



September 29, 2016

MEMORANDUM FOR: Lawrence E. Strickling
Assistant Secretary for Communications and Information
National Telecommunications and Information Administration

A handwritten signature in black ink, appearing to read "Andrew Katsaros".

FROM: Andrew Katsaros
Assistant Inspector General for Audit Quality and Broadband

SUBJECT: *Review of the Sustainability of Broadband Technology Opportunities Program Comprehensive Community Infrastructure Awards*
Final Report No. OIG-16-047-1

OIG contracted with BCA Watson Rice LLP (BCA) to assist us in reporting on sustainability features of Comprehensive Community Infrastructure (Infrastructure) grants awarded through the American Recovery and Reinvestment Act of 2009 (the Recovery Act), Pub. L. 111-5, 123 Stat. 115, by the Broadband Technology Opportunities Program (BTOP). This report will be posted on OIG's website pursuant to section 8M of the Inspector General Act of 1978, as amended.

Objective

The objective of the review was to acquire an understanding of various indicators associated with the sustainability of BTOP Infrastructure grantees. The review consisted of a series of questions developed by OIG and responses obtained by BCA. The questions assessed the status of awards and BTOP Infrastructure grantee efforts to promote the sustainability of the funded projects after the grant program concluded (for further details, please see "Methodology"). This review was designed to compile information and report on the indicators of sustainability with respect to BTOP grantees. OIG developed a sample of 51 of 123 Infrastructure grantees; BCA conducted an onsite review at 49. Grantee responses to the questions are included in appendix A.

Background

The Recovery Act and BTOP. The Recovery Act provided approximately \$4.7 billion to establish BTOP at the National Telecommunications and Information Administration (NTIA). Under this competitive grant program, NTIA issued more than 230 awards totaling \$3.9 billion. In addition to Infrastructure grants, authorized for broadband infrastructure in unserved and underserved areas in the United States, grants were also awarded to enhance broadband capacity at public computer centers and promote sustainable broadband adoption projects. Grants were awarded in two rounds of funding, with \$3.5 billion going towards Infrastructure awards.

Sustainability. Although there is no express definition of “sustainable” in the two BTOP notices of funds availability (NOFAs), it was a critical selection criterion for NTIA in its awarding of BTOP grants in fiscal years 2009 and 2010. Both NOFAs stated that “[t]he program will support viable, sustainable and scalable projects.”¹

The NOFAs also stated that “projects funded by...BTOP grants are expected to convincingly demonstrate the ability to be sustained beyond the funding period...grant recipients for all grant programs are expected to present projects that will sustain long-term growth and viability.”² In assessing the original BTOP grant proposals, NTIA reviewers considered business plans, market projections, and other data.³

Results

The BCA results include the following representations made by the grantees in the review sample:

- Of the 51 sampled grantees, 48 operated broadband networks.
 - Of the sampled grantees, 49 represented that they were operating at the time of the review. The two non-operating grantees in the sample were not included in BCA’s review, but had reported to NTIA that they had completed the projects for which they had received funds.
 - The one reviewed grantee that was not operating a broadband network reported that it lacked the funds to complete the grant terms and conditions at the time of the review. However, it did have plans to complete the Infrastructure project. Subsequent to the completion of the work performed by BCA, NTIA reported to OIG that this grantee’s BTOP funded infrastructure was operational.⁴
- The grantees under review received awards ranging from \$500,000 to \$115 million.
- The largest group of grantees in the review (21) included the smallest grants (\$500,000–\$7 million); the smallest group (7) included the largest grants (\$63 million–115 million).
- The reviewed sample consisted of four types of BTOP grantees: for-profit organizations (21); state and local governments (15); nonprofits (11); and Indian tribes (2).
- About half of the grantees reported that their grants concluded within the grant term,⁵ with about two-thirds showing that NTIA had imposed a Performance Improvement Plan (PIP)⁶ or Corrective Action Plan (CAP)⁷ during the grant term.

¹ Broadband Technology Opportunities Program, Notice of Funds Availability, *Federal Register*, Vol. 74, No. 130, page 33107 (July 9, 2009); Vol. 75, No. 14, page 3794 (January 22, 2010).

² *Id.* at 74 Fed. Reg. 33113, 75 Fed. Reg. 3803.

³ *Id.* at 74 Fed. Reg. 33121, 75 Fed. Reg. 3807.

⁴ Neither OIG nor BCA directly confirmed this information related to the two non-operating grantees and the other reviewed grantee.

