



May 2017

# TELECOMMUNICATIONS

## Additional Action Needed to Address Significant Risks in FCC's Lifeline Program

# GAO Highlights

Highlights of [GAO-17-538](#), a report to congressional requesters

## Why GAO Did This Study

Created in the mid-1980s, FCC's Lifeline provides discounts to eligible low-income households for home or wireless telephone and, as of December 2016, broadband service. Lifeline reimburses telephone companies that offer discounts through the USF, which in turn is generally supported by consumers by means of a fee charged on their telephone bills. In 2016, Lifeline disbursed about \$1.5 billion in subsidies to 12.3 million households.

In 2010, GAO found Lifeline had limited abilities to detect and prevent ineligible subscribers from enrolling. FCC adopted a reform order in 2012 to enhance Lifeline's internal controls. GAO was asked to examine FCC's reforms. This report discusses, among other objectives, (1) the extent to which Lifeline demonstrates effective performance towards program goals, and (2) steps FCC and USAC have taken to enhance controls over finances, subscribers, and providers, and any weaknesses that might remain.

GAO analyzed documents and interviewed officials from FCC and USAC. GAO analyzed subscriber data from 2014 and performed undercover tests to identify potential improper payment vulnerabilities. The results of GAO's analysis and testing are illustrative, not generalizable.

## What GAO Recommends

GAO makes seven recommendations, which FCC generally agreed with, including that FCC take action to ensure the preliminary plans to transfer the USF from a private bank to the U.S. Treasury are finalized and implemented expeditiously.

View [GAO-17-538](#). For more information, contact Seto Bagdoyan at (202) 512-6722 or [bagdoyans@gao.gov](mailto:bagdoyans@gao.gov).

May 2017

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### Additional Action Needed to Address Significant Risks in FCC's Lifeline Program

## What GAO Found

The Federal Communications Commission (FCC) has not evaluated the Lifeline program's (Lifeline) performance in meeting its goals of increasing telephone and broadband subscribership among low-income households, but has recently taken steps to do so. Lifeline participation rates are low compared to the percentage of low-income households that pay for telephone service, and broadband adoption rates have increased for the low-income population even without a Lifeline subsidy. Without an evaluation, which GAO recommended in March 2015, FCC is limited in its ability to demonstrate whether Lifeline is efficiently and effectively meeting its program goals. In a July 2016 Order, FCC announced plans for an independent third party to evaluate Lifeline design, function, and administration by December 2020.

FCC and the Universal Service Administrative Company (USAC)—the not-for-profit organization that administers Lifeline—have taken some steps to enhance controls over finances and subscriber enrollment. For example, FCC and USAC established some financial and management controls regarding billing, collection, and disbursement of funds for Lifeline and related programs. To enhance the program's ability to detect and prevent ineligible subscribers from enrolling, FCC oversaw completion in 2014 of a database with a real-time list of subscribers to assist carriers in identifying and preventing duplicate subscribers. Additionally, in June 2015, FCC adopted a rule requiring Lifeline providers to retain eligibility documentation used to qualify consumers for Lifeline support to improve the auditability and enforcement of FCC rules.

Nevertheless, GAO found weaknesses in several areas. For example, Lifeline's structure relies on over 2,000 Eligible Telecommunication Carriers that are Lifeline providers to implement key program functions, such as verifying subscriber eligibility. This complex internal control environment is susceptible to risk of fraud, waste, and abuse as companies may have financial incentives to enroll as many customers as possible. Based on its matching of subscriber to benefit data, GAO was unable to confirm whether about 1.2 million individuals of the 3.5 million it reviewed, or 36 percent, participated in a qualifying benefit program, such as Medicaid, as stated on their Lifeline enrollment application. FCC's 2016 Order calls for the creation of a third-party national eligibility verifier by 2019 to determine subscriber eligibility. Further, FCC maintains the Universal Service Fund (USF)—with net assets exceeding \$9 billion, as of September 2016—outside the Department of the Treasury in a private bank account. In 2005, GAO reported that FCC should reconsider this arrangement given the USF consists of federal funds. In addition to addressing any risks associated with having the funds outside the Treasury, where they do not enjoy the same rigorous management practices and regulatory safeguards as other federal programs, FCC identified potential benefits of moving the funds. For example, by having the funds in the Treasury, USF payments could be used to offset other federal debts, and would provide USAC with better tools for fiscal management of the funds. In March 2017, FCC developed a preliminary plan to move the USF to the Treasury. Until FCC finalizes and implements its plan and actually moves the USF funds, the risks that FCC identified will persist and the benefits of having the funds in the Treasury will not be realized.

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## Abbreviations

1996 Act	Telecommunications Act of 1996
2012 Reform Order	Lifeline Reform Order of January 2012
BCAP	Beneficiary and Contributor Audit Program
DMF	Death Master File
ETC	Eligible Telecommunications Carrier
FCC	Federal Communications Commission
IDV	in-depth validations
IPERA	Improper Payments Elimination and Recovery Act
Lifeline	Lifeline program
LIHEAP	Low Income Home Energy Assistance Program
NARUC	National Association of Regulatory Utility Commissioners
National Verifier	national eligibility verifier
NLAD	National Lifeline Accountability Database
OIG	Office of Inspector General
OMB	Office of Management and Budget
PQA	Payment Quality Assurance Program
SAC	study area code
Section 8	Federal Public Housing Assistance
SNAP	Supplemental Nutrition Assistance Program
SPIN	Service Provider Identification Number
SSI	Supplemental Security Income
SSN	Social Security Number
TANF	Temporary Assistance for Needy Families
TPIV	Third Party Identity Verification
TRS	Telecommunications Relay Service
USAC	Universal Service Administrative Company
USF	Universal Service Fund
VPN	Virtual Private Network

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May 30, 2017

The Honorable Claire McCaskill  
Ranking Member  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The Honorable Rob Portman  
Chairman  
The Honorable Thomas Carper  
Ranking Member  
Permanent Subcommittee on Investigations  
Committee on Homeland Security and Governmental Affairs  
United States Senate

Over the past two decades, telecommunications carriers and their customers have paid over \$100 billion to support the federal policy of “universal service.” Universal service is the principle that all Americans should have access to communications services. The Federal Communications Commission (FCC) carries out this policy through four programs, including the Lifeline program (Lifeline).<sup>1</sup> Lifeline was created in the mid-1980s to promote telephone subscribership among low-income households. In the mid-2000s, such service came to include wireless communications, and, in December 2016, FCC also began including broadband service. Average Lifeline enrollment as of the 4th quarter of calendar year 2016 was approximately 12.3 million subscribers.

To participate in Lifeline, households must either have an income that is at or below 135 percent of the Federal Poverty Guidelines or participate in one of several qualifying assistance programs, such as Medicaid and the Supplemental Nutrition Assistance Program (SNAP).<sup>2</sup> After subscribers

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<sup>1</sup>The other three programs are (1) the High-Cost Program, which assists telecommunications carriers serving high-cost, rural, or insular areas; (2) the Schools and Libraries Program, which assists eligible schools and libraries in procuring telecommunications services, Internet access services, internal connections, and basic maintenance of internal connections; and (3) the Rural Health Care Program, which provides support to eligible health-care providers through discounts for broadband and telecommunications services.

<sup>2</sup>Medicaid is a joint federal-state health-coverage program for certain low-income individuals. SNAP, previously known as the Food Stamp Program, offers nutrition assistance to eligible, low-income individuals and families.

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are enrolled in the Lifeline program, they receive a monthly benefit on home or wireless phone and broadband service. The Lifeline benefit can lower or eliminate the cost of a subscriber's monthly phone or Internet bill.

By statute, every telecommunications carrier providing interstate telecommunications services—including Lifeline providers—must contribute to federal universal service unless exempted by FCC.<sup>3</sup> Contributions are deposited into the Universal Service Fund (USF). Although not required to do so, carriers typically pass on the cost of USF fees as a separate line item to their customers' phone bills. A not-for-profit, private corporation designated by FCC as the administrator of universal service programs, the Universal Service Administrative Company (USAC),<sup>4</sup> pays Lifeline providers a subsidy from the USF for each subscriber to offset forgone revenues. From calendar year 1998 through 2016, USAC had disbursed approximately \$20.2 billion to Lifeline providers.

Subsequent to our 2010 report,<sup>5</sup> which found that Lifeline had limited abilities to detect and prevent ineligible and duplicate subscribers from enrolling in the program, FCC adopted a Lifeline Reform Order in January 2012 (2012 Reform Order) to comprehensively reform, modernize, and improve Lifeline's internal controls.<sup>6</sup> Specifically, the National Lifeline Accountability Database (NLAD)<sup>7</sup> was established as Lifeline's first enrollment database. The database contains information provided by the

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<sup>3</sup>47 U.S.C. § 254(d).

<sup>4</sup>According to USAC documents, USAC is not a federal agency, a government corporation, a government controlled corporation or other establishment in the executive branch of the U.S. government. USAC is also not a contractor to the federal government, but is an independent, Delaware, not-for-profit, private corporation, subject to all applicable federal, state, and local taxes.

<sup>5</sup>GAO, *Telecommunications: Improved Management Can Enhance FCC Decision Making for the Universal Service Fund Low-Income Program*, [GAO-11-11](#) (Washington, D.C.: Oct. 28, 2010).

<sup>6</sup>See Federal Communications Commission, *Lifeline and Link Up Reform and Modernization, Report and Order and Further Notice of Proposed Rulemaking*, 27 FCC Rcd. 6656 (2012).

<sup>7</sup>NLAD is a Lifeline enrollment database designed to help carriers identify and resolve duplicate claims for Lifeline-supported service and prevent future duplicates. NLAD provides a means for carriers to check on a real-time and nationwide basis whether the consumer is already receiving a Lifeline-supported service. USAC began using NLAD in March 2014.

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subscriber during enrollment, including the subscriber's full name, residential address, date of birth, partial Social Security number (SSN); qualifying eligibility program, and name of the Lifeline provider offering service. In March 2015, we reported on the status of reform efforts and the extent to which FCC had evaluated Lifeline, among other things, and we recommended that FCC evaluate the program to determine the extent to which it is efficiently and effectively reaching its performance goals.<sup>8</sup> FCC agreed with the recommendation.

You asked us to examine FCC's reforms of Lifeline. This report discusses (1) the extent to which Lifeline demonstrates effective performance towards program goals; (2) steps FCC and USAC have taken to improve financial controls in place for Lifeline and USF, and any remaining weaknesses that might exist; (3) steps FCC and USAC have taken to improve subscriber eligibility verification, and any remaining weaknesses that might exist; and (4) steps FCC and USAC have taken to improve oversight of Lifeline providers, and any remaining weaknesses that might exist.

To determine the extent to which the Lifeline program demonstrates effective performance towards program goals, we reviewed documents and interviewed multiple stakeholders associated with Lifeline, including FCC, FCC's Office of Inspector General (OIG), and USAC, among others.

To determine the steps taken by FCC and USAC to improve financial controls in place for Lifeline and USF, and any remaining weaknesses that might exist, we examined USAC financial data, including USF bank account statements and payment data, and interviewed USF account managers at the bank that holds USF funding. We also reviewed internal financial controls established by FCC and USAC, among other things.

To evaluate the steps FCC and USAC have taken to improve subscriber eligibility verification, and any remaining weaknesses that might exist, we performed data matching and analysis to identify potential improper payments using Lifeline's (NLAD) and other beneficiary databases. The results of the data analysis are illustrative rather than generalizable. We began our data analysis in November 2014, and a snapshot of NLAD data from that same period was used as the primary database to match

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<sup>8</sup>GAO, *Telecommunications: FCC Should Evaluate the Efficiency and Effectiveness of the Lifeline Program*, [GAO-15-335](#) (Washington, D.C.: Mar. 24, 2015).



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against other qualifying programs' eligibility databases to confirm the subscriber was eligible for Lifeline at the time the subscriber was enrolled.<sup>9</sup> We also matched NLAD data against the Social Security Administration's Death Master File to identify beneficiaries registered as deceased who were potentially receiving Lifeline payments. In addition, we performed data tests to identify other potential improper payments, such as duplicate payments made to the same address. We conducted data-reliability assessments of each database by reviewing documentation and examining the data for anomalies, among other things, and found they were sufficiently reliable for our purposes. The results of our data matching apply only to the NLAD and specific state and federal program databases that we examined; they cannot be extrapolated to other states, programs, or periods.

To determine the steps FCC and USAC have taken to improve oversight of Lifeline providers, and any remaining weaknesses that exist, we analyzed FCC and USAC audits of Lifeline providers and resulting legal enforcement proceedings, and met with several stakeholders, including the FCC OIG and USAC's Internal Audit Division. We also analyzed USACs whistleblower and consumer complaint logs.

In assessing the steps taken to improve eligibility verification and provide oversight, we also performed undercover work to test the vulnerability for improper payments of funds disbursed to both subscribers and Lifeline providers. For example, we submitted 21 Lifeline applications using false information and fabricated supporting documents to determine whether we could obtain Lifeline benefits. These undercover tests were for illustrative purposes to highlight any potential internal control vulnerabilities and are not generalizable. See appendix I for more details on our scope and methodology.

We conducted this performance audit from June 2014 to May 2017 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

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<sup>9</sup>The NLAD data we reviewed are a snapshot of enrollment data as of November 2014, whereas the qualifying programs enrollment data we matched against include a range of time that varied slightly by state and program. We adapted the time frame of our matching to each database; see appendix I for more details.

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conclusions based on our audit objectives. We conducted our related investigative work in accordance with investigative standards prescribed by the Council of the Inspectors General on Integrity and Efficiency.

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## Background

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### History of the Lifeline Program

The idea that communication services should be available “so far as possible, to all the people of the United States” has been a goal of telecommunications regulation since Congress enacted the Communications Act of 1934.<sup>10</sup> In particular, although Lifeline was created in the mid-1980s to promote wireline telephone subscribership among low-income households, Congress codified the nation’s commitment to universal service and made significant changes to universal service policy through the Telecommunications Act of 1996 (1996 Act).<sup>11</sup> The 1996 Act provided explicit statutory support for federal universal service policy and directed FCC to establish a Federal-State Joint Board on Universal Service to make recommendations to FCC on implementing universal service provisions of the 1996 Act. The 1996 Act also described universal service as an evolving level of telecommunications services the FCC should periodically review, taking into account advances in telecommunications and information technologies and services.

To participate in Lifeline, households must either have an income that is at or below 135 percent of the Federal Poverty Guidelines or participate in one of several qualifying assistance programs. The qualifying programs include Medicaid; SNAP; Supplemental Security Income (SSI); Federal Public Housing Assistance (Section 8); Veterans Pension and Survivors Benefit; or tribal programs for those living on federally recognized tribal

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<sup>10</sup>47 U.S.C. § 151.

<sup>11</sup>Pub. L. No. 104-104, 110 Stat. 56 (1996).

