT04	14	3	$19,533,444	2	Satellite
Georgia	5045	63	3	$447,993	2	Infrastructure
Idaho	3539	4	3	$12,285,758	1	Infrastructure
Illinois	5337	45	3	$3,546,826	2	Infrastructure
Illinois	7340	45	3	$11,250,000	2	Infrastructure
Iowa	1836	40	3	$1,519,225	1	Infrastructure
Iowa	4790	40	3	$8,325,402	2	Infrastructure
Iowa	5339	40	3	$2,611,909	2	Infrastructure
Michigan	7445	49	3	$8,622,754	2	Infrastructure
Michigan	7449	49	3	$1,107,903	2	Infrastructure
Minnesota	TA08	39	3	$47,380	2	Technical Assistance
Missouri	218	29	3	$10,280,916	1	Infrastructure
Missouri	4520	29	3	$11,395,606	2	Infrastructure
Missouri	5094	29	3	$7,191,620	2	Infrastructure
Missouri	5728	29	3	$12,363,759	2	Infrastructure
Missouri	5729	29	3	$8,970,781	2	Infrastructure
Missouri	5730	29	3	$9,294,309	2	Infrastructure
Missouri	5731	29	3	$20,270,861	2	Infrastructure
New Mexico	1176	17	3	$1,264,450	1	Infrastructure
New Mexico	1177	17	3	$3,237,000	1	Infrastructure
New Mexico	2054	18	3	$9,589,267	1	Infrastructure
New Mexico	4925	17	3	$11,856,832	2	Infrastructure
New Mexico	5392	17	3	$63,768,671	2	Infrastructure

Recipient Headquarters State	Application ID	Cluster Sample	Stratum	Total Award	NOFA Round	Project Type
New York	3066	70	3	$5,328,642	1	Infrastructure
New York	4470	70	3	$27,832,767	2	Infrastructure
New York	6596	70	3	$7,168,559	2	Infrastructure
New York	7311	70	3	$10,562,517	2	Infrastructure
North Carolina	5133	66	3	$19,947,739	2	Infrastructure
North Carolina	5166	68	3	$1,775,692	2	Infrastructure
North Carolina	5424	66	3	$16,003,418	2	Infrastructure
North Carolina	5562	68	3	$21,611,000	2	Infrastructure
North Carolina	5582	68	3	$28,985,294	2	Infrastructure
North Carolina	5927	68	3	$21,668,232	2	Infrastructure
North Carolina	6389	68	3	$25,297,000	2	Infrastructure
North Carolina	7282	67	3	$14,147,215	2	Infrastructure
Oregon	702	5	3	$749,085	1	Infrastructure
Oregon	1221	5	3	$628,860	1	Infrastructure
Oregon	4269	5	3	$5,445,920	2	Infrastructure
Oregon	4512	5	3	$5,654,734	2	Infrastructure
Oregon	5425	5	3	$2,360,393	2	Infrastructure
Oregon	6325	5	3	$5,197,732	2	Infrastructure
Oregon	TA45	5	3	$200,000	2	Technical Assistance
Texas	1245	19	3	$3,065,440	1	Infrastructure
Texas	5382	19	3	$2,112,950	2	Infrastructure
Virginia	SAT02	54	3	$7,530,000	2	Satellite
Washington	5818	4	3	$20,458,320	2	Infrastructure
Washington	6267	5	3	$3,731,069	2	Infrastructure
Washington	7158	4	3	$9,169,637	2	Infrastructure
West Virginia	2535	53	3	$2,893,056	1	Infrastructure
West Virginia	4216	54	3	$8,529,310	2	Infrastructure
West Virginia	5324	54	3	$31,648,274	2	Infrastructure
Wisconsin	608	72	2	$3,892,920	1	Infrastructure
Wisconsin	627	72	2	$8,605,935	1	Infrastructure
Wisconsin	5491	72	2	$1,669,255	2	Infrastructure
Wisconsin	5494	72	2	$1,655,504	2	Infrastructure
Wisconsin	5526	72	2	$1,143,784	2	Infrastructure
Wisconsin	5529	72	2	$639,218	2	Infrastructure
Wisconsin	5530	72	2	$1,363,547	2	Infrastructure
Wisconsin	5549	72	2	$702,933	2	Infrastructure
Wisconsin	5607	72	2	$2,021,197	2	Infrastructure
Wisconsin	5624	72	2	$3,570,745	2	Infrastructure
Wisconsin	5633	72	2	$1,837,421	2	Infrastructure
Wisconsin	5635	72	2	$5,150,691	2	Infrastructure
Wisconsin	5792	39	3	$9,067,898	2	Infrastructure
Wisconsin	6020	72	2	$2,001,528	2	Infrastructure
Wisconsin	6057	44	3	$5,239,168	2	Infrastructure
Wisconsin	6060	44	3	$20,007,501	2	Infrastructure
Total				**$783,895,685**		

