

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

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Changes to the Board of Directors of the	)	CC Docket No. 97-21
National Exchange Carrier Association, Inc.	)	

**COMMENTS OF  
THE NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION**

The National Rural Electric Cooperative Association (NRECA) submits these comments in response to the Public Notice released by the Federal Communications Commission’s (Commission) Wireline Competition Bureau (WCB) and Office of the Managing Director (OMD) in the above-captioned proceeding.<sup>1</sup> The Public Notice seeks comment on potential reforms to the operations and management of the Universal Service Administrative Company (USAC), which administers the Commission’s Universal Service Fund (USF). As Commission staff considers ways to improve the efficiency of USF program beneficiary audits, NRECA urges the WCB and OMD to adopt a *de minimus* exception whereby eligible telecommunications carriers (ETCs) that receive \$50,000 or less in funds from a USF program in a 12-month period are exempt from random compliance audits for that program for the same 12-month period.

**I. BACKGROUND**

NRECA is the national service organization for nearly 900 not-for-profit rural electric cooperatives that provide electric power to 56% of the nation’s landmass, including

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<sup>1</sup> *Wireline Competition Bureau and Office of the Managing Director Seek Comment on Reforms of USAC Processes and Oversight*, Public Notice, DA 26-367, CC Docket Nos. 96-45, 97-21 (Apr. 15, 2026) (“Public Notice”).

approximately 42 million people in 48 states, or approximately 13 percent of U.S. electric customers. Rural electric cooperatives serve 88% of U.S. counties, including 92% of the 353 counties that experience persistent poverty. Rural electric cooperatives were formed to provide safe, reliable electric service to their member-owners at the lowest reasonable cost. All of NRECA's electric distribution cooperatives are small business entities as defined by the U.S. Small Business Administration. They are private, not-for-profit entities that are owned by the members to whom they deliver electricity, democratically governed, and operate according to the seven Cooperative Principles.<sup>2</sup>

In addition to providing safe, reliable electric service to their member-owners at the lowest reasonable cost, the nation's rural electric cooperatives are committed to promoting the deployment of advanced telecommunications capabilities in their communities. Today, more than 200 electric cooperatives are involved in broadband deployment efforts, bringing connectivity to areas that other service providers have deemed too costly to serve. Electric cooperatives are playing a crucial role in broadband infrastructure development to serve rural unserved and underserved locations themselves or through partnerships with affiliated or unaffiliated ISPs.

The Commission's Connect America Fund Phase II (CAF II) Auction (Auction 903) and Rural Digital Opportunity Fund (RDOF) Auction (Auction 904) were the catalysts for most electric cooperatives' start in the broadband business. 32 electric cooperatives won \$250 million in CAF II funds, and 185 electric cooperatives won \$1.5 billion in RDOF funds. These rural electric cooperatives made the commitment to serve their members and communities when few

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<sup>2</sup> The seven Cooperative Principles are: Voluntary and Open Membership, Democratic Member Control, Members' Economic Participation, Autonomy and Independence, Education, Training, and Information, Cooperation Among Cooperatives, and Concern for Community.

other Internet service providers would – and both the Commission and USAC have been invaluable partners in this endeavor. NRECA appreciates the opportunity to comment in this proceeding, and focuses its comments on a change the Commission could make to the USAC audit process that would lessen the regulatory burden on small rural electric cooperatives that participate in USF programs.

**II. USF RECIPIENTS THAT RECEIVE \$50,000 OR LESS IN FUNDS FROM A USF PROGRAM SHOULD BE EXEMPT FROM RANDOM COMPLIANCE AUDITS FOR THAT PROGRAM.**

WCB and OMD seek comment on “improving the efficiency of USAC’s role in...audits of USF program beneficiaries, and ways to ensure that the Commission is able to recover all improperly-disbursed funding subject to recovery.”<sup>3</sup> As an initial matter, NRECA shares the Commission’s goals of ensuring USF program integrity and combating waste, fraud, and abuse as it relates to Universal Service funds, and takes seriously USAC’s responsibility to efficiently and effectively manage USF programs.<sup>4</sup> NRECA recognizes the important role that compliance audits, as well as other investigations and similar reviews, play in ensuring USF’s efficient and effective management.

Recipients of USF funds are subject to both random and risk-based compliance audits.<sup>5</sup> However, NRECA believes that a change to the Commission’s rules could alleviate regulatory burdens and reduce personnel expenses and consultant fees that fall on small rural broadband providers due to random compliance audits. NRECA urges the Commission to adopt a *de minimus* exception to USAC audit requirements: USF recipients that receive \$50,000 or less in

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<sup>3</sup> Public Notice at p. 4.