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lands.<sup>12</sup> Residents of tribal lands may be eligible through additional tribal programs.<sup>13</sup>

Since the passage of the 1996 Act, FCC has taken actions aimed at increasing participation in Lifeline. For example, initially to be a Lifeline provider, a telecommunications carrier had to use its own facilities or a combination of its own facilities and resale of another carrier's service. However, in 2005, FCC granted one carrier forbearance from that requirement.<sup>14</sup> Then, in 2008, FCC approved that carrier, a non-facilities-based, wireless provider, for the limited purpose of providing Lifeline service, which paved the way for other non-facilities-based wireless carriers to offer wireless service. After this approval, participation in Lifeline began to increase significantly. From mid-2008 to mid-2012, Lifeline enrollment increased from 6.8 million households to 18.1 million households, a 166 percent increase. In addition, annual disbursements increased from \$820 million in 2008 to \$2.2 billion in 2012, a 167 percent increase.

In November 1998, FCC changed the universal service structure in response to legal concerns raised by GAO about FCC's authority to create two independent corporations and Congress's directive that a single entity administer universal service support.<sup>15</sup> FCC appointed an existing body, USAC, as the permanent administrator of the program and

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<sup>12</sup>As a result of FCC's 2016 Modernization Order, as of December 2016 the Low Income Home Energy Assistance Program (LIHEAP), Temporary Assistance for Needy Families (TANF), and the National School Lunch Program's free lunch benefit are no longer qualifying programs for Lifeline eligibility. Applicants still qualify for Lifeline benefits if they demonstrate their household income is at or below 135 percent of the Federal Poverty Guidelines.

<sup>13</sup>Low-income residents of tribal lands are eligible to receive a monthly discount of up to \$34.25 off of the cost of telephone and broadband service, and a onetime discount of up to \$100 on the initial installation or activation of a wireline or wireless telephone or broadband service for the primary residence.

<sup>14</sup>Forbearance is relief from applying to a telecommunications carrier any Communications Act provision or commission regulation if certain statutory criteria are met. 47 U.S.C. § 160(a). An Eligible Telecommunications Carrier (ETC)—which is a company eligible to receive Lifeline support—is required to offer service using its own facilities or a combination of its own facilities and resale of another carrier's service. 47 U.S.C. § 214(e). Many prepaid wireless carriers are non-facilities-based, meaning they do not own their own facilities.

<sup>15</sup>In 1998, GAO issued a legal opinion that the FCC did not have authority to create the Schools and Library Corporation and the Rural Health Care Corporation. B-278820, Feb. 10, 1998.

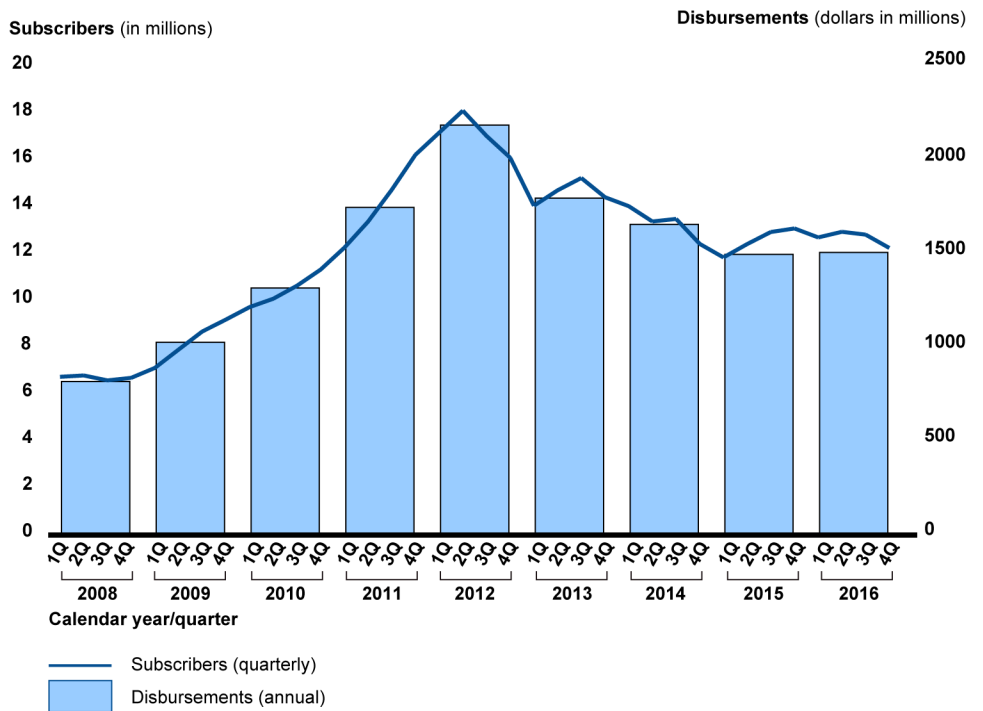
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directed the Schools and Library Corporation and the Rural Health Care Corporation to merge with USAC by January 1, 1999. Prior to appointing USAC as the administrator of all universal service programs, FCC prepared and submitted a report to Congress in response to congressional conference committee directions, proposing that USAC would serve in this capacity.

While Lifeline participation and disbursements increased rapidly from fiscal year 2008 through mid-2012, both disbursements and participation declined after FCC began implementing the 2012 Reform Order in mid-2012. As mentioned earlier, FCC adopted the 2012 Reform Order to strengthen internal controls, improve accountability, and explore the inclusion of broadband in the program through a pilot program. To reduce the number of ineligible subscribers in the program, the 2012 Reform Order adopted measures to check subscribers' initial and ongoing eligibility for Lifeline. The 2012 Reform Order required the creation of NLAD and required Lifeline providers to query this enrollment database to prevent duplicative enrollment.

From a 2012 peak of approximately 18.1 million Lifeline participants and \$2.2 billion in disbursements, FCC reported that disbursements fell by nearly \$40 million in 1 month after the eligibility verification requirements went into effect in June 2012. In the 4th quarter of calendar year 2016, Lifeline participation declined to approximately 12.3 million households, while disbursements declined to approximately \$1.5 billion for the year. Figure 1 below shows Lifeline disbursements and participation from 2008 to 2016.

**Figure 1: Disbursements and Participation in the Lifeline Program, 2008-2016**



Source: GAO analysis of Federal Communications Commission data. | GAO-17-538

## USF Contributions and Lifeline Disbursements

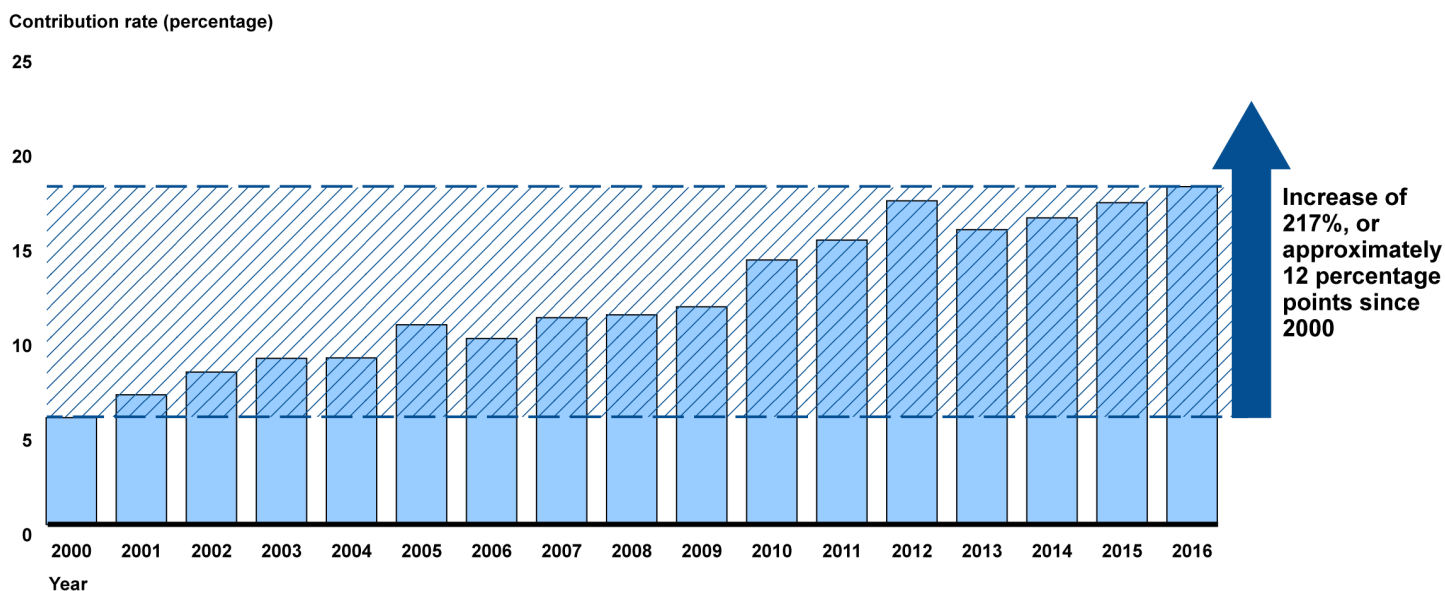
The 1996 Act requires every telecommunications carrier providing interstate and international telecommunications services to contribute to federal universal service, unless exempted by FCC.<sup>16</sup> According to the act, these contributions, or fees, are to be equitable and nondiscriminatory and are to be deposited into the USF. For calendar year 2014, approximately 3,100 of 6,820 telecommunications providers that filed their revenues paid USF fees.<sup>17</sup>

<sup>16</sup>FCC defines telecommunications carriers as any entity that provides telecommunications services except for aggregators of telecommunications services.

<sup>17</sup>Some carriers are exempt from paying USF contributions directly. For example, if reported revenues are such that the calculated annual contribution to the universal service fund is less than \$10,000, then the carrier is considered de minimis and exempt from paying USF contributions directly for a given calendar year.

The amount of contributions required from telecommunications carriers are determined each quarter, when FCC calculates the contribution factor based on the projected demands of the universal service programs and the projected contribution base. USAC then bills contributors based on this factor.<sup>18</sup> As shown in figure 2, the USF contribution factor has increased 217 percent (approximately 12 percentage points) since 2000. In the 1st quarter of calendar year 2016, the USF contribution factor was 18.2 percent, but as of the 4th quarter had dropped slightly to 17.4 percent.

**Figure 2: Universal Service Fund Contribution Factor, Calendar Years 2000–2016**



Source: GAO analysis of Federal Communications Commission data. | GAO-17-538

Note: Carriers must pay a percentage (the contribution factor) of their projected, collected, end-user interstate and international telecommunications revenues.

According to FCC’s 2012 Further Notice of Proposed Rulemaking<sup>19</sup> regarding the assessment and recovery of USF contributions, an impetus

<sup>18</sup>Carriers must pay a percentage (the contribution factor) of their projected, collected, end-user interstate and international telecommunications revenues.

<sup>19</sup>See Federal Communications Commission, *Universal Service Contribution Methodology*, WC Docket No. 06-122, GN Docket No. 09-51, Further Notice of Proposed Rulemaking, 27 FCC Rcd. 5357 (2012).

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for the increased USF contribution factor is the decrease in assessable revenues. For example, competition in the interstate long-distance market, growth of wireless service, and bundling of service packages has led to decreases in assessable revenues. As the pool of contributors and assessable revenues has declined over the years, the USF contribution requirements for those remaining contributors has increased to cover the costs of administering the universal service programs.

Carriers file projected revenue information on a quarterly basis, which is used to calculate the contribution factor for the forthcoming quarter, and carriers are then billed for contributions by USAC based on the quarterly contribution factor. Carriers generally pass their USF fee obligation on to their customers, typically in the form of a line item on their monthly telephone bill.<sup>20</sup> Carriers, thus are able to recover the cost of their contributions to USAC on a monthly or quarterly basis using the money collected from customers. USAC uses USF contributions to pay for the universal service programs, including Lifeline.

Lifeline providers currently receive a subsidy of \$9.25 for every nontribal Lifeline customer that the Lifeline provider claims is enrolled in Lifeline based on the monthly or quarterly forms they submit to USAC. While the federal nontribal Lifeline subsidy amount per beneficiary is consistent across all Lifeline providers, the services provided to the Lifeline subscriber may vary depending on the state where the beneficiary lives and service offerings of the Lifeline provider, as some states supplement the federal Lifeline subsidy with state funds. According to FCC officials, approximately 23 states currently offer additional funding for subscribers. For example, Lifeline providers in California receive \$13.75 per month in addition to the \$9.25 federal subsidy. As a result, some California Lifeline providers are able to provide subscribers with unlimited voice minutes and unlimited text messages, while subscribers receiving service from the same Lifeline provider in another state are eligible for up to 350 free minutes and unlimited text messages. In its 2016 Modernization Order, the commission addressed this variation to some extent by adopting minimum service standards for both voice and broadband services, to be

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<sup>20</sup>FCC regulations do not require carriers to pass through USF fees to customers, but it is permissible for carriers to do so with the exception of passing on USF charges to Lifeline subscribers for Lifeline-supported services, which is prohibited. There are no other customer exemptions regarding who can be assessed USF fees as a pass through charge. Businesses; local, state, and federal government agencies; 501(c)(3) tax-exempt nonprofit organizations, such as churches; and individuals, including those with low incomes, can all be charged USF fees by their phone carriers.