Exhibit F: Statistical Plan – Sampling Methodology and Analysis Results

Objective:

We designed a sample to support the audit of RUS'BIP (Audit Report 09703-0001-32). The sampling objective was to develop a random statistical sample for review, to analyze sample data collected by the audit team, and to provide estimates for criteria being audited.

Audit Universe:

The universe consisted of 320 approved awards for BIP established by the Recovery Act and was obtained from RUS. The original universe dated October 29, 2010, contained 320 awards. The final universe size excludes 8 awards in Alaska (6), Hawaii (1), and American Samoa (1) from review due to travel and resource considerations[43] as well as the 28 awards that were rescinded at the time of sampling. Therefore, the final BIP Recovery Act universe consisted of 284 awards spread across the United States.

Sample Design and Modifications:

For this audit, we used a clustered two-stage sample design. Grants and loans awarded under BIP were spread across the United States. Because of travel considerations, we decided to look at the dispersion of the awards across the country. The audit team used mapping software to plot the 284 awards in the audit universe into a total of 70 geographic clusters based on travel considerations. Therefore some clusters crossed State lines, some States had more than one cluster, some "clusters" were singletons,[44] etc. We considered the clusters thus defined to be reasonable selection units, providing both nationwide[45] coverage and some economy with regard to travel. Two clusters included a significantly higher number of awards than the rest. We placed those two in censuses strata of their own.

We selected 20 clusters from the random stratum of 68 clusters; for those clusters, all awards were included in the sample. For the two large clusters, we selected awards at the second stage. Additional design details are provided in Table 1 below.

[43] We did not perform awardee site visits during this audit. However, we designed our sample with the knowledge that we would follow this audit of RUS' pre-award controls with an audit of RUS' post-award controls, during which we would visit the sample awardees' headquarters locations. Therefore, to minimize travel time and make the most of our resources, we elected to remove from our universe the awards with headquarters in Alaska, American Samoa, and Hawaii.

[44] Singleton means the "cluster" contained only one award; no others were located nearby.

[45] Excluding Alaska, Hawaii, and American Samoa.

Table 1: BIP Sample Design Structure

	Simple Random Sample Order of Random Cluster Selection	Cluster ID	Headquarters Location(s) of Awards in Cluster	Number of Awards in This Cluster	Number of Awards Selected for Review at Stage 2
Stratum 1	n/a	55	AR	16	10
Stratum 2	n/a	72	WI	44	13
Stratum 3	1	45	IL	2	2
	2	53	WV	1	1
	3	29	MO	7	7
	4	44	WI	2	2
	5	5	1 in WA; 7 in OR	8	8
	6	17	NM	4	4
	7	40	IA	3	3
	8	70	NY	4	4
	9	4	2 in WA; 1 in ID	3	3
	10	66	NC	2	2
	11	54	2 in WV; 1 in VA	3	3
	12	63	GA	1	1
	13	39	1 in WI; 1 in MN	2	2
	14	18	NM	1	1
	15	67	NC	1	1
	16	9	CA	2	2
	17	14	CO	8	8
	18	68	NC	5	5
	19	49	MI	2	2
	20	19	TX	2	2
	Total Number of Awards in Sample:				**86**

In summary, we selected 86 awards for review. We had no historical information, relevant to the criteria to be tested in this audit, on which to base a sample size calculation. In particular, we did not know where to expect variance to occur. Therefore, the total sample size selected was subjective.

Results:

To support the audit objectives, the audit team reviewed the sample of awards and measured compliance and performance criteria associated with findings: (1) RUS funded projects that sometimes overlapped preexisting RUS-subsidized providers and (2) awards did not demonstrate that the proposed projects would be completed within the 3-year timeframe required.

Estimates are presented in the table below. All estimates and calculations shown are rounded to the nearest whole number.

