

**TESTIMONY OF FCC CHAIRMAN AJIT PAI  
BEFORE THE U.S. SENATE COMMITTEE ON  
HOMELAND SECURITY & GOVERNMENTAL AFFAIRS**

**“FCC’S LIFELINE PROGRAM:  
A CASE STUDY OF GOVERNMENT WASTE AND MISMANAGEMENT”**

**SEPTEMBER 14, 2017**

Chairman Johnson, Ranking Member McCaskill, and Members of the Committee, thank you for holding this important hearing and inviting me to testify today.

I have often said that my highest priority as Chairman is closing the digital divide—the gap between those who have access to next-generation technologies and those who don’t. The Lifeline program can play a role in our efforts to bring digital opportunity to all Americans. But unfortunately, it continues to be riddled by waste, fraud, and abuse. This is doubly destructive: every dollar wasted comes from the pockets of ratepayers and does nothing to help low-income families actually in need of communications services. The FCC owes it to everyone who contributes to or receives benefits from the Universal Service Fund to make sure the Lifeline program is efficient, effective, and free of waste, fraud, and abuse.

The Government Accountability Office (GAO) report we will discuss today represents a careful review of the program’s mismanagement in recent years. And it confirms for me the serious concerns I have had for some time about waste, fraud, and abuse in the Lifeline program.

Prior to becoming FCC Chairman, I conducted my own investigation of the Lifeline program as a Commissioner in 2016. It spanned several months, encompassed multiple letters to the Universal Service Administrative Company (USAC) requesting detailed information about USAC’s oversight of the Lifeline program, and revealed significant abuses of the program by Lifeline providers. I have attached that correspondence for the Committee’s review. And GAO’s May 2017 report confirmed some of the same issues I identified in my investigation.

First, because the Lifeline program lacks adequate safeguards, it has paid for subscribers who are not eligible to participate, potentially to the tune of hundreds of millions of dollars a year. In its investigation, GAO was unable to confirm whether more than 1.2 million individuals, or 36% of the sample reviewed, participated in the Lifeline-qualifying programs they or their provider claimed during the Lifeline enrollment process. That is, the subscriber was supposedly eligible for Lifeline because of his or her participation in a program like Medicaid, Supplemental Nutrition Assistance Program (SNAP), or Supplemental Security Income (SSI). But when GAO went to confirm this alleged participation in those other programs, it could not. Even worse, GAO noted that this “likely understates” the magnitude of ineligible subscribers receiving benefits.

Second, Lifeline rules only allow one subsidy per household. But loopholes in enforcing the program’s one-per-household rule have allowed providers to enroll hundreds of subscribers at a single address, including one address that was associated with 10,000 separate subscribers. Think about that. One address, getting over \$90,000 per month, and every dime of it paid for by the American people.

Third, for years, a lack of robust verification procedures has allowed providers to claim support for “phantom” and deceased subscribers, as well as to unlawfully claim multiple benefits for yet other subscribers. Phantom subscribers—that is, subscribers who don’t actually exist in real life but still collect a Lifeline benefit—have numbered in the thousands for multiple providers. The FCC’s Office of Inspector General has identified this area as a significant and ongoing source of waste, fraud and abuse. GAO also has identified over 6,000 individuals who were deceased at least one year before their

enrollment or most recent recertification in the program. Similarly, GAO uncovered approximately 5,500 potential cases involving subscribers receiving duplicative benefits from the same provider.

Finally, some Lifeline providers' sales agents' practices continue to be a key driver of inappropriate enrollments in the program. The FCC's Inspector General has determined that the payment structure many Lifeline resellers use to compensate sales agents can incentivize those agents to commit fraud. This is because agents are often paid based on the number of new subscribers they sign up. Not surprisingly, a number of agents are less than scrupulous about who they enroll.

In light of these serious problems, I have directed USAC to implement aggressive administrative changes to correct the problems that GAO, my office, and the FCC's Inspector General have identified.

Specifically, as set forth in a July 11<sup>th</sup> letter that I sent to USAC's Acting CEO, Vickie Robinson, I have asked USAC to take immediate action to strengthen its administrative processes and the National Lifeline Accountability Database (NLAD). Among other measures, I have asked USAC to review addresses associated with large numbers of subscribers. It should also prevent providers from claiming subsidies for more than their total number of enrolled subscribers. It should block benefits for deceased subscribers and actively detect and remove duplicative benefits found for the same household. To hold sales agents accountable, USAC should require them to register with USAC before using the Lifeline enrollment systems. In addition to these immediate efforts, in early 2018 the program will only make a payment for a subscriber if USAC's systems show the subscriber has passed all checks in the NLAD. This will help prevent providers from claiming support for phantom subscribers.

Any improper payments that USAC identifies in these processes will be reported to the FCC's Enforcement Bureau and Office of the Inspector General for administrative, civil, or criminal action, as appropriate. Moreover, once GAO gives us the subscriber data underlying its report of ineligible, duplicative, and deceased subscribers, we will act quickly to ensure that those subscribers are no longer enrolled in the program, attempt to reclaim any improper payments, and review enrollments by eligible telecommunications carriers (ETCs) associated with those fraudulent claims.

To combat eligibility-related waste, fraud and abuse, the FCC will launch the Lifeline National Eligibility Verifier in at least six states this year—exceeding the benchmark set last year. The National Verifier will take on the responsibility of determining subscriber eligibility, making it more difficult for those who would defraud the program from abusing the eligibility process to claim ineligible or duplicate subscribers. The National Verifier will also use federal and state data sources to automate eligibility checks, which both improves accuracy and minimizes administrative expenses.

And as I have said before, the FCC also must support state commissions' roles in policing against fraud and abuse committed by providers. When so much work remains to be done, we cannot afford to stand in the way of our state partners that are on the ground and ready to fight program abuse. (It bears mentioning, too, that Congress explicitly gave the states this function in the Communications Act.)

Finally, to fulfill its obligation to be a responsible steward of the Universal Service Fund, the FCC must evaluate the efficacy of the aforementioned efforts and consider whether further programmatic changes are necessary to ensure that Lifeline funds are efficiently and properly directed to those families who need it most. The challenges that lay ahead of the Commission are significant. But it is imperative that we learn from past mistakes and set the Lifeline program on the proper course.

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One last note. The GAO report also raised concerns regarding universal service funds being held in a private bank outside of the United States Treasury. The FCC is actively working with the Treasury Department and USAC to implement a project plan to move USF funds to the Treasury as soon as possible in recognition of the fact that these are federal funds. This move will enhance controls over USF operations by bringing the USF in line with standard Federal payment and collection processes.

Thank you once again for holding this hearing and allowing me to testify this morning. I look forward to answering your questions, listening to your views, and continuing to work with you and your staff to improve the Lifeline program.