⁵ Grant terms were 3 years. Overall, NTIA approved extension requests for about 70 Infrastructure grants.

- Almost 90 percent of the reviewed grantees reported Community Anchor Institutions (CAIs) as customers or subscribers. The NOFAs specifically targeted CAIs, which include schools, libraries, medical facilities, public safety organizations, and community colleges.
- Three-quarters of the grantees reported that they had entered into interconnection agreements.⁸
- About a quarter received funding from philanthropic organizations.
- About one-third of grantees in the sample have obtained private investment.
- Slightly more than half of grantees in the sample obtained credit at market terms.
- About three quarters reported having a business plan showing sustainability of the BTOP funded project beyond the grant term.
- Nearly all (90 percent) grantees reported that they periodically assess sustainability.

All reviewed grantees reported being subject to a grant-related non-federal audit. Material weaknesses were identified in these audits at some point during the period under award for 7 grantees. The results of additional representations made by BTOP grantees under review are further identified in the tables in appendix A and summarized below.

BTOP Funding Round (see table 1). The majority of grant awards were announced in the second round. The 49 awards BCA reviewed included 13 first round awards and 36 second round awards.

Award by Dollar Size (see table 2). The BTOP awards varied significantly in size (between \$500,000 and \$115 million). Specifically, the reviewed sample included 7 awards between \$63 million and \$115 million; 9 awards between \$28 million and \$46 million; 12 awards between \$13 million and \$25 million; and 21 awards between \$500,000 and \$7 million.

Grantee Type (see table 3). For-profit entities represented the largest share of grantees. The reviewed sample included the following breakdown of grantee by type: 21 for-profit, 15 state/local government, 11 nonprofit, and 2 Indian tribes.

Operations and Infrastructure (see table 4): Nearly all broadband networks supported by the grants were represented to BCA to be operational. Of the 49 grantees that BCA reviewed, 48—or 98 percent—currently operate a network. For the single reviewed grantee whose project is not finalized, there were insufficient funds to complete the project. However, the grantee states that it plans to complete the project when it obtains additional funds.

⁶ A Performance Improvement Plan is a tool used to address and document recipient performance and administrative issues.

⁷ A Corrective Action Plan is a tool used to address and document significant non-compliance or chronic, unresolved performance issues.

⁸ An interconnection agreement pertains to the physical linking of a carrier's network with equipment or facilities not belonging to that network.

Organizational Background (see table 5): Forty-three of 49—or 88 percent—of the reviewed grantees—represented that they were in existence prior to obtaining BTOP funding. Eighteen—or 37 percent—were free of Performance Improvement or Corrective Action Plans during the grant term. Forty-five—or 92 percent—were free from grantee suspension during the award period. Twenty-six—or 53 percent—of the awards were concluded within 3 years. Thirty-six—or 73 percent—had the same Chief Financial Officer during the award period.

Revenue (see table 6): Forty-three of the 49—or 88 percent—represented that they were cash flow positive at the time of review. Also, with respect to subscribers for service, 14—or 29 percent—of grantees represented as having household subscribers, 35—or 71 percent—as having business subscribers, and 43—or 88 percent—as having Community Anchor Institution subscribers.

Thirty-seven of 49—or 76 percent of the reviewed grantees—represented as having entered into interconnection agreements and 23—or 47 percent—were negotiating new interconnection agreements at the time of the BCA review. Twenty-seven—or 55 percent—represented as having entered into peering or transit agreements,⁹ while 12—or 24 percent—were negotiating new peering or transit agreements. About half of the grantees, 21—or 43 percent—had entered into other types of operating partnerships. Nearly all, or 46—94 percent—represented that they could support additional customers.

Other Governmental Financial Assistance (see table 7): Half of the reviewed grantees reported that they had received additional local and state government resources. Four of 49—or 8 percent—represented that they received assistance in the form of non-BTOP grants from NTIA; 14—or 29 percent—received assistance from the U.S. Department of Agriculture (USDA); 6—or 12 percent—received assistance from the Department of Housing and Urban Development (HUD); and 20—or 41 percent—received assistance from other federal agencies. Slightly more than half, 25—or 51 percent—received financial assistance from state or local governments. Around a third of the grantees were currently seeking such assistance; 16 were currently seeking federal funds.

Other Nongovernmental Financial Assistance (see table 8): About a quarter of reviewed grantees (12 of 49) reported that they had either received or were seeking to obtain financial assistance from philanthropic organizations.