Table 2: BIP Statistical Projections

Criterion	Point Estimate: Projected Number With Exceptions	Confidence Interval, 95% Confidence Level		Achieved Precision (Absolute)[46]	Raw Data: Exceptions Observed in Sample
		Lower Bound	Upper Bound		
Overlapping Service Areas (Prior RUS Providers) Finding 1	10	1	19	+/-10%	4
Timely Completion (3 Years) Finding 2	34	16	52	+/-21%	10

Based on our sample results, we project that:

- Ten (10) RUS-funded projects in the universe (of 284 awards) overlap preexisting RUS projects. We are 95 percent confident that between 4 (actual number observed) and 19 funded projects overlap preexisting RUS projects. Achieved precision is +/-10 percent.
- 34 RUS-funded projects in the universe (of 284 awards) did not demonstrate that the proposed projects would be completed within the 3-year timeframe. We are 95 percent confident that between 16 and 52 projects did not demonstrate that the proposed projects would be completed within the 3-year timeframe. Achieved precision is +/-21 percent.

[46] For the number of awards, the achieved absolute precision shown in the table is the difference between the bound and point estimate. This number can be divided by the total in the universe for precision relative to the universe (for example, (18 minus 9) divided by 86, or 9 divided by 86, equals 10.4 percent (10 percent rounded). Values shown are rounded down.

USDA'S
RURAL UTILITIES SERVICE'S
RESPONSE TO AUDIT REPORT

USDA

United States Department of Agriculture

March 18, 2013

TO: Gil H. Harden
Assistant Inspector General for Audit
Office of Inspector General

FROM: John Dunsmuir /s/ John Dunsmuir
Acting Director
Financial Management Division

SUBJECT: Audit Number 09703-001-32
American Recovery and Reinvestment Act of 2009 – Broadband Initiatives Program

Attached, please find Rural Utilities Service's response to the subject official draft report. If you have any questions, pleases contact Debby Shore of my staff at (202) 692-0191.

Rural Development
1400 Independence Ave., S.W. • Washington, DC 20250-0700
Web: http://www.rurdev.usda.gov
Voice: (202) 720-4581 • Fax: (202) 720-2080

March 15, 2013

TO: Gil H. Harden
Assistance Inspector General for Audit
Office of Inspector General

THRU: John C. Padalino /s/ John Padalino
Acting Administrator
Rural Utilities Service

John Dunsmuir /s/ John Dunsmuir
Acting Director
Financial Management Division

FROM: Dallas Tonsager /s/ Doug O'Brien for Dallas Tonsager
Under Secretary
Rural Development

SUBJECT: Audit Number 09703-0001-32
American Recovery and Reinvestment Act of 2009 – Broadband Initiatives Program

Thank you for the opportunity to comment on OIG's recent Audit of the Rural Utilities Service's (RUS) Broadband Initiative Program (BIP). RUS appreciates the Inspector General's input into ensuring that BIP met its statutory and regulatory missions in the review and approval of the applications that were submitted for funding.

The Agency is pleased that OIG found that RUS complied with the provisions of the Recovery Act in how it implemented BIP and did not find any instance where the eligibility of any RUS-funded BIP project was questionable. While we appreciate OIG's recent Report and the finding noted above, RUS does not agree with OIG's opinion on how certain aspects of BIP were carried out. Although there are different options to consider when establishing any program, RUS developed policies/procedures/processes that met the intent of the Recovery Act to promote rural economic development by bringing broadband service to underserved areas of rural America. Below are responses to the individual findings.

Finding 1: RUS Approved BIP Projects That Overlap Preexisting RUS-Subsidized Projects

Recommendation 1
Assess each BIP-funded project overlapping existing RUS-subsidized providers and, in consultation with the Office of the General Counsel, remove the overlapping areas from the BIP project service area, as practicable.

Agency Response
The Agency provided information to OIG demonstrating that we analyzed areas of overlap prior to making awards. To ensure the most accurate assessment of proposed service areas, RUS sent general field representatives (GFRs) to the service areas to gather information with respect to applications in Round 2 that potentially overlapped with the service areas of existing RUS-financed projects. The reports prepared by the GFRs contained, among other things, the number of households that overlapped with such existing projects, which the agency evaluated when making an award. The overlaps had little or no impact on the financial feasibility of each project. Moreover, the Office of the General Counsel (OGC) was consulted about potential overlaps and assisted RUS in establishing the *de minimis* standards that were considered when approving the awards. With regard to the recommendation that the Agency remove the overlapping areas from the BIP project service area, due to existing contractual arrangements with each awardee, and with the concurrence of OGC, RUS cannot retroactively change the terms of the awards and remove service areas from funded projects. We request that OIG reconsider this portion of the recommendation.