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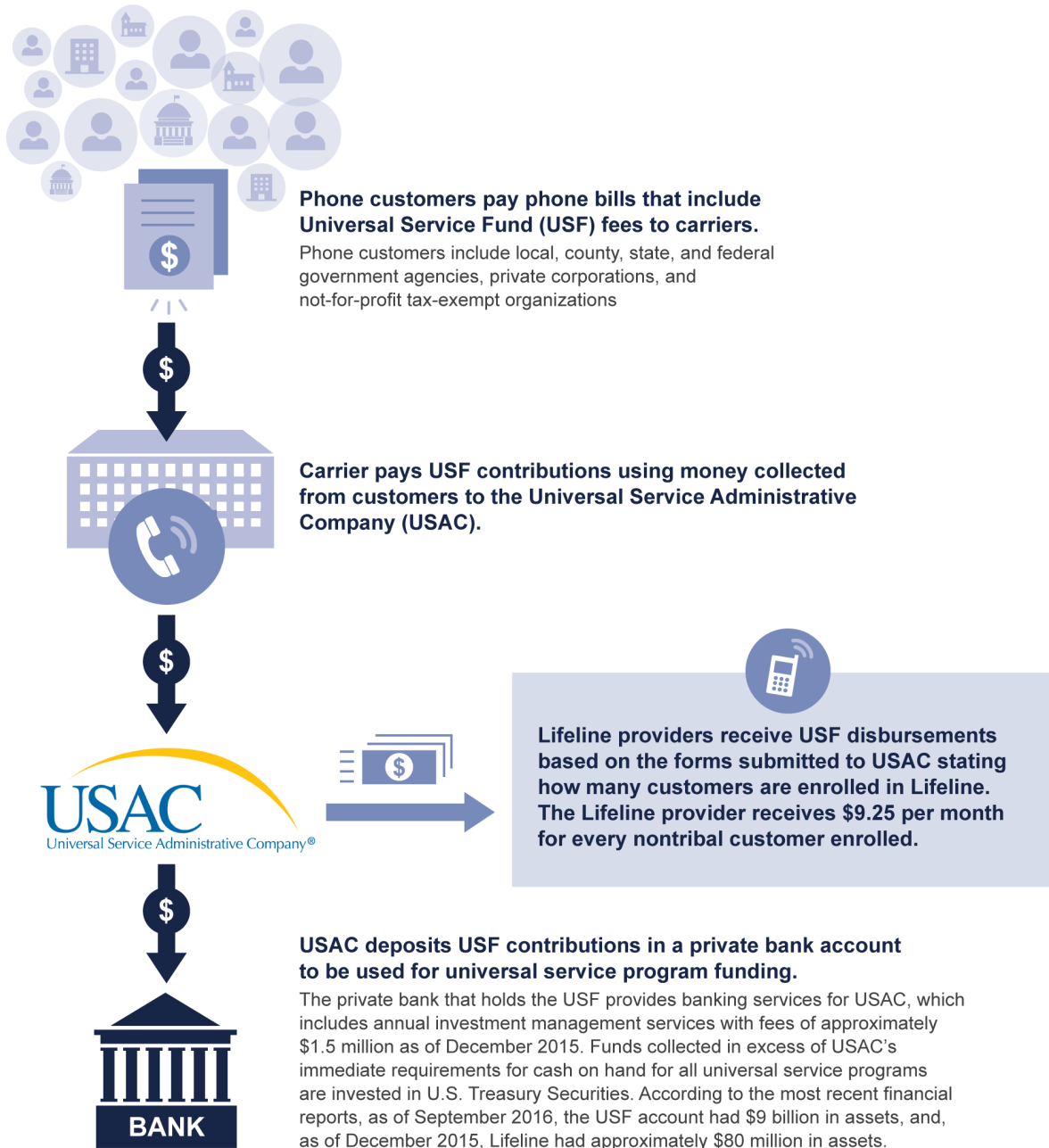
implemented in a phased-in approach, which became effective in December 2016.<sup>21</sup> See figure 3 for how USF money typically flows to support universal service programs, including Lifeline.

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<sup>21</sup>The 2016 Lifeline Modernization Order mandates that for mobile voice, Lifeline providers must offer plans with no less than 500 minutes per month with increasing usage limits in subsequent years. Similarly, the order stipulates that fixed broadband services for Lifeline have a minimum standard of 150 gigabytes per month for data limits at a speed of 10/1 megabits per second. Furthermore, the order puts in place a minimum standard for mobile broadband at 500 megabytes per month and increasing to 2 gigabytes per month by December 2018. As a starting point FCC also set the minimum service standard for mobile broadband speed at 3G. Prior to December 2019, voice and broadband bundles can still receive the full \$9.25 benefit even if only the voice service meets the minimum service standard. Support for voice-only Lifeline services will decline to \$7.25 per month beginning December 2019, and decline further to \$5.25 per month by December 2020, and voice-only service for Lifeline will be eliminated by December 2021. However, voice-only service will continue to be supported so long as it is offered with a broadband service meeting the minimum service standards, or if the subscribers' Lifeline service is only available from one Lifeline provider in a Census block.



**Figure 3: How Universal Service Fund Money Typically Flows to Support Universal Service Programs Including the Lifeline Program**



Source: GAO analysis of information provided by Federal Communications Commission (data); USAC (logo). | GAO-17-538

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Pursuant to advice provided by the Office of Management and Budget (OMB) in April 2000, FCC maintains USF funds outside of the U.S. Treasury.<sup>22</sup> The private bank that holds the USF provides banking services for USAC, which includes annual investment management services with fees of approximately \$1.5 million per year as of December 2015. Funds collected in excess of USAC's immediate requirements for cash on hand for all universal service programs are invested in U.S. Treasury securities. According to the most-recent financial reports, as of September 2016, the USF account had approximately \$9 billion in assets, and, as of December 2015, Lifeline had approximately \$80 million in assets. As we described in previous work, the USF is a permanent indefinite appropriation.<sup>23</sup> While the Antideficiency Act applies to appropriated funds, since 2004, Congress has exempted the USF from the Antideficiency Act.<sup>24</sup> The current exemption extends until December 31, 2017.<sup>25</sup>

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## Lifeline Program Operations

FCC, USAC, and states, as well as Lifeline providers and their agents, all have roles and responsibilities in Lifeline. At the federal level, FCC is responsible for setting policy, making and interpreting rules, providing oversight, and, in certain states, designating carriers as Eligible Telecommunications Carriers (ETC)—which are companies eligible to receive universal support funding, including Lifeline, and generally referred to in this report as Lifeline providers. USAC manages the daily operations of Lifeline, including collecting USF fees, disbursing payments, auditing USF recipients and contributors, and reporting to FCC. At the state level, public-utility commissions can increase the scope of Lifeline in their states by contributing additional financial support to Lifeline recipients. States can also play a role in Lifeline enrollment either by

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<sup>22</sup>Letter from Mr. Robert G. Damus, OMB General Counsel, to Mr. Christopher Wright, FCC General Counsel, dated April 28, 2000.

<sup>23</sup>GAO, *Telecommunications: Application of the Antideficiency Act and Other Fiscal Controls to FCC's E-Rate Program*, [GAO-05-546T](#) (Washington, D.C.: Apr. 11, 2005); *Telecommunications: Greater Involvement Needed by FCC in the Management and Oversight of the E-Rate Program*, [GAO-05-151](#) (Washington, D.C.: Feb. 9, 2005).

<sup>24</sup>The Antideficiency Act prohibits federal agencies from making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law.

<sup>25</sup>See Pub. L. No. 108-494, title III, § 302, 118 Stat. 3986, 3998 (Dec. 23, 2004), as amended by Pub. L. No. 114-113, div. E, title V, § 501, 129 Stat. 2242, 2449 (Dec. 18, 2015).

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accepting applicants directly or giving Lifeline providers access to information on enrollment in programs that households use to qualify for Lifeline for the purposes of verifying eligibility, since this information is generally housed at the state level.

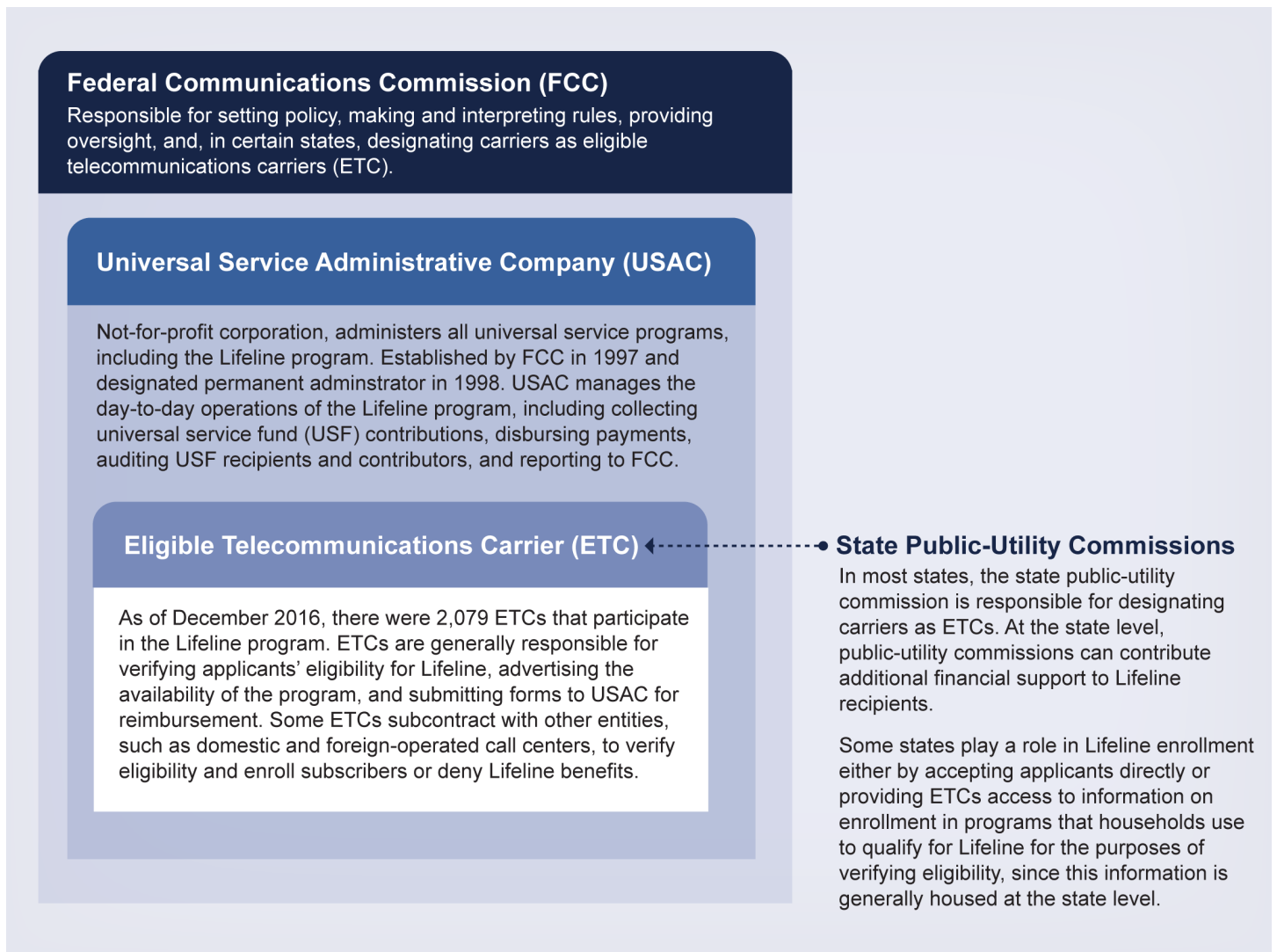
To receive Lifeline disbursements, carriers must be designated as ETCs by state public-utility commissions or FCC.<sup>26</sup> State public-utility commissions have the primary responsibility for designating carriers as ETCs; however, in a situation where the telecommunications carrier is not subject to jurisdiction of a state commission, FCC may designate the carrier as an ETC. ETCs participating as Lifeline providers are generally responsible for verifying applicants' eligibility for Lifeline, advertising the availability of the program, submitting forms for reimbursement, and making annual eligibility recertifications.<sup>27</sup> As of the fourth quarter of 2016, there were 2,079 ETCs. Figure 4 is a graphical representation of the organizational structure and corresponding responsibilities of the different parties involved in Lifeline program.

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<sup>26</sup>47 U.S.C. § 214(e)(2); 47 C.F.R. § 54.201(b).

<sup>27</sup>47 C.F.R. § 54.405. According to USAC documentation, Lifeline providers' process of verifying means to determine eligibility by querying a state or federal social services eligibility database if the Lifeline provider has access to such databases. If a state agency or administrator is responsible for determining Lifeline eligibility, Lifeline providers may rely on their eligibility determination. Lifeline providers can also review documentation to determine eligibility for new subscribers if the Lifeline provider does not have access to a state eligibility database, and the Lifeline provider, rather than a state agency or administrator, is responsible for establishing subscriber eligibility.

**Figure 4: Organizational Structure of the Lifeline Program**



Source: GAO analysis of information provided by FCC. | GAO-17-538

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## FCC Has Not Evaluated Lifeline's Performance in Meeting Program Goals but Has Taken Recent Steps toward Evaluation

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### FCC Has Not Evaluated Lifeline's Performance in Meeting Program Goals

FCC has called for program evaluations in the past to review the administration of universal service generally, including Lifeline, but has not completed such evaluations. For example, FCC specified that it would review USAC 1 year after USAC was appointed as the permanent administrator to determine whether the universal service programs were being administered effectively. This review was never done. In 2005, FCC awarded a contract to the National Academy of Public Administration to study the administration of the USF programs generally, examine the tradeoffs of continuing with the current structure, and identify ways to improve the oversight and operation of universal service programs. However, FCC officials told us that FCC subsequently terminated the contract and the study was not conducted.

In March 2015, we found that FCC had not evaluated Lifeline's effectiveness in achieving its performance goals of ensuring the availability of voice service for low-income Americans, while minimizing the burden on those who contribute to the USF. Specifically, we reported that, according to FCC officials, FCC had not evaluated the extent to which Lifeline has contributed to the narrowing of the gap in penetration rates (the percentage of households with telephone service) between low-income and non-low-income households, and at what cost. We, therefore, recommended, and FCC agreed, to conduct a program evaluation to determine the extent to which Lifeline is efficiently and effectively reaching its performance goals.<sup>28</sup>

Our 2015 report also described the results of two studies that FCC provided to us and that had evaluated the impact of Lifeline. These

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<sup>28</sup>[GAO-15-335](#).

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studies suggested the program may be an inefficient and costly mechanism to increase telephone subscribership.<sup>29</sup> The conclusions of both studies suggested that many low-income households would likely subscribe to telephone service in the absence of the Lifeline subsidy. As we reported in 2015, FCC officials stated that the structure of the program made it difficult for the commission to determine causal connections between the program and the number of individuals with telephone access. In particular, FCC officials noted that because Lifeline has existed since the 1980s, it is difficult to compare results from the program to results in the absence of the program. We also noted in our 2015 report that several factors may alter how many people sign up for Lifeline benefits. For example, changes to income levels and prices have increased the affordability of telephone service, and technological improvements, such as mobility of service, have increased the value of telephone service to households.

Our current work raises additional questions about Lifeline's effectiveness in meeting its program goals. Specifically:

- Lifeline participation rates are low compared to the percentage of low-income households that pay for phone service. According to FCC, the participation rate shows that millions of Lifeline-eligible households are obtaining voice service without Lifeline. FCC's most-recent monitoring report estimated that in 2015 approximately 96 percent of low-income households that would be eligible for Lifeline based on income had phone service. However, it appears that the majority of those low-income households are receiving phone service outside of Lifeline. Specifically, USAC reports that there were at least 38.9 million households in the states and District of Columbia that were eligible for Lifeline as of October 2015, and only 12.5 million, or 32 percent, were enrolled in the program.<sup>30</sup> Additionally, FCC does not

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<sup>29</sup>Olga Ukhaneva, "Universal Service in a Wireless World" (paper presented at the 42nd Research Conference on Communication, Information and Internet Policy, Washington, D.C., September 2014). Daniel A. Ackerberg et al., *Estimating the Impact of Low-Income Universal Service Programs*, CES-13-33 (Center for Economic Studies: 2013).