Private Investment (see table 9): Eighteen of 49—or 37 percent of reviewed grantees—reported that they had obtained private investment. Only 6—or 12 percent—represented that they were seeking private investment at the time of the review.

Credit (see table 10): A majority of reviewed grantees with debt represented that they could access credit at a market rate. Slightly over 60 percent, 31 of 49 grantees, reported that they had some debt while more than half, 29—or 59 percent—obtained credit at market

⁹ A peering or transit agreement is the connection of administratively separate Internet networks for the purpose of exchanging traffic between the users of each network.

terms. Two—or 4 percent, did not obtain credit at market terms while 8—or 16 percent—were seeking loans.

Business Planning (see table 11): A majority of reviewed grantees communicated that they had a roadmap to meet business goals. Specifically, with respect to representations made by the grantees, 44 of 49—or 90 percent—periodically assessed the sustainability of BTOP funded projects; 32—or 65 percent—had strategic plans. Twenty-eight—or 57 percent—update their strategic plan; 29—or 59 percent—had a market analysis; 37—or 76 percent—periodically analyzed market conditions.

Thirty of 49—or 61 percent—represented as having implemented a marketing plan with 38—or 78 percent—stating that they assessed customer feedback. Also, 32—or 65 percent—stated that they had implemented a sales plan and 40—or 82 percent—periodically updated their service offerings. In addition, 31 grantees—or 63 percent—represented that they had developed acquisition target dates for facility, equipment updates, or replacements. In addition, 35—or 71 percent of grantees—had a business plan showing sustainability beyond the grant term.

Internal Controls (see table 12): Forty-five of the 49 reviewed grantees—or 92 percent—represented that they have adequate separations of approval, custody, and recording functions. Forty-six—or 94 percent—had documented support for the existence of their customers, and 43—or 88 percent—stated that customers were paying. Twenty-nine—or 59 percent—had pro-forma financial statements showing the sustainability of the grant funded projects; 39—or 80 percent—had budgets with adequate detail. All 49 had been subject to an A-133 or program specific audit, 46—or 94 percent—had current audited financial statements and for 7—or 14 percent, auditors at one time had reported a material weakness.

Overall, BCA provided 2,940 responses to review questions on indicators of BTOP grantee sustainability. Across all of the grantees in the sample, and for each type of grantee, there was no correlation between grant size and results of the review.

Methodology

OIG developed an understanding of BTOP grantee sustainability by drawing on previous audits of BTOP and reviewing materials on sustainability NTIA distributed to BTOP grantees. The review consisted of a series of questions developed by OIG, responses obtained by BCA, which performed site visits to the grantees that were operational, and oversight of BCA work by the OIG. We performed our work at the Department of Commerce headquarters and at the offices of BCA Watson Rice LLP in Washington, DC.

We reviewed BCA's report and related documentation and made inquiries of its representatives. More specifically, we

- reviewed BCA's approach and planning of the review;
- evaluated the qualifications and independence of the reviewers;

- monitored the progress of the review at key points;
- coordinated periodic meetings with BCA concerning review progress; and
- reviewed contractor-prepared documents and reports.

We performed this review under the authorities of the Inspector General Act of 1978, as amended, 5 U.S.C. App.; Department Organization Order 10–13; Departmental Administrative Order 213–2; and in accordance with the Quality Standards for Inspection and Evaluation of the Council of the Inspectors General on Integrity and Efficiency (2012).

For the purpose of this review, we looked at a sample of 51 of 123 BTOP Infrastructure grants. We selected our sample on a systematic basis to review grantees from different geographic regions and of varying grant size. On site reviews of the sampled grantees took place between October 2015 and June 2016. OIG represented to grantees that results would not be identified by grantee.

BCA conducted this review in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. BCA is responsible for the results contained in its report on the BTOP grantees. We do not express an opinion on BCA's report nor on any conclusions expressed therein.

**Appendix A.
Independent Accountant's Report on Applying Agreed-upon
Procedures**

**BROADBAND TECHNOLOGY OPPORTUNITY PROGRAM
AGREED UPON PROCEDURES
JULY 15, 2016**





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Independent Accountant's Report on Applying Agreed-upon Procedures

Mr. Andrew Katsaros, Assistant Inspector General for Audit Quality and Broadband
Office of the Inspector General
U.S. Department of Commerce

We have performed the procedures detailed below, which were agreed to by the U.S. Department of Commerce (Commerce) Office of the Inspector General (OIG), solely to assist you in the reporting on the sustainability of grantees awarded funds by the Broadband Technology Opportunity Program (BTOP) of the National Telecommunications and Information Administration (NTIA).