Recommendation 2
To the extent allowed by authorizing legislation, for future programs take steps to avoid funding broadband projects in areas that are already served by RUS-subsidized providers.

Agency Response
The Agency notes that the existing RUS broadband program regulations have such a restriction. At present, the broadband regulations contain a prohibition on *any* overfunding, *de minimis* or otherwise, with respect to *any* program administered by RUS, not just the Broadband Program. *See* 7 C.F.R. 1738.102(4).

Notwithstanding the above, the agency cannot ensure that this policy will always continue in the future. A policy of non-overlap must always be weighed against the present needs of rural Americans and take into consideration the modernization and upgrading of telecommunication facilities.

Recommendation 3
Implement controls to ensure that existing RUS borrowers' and grantees' service areas maps are entered into the Broadband Program Mapping Tool.

Agency Response
RUS agrees with OIG's recommendation and is currently developing enhancements to the Mapping Tool that will allow existing borrowers and grantees to submit their service area maps. It is anticipated that these enhancements will be completed by December 30, 2013.

Finding 2: RUS Approved BIP Projects That Did Not Comply with Published Project Completion Timeframes

Recommendation 4
To the extent allowed by authorizing legislation, for future broadband programs publish and follow clearly defined project completion expectations.

Agency Response
The Agency believes that pursuant to BIP we published and followed clearly defined project completion expectations. The Agency would expect to do the same in future program implementation efforts. As determined by OIG, all awards approved under BIP were found to meet the eligibility requirements contained in the NOFA.

Additionally, the RUS notes that under the agency's Rural Electrification statute, broadband borrowers are required to "agree to complete build-out of the broadband service described in the loan application by not later than 3 years after the initial date on which proceeds from the loan . . . *are made available.* *See* 7 U.S.C. § 950bb(d)(1)(A)(iii)*(emphasis added*). This requirement was clearly explained in the regulation that implemented this statute. *See 7CFR Part 1738.212.*

Finding 3: RUS Followed Recovery Act's Language, But Rural America Could Receive Additional Benefit From an Increased Focus of Funds on Rural Residents Lacking Access to Broadband

Recommendation 5
To the extent allowed by authorizing legislation, for future broadband programs implement controls to ensure broadband funds are used effectively to provide broadband to rural residents who lack such access.

Agency Response
As RUS has stated to Congress and OIG, despite RUS' best efforts to direct funds only to rural areas without broadband access, the business case for sustainable projects in these

areas is hard to achieve, given low density, difficult to construct areas and the inability to attract investors to areas with low returns which is why many of these areas still do not have service. Despite 100% grant financing, many projects in these rural areas are not sustainable long term after the projects have been built, and will remain so, until some type of continuing financial support is addressed.

RUS will continue its practice of evaluating new authorizing legislation to ensure, that to the greatest extent possible, programs are established with a goal of providing broadband service to rural residents that lack such access.

Recommendation 6
Determine, for overlapping BIP projects, the number of households in the overlapping areas; consider the impact of those households on the financial feasibility of each of the overlapping BIP projects; and adjust the awards, as necessary, to carve out overlapping areas and better ensure the financial feasibility and sustainability of the BIP projects.

Agency Response
Of the 6 projects which the OIG found to overlap other projects, 3 of the projects had respectively 0, 0, and 2 households overlapping, out of 3,841 total households. The overlap in these projects is essentially non-existent. Of the three remaining projects cited by OIG, two had overlaps which were extremely *de minimis*: one project overlapped 367 households of a total 368,028 households with another project, or 0.09%; the other project overlapped 278 households of a total 21,033 households, or 1.32%. Only one project of the 6 had an overlap near the 10% cap, having 160 households of a total 1,660 households overlap with another project, or 9.64%. That project was determined to have no effect on the other BIP award. As such, the agency cannot agree that these awards, or the awards that overlapped with them, were a financial threat to the feasibility of any overlapping project that was funded. Moreover, the agency cannot take steps to carve out these areas due to its existing contractual obligations.

Recommendation 7
To the extent allowed by authorizing legislation, for future broadband programs ensure overlapping service areas are not funded under the same program.

Agency Response
As the issue of funding an overlap of service areas is really the same issue as future funding over existing areas of RUS-subsidized providers, please see the Agency's response to Recommendation 2.

Informational copies of this report have been distributed to:

Acting Administrator, Rural Utilities Service
Attn: Agency Liaison Officer

Government Accountability Office

Office of Management and Budget

Office of the Chief Financial Officer
Attn: Director, Planning and Accountability Division

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