<sup>30</sup>In March 2015, we estimated a similar approximation of 40 million households as eligible for Lifeline in 2012. In that report, we estimated the number of households eligible for Lifeline by adding the number of unique households participating in federal qualifying programs or earning incomes at or below 135 percent of the Federal Poverty Guidelines according to Census data. The Census data approximate, but do not completely align with, Lifeline eligibility. For example, the Census data do not reflect state Lifeline eligibility that extends beyond the FCC minimum requirements or qualifying programs specific to tribal areas.

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know how many of the 12.3 million households receiving Lifeline as of December 2016 also have non-Lifeline phone service (for which they pay out of pocket) along with their Lifeline benefit. Without knowing whether participants are using Lifeline as a primary or secondary phone service, it is difficult for FCC to determine whether it is achieving the goal of increasing telephone subscribership among low-income consumers while minimizing the USF contribution burden.

- FCC revamped Lifeline in March 2016 to focus on broadband adoption and generally phase out phone service, in part because FCC recognized that most eligible consumers have phones without Lifeline and to also close the “digital divide” of broadband adoption between low-income households and the rest of the country. However, broadband adoption rates have steadily increased for the low-income population absent a Lifeline subsidy for broadband. The 2016 Modernization Order cites a June 2015 report from the Pew Research Center to show that there is a “digital divide” as low-income consumers adopt broadband at rates well below the rest of the country.<sup>31</sup> However, that report also notes that the class-related gaps have shrunk dramatically in 15 years, as the most pronounced growth has come among those in lower-income households and those with lower levels of educational attainment. More-recent analysis from the Pew Research Center shows that after accounting for mobile data services, the number of individuals without Internet service has dropped from an estimated 48 percent in 2000 to 13 percent as of May 2016. Telecommunications providers began to address the “digital divide” in some capacity prior to the 2016 Modernization Order’s effective date by offering their own low-cost Internet service to low-income households. We found that at least two companies operating in a total of at least 21 states have begun offering in-home non-Lifeline broadband wireline support for less than \$10 per month to individuals that participate in public-assistance programs, such as SNAP, TANF, or public housing.<sup>32</sup> The offered rate of these providers’ own low-income broadband service of \$10 per month, is less expensive than FCC’s broadband reasonable-comparability cost

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<sup>31</sup>Andrew Perrin and Maeve Duggan, *Americans’ Internet Access: 2000-2015* (Pew Research Center: 2015). For example, according to this report, adults living in households with an annual income of at least \$75,000 a year are the most likely to use the internet, with an estimated 97 percent of adults in this group currently reporting they are internet users. By comparison, those living in households with an annual income under \$30,000 a year are less likely to report internet usage, with an estimated 74 percent of adults doing so.

<sup>32</sup>These advertised prices do not include taxes.

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benchmark of approximately \$55 per month, which Lifeline subscribers would be paying for a similar level of service.

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## FCC Has Recently Taken Steps towards Evaluating Lifeline

FCC has recently taken some steps toward evaluating Lifeline. In June 2015, FCC solicited comments from the general public, citing our 2015 recommendation for a program evaluation. Specifically, FCC asked whether it should change or modify the program goals and whether it was necessary to perform a program evaluation, and, if so, how to best conduct such an evaluation for Lifeline. In the 2016 Lifeline Modernization Order, which, among other things, revamped Lifeline to include broadband service in addition to voice service, FCC revised program goals to explicitly include affordability for both services.<sup>33</sup> Also as part of the 2016 order, FCC instructed USAC to hire an outside, independent, third-party evaluator to complete a program evaluation of the Lifeline's design, function, and administration. The order stipulated the outside evaluator must complete the evaluation and USAC must submit the findings to FCC by December 2020.

According to GAO's Cost Estimating and Assessment Guide,<sup>34</sup> to use public funds effectively, the government must meet the demands of today's changing world by employing effective management practices and processes, including the measurement of government program performance. Similarly, according to OMB guidance, it is incumbent upon agencies to use resources on programs that have been rigorously evaluated and determined to be effective, and to fix or eliminate those programs that have not demonstrated results.<sup>35</sup> As FCC expects Lifeline enrollment to increase as the program is expanded to include broadband service, this expansion could carry with it increased risks for fraud, waste, and abuse. Although the potential for this risk is acknowledged by FCC in its discussion of a previous expansion of Lifeline, when FCC previously expanded Lifeline it did so without sufficiently adjusting program rules to

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<sup>33</sup>The 2016 Order explains that FCC will measure progress toward this goal by measuring the extent to which voice and broadband service expenditures exceed 2 percent of low-income consumers' disposable household income as compared to the next-highest income group, and directed FCC's Wireline Competition Bureau to implement the details of this measurement, examine the available data, and publish the results in the annual Universal Service Monitoring Report.

<sup>34</sup>GAO, *GAO Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs*, [GAO-09-3SP](#) (Washington, D.C.: March 2009).

<sup>35</sup>Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2015 Analytical Perspectives* (Washington, D.C.: 2014).



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keep pace with the new technologies, the financial incentives, or the subsequent growth in the program. Similarly, our 2015 report found that when FCC expanded Lifeline to include wireless service without quantifying or estimating the potential cost increases, it contributed to significant increases in disbursements from 2008 to 2012. Therefore, completing the program evaluation as planned, and as we recommended, would help FCC determine whether Lifeline is meeting its stated goals of increasing telephone and broadband subscribership among low-income consumers, while minimizing the burden on those who contribute to the USF.

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### Financial Controls Exist, with Others Planned, for the Lifeline Program, but Weaknesses Remain

FCC and USAC have established financial controls for Lifeline, including obtaining and reviewing information about billing, collecting, and disbursing funds. They have also developed plans to establish other controls, such as for moving USF funds currently held in a private bank account to the U.S. Treasury and establishing a national eligibility verifier (National Verifier) that Lifeline providers could use to determine the eligibility of applicants seeking Lifeline service. Weaknesses remain, however, including the lack of requirements to effectively control program expenditures, above approved levels, concerns about the transparency of fees on customers' telephone bills, and a lack of FCC guidance that could result in Lifeline and other providers paying inconsistent USF contributions.

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### FCC and USAC Have Established Financial Controls for Lifeline

USAC has established financial and management controls to obtain and review information to carry out its responsibilities with regard to billing, collection, and disbursement of funds for universal service programs, including Lifeline. To that end, FCC and USAC developed a Service Provider and Billed Identification Number and General Contact Information Form (FCC Form 498) to collect required information, such as service-provider name, study area code (SAC), tax identification number, and contact information from all ETCs, including Lifeline providers. This information serves as a key internal control for billing, collection, and disbursement operations. For example, all carriers participating in Lifeline are required to have a SAC, which is a unique company-specific six-digit number that identifies a carrier in a specific geographic area (e.g., state or

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territory), and to have a unique FCC Form 98 ID.<sup>36</sup> USAC takes steps to assign a SAC to ensure only valid Lifeline providers, new Lifeline providers, or existing Lifeline providers that are beginning operations in a new geographical area receive disbursements. According to USAC policy, before a SAC is issued, USAC officials review the ETC designation order and confirm with the state public service commission that the order is final and valid. USAC policy states this review is generally accomplished by locating the ETC designation order on the state public service commission websites, but USAC may also contact the public service commission directly with any questions about the order.

#### **GAO Testing**

As part of our undercover work, we tested this authorized payment internal control by submitting fictitious documentation to USAC posing as a Lifeline provider seeking a SAC designation to begin enrolling customers and collecting USF subsidies. The results of this test are illustrative rather than generalizable. USAC appropriately rejected our application and explained it was unable to confirm our ETC designation with the state we claimed to have approved us on our fabricated application. Moreover, USAC also noted that there was no record that FCC approved our fictitious company to provide Lifeline service.

Source: GAO. | GAO-17-536

Once the SAC and FCC Form 98 ID are established and validated by USAC, Lifeline providers can begin providing services to qualified subscribers and seek reimbursement from USAC. Typically, Lifeline providers file their claims to USAC on a monthly or quarterly basis, but have as long as 1 year from the respective filing period to file a revised claim. Currently, USAC calculates the amount owed to the Lifeline provider based on the providers' monthly or quarterly claims.

USAC enhanced some of its internal controls to help prevent improper or potentially fraudulent payments as a result of potential risks we identified during the course of our work. Specifically, on the basis of our observations of how USAC enters and approves a Lifeline service provider and processes payments, we identified internal control

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<sup>36</sup>The FCC Form 98 is a unique identifier for a company that USAC uses to process payments. According to USAC officials, there are a small number of companies that have more than one FCC Form 98 ID, usually as a result of mergers and acquisitions.

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weaknesses whereby a USAC employee could improperly use the system to create fraudulent payments. On the basis of our descriptions, USAC officials agreed that risks existed and indicated they would take steps to mitigate these risks, as described below.

- *Employee creates a fraudulent SAC and generates a disbursement:* A policy exists to separate the roles of data entry and review among USAC employees charged with administering Lifeline. However, during our review we found a lack of controls that would separate these two functions and provide oversight of data-entry actions. For example, an employee could create a new SAC and then enter contact information and banking information for the SAC. This action would not create an automatic notification to a reviewer or supervisor. As a result, a lone employee could create a SAC and request a disbursement for the SAC. To enhance controls, USAC officials said that, beginning in August 2015, reimbursement approvers began pulling an independent report from their system for the new SACs receiving disbursements for the first time and comparing it to the supporting ETC-designation documentation obtained from an individual who does not have access to enter new SACs into the system.
- *Employee uses an existing SAC that is not currently receiving disbursements to generate a disbursement:* During our review we found that a lone USAC employee could change the banking and contact information associated with a SAC and then act as a reviewer to approve the changes without a separate reviewer being automatically notified. The employee could then request a disbursement for the FCC Form 498 ID and have it deposited into a different bank account. To enhance controls, USAC officials said that, beginning in August 2015, the reimbursement approvers began generating an independent report from the system for SACs that are being paid with a prior FCC Form 497 entry of zero dollars, which occurs when a company has not filed for 6 months and confirms it has no subscribers, and reviewing the FCC Form 497 record to determine whether there was any suspicious activity requiring further validation.

In addition, USAC officials told us they would update the user workflows and permissions for employees as part of a development effort that includes revisions to ETC filing procedures. According to USAC officials, the updated workflow requires that new FCC Form 498 ID numbers generated internally will be reviewed and approved by a member of the Finance Management Team. According to USAC officials, these internal user workflow changes were implemented in May 2016.

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USAC's Banking Practices  
for USF Result in  
Oversight and  
Accountability Risks,  
Which FCC Has Plans to  
Mitigate

FCC maintains USF funds—whose current net assets exceed \$9 billion according to the most recent financial reports (as of September 2016)—outside of the U.S. Treasury pursuant to OMB advice provided in April 2000. OMB had concluded that the USF does not constitute public money subject to the Miscellaneous Receipts Statute, 31 U.S.C. § 3302, a statute that requires that money received for the use of the United States be deposited in the Treasury unless otherwise authorized by law. As such, USF balances are held in a private bank account. However, subsequent to this OMB advice, in February 2005 we reported that the FCC should reconsider this determination in light of the status of universal service monies as federal funds.<sup>37</sup>

According to an internal memo from FCC's Managing Director in December 2014, OMB presented the FCC with a Fiscal Year 2016 Budget Passback, a memo outlining various goals and objectives relating to USF reform, modernization, and oversight. The memo states that OMB observed that USF funds are federal resources and should enjoy the same rigorous management practices and regulatory safeguards as other federal programs. According to correspondence received from the FCC Chairman's Senior Legal Counsel, as of March 2017, FCC has decided to move the funds to the Treasury to address this situation. In addition to addressing any risks associated with having the funds outside the Treasury, FCC identified potential benefits of moving the funds. For example, FCC explained that having the funds in the Treasury could allow USF payments to be used to offset other federal debts, and would provide USAC with better tools for fiscal management of the funds, including access to real-time data and more accurate and transparent data.

To accomplish this move, the correspondence notes FCC has been coordinating with the Treasury and OMB to obtain a better understanding of obstacles involved with moving the money to the Treasury. FCC's Office of the Managing Director prepared a preliminary project plan for moving the USF to the Treasury with the goal of completing the transfer in approximately 1 year.<sup>38</sup> If the USF were held in the Treasury, the Secretary of the Treasury would have more cash on hand, which could

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<sup>37</sup>[GAO-05-151](#).

<sup>38</sup>FCC's Office of the Managing Director also noted it plans to develop a project plan to move the Telecommunications Relay Service (TRS) funds, which are also held in a private bank to the Treasury, after the completion of the USF project plan. According to FCC, the current annual outlays for the TRS fund are approximately \$1 billion.

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reduce the Treasury's need to borrow cash and its associated borrowing costs.

#### **USAC Banking Arrangements**

The Universal Service Administrative Company (USAC) contract with the bank that holds the Universal Service Fund (USF) includes terms for the compensation owed for services provided by the bank, bank-data retention requirements, and confidentiality agreements. For 2015, USAC paid the bank annual investment fees of approximately \$1.5 million.

A different bank provides banking services for USAC's administrative disbursements, such as payroll services, but there is no contractual arrangement between that bank and USAC. Federal Communications Commission (FCC) officials were unaware that USAC did not have a contract in place until we raised the matter with them in April 2015. Since 1999, this bank has managed USAC's administrative disbursements—totaling approximately \$141 million in 2015—for an annual cost of approximately \$22,000. According to FCC, fees paid to this bank are funded by credits from the USF, which are 0.2 percent of average collected balances, and there is not a minimum balance requirement, therefore, there are no separate annual fees paid to the bank. Regardless, there is no contract in place stipulating the service agreement, terms and conditions, or associated costs. FCC officials told us they were aware of the banking service, but that not having a contract in place was an oversight on the part of USAC and needs to be remedied. After we raised this issue, USAC solicited competitive proposals in October 2016 for these banking services and plans to put in place a contract to stipulate the agreement.

Source: GAO review of FCC, USAC, and banking information. | GAO-17-538

According to FCC, until the USF is moved into the Treasury, there are some oversight risks associated with holding the fund in a private account. Although USF funds are held by a bank in the name “Universal Service Administrative Company as Agent of the FCC for Administration of the FCC's Universal Service Fund,” the contract governing the account does not provide the FCC with authority to direct bank activities with respect to the funds in the event USAC ceases to be the administrator of the USF. FCC officials told us that although FCC is not party to the bank contract for USF, they reviewed the statement of work for the contract and were involved in USAC's procurement process. After we raised this matter with FCC officials, beginning in November 2016, FCC sought to amend the contract between USAC and the bank to enable the bank to act on FCC instructions independent of USAC in the event USAC ceases to be the administrator. However, as of May 2017, the amended contract has not been signed.

While there is a preliminary plan to move the USF funds to the Treasury, as well as plans to amend the existing contract with the bank as an interim measure, several years have passed since this issue was brought to FCC's attention without corrective actions being implemented and under FCC's preliminary plan it would not be until next year, at the earliest, that the funds would be moved to the Treasury. Further, in May 2017, while reviewing a draft of this report, a senior FCC official informed us that FCC experienced some challenges associated with moving the funds to the Treasury, such as coordinating across the various entities involved, which raised some questions as to when and perhaps whether the funds would be moved. Until FCC finalizes and implements its plan and actually moves the USF funds, the risks that FCC identified will persist and the benefits of having the funds in the Treasury will not be realized.

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## USAC Currently Uses a “Pay-and-Chase” Model of Oversight, but It Has Plans to Create a National Verifier to Determine Eligibility Prior to Enrollment

Currently, there are no uniform front-end eligibility checks available to USAC to ensure Lifeline providers have accurately tallied the number of subscribers for whom they seek reimbursement. As a result, USAC primarily relies on a “pay-and-chase” model of oversight. “Pay-and-chase” refers to making disbursements on the front end and relying on audits or reviews after the funds have been disbursed to check for any noncompliance or improper payments. According to USAC officials, claims submitted by Lifeline providers are reviewed to help ensure accuracy, and the risks of overpayments are minimized prior to disbursement. However, these reviews are fairly limited. For example, USAC officials told us they compare provider disbursements, perform a trend analysis of disbursement amounts to search for suspicious claims, and initiate additional reviews when a claim appears irregular or exceeds a set rate of increase determined by USAC officials as potentially risky. Additionally, USAC primarily relies on Payment Quality Assurance Program (PQA) and Beneficiary and Contributor Audit Program (BCAP) assessments—discussed later in this report—that occur after disbursements have been made to detect fraud. While USAC’s payment-review processes may help minimize improper payments to some extent, USAC does not confirm subscriber eligibility and therefore is limited in its ability to know up front whether the Lifeline providers’ forms submitted for payment are accurate and based on qualifying households receiving Lifeline service. GAO’s Framework for Managing Fraud Risks in Federal Programs states that, to the extent possible, agencies should conduct data matching to verify key information, including self-reported data and information necessary to determine eligibility, prior to enrollment to avoid the “pay-and-chase” approach to risk management, which is typically a less cost-effective use of resources.<sup>39</sup>

To help determine eligibility prior to enrollment, FCC has plans to create a third-party national eligibility verifier (National Verifier) to be launched nationwide by the end of 2019. The National Verifier is expected to interface with both state and federal eligibility databases to confirm eligibility. Currently, USAC and FCC are working to sign data-sharing agreements with state entities and federal agencies with relevant eligibility-data sources. If effectively implemented, the National Verifier—discussed in more detail later in this report—could help ensure eligibility verification and reduce the reliance on a pay-and-chase model of

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<sup>39</sup>GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 2015).

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oversight. However, on the basis of past experience, the feasibility of creating data-sharing agreements that would enable an automated means to confirm eligibility prior to disbursements is uncertain. Specifically, the 2012 Reform Order set a goal for developing an automated means for verifying Lifeline eligibility by the end of 2013, for, at a minimum, SNAP, Medicaid, and SSI because these are the three most common programs through which subscribers qualify for Lifeline. FCC has not yet been able to create such an automated means. According to FCC officials, there are challenges in creating a national eligibility database as some states have privacy laws that prohibit sharing eligibility data with the federal government. Moreover, data quality may vary from state to state, or may not be maintained by the state for each Lifeline qualifying program. Until progress is made with the National Verifier and data-sharing agreements are put in place with state eligibility databases, USAC will continue to primarily rely on a pay-and-chase approach to detect fraud.

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### USAC Performed a Limited Number of USF Contribution Audits of Telecommunications Providers, but Plans to Increase Audit Coverage in Future Years

USAC performs USF contribution audits of telecommunications providers as a financial management control. The number of audits issued from January 2010 through December 2015 was limited; however, USAC plans to increase its audit coverage in future years. USAC performs contribution audits to ensure that telecommunications providers pay USF fees as required to support the universal service programs. As previously discussed, all telecommunications providers, with limited exceptions, must pay a percentage of their interstate and international end-user telecommunications revenues to support the USF. Among other things, USAC contribution audits review documentation to verify that the revenue reported by the telecommunications providers match actual revenues. The contribution audits are also meant to confirm, among other things, that telecommunications providers that opt to pass the cost of USF fees to customers do not charge in excess of the relevant contribution factor times the assessable portion of that customer's bill.

From January 2010 through December 2015, USAC had issued contribution audits on 74 telecommunications providers, with audit periods from calendar year 2007 through 2013.<sup>40</sup> During this 6-year

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<sup>40</sup>According to USAC officials, most of the 74 telecommunications providers were randomly selected for these audits to ensure that those representing different levels of revenue (small, medium, large, very large) were reviewed. However, some audits were nonrandomly selected, such as those stemming from internal recommendations or whistleblower complaints.

period, the total number of telecommunications providers that filed revenues with USAC each year ranged from about 6,000 to almost 6,700.<sup>41</sup> (See table 1.)

**Table 1: Universal Service Administrative Company (USAC) Audit Coverage of Universal Service Fund Contributors for Audit Periods, Calendar Years 2007–2013**

	2007	2008	2009	2010	2011	2012	2013
Number of telecommunications providers audited	5	1	25	12	19	10	2
Number of telecommunications providers	6,071	6,188	6,176	6,320	6,425	6,479	6,678
Percentage of telecommunications providers audited (percent)	0.08	0.02	0.40	0.19	0.30	0.15	0.03
Audited contribution-based revenue reported (dollars in millions)	493.1	185.2	277.1	169.8	516.0	604.1	0.6
Total contribution-based revenue subject to contributions as reported (dollars in billions)	78.5	78.7	73.5	70.5	68.9	68.9	67.2
Percentage of total contribution-based revenue audited (percent)	0.63	0.24	0.38	0.24	0.75	0.88	0.00

Source: GAO calculations based on USAC data. | GAO-17-538

The limited audit coverage of the reported USF contribution-based revenue during this time frame is primarily the result of USAC not auditing the larger USF contributors. For example, during the period we reviewed, USAC audited 1 of the top 10 USF contributors and 2 of the top 30 USF contributors for calendar year 2014.<sup>42</sup> Of the 74 audits performed, 8 of them were performed on telecommunications providers that reported \$0

<sup>41</sup>According to USAC officials, the number of telecommunication providers is based on those that have filed with USAC and have a filing ID. There may be other carriers that exist and should be paying USF fees but have not filed with USAC.

<sup>42</sup>These percentages are based on the total unaudited cash received from contributors for calendar year 2014, as reported in the 2015 USAC Financial Report.



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in assessable revenues. According to USAC officials, the reason the very large companies are not routinely audited is due to the complexity of the audits and limited audit resources.

According to USAC's most recent 2016–2017 fiscal year audit plan, USF contributions audits beginning in March 2016 used a targeted risk-based approach, which includes the amount of assessable revenues and whether the carrier has ever been audited, as opposed to randomly selecting carriers, as had been done previously. Also, the officials said that the percentage of audit coverage is expected to increase with the current audit plan as external cosourced staff from external audit firms were retained in March 2016 to help perform audits of higher-risk and larger contributors. The current audit plan also estimates that approximately 9 percent of the reported gross revenues from telecommunications carriers will be covered in future audit years. If effectively implemented, these changes should result in a significant increase of risk-based audit coverage, and should help USAC better assess compliance with USF contribution requirements for universal service funding.

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### Most Audited Carriers Collected and Contributed Incorrect Amounts of USF Fees; FCC Has Initiated a Process for Following up on Overcharges

The findings for the 74 USF contributions audits we reviewed indicate that most carriers were not reporting their assessable telecommunications revenue appropriately. These audit findings raise questions not only about the USF fees collected, but also the rate that was set by USAC. Because the assessable telecommunications revenues reported by audited carriers have been incorrect, the audits raise the possibility that the USF rate-setting process was potentially based on inaccurate information. In other words, the accuracy of the USF contribution factor is limited as this calculation is partly based on reported telecommunications revenues, which the limited number of audits demonstrate may be reported incorrectly. Of the 74 contribution audits, USAC found that in 10 the carrier reported revenues correctly; in 48, USAC found the carrier underreported assessable telecommunications revenue; and in 16, USAC found that the carrier overreported assessable telecommunications revenues—and thus may have overcollected USF fees from customers.

As part of the contribution audit, USAC also reviews a small sample of customer phone bills to ensure that USF fees charged to customers are not in excess of the relevant contribution factor times the assessable

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portion of that customer's bill as required by regulation.<sup>43</sup> For 15 of the 16 USAC contribution audits that found the carrier overreported assessable telecommunications revenue to USAC, the audit noted the carrier was unable to be reimbursed because the 12-month time limit imposed by FCC rule to refile had expired. If the carrier passed through USF fees, as most do, it is likely that the customers were also not reimbursed. In some instances, when USAC audits find that the company overreports assessable revenue, but the limited sample testing of individual customer bills do not indicate an overcharge has occurred, the audits do not recommend or require that the company refund customers any USF fees that were overcollected as a result of the incorrect revenue assessment. The limited audit coverage combined with audit findings demonstrating some carriers have paid into the USF incorrectly may suggest that USF fees collected are not in the correct amount.

In our review of the 74 contribution audits, we also found that 60 of them included tests to determine whether the carrier was in compliance with the rules as they relate to USF recovery charges on end-user customer invoices.<sup>44</sup> We found that 27 of the 60 tests identified that the carrier overcollected USF fees from some customers and 1 other could not determine whether the carrier overcharged USF fees as the carrier did not maintain documentation. The total amount of overcollection among these audits was unknown because the findings were based on a small sample of invoices reviewed and not the total population of potentially overcharged customers.

According to USAC officials, typically when a telecommunications provider overcharges USF fees, it is not limited to a few customers but affects the entire customer base. For example, if a telecommunications provider charges all of its customers the incorrect USF quarterly-contribution factor, it would likely affect all customers. When USAC finds that USF fees were misapplied to a customer's phone bill during the contribution audit, USAC instructs the telecommunications provider to comprehensively review all their phone bills to identify the universe of improper USF fee charges and to reimburse those customers. However, USAC told us that it is not responsible for determining how those reimbursements should take place, as that is an FCC policy issue. As a

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<sup>43</sup>47 C.F.R. § 54.712(a).

<sup>44</sup>According to USAC officials, typically tests of customer invoices are done for every audit unless the telecommunications provider does not pass through USF fees to customers.

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result, USAC does not follow up with telecommunications providers to ensure they comprehensively review their phones bills or reimburse overcharged customers, but instead refers the audits that find USF overcharges to the FCC Enforcement Bureau.

Until recently, USAC and the FCC's Enforcement Bureau had differing views about what constituted a formal referral for enforcement action with respect to USF overcharges. According to USAC, since January 2013 it has submitted lists to FCC identifying telecommunications carriers with potential USF fee overcharges based on completed contribution audits, which included 16 identified carriers.<sup>45</sup> FCC's Enforcement Bureau officials told us that the lists alone were not considered by them as referrals or recommendations for enforcement action, but rather as general information that may support investigations. According to the Enforcement Bureau officials, the primary referral process used for USF enforcement actions is through letters submitted by USAC, which specifically identify matters to be considered for enforcement action. In contrast, USAC officials told us it was their understanding that the listings of contributor audits that found customers were overcharged USF fees would be considered referrals for follow-up and potential enforcement actions. According to the Enforcement Bureau, 1 of the 16 contributors that was listed is under investigation and 2 others were considered for enforcement action, but, on the basis of available enforcement resources, the age of the alleged overcharges, and the potential severity of the violations, the Enforcement Bureau determined no further action was warranted for these 2 cases.

In our review of the 74 contribution audits, we identified an additional 11 companies that overcharged USF fees to customers that were not included in the list of 16 audits that USAC provided to FCC's Enforcement Bureau, totaling 27 audits that found USF overcharges to customers. USAC officials told us 8 of the 11 instances of overcharging USF fees were not forwarded to FCC because they occurred prior to 2013, which is when FCC and USAC established a policy to forward such audit findings

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<sup>45</sup>According to USAC, until 2011, USAC would direct carriers to refund excess monies collected from customers. However, in April 2011, in response to the appeal of an audit, FCC held that to the extent a contributor cannot, or will not, reimburse its customers for the excessive amounts of contribution costs collected, USAC will refer the matter to the Enforcement Bureau for further investigation. After the issuance of that order, USAC and FCC discussed what constituted a refusal to refund customers and, starting in January 2013, began referring all contributor audits with overcharges to the Enforcement Bureau on a quarterly basis.

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to the FCC. Two of the audits were not on the list because they were approved by the USAC Board of Directors after our request for the list of audits that found USF overcharges. USAC officials confirmed those two audits were later provided to FCC. One audit was not provided, but USAC officials told us they will include that audit in their next report to FCC's Enforcement Bureau. Thus, there was no audit follow-up or enforcement actions taken for 24 of the 27 audits in which USAC found the carrier was overcharging USF fees to customers during the 2007–2013 audit period time frame, and it is not known whether the carrier comprehensively reviewed phone bills across its customer base to identify all overcharges, or whether overcharged customers were ever reimbursed and whether overcharges stopped.

The lack of agreement as to what constitutes a referral to follow up on USF overcharges created some risk that FCC's Enforcement Bureau would not take action to review and ensure customers are reimbursed and any overcharges stop. However, as a result of our inquiries regarding the status of these referrals, FCC officials told us they initiated a new referral process. According to FCC officials, since December 2015, all FCC referrals are routed to a central point of contact, as opposed to individuals, within FCC's Enforcement Bureau using a standardized e-mail address. According to FCC officials, this revised process will better ensure that all referrals are reviewed by a central point of contact and routed to the appropriate point of contact for follow-up if necessary.

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### FCC Adopted a Budget Mechanism for Lifeline, but Its Effectiveness in Controlling Expenditures Is Potentially Limited

With the March 2016 Modernization Order, FCC established a budget mechanism for Lifeline for the first time, setting the budget at \$2.25 billion.<sup>46</sup> According to FCC, it was mindful of concerns that establishing a budget on Lifeline could lead to eligible consumers being denied service. Yet, partly because it decided to expand Lifeline to include broadband, FCC stated that it had concluded that its budget mechanism would ensure the financial stability of the program and help guarantee access to all eligible consumers. It also stated that establishing the budget mechanism would balance the need to ensure that Lifeline continued to reduce the contribution burden on the nations' ratepayers and continue to

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<sup>46</sup>As mentioned previously, the 1996 Telecommunications Act requires every telecommunications carrier providing interstate telecommunications services to contribute to federal universal service, unless exempted by FCC. According to the act, these contributions, or fees, are to be equitable and nondiscriminatory and are to be deposited into the USF.

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support service to eligible consumers. According to the March 2016 order, FCC set the budget at \$2.25 billion by considering current participation rates, possible growth of the program as a result of the expansion to broadband, and the safeguards already in place to reduce waste, fraud, and abuse. According to GAO's Cost Estimating and Assessment Guide,<sup>47</sup> a reasonable and supportable budget is essential to a program's efficient and timely execution.

However, the 2016 Modernization Order does not require the FCC Commissioners to take any immediate action to control expenditures if the budget is exceeded. Instead, the order requires a bureau within FCC to issue a report to FCC Commissioners by July of the following year if total Lifeline disbursements exceeded 90 percent of the budget in the previous calendar year.<sup>48</sup> The order states that the Commissioners are expected to take action in response to the report within a 6-month time frame. No requirements are outlined stipulating that the budget must be reapproved by the Commissioners if additional funds are needed to meet program demands.

Thus, if costs were to overrun 90 percent of the budget, it could be a year or longer before the commission could take any actions according to the time frame outlined in the order, raising questions about the timing, efficacy, and ability of the budget to control expenditures. Without requiring the Commissioners to review and approve additional spending in a timely manner, substantial increases in demand like those that the program has experienced in the past could lead to expenditures beyond those that FCC budgeted. In such a case, the budget would have limited effect in controlling program costs.

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## USAC Audit Reviews of FCC Truth-in-Billing Rules Are Limited

When telecommunication carriers opt to bill customers with a USF line-item charge, a customer may not be able to identify what line item accounts for the USF charge. FCC's Truth-in-Billing rules apply when providers pass through USF line-item charges to customers. These rules are intended to improve consumers' understanding of their telephone bills and to help consumers detect and prevent unauthorized charges. While

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<sup>47</sup> [GAO-09-3SP](#).

<sup>48</sup> For example, if in calendar year 2017, when the budget is set at \$2.25 billion, the total disbursements exceeded \$2.025 billion, then by July 2018 the bureau would be required to issue a report.

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FCC has not adopted any particular language to specify how USF charges are to be labeled on a bill, the rules require that a telephone company's bill must provide a brief, clear, nonmisleading, plain-language description of the service or services rendered to accompany each charge, and contain full and nonmisleading descriptions of charges, among other things. According to USAC officials, a customer may not be able to identify what line items account for the USF charge. For example, several USAC officials we spoke with were unable to determine what line items accounted for USF pass-through charges when reviewing their own phone bills. Similarly, FCC's own phone bill did not clearly specify the line item reflecting the USF pass-through charge, but instead referred to "regulatory pass-through charges." FCC officials were not able to determine whether this line item represented USF charges during our meeting, but they told us they confirmed with their telecommunications provider after the meeting that this line item represented USF charges.

According to USAC officials, their contribution audits do not determine whether companies comply with the Truth-in-Billing rules with regard to the labeling of USF fees as this is considered outside the scope of their audits. Instead, according to USAC's review officials, audits of customers' bills as part of contribution audits are focused on ensuring carriers do not overcharge USF fees to customers beyond the assessable contribution rate, and this is made possible through detailed meetings with the telecommunications provider that take place during the audit. However, even though FCC has not adopted any particular language to specify how USF charges are to be labeled, USAC could assess whether there is a brief, clear, nonmisleading, plain-language description of the service or services rendered to accompany each charge. Without including in their audit reports instances where they cannot identify the USF charge—for those carriers that opt to pass through USF charges in a separate line item—carriers may lack the impetus to enhance the transparency of their bills, and their customers will remain unable to detect and prevent potentially unauthorized charges.

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### FCC Has Not Yet Provided USAC Guidance about USF Contribution Requirements, Which Can Result in Inconsistent USF Contributions

USAC has requested guidance from FCC pertaining to USF contribution requirements, but the guidance is still pending. Specifically, in August, 2009 USAC sought guidance on whether various revenues derived from new technologies require USF fees, including whether Virtual Private Network (VPN) and dedicated Internet Protocol revenue should be classified as a telecommunication service, and thus subject to USF fees. Similarly, in April 2011 USAC submitted a request to FCC for guidance to determine whether text messaging revenue is subject to USF fees. Both

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of these items remain pending. In April 2012, FCC adopted a Further Notice of Proposed Rulemaking regarding reform of the contributions system. The notice sought public comment on various measures to reform and modernize the USF contribution system, including who should contribute, how contributions should be assessed, improvements to the administration of the contributions system, and recovery of universal service contributions from consumers. This rulemaking remains pending. Additionally, in August 2014 FCC sought a recommendation from the Federal-State Joint Board on Universal Service<sup>49</sup> regarding modifications of the universal service contribution methodology and referred the rulemaking record from the April 2012 notice to the joint board for its consideration. The joint board's decision also remains pending, but per FCC officials, may address some of the issues on which USAC has requested guidance.

FCC is required to ensure that telecommunications carriers that provide interstate telecommunications services pay USF fees, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by FCC to preserve and advance universal service.<sup>50</sup> In addition, according to Standards for Internal Control in the Federal Government, management should internally communicate the necessary quality information to achieve the entity's objectives.<sup>51</sup> Per FCC regulations, its Wireline Competition Bureau is required to take action in response to requests for reviews of decisions of the USF Administrator within 90 days, with the option to extend the response time an additional 90 days, but there is no requirement regarding the timing of action on requests for guidance from the USF Administrator. FCC officials told us the reasons for the significant delays are varied. For example, FCC officials told us that some guidance requests such as these from USAC are very complicated and require the full commission's input, which can take a long time as the FCC has other competing priorities.

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<sup>49</sup>The Federal-State Joint Board on Universal Service was established in March 1996, to make recommendations to implement the universal service provisions of the Telecommunications Act. This joint board is comprised of FCC Commissioners, state utility commissioners, and a consumer-advocate representative.

<sup>50</sup>47 U.S.C. § 254(d).

<sup>51</sup> GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September 2014).

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Without guidance on contribution requirements, some carriers collect more from customers and pay more into the fund than other carriers for the same service. For example, our review of the 74 contribution audits found 14 instances whereby a carrier classified texting or VPN revenues, or both, as assessable USF revenues. One audit, issued in March 2011 found the carrier reported \$117 million dollars in VPN revenues as telecommunications revenues assessable to USF contributions. According to USAC, because of the carrier's decision to classify VPN revenue as a telecommunication service, the carrier may have passed through approximately \$3.9 million in USF fees to customers. In comparison, another audit found a company that classified \$86 million in text revenue as nontelecommunications revenue and therefore not assessable for USF contributions. According to USAC, the carrier reported approximately 88 percent of its mobile services as nonassessable, therefore approximately \$1.4 million in USF fees were forgone and not collected from customers to fund universal service programs. By responding to USAC requests for guidance, FCC could help ensure that the contribution factor is based on complete information and that USF pass-through charges are equitable.

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## FCC and USAC Have Implemented Some Controls to Improve Subscriber Eligibility Verification, but Weaknesses Remain

Although FCC and USAC have implemented controls to improve subscriber eligibility verification, such as implementing the NLAD database in 2014, our analysis of data from 2014, including undercover attempts to obtain Lifeline service, revealed significant weaknesses in subscriber eligibility verification. Subsequently, USAC took steps to enhance the accuracy of the NLAD database. Lifeline providers are generally responsible for verifying the eligibility of potential subscribers, but their ability to do so is hindered by a lack of access to, or awareness of, state eligibility databases. These challenges might be overcome if USAC provided additional information to providers about those databases and if FCC establishes a National Verifier, as it plans to do by 2020, to remove responsibility for verifying eligibility from the providers.

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## FCC and USAC Have Implemented Some Controls to Improve Subscriber Eligibility Verification

USAC has implemented some controls to screen for subscribers attempting to receive duplicate Lifeline benefits, and for applicants attempting to enroll in the program using fictitious identities and addresses, and to verify whether subscribers are still eligible for Lifeline. These controls have reduced the number of subscribers and households receiving duplicate benefits both within the same Lifeline provider and subscribers receiving duplicate benefits across Lifeline providers. Specifically, in 2012, FCC directed USAC to develop NLAD to keep track



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of all subscribers within Lifeline and to verify that subscribers are not already receiving Lifeline service from a different Lifeline provider. Also in 2012, FCC began requiring the annual recertification of all subscribers' eligibility. Lifeline providers or, if applicable, state Lifeline administrators are required to recertify that their subscribers are still eligible for Lifeline beginning the calendar year after each subscriber is enrolled.

The NLAD database was completely implemented by March 2014 and contains a real-time list of Lifeline beneficiaries to assist carriers in identifying and preventing duplicate subscribers.<sup>52</sup>

Prior to NLAD, because Lifeline providers were unable to view each other's subscriber lists, they could not detect subscribers receiving duplicate benefits across providers. Currently, when Lifeline providers enroll individuals in the program, the NLAD database automatically checks for potentially duplicative benefits within and among Lifeline providers.

In addition, since NLAD went online the database has utilized a Third Party Identity Verification (TPIV) process and an address validation control to verify applicants' identities and addresses when their information is entered into NLAD. The TPIV process verifies the identity of an applicant by matching the applicant's first name, last name, date of birth, and the last four digits of his or her Social Security number (SSN) against official records. The address validation control process checks applicants' addresses against U.S. Postal Service data. Applicants who fail TPIV or address validation controls are subject to a dispute resolution process whereby subscribers can provide additional documentation to confirm their identity or documentation confirming their address is deliverable. If NLAD identifies the applicant as a potential duplicate subscriber, or the identity and address cannot be confirmed, the provider will not be able to register the applicant in NLAD.

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<sup>52</sup>The migration to NLAD included Lifeline subscribers from 46 states, 4 U.S. territories, and the District of Columbia. California, Oregon, Puerto Rico, Texas, and Vermont opted out of participation in NLAD. FCC allowed states to opt out of NLAD if they submitted a request to FCC and could demonstrate that the state has a comprehensive system in place to check for duplicative Lifeline support that is at least as robust as the processes adopted by FCC in the 2012 Lifeline Reform Order. In November 2015, FCC granted Puerto Rico's subsequent request to utilize NLAD, and Lifeline providers operating in Puerto Rico were required to use NLAD from January 2016 forward. In April 2017, Vermont submitted a request to FCC to opt into NLAD. FCC stated that they are reviewing the request.

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## Our Analysis of 2014 Eligibility Data Suggests Significant Weaknesses in Subscriber Eligibility Verification

To identify Lifeline subscribers who were potentially ineligible to participate in the program, we tested the eligibility of subscribers who claimed participation in Medicaid, SNAP, and SSI using NLAD data as of November 2014. We focused our analysis on these three programs because FCC reported in 2012 that these are the three qualifying programs through which most subscribers qualify for Lifeline. Because SNAP and Medicaid data are maintained at the state level, we selected five states to test Lifeline beneficiaries' participation in SNAP and six states to test their participation in Medicaid. We tested SSI eligibility across the 46 states and the District of Columbia whose Lifeline providers utilize NLAD. We compared the approximately 3.4 million subscribers that, according to information entered in NLAD, were eligible for Lifeline due to enrollment in one of these three programs to eligibility data for these programs.<sup>53</sup>

Prior to our analysis of NLAD data, we conducted reliability testing including examining the data for anomalies such as last four SSN digits that were all zeroes and out-of-scope or dates of birth based on a comparison to the Lifeline enrollment date. We also tested NLAD for complete duplicate records containing the same subscriber name, last four SSN digits, and date of birth. On the basis of our discussions, documentation review, and our own testing of the data, we concluded that the data fields used for this report were sufficiently reliable for the purpose of our review, but that the potential for significant data-entry errors in NLAD remains.<sup>54</sup> Further, it is not possible to determine from

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<sup>53</sup>The six states selected for our Medicaid analysis had eligibility dates from the third quarter of 2012 through the most recent eligibility fiscal quarter available for each state—at the time of our data analysis—which ranged from the third quarter of 2012 to the fourth quarter 2014. For our analysis of NLAD and Medicaid data, we only matched against Lifeline subscribers that enrolled prior to the latest Medicaid eligibility data available for each state. Our nationwide SSI eligibility data ranged from October 2012 to December 2014, and each of the 5 selected states' SNAP data ranged from October 2013 to December 2014. Therefore, it was not necessary to exclude any Lifeline subscribers prior to matching. To ensure a conservative estimate of unconfirmed eligibility, in the event that any of the Lifeline subscribers were only shown as eligible for the month of December 2014, they were nevertheless counted as a match and deemed likely eligible for Lifeline, even though NLAD data was only as of November 2014. For more information about our scope and methodology, see app. I

<sup>54</sup>To the extent there are data entry errors in NLAD, such as typos in SSN, it would have the effect of inflating the number of cases for which we could not confirm eligibility. In contrast, the matching algorithms we used for several of the state program databases have the potential to understate the count of unconfirmed cases. Although we cannot determine for certain the overall effect of these issues on our matching outcomes, our matching approach is useful for illustrating the general magnitude of potentially ineligible subscribers.

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data matching alone whether these matches definitively identify recipients who were not eligible for Lifeline benefits without reviewing the facts and circumstances of each case. For example, we could not identify based on the data alone whether there were data-entry errors at the time of enrollment incorrectly stating the qualifying Lifeline program presented by the subscriber at the time of Lifeline enrollment.

On the basis of our analysis of NLAD and public-assistance data, we could not confirm that a substantial portion of selected Lifeline beneficiaries were enrolled in the Medicaid, SNAP, and SSI programs, even though, according to the data, they qualified for Lifeline by stating on their applications that they participated in one of these programs.<sup>55</sup> According to NLAD, the number of subscribers participating in these programs in the states selected for our analysis was 3,474,672, or 33 percent, of the 10,589,244 unique subscribers we identified. In total, we were unable to confirm whether 1,234,929 individuals out of the 3,474,672 that we reviewed, or 36 percent, participated in the qualifying benefit programs they stated on their Lifeline enrollment applications or were recorded as such by Lifeline providers.<sup>56</sup>

If providers claimed and received reimbursement for each of these subscribers, then the subsidy amount associated with these individuals

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<sup>55</sup>When matching NLAD data against each of the qualifying programs that we tested, we used the number of subscribers listed in NLAD recorded as belonging to each program at the state level and matched it to the corresponding state's qualifying program's eligibility database. We took the difference between the subscribers listed as belonging to SNAP, SSI, and Medicaid at the state level in NLAD and our confirmed matches to determine the number of subscribers that could not be confirmed to qualify for the benefit program.

<sup>56</sup>For the purpose of our analysis, we considered a subscriber in NLAD to be a likely match and enrolled in SNAP if at least four of the following fields matched between NLAD and SNAP data from each state: subscriber first name; subscriber last name; subscriber date of birth; last 4 digits of the subscriber's SSN; and an exact address, zip-code, state match. We considered a subscriber listed in NLAD to be a likely match and enrolled in SSI if the subscriber first name, last name, date of birth, and last four digits of the SSN matched exactly with SSI program data. To ensure that our tabulations of unconfirmed eligibility do not overstate potential problems with the data, we counted as a "likely match" for both SNAP and SSI data matching. Specifically, for SNAP and SSI we counted first and last name matches with inexact, but similar spelling to be a likely match and enrolled in the qualifying programs. Whereas for Medicaid, we considered a subscriber listed in NLAD as a likely match enrolled in the qualifying program if the date of birth, last four digits of the SSN, and zip code matched exactly with Medicaid data for each state, because the Medicaid data we utilized did not contain first or last name. By not requiring the first or last name as part of the NLAD/Medicaid matching, we may understate the unconfirmed eligibility rate for NLAD subscribers coded as eligible via Medicaid.

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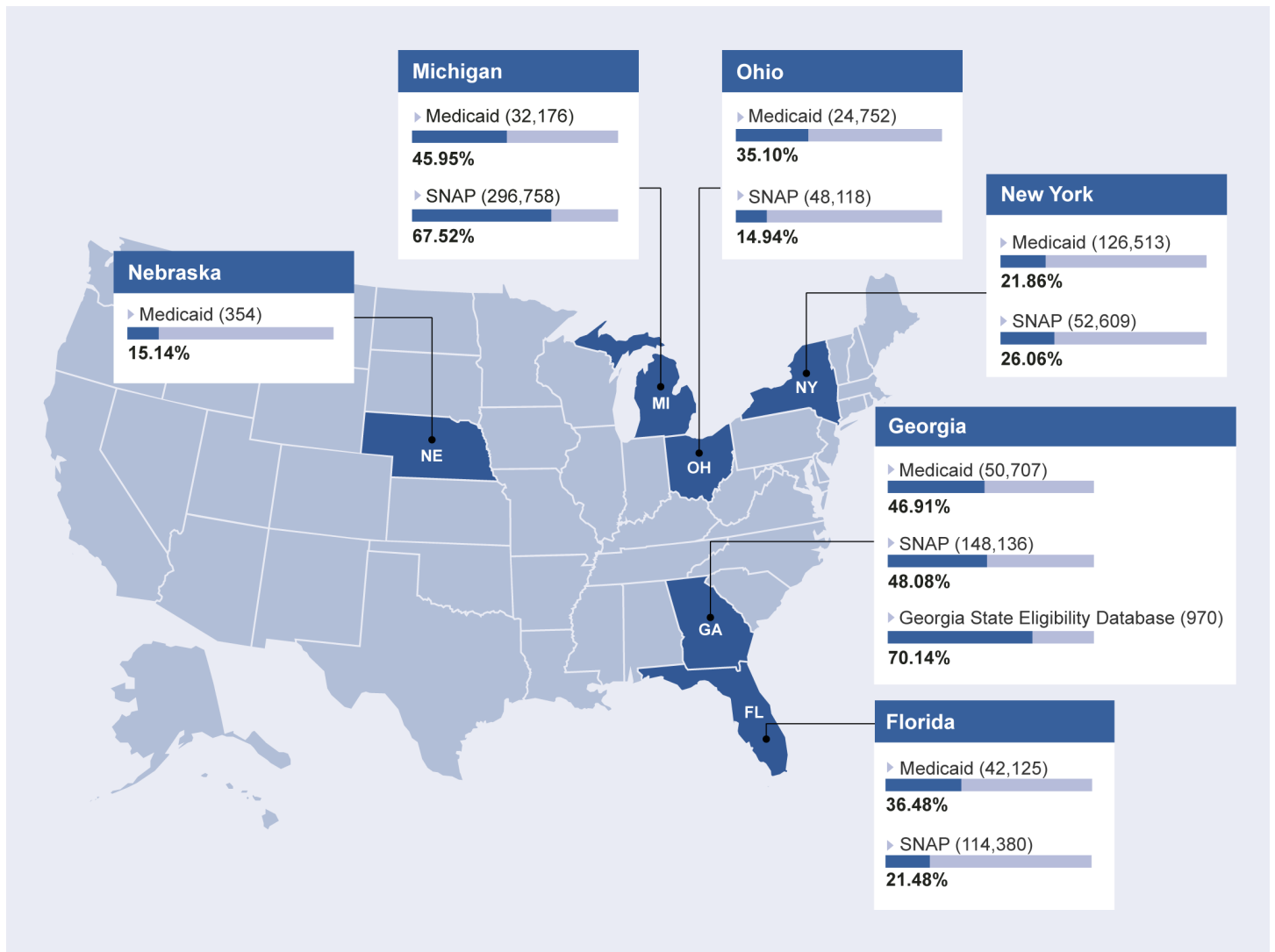
equals \$11.4 million per month, or \$137 million annually, at the current subsidy rate of \$9.25 per subscriber. Because Lifeline disbursements are based on providers' reimbursement claims, not the number of subscribers a provider has in NLAD, our analysis of NLAD data could not confirm actual disbursements associated with these individuals. Given that our review was limited to those enrolled in SNAP or Medicaid in selected case-study states, and SSI in states that participated in NLAD at the time of our analysis, our data results are likely understated compared to the entire population of Lifeline subscribers. These results indicate that potential improper payments have occurred and have gone undetected. We plan to refer potentially ineligible subscribers identified through our analysis to FCC and USAC for appropriate action as warranted.

Figure 5 below shows the percentage of Lifeline subscribers (that claimed either Medicaid or SNAP as eligibility to qualify for Lifeline) we were unable to confirm as eligible using state Medicaid and state SNAP eligibility data for selected case-study states. The results of our analysis for Georgia also include the percentage of Lifeline beneficiaries we were unable to confirm as eligible who were validated by the state eligibility database, as Georgia's state database only confirmed eligibility for Medicaid and SNAP at the time of our analysis.<sup>57</sup>

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<sup>57</sup>The other case study states either did not have a state eligibility database or the database included checks against other qualifying programs such as Temporary Assistance for Needy Families (TANF), which we did not review to confirm eligibility.

**Figure 5: Count and Percentage of Lifeline Beneficiaries Claiming Eligibility via Participation in Medicaid and SNAP That We Could Not Confirm in Selected Case-Study States**



Sources: GAO analysis of Lifeline enrollment data, Supplemental Nutrition Assistance Program (SNAP) data, and Medicaid data (data); Map Resources (map). | GAO-17-538

Note: Georgia has a state eligibility database available to Lifeline providers to confirm eligibility. This database contains SNAP and Medicaid data, which allowed us to test eligibility for those beneficiaries in Georgia that were validated by the state database.

Figure 6 is an interactive graphic that shows the percentage of Lifeline beneficiaries (that claimed eligibility via SSI to qualify for Lifeline) that we were able to confirm as likely eligible and that we were unable to confirm

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as likely eligible using nationwide SSI eligibility data for states that participate in NLAD. See appendix II for more information.

**Figure 6: Nationwide Percentage of Likely Lifeline Eligibility Confirmed and Unconfirmed for Those Claiming Eligibility Based on Supplemental Security Income**

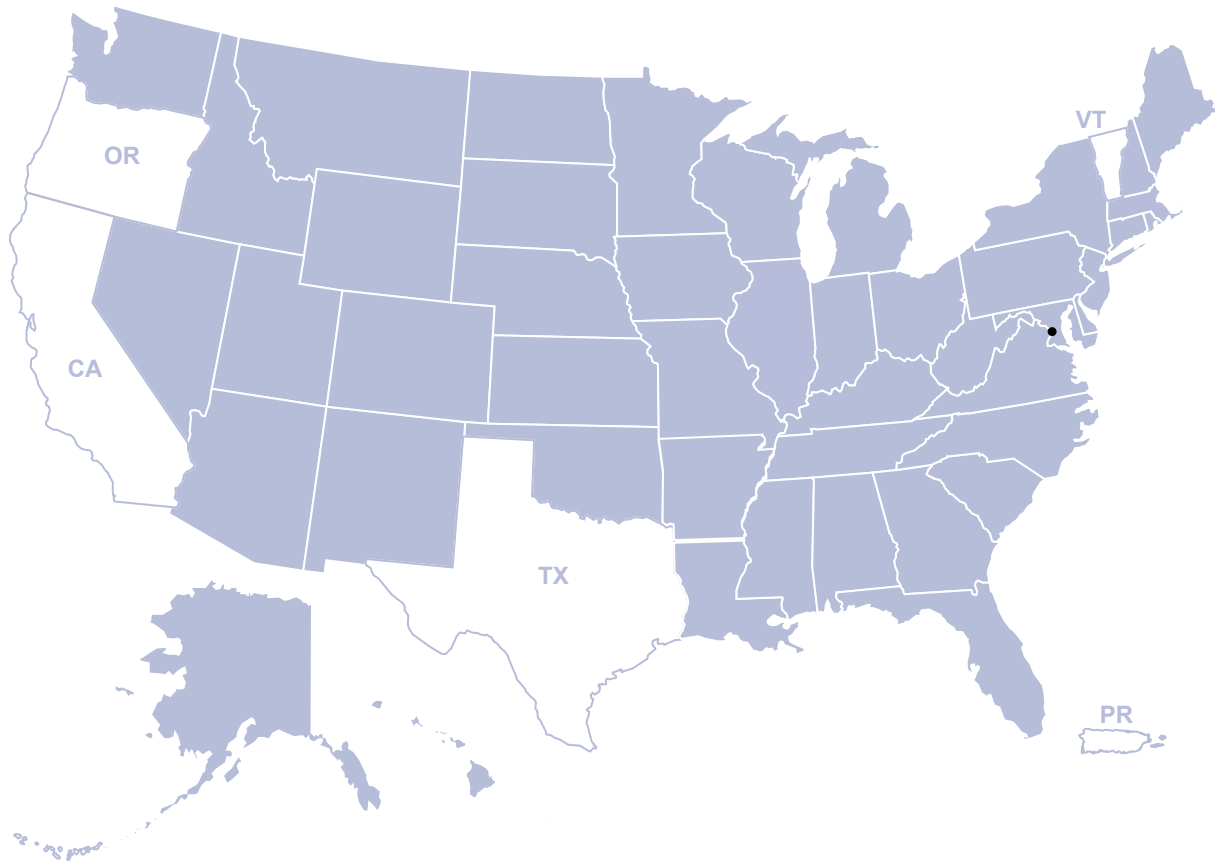
**Interactive Graphic**



**Instructions:** Rollover the state abbreviation for more information.



**Print version:** Go to Appendix II.



Source: GAO analysis of Lifeline enrollment data and Supplemental Security Income (SSI) data (data); Map Resources (map). | GAO-17-538

Note: The migration of NLAD included Lifeline subscribers from 46 states, 4 U.S. territories, and the District of Columbia. California, Oregon, Puerto Rico, Texas, and Vermont opted out of participation in NLAD.

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We also conducted analysis of NLAD to identify instances of subscribers receiving duplicate Lifeline benefits and deceased individuals appearing as active beneficiaries. The results of our analysis are as follows:

- We found a total of 5,510 potential internal duplicates whereby the last name, first name, date of birth, and last four digits of the SSN of one record matched another record exactly. The subsidy amount associated with these duplicates equaled approximately \$51,000 per month, or \$612,000 annually.
- We matched NLAD enrollment data with SSA's Death Master File and identified 6,378 individuals reported as deceased who are receiving Lifeline benefits.<sup>58</sup> These individuals either were enrolled, recertified, or both after they had been reported dead. The date of death for each of these individuals preceded the Lifeline enrollment or recertification date by at least 1 year. The subsidy amount associated with these individuals equaled \$58,997 monthly and \$707,958 annually. According to USAC, the NLAD recertification date field is not completely populated; therefore, these numbers likely understate the number of people reported dead who were reenrolled in Lifeline.

The results of our analysis show that a potential annual subsidy amount of \$1.2 million could have resulted from potentially ineligible or fictitious individuals receiving Lifeline benefits if these individuals were not disenrolled by USAC or Lifeline providers and the providers claimed reimbursement for these subscribers.

At the time USAC provided the NLAD data to us in November 2014, USAC officials stated that they were performing a number of procedures on the initial data loaded into NLAD by providers. According to USAC officials, from September through December 2014 Lifeline providers were required to collect Independent Economic Household worksheets from all subscribers who were found to share the same address with another Lifeline subscriber. USAC officials informed us that if no such completed worksheet was obtained, or if the subscriber did not certify he or she was part of a different household from another subscriber sharing the same address, the subscriber was disenrolled. USAC reported that this process disenrolled approximately 1.3 million subscribers, some of whom could

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<sup>58</sup>SSA's Death Master File contains records of deaths that have been reported to SSA. The Death Master File includes the following information on each decedent, if the data are available to SSA: SSN, name, date of birth, and date of death. SSA does not have a death record for every deceased individual.



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still have been in the data we reviewed. We did not remove these subscribers when we conducted our data analysis, because duplicate addresses are allowed if individuals are part of a separate economic household. USAC performed additional work to collect Independent Economic Household worksheets before determining whether subscribers should be disenrolled.

USAC officials also informed us that additional rigor was added to NLAD's duplicate-checking algorithm in March 2015. Specifically, USAC officials explained that a process to scrub NLAD records to identify additional duplicates was completed in May 2015, and resulted in the disenrollment of approximately 374,000 subscribers. We estimate that USAC's work to identify and scrub duplicates was performed on over 10 million subscribers, while our analysis was limited to our case-study states for Medicaid and SNAP and the national population of SSI recipients. As USAC had not completed its process of identifying and disenrolling duplicate subscribers when we obtained NLAD data, there may be some overlap between the subscribers disenrolled by USAC and the 3.4 million subscribers included in our analysis. However, we removed internal duplicates in NLAD whereby the last name, first name, date of birth, and last four digits of the SSN of one record matched another record exactly before performing any data matching, so the likelihood of any overlap in duplicate subscribers has been reduced. Our analysis also involved matching NLAD data to qualifying Lifeline program data, which FCC or USAC have not done.

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### Undercover Attempts to Obtain Lifeline Service Illustrate Beneficiary Verification Weaknesses

Our undercover testing found that Lifeline may be vulnerable to ineligible subscribers obtaining service and found examples of Lifeline providers being nonresponsive, or providing inaccurate information. To conduct our 21 tests, we contacted 19 separate providers to apply for Lifeline service. We applied using documentation fictitiously stating that we were enrolled in an eligible public-assistance program or met the Lifeline income requirements. We were approved to receive Lifeline services by 12 of the 19 Lifeline providers using fictitious eligibility documentation.

The seven Lifeline providers that we did not receive service from did not provide it for different reasons. For example:

- Two of the seven Lifeline providers informed us that we were denied because they could not verify the identity of the fictitious applicants used for our tests.

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- One Lifeline provider told us that the application was appearing as a duplicate and was not being accepted by NLAD, even though the fictitious identity was not enrolled.
  - One other provider told us that our identity could not be verified and that the address provided on our application, a UPS Store mailbox, was in use by another Lifeline customer. We were told only a certain individual within the company could offer resolution; however, we made multiple calls and left six messages on this individual's voice mail over a 5 week period and did not receive a call back.
  - The remaining three providers told us that they do not ship to post office boxes. While FCC regulations do not preclude a Lifeline provider from accepting a post office box address for a billing address if different from the subscriber's residential address, there is no requirement for them to do so.

We completed two separate tests using different identities for 2 of the 19 providers due to the outcome of the first test for each provider.

Specifically:

- One of these providers initially deemed us ineligible for Lifeline, but it did so because the representative for that provider erroneously calculated our pay stub income, which if calculated correctly, would have met eligibility requirements. We reapplied using a different identity claiming enrollment in a public-assistance program as support and providing fictitious documentation and were approved for Lifeline.
- The other provider approved us for the program, but never provided us with service. We were given a customer identification number and phone number, but the provider did not ship us a free phone as advertised as part of their Lifeline service. We called the Lifeline provider 11 times over a period of 2-½- months to inquire about the status of our service. A company representative told us on multiple occasions that our phone had been or would be shipped, only to later say that our phone could not be shipped because the company had run out of phones. We were told on multiple occasions that the phone would ship within 4 days, but we did not receive it from the time we applied in July 2015 through December 2015 and therefore we were unable to begin our Lifeline service. This provider did not provide an alternative to participating in Lifeline, such as using our own mobile device to receive service. We reapplied using a different identity to determine whether this was a recurring issue with this Lifeline provider. When reapplying using a different identity, we were told on separate occasions that our identity could not be validated and to not

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apply using low income as the eligibility qualifier. We were also told that the applicant's participation in the public assistance program stated on the application could not be verified. However, an official from the state where we applied stated that the public-assistance program in question was not included in a database of public-assistance programs and beneficiaries made available to Lifeline providers.

Further, we experienced instances during our undercover tests where our calls to providers were disconnected, and where Lifeline provider representatives transmitted erroneous information, or were unable to provide assistance on questions about the status of our application. For example, one Lifeline provider told us that our application was not accepted by the company because our signature had eraser marks; however our application had been submitted via an electronic form on the provider's website and was not physically signed. While our tests are illustrative and not representative of all Lifeline providers or applications submitted, these results suggest that Lifeline providers do not always properly verify eligibility and that applicants may potentially encounter similar difficulties when applying for Lifeline benefits.

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### USAC Has Taken Steps to Enhance the Accuracy of NLAD Beneficiary Eligibility Data Entered by Providers

USAC officials told us that they had improved both NLAD and the TPIV process since they were established. USAC officials told us that they had identified that either Lifeline subscribers or Lifeline providers had exploited a TPIV override process in NLAD, so they established a control to remedy the problem. Specifically, USAC officials stated that in 2015 they had modified the duplicate-checking algorithm to add additional rigor and eliminated the identity override process. Furthermore, as discussed above, USAC officials stated that they scrubbed all NLAD records to identify any additional duplicates that may have occurred prior to these enhancements. This process was completed in May 2015, and resulted in deenrollment of approximately 374,000 subscribers.

Additionally, for the data that we examined from when NLAD was launched in March 2014 through November 2014, NLAD subscriber data contained addresses that were associated with multiple subscribers. For example, through our analysis we found a single address was associated with 10,000 separate subscribers, all receiving Lifeline benefits through the same Lifeline provider. This address could not be verified by the U.S. Postal Service address verification system we consulted. One Lifeline provider listed multiple addresses in NLAD with over 500 Lifeline subscribers, which may be reasonable given that some of the addresses

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appear to be associated with homeless shelters. In total, we identified 48 unique addresses that were each associated with more than 500 subscribers. In December 2016, the provider we found with over 10,000 subscribers associated with the same address was fined \$30 million and relinquished FCC and state authorizations to participate in Lifeline; a fraud investigation by FCC and the United States Attorney's Office found employees fraudulently enrolling duplicate and ineligible subscribers into Lifeline.

Officials from USAC also stated that they are examining ways to utilize data analytics to check the quality of data in NLAD. For example, according to USAC officials, they became aware that certain prefixes and area codes are not used for residential phone numbers and they have reviewed NLAD for such information to mitigate fraud. Another example of analytics includes looking for SSN last four digits of "0000," which is a last-four-digit code never assigned in actual SSNs, and examining subscribers who are over the age of 100. Measures such as these, along with the transition to a National Verifier, as discussed below, should help data quality concerns in the future and mitigate potential fraud.

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### Lifeline Providers' Verification of Subscriber Eligibility Hindered by Lack of Access to, or Awareness of, State Eligibility Databases

Lifeline has relied primarily on Lifeline providers to verify subscriber eligibility for the majority of subscribers.<sup>59</sup> Providers are to verify subscriber eligibility by reviewing supporting documentation or by checking state eligibility databases that contain information on beneficiaries of Lifeline-qualifying assistance programs, such as SNAP and Medicaid. If the data entered into the eligibility databases are accurate, and Lifeline providers use them as intended, eligibility databases available to Lifeline providers can be an important tool for limiting fraud, waste, and abuse in Lifeline by verifying eligibility.

However, not all states have databases that Lifeline providers can use to confirm eligibility. According to FCC, as of June 2016, databases that could be utilized for initial eligibility determinations existed in 29 states. We also found that state databases do not always contain beneficiary information for every Lifeline qualifying program. Table 2 below shows what qualifying programs were available for eligibility checks for our case study states as of June 2016.

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<sup>59</sup>In some states, a state administrator determines eligibility.

**Table 2: Assistance Programs Included in State Verification Databases for Selected States in Our Review, as of June 2016**

Case-study state	Programs the state database checks for eligibility
Florida	Medicaid, SNAP, TANF
Georgia	Medicaid, SNAP, TANF
Michigan	Home Heating Credit, LIHEAP, Medicaid, SNAP, SSI, State Emergency Relief, TANF
Nebraska	LIHEAP, Medicaid, SNAP, TANF
New York	Family Assistance, LIHEAP, Medicaid, Safety Net Assistance, SSI, SNAP
Ohio	Did not utilize a state eligibility database

Source: GAO analysis of information provided by Federal Communications Commission and states. | GAO-17-538

Notes: Medicaid is a joint federal-state health-coverage program for certain low-income individuals. Supplemental Nutrition Assistance Program (SNAP) offers nutrition assistance to eligible, low-income individuals and families and provides economic benefits to communities. Temporary Assistance for Needy Families (TANF) provides temporary financial assistance for pregnant women and families with one or more children. Family Assistance provides cash assistance to eligible needy families that include a minor child living with a parent or a caretaker relative. Low Income Home Energy Assistance Program (LIHEAP) assists eligible households with home energy costs. Safety Net Assistance provides benefits to eligible individuals, including families of individuals abusing drugs or alcohol, and certain families who do not qualify for Family Assistance or other assistance programs. Supplemental Security Income (SSI) is a federal income-supplement program that provides financial assistance for aged, blind, and disabled people to meet basic needs for food, clothing, and shelter. State Emergency Relief provides immediate help to individuals and families facing conditions of extreme hardship or for emergencies that threaten health and safety.

Some providers with whom we spoke were unaware of databases that were potentially available to them. Officials from two Lifeline providers we spoke with were not aware of all the eligibility databases available for use in areas where they provide Lifeline service. For example, one Lifeline provider we spoke to provided us with information stating that 18 states maintained an eligibility database, while another Lifeline provider that operated in 41 states at the time told us it knew of only 8 states with databases. The provider operating in 41 states was unaware of 10 state eligibility databases in states it operated in that were identified by the other provider. Officials from one of these companies told us they were not aware of a comprehensive list of state eligibility databases. USAC officials confirmed that they do not provide Lifeline providers with a list of state databases that are available to confirm program eligibility. As a result, these Lifeline providers and potentially others are not utilizing required applicant verification tools that are available to them.

Further, USAC does not independently verify that subscribers have been vetted through the eligibility databases or otherwise verify subscribers' eligibility. Lifeline providers are required by program rules to access state eligibility databases, where available, to determine an applicant's

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program-based eligibility. In the absence of such a database, a Lifeline provider must review proof of enrollment in a qualifying program or proof of income eligibility. USAC audits of Lifeline providers do check to determine whether an administrator or eligibility database was relied upon. USAC does not, however, confirm that beneficiaries that Lifeline providers report in NLAD as having been vetted through a state database actually were vetted. Theoretically, a Lifeline provider could enter into NLAD that a state database or state administrator was used when it was not. This possibility could partially explain why we could not confirm eligibility for approximately 70 percent of those individuals we reviewed in Georgia that, according to NLAD, were deemed eligible by a state administrator. Officials from Georgia's SNAP office told us that although the database is available to ETCs, it is possible they are not using the database, and Georgia does not have any way to check to see that the database is being used. As part of their annual recertification requirements, service providers are required to certify that they have procedures in place to review income and program-based eligibility documentation, and confirm eligibility by relying upon access to a state database or eligibility notice from a state Lifeline administrator, prior to enrolling a customer in Lifeline. The recertification form states that "[p]ersons willfully making false statements on this form can be punished by fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001."

Lifeline providers are required to review supporting documentation, such as a driver's license or Social Security card, when an applicant's identity cannot be verified. However, Lifeline providers are not required to provide supporting documentation to USAC as part of the TPIV process; instead, Lifeline providers submit required information stating what documentation was reviewed, and USAC confirms that the type of documentation appropriately verifies the subscriber's identity, but does not review the documentation itself. As of February 2016, providers are required to retain all documents used to verify a subscriber's identity. The planned National Verifier will retain documentation collected as a result of the eligibility-determination process, and Lifeline providers will not be required to retain eligibility documentation for subscribers determined to be eligible by the National Verifier once it is implemented.

Although state eligibility databases do not exist for all states, and not all eligible programs are included within those state eligibility databases that do exist, knowing which states have program-based eligibility databases is an important first step to allow Lifeline providers to better determine applicant eligibility prior to enrollment. According to Standards for Internal

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Control in the Federal Government, management should use high-quality information to achieve the entity's objectives, such as using relevant data from reliable sources. Maintaining and disseminating an up-to-date list of available state eligibility databases that includes the qualifying programs those databases access would help enhance Lifeline providers' awareness, and potentially use of, these tools. Such a list could also help USAC, working with the states, whenever possible, to determine which Lifeline providers had obtained access to state eligibility databases, and gain greater assurance that providers are fulfilling their responsibility of ensuring only eligible subscribers are enrolled.

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### FCC Has Taken Steps to Create a National Verifier to Determine Eligibility

In March 2016, FCC adopted an order to create a National Verifier that would determine eligibility rather than having the Lifeline providers do so. According to FCC, to take steps to foster a long-term technological solution to Lifeline eligibility and to leverage the program integrity and enrollment procedures provided by assistance programs that capture 80 percent of the Lifeline eligible population, the number of benefit programs applicants may utilize for Lifeline eligibility would be reduced. According to the order, the five qualifying assistance programs that remain permit easy technological solutions to lay the groundwork for a successful National Verifier because they have existing and accessible databases that the National Verifier will be able to use. FCC officials told us that they intend the National Verifier to interface with both state and federal eligibility databases. According to FCC, with the exception of SNAP (which is administered at the state level), all of the eligibility programs have national databases (i.e., SSI, Veterans Pension, and Medicaid).<sup>60</sup> FCC officials told us that they are working with USAC to create the National Verifier. The FCC has set expectations for it to be deployed in phases with at least five states being launched at the end of 2017, an additional 20 states launched in 2018, and the remaining states or territories by the end of 2019. FCC officials told us that USAC was required to submit a comprehensive draft plan for the National Verifier to FCC for review and approval by the end of November 2016. USAC

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<sup>60</sup>These are the streamlined eligibility programs effective December 2, 2016. LIHEAP, TANF, and NSLP were removed. Tribal programs have not been changed and will need to be verified with documents because no aggregated databases exist. Low-income consumers continue to qualify for Lifeline by demonstrating income of less than 135 percent of the Federal Poverty Guidelines. According to FCC, several states have received temporary waivers to continue determining Lifeline eligibility under the prior qualifying programs until the state is able to update Lifeline eligibility databases or processes to align with the federal eligibility criteria.

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submitted its National Verifier Draft Plan to FCC on November 30, 2016, outlining its proposed approach to designing and building the National Verifier. USAC submitted its first updated version of the plan on January 2017. According to FCC officials, USAC will provide a status update to FCC twice per year throughout the development and implementation of the National Verifier. FCC officials informed us that in January 2017, USAC executed a contract with the vendor for the design of the National Verifier.

FCC and USAC identified challenges to establishing the National Verifier. As of January 2017, USAC had identified six initial challenges that could affect the successful launch, build, and operation of the National Verifier, including: (1) unavailability of data sources that can be used for automated eligibility; (2) inadequate operational capacity to effectively manage new processes and high volumes of eligibility verifications; (3) data-breach preparedness; (4) establishment of connections with state or federal data source; (5) emergency preparedness; and (6) designing a system that meets standards. FCC officials further explained that creating a national eligibility database requires coordination with each state, which can be time-consuming and challenging. For example, some states have privacy laws that prohibit sharing eligibility data with the federal government and data quality may vary from state to state. Additional potential concerns include challenges supporting subscribers in tribal areas. USAC has developed mitigation strategies to address several of these concerns, including working with states, vendors, and other stakeholders. According to USAC, progress updates to FCC and the public will continue to be provided every 6 months in updated National Verifier plans.

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## FCC and USAC Have Taken Some Steps to Improve Oversight of Lifeline Providers, but Remaining Gaps Could Allow Noncompliance with Program Rules



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## FCC and USAC Have Implemented Some Mechanisms to Enhance Oversight of Lifeline Providers

FCC and USAC have established mechanisms to enhance their oversight of Lifeline providers. For example:

- As implemented in the 2012 Reform Order, Lifeline-only ETCs that do not utilize their own facilities must file a compliance plan with FCC detailing measures they will take to comply with Lifeline regulations as well as additional safeguards against fraud, waste, and abuse. The compliance plans should include information about the carrier and the Lifeline plans it intends to offer, including the names and identifiers used by the carrier, its holding-company, operating company, and all affiliates, and how it will comply with FCC's rules and requirements.
- The 2012 Reform Order also required biennial audits of ETCs providing Lifeline service and receiving \$5 million or more annually, determined on a holding company basis, from the low-income program.<sup>61</sup> FCC regulations require that licensed certified public accounting firms independent of the carrier conduct these audits in a manner consistent with Generally Accepted Government Auditing Standards. In April 2014, FCC released uniform audit procedures that the accounting firms must use. As outlined in FCC's audit procedures, these reviews would be conducted as agreed-upon procedures attestations.<sup>62</sup> The first reports included reviews of calendar year 2013 and were submitted in 2015. Due to the nature of these agreed-upon procedures engagements, each biennial audit report must state that an examination of the subject matter was not performed. Therefore, an opinion on the Lifeline provider's compliance with Lifeline rules cannot be expressed through these procedures.
- In July 2014, FCC took additional measures to combat fraud, waste, and abuse by creating a strike force to investigate violations of USF program rules and laws. According to FCC, the creation of the strike force is part of the agency's commitment to stopping fraud, waste, and abuse and policing the integrity of USF programs and funds.
- In June 2015, FCC adopted a rule requiring Lifeline providers to retain eligibility documentation used to qualify consumers for Lifeline support to improve the auditability and enforcement of FCC rules.

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<sup>61</sup>The \$5 million threshold includes