The agreed upon procedures engagement consisted of obtaining answers from a sample of BTOP infrastructure grantees to a series of questions. The questions were designed to assist the Commerce OIG in its assessment of infrastructure grantee efforts to promote the sustainability of the funded projects after BTOP funding had ended. Grantee responses were supported by documentation. Our procedures included tabulating the results of all answers and providing summary tables of the answers to all questions for all grantees. The summary tables of the answers to the questions are provided in the pages that follow.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the Commerce OIG. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the sustainability of the BTOP grantees selected for review. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Commerce OIG and NTIA, and is not intended to be and should not be used by anyone other than these specified parties.

Washington, DC *BCA Watson Rice LLP*
July 15, 2016

Procedures Applied to Sample of Grantees¹

A. Characteristics of Grantees in the Reviewed Sample

Table 1: BTOP funding round

Funding Round	Number of Grantees	Percent
Round 1	13	27%
Round 2	36	73%
Total	49	100%

Table 2: Award, by dollar size

Grant Amount	Number of Grantees	Percent
\$63 - \$115 million	7	14%
\$28 - \$46 million	9	18%
\$13 - \$25 million	12	24%
\$500,000 - \$7 million	21	43%
Total	49	100%

Table 3: Grantee type

Status	Number of Grantees	Percent
Non-Profit	11	22%
For-Profit	21	43%
State/Local Government	15	31%
Indian Tribe	2	4%
Total	49	100%

¹ There were 51 BTOP grantees in the sample. Two of the grantees were non-operating at the time of this review, were not available to respond to the questionnaire and were therefore omitted from the report.

Table 4: Grantee responses - Current operations and infrastructure

Current Operations and Infrastructure	Yes	No	NA	Total	% Yes	% No	% NA	Total
a. Does the grantee currently operate a broadband network?	48	1	0	49	98%	2%	0%	100%
b. Is the Infrastructure complete?	48	1	0	49	98%	2%	0%	100%
c. If no: Does the grantee have plans to complete the infrastructure?	1	0	48	49	2%	0%	98%	100%
d. Does the grantee have sufficient financing or funds to complete the infrastructure?	0	1	48	49	0%	2%	98%	100%

B. Organizational Background

Table 5: Grantee responses - Organizational Background

Organizational Background	Yes	No	NA	Total	% Yes	% No	% NA	Total
a. Was the grantee in existence prior to obtaining BTOP funding?	43	6	0	49	88%	12%	0%	100%
b. Was the grantee free of Performance Improvement Plan (PIP) or Corrective Action Plan (CAP) during the grant term at all?	18	31	0	49	37%	63%	0%	100%
c. Was the grantee free of suspension during the grant term at all?	45	4	0	49	92%	8%	0%	100%
d. Did the grantee's grant conclude within 3 years?	26	23	0	49	53%	47%	0%	100%
e. Did the grantee have the same Chief Financial Officer throughout the grant term?	36	13	0	49	73%	27%	0%	100%

C. Revenue, Financial Assistance, Private Investment and Credit, Business Planning

Table 6: Grantee responses – Revenue

Revenue								
	Yes	No	NA	Total	% Yes	% No	% NA	Total
a. Is the grantee cash flow positive?	43	6	0	49	88%	12%	0%	100%
b. Does the grantee have household broadband customers or subscribers?	14	35	0	49	29%	71%	0%	100%
c. Does the grantee have business broadband customers or subscribers?	35	14	0	49	71%	29%	0%	100%
d. Does the grantee have Community Anchor Institution broadband customers or subscribers?	43	6	0	49	88%	12%	0%	100%
e. Has the grantee entered into interconnection agreements?	37	12	0	49	76%	24%	0%	100%
f. Is the grantee currently negotiating new interconnection agreements?	23	26	0	49	47%	53%	0%	100%
g. Has the grantee entered into peering or transit agreements?	27	22	0	49	55%	45%	0%	100%
h. Is the grantee currently negotiating new peering or transit agreements?	12	37	0	49	24%	76%	0%	100%
i. Has the grantee entered into other types of operating partnerships?	21	28	0	49	43%	57%	0%	100%
j. Can the grantee support additional customers?	46	3	0	49	94%	6%	0%	100%