<sup>4</sup> Public Notice at p. 2.

<sup>5</sup> Public Notice at p. 4; *see also e.g.*, 47 CFR § 54.320(a).

funds from a USF program in a 12-month period should be made exempt from random compliance audits for that program for the same 12-month period.

- a. ETCs receiving \$50,000 or less in funds from a USF program in a 12-month period are likely to spend more in audit response personnel expenses and consultant fees than they received in program funds.**

Some NRECA members have spent more responding to random audits than they received in program funding in the 12-month period for which they were audited. As an example, one NRECA member received approximately \$21,000 in Lifeline reimbursement during a 12-month period. The cooperative was selected to take part in a random audit that began in the fall of 2025 and is ongoing. Six cooperative staff members have taken part in meetings and/or communicated with the third-party audit staff: the Chief Financial Officer, the Vice President for Regulatory & Gas Operations, the Vice President for Marketing & Customer Solutions, a Billing Solutions Supervisor, a Staff Accountant, and a Fiber Solutions Specialist. In the first eight months of the audit period, there have been eight joint calls between cooperative staff and the audit team, dozens of emails sent, and numerous internal staff meetings.

Cooperative staff conservatively estimates that the Vice President for Regulatory & Gas Operations, the Vice President for Marketing & Customer Solutions, and the Fiber Solutions Specialist have each spent ten hours per month on audit-related activities (240 hours total). The cooperative estimates that the Staff Accountant has spent five hours per month (40 hours) and that the Chief Financial Officer and Billing Solutions Supervisor have each spent five hours total (ten hours). Using these conservative estimates and a similarly conservative rate of \$100 per hour, the cooperative estimates that it has spent at least \$29,000 to date on staff time to

respond to the audit – this figure is \$8,000 more than the cooperative received from the program and continues to grow as the audit is not yet complete.<sup>6</sup>

**b. A *de minimus* exemption for qualifying ETCs from only random audits would still allow USAC to investigate instances of possible waste, fraud, and abuse.**

NRECA appreciates and is supportive of the work that USAC employees and third-party auditors do every day. These comments are in no way a critique of their efforts to guard against USF waste, fraud, and abuse and to protect program integrity. Their work is necessary to ensure the fund's efficient and effective management. A *de minimus* exemption from random audits for qualifying ETCs that receive \$50,000 or less in funds from a USF program in a 12-month period would not prevent USAC from undertaking the vast majority of its recipient audits and may free up resources that could be directed toward additional risk-based compliance audits.

As proposed, the *de minimus* exemption would not benefit ETCs that receive more than \$50,000 from a USF program. It would instead limit relief to ETCs that receive a relatively small amount of program funds and serve a limited number of subscribers – the exact entities for which a random audit is most likely to impose a hardship due to limited staff resources. Further, the *de minimus* exemption would apply only to *random* audits, and not those initiated for cause. USAC and third-party auditors would still be able to engage in risk-based compliance audits to investigate possible financial irregularities. Finally, exempting qualifying ETCs only from random audits applicable to the qualifying program and not *all* USF programs in which the ETC participates would still allow USAC to engage in both random and risk-based compliance audits in the remaining programs. For example, if an ETC receives \$40,000 in Lifeline funds in a 12-

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<sup>6</sup> This figure also does not include any consultant or legal fees spent.

month period and \$150,000 in High-Cost funds – the ETC would be subject to only risk-based compliance audits for Lifeline and both random and risk-based compliance audits for High-Cost.

### III. CONCLUSION

America’s not-for-profit electric cooperatives are committed to keeping the lights on – and providing high-speed broadband service – at a cost local families and businesses can afford. Electric cooperatives operate without shareholders and are uniquely affected by regulatory mandates. Any increased costs for cooperatives must be passed along directly to their consumer-members at the end of the line. It is critical that regulations be cost effective.

As such, NRECA supports WCB and OMD’s efforts to improve the efficiency of USAC’s role in audits of USF program beneficiaries. For the reasons set forth above, NRECA urges the Commission to implement a *de minimus* exception whereby ETCs that receive \$50,000 or less in funds from a USF program in a 12-month period are exempt from random compliance audits for that program for the same 12-month period. We appreciate the opportunity to offer our proposal in this proceeding.

Respectfully submitted,

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