Table 7: Grantee responses - Other governmental financial assistance

Other governmental financial assistance	Yes	No	NA	Total	%	%	%	Total
a. Does the grantee receive non-BTOP grants from NTIA?	4	45	0	49	8%	92%	0%	100%
b. Does the grantee receive financial assistance, including grants, loans, or loan guarantees, from the United States Department of Agriculture?	14	35	0	49	29%	71%	0%	100%
c. Does the grantee receive financial assistance, including grants, loans, or loan guarantees, from the Department of Housing and Urban Development?	6	43	0	49	12%	88%	0%	100%
d. Does the grantee receive financial assistance, including grants, loans, or loan guarantees, from other federal entities?	20	29	0	49	41%	59%	0%	100%
e. Does the grantee receive financial assistance, including grants, loans, or loan guarantees, from state or local governments?	25	24	0	49	51%	49%	0%	100%
f. Is the grantee currently seeking to obtain other federal governmental funds?	16	33	0	49	33%	67%	0%	100%
g. Is the grantee currently seeking to obtain state or local governmental funds?	18	31	0	49	37%	63%	0%	100%

Table 8: Grantee responses - Non-governmental financial assistance

Non-Governmental financial assistance	Yes	No	NA	Total	%	%	%	Total
a. Does the entity obtain funding from philanthropic organizations?	12	37	0	49	24%	76%	0%	100%
b. Is the grantee currently seeking to obtain funding from philanthropic organizations?	12	37	0	49	24%	76%	0%	100%

Table 9: Grantee responses - Private investment

Private investment	Yes	No	NA	Total	%	%	%	Total
a. Has the grantee obtained private investment?	18	31	0	49	37%	63%	0%	100%
b. Is the grantee currently seeking private investment?	6	43	0	49	12%	88%	0%	100%

Table 10: Grantee responses – Credit

Credit	Yes	No	NA	Total	% Yes	% No	% NA	Total
a. If the grantee has debt, does it obtain credit at market terms?	29	2	18	49	59%	4%	37%	100%
b. Is the grantee currently seeking to obtain loans?	8	41	0	49	16%	84%	0%	100%

Table 11: Grantee responses - Business Planning

Business planning	Yes	No	NA	Total	% Yes	% No	% NA	Total
a. Does the grantee periodically assess the sustainability of BTOP funded projects?	44	4	1	49	90%	8%	2%	100%
b. Does the grantee have a strategic plan?	32	17	0	49	65%	35%	0%	100%
c. Does the grantee periodically update a strategic plan?	28	21	0	49	57%	43%	0%	100%
d. Does the grantee possess a current market analysis?	29	20	0	49	59%	41%	0%	100%
e. Does the grantee periodically analyze current market conditions?	37	12	0	49	76%	24%	0%	100%
f. Has the grantee implemented a marketing plan?	30	19	0	49	61%	39%	0%	100%
g. Does the grantee periodically assess customer feedback?	38	11	0	49	78%	22%	0%	100%
h. Has the grantee implemented a sales plan?	32	17	0	49	65%	35%	0%	100%
i. Does the grantee periodically update its service offerings?	40	9	0	49	82%	18%	0%	100%
j. Has the grantee developed acquisition target dates for any needed facility, equipment, or service updates or replacements	31	18	0	49	63%	37%	0%	100%
k. Does the grantee have a business plan showing sustainability of the BTOP funded project beyond the grant term?	35	13	1	49	71%	27%	2%	100%

D. Internal Controls

Table 12: Grantee responses - Internal controls

Internal controls	Yes	No	NA	Total	%			Total
					Yes	No	NA	
a. Are adequate separations of approval, custody and recording functions maintained?	45	4	0	49	92%	8%	0%	100%
b. Is the existence of customers supported with documentation?	46	2	1	49	94%	4%	2%	100%
c. Can the grantee show that customers are paying?	43	4	2	49	88%	8%	4%	100%
d. Does the grantee have post-award pro-forma financial modeling showing the sustainability of the BTOP funded project?	29	20	0	49	59%	41%	0%	100%
e. Does the budget contain adequate detail?	39	10	0	49	80%	20%	0%	100%
f. Does the grantee have current audited financial statements?	46	3	0	49	94%	6%	0%	100%
g. Is the grantee free of material weaknesses?	42	7	0	49	86%	14%	0%	100%
h. If required, has the grantee been subject to an A-133 or program specific audit?	49	0	0	49	100%	0%	0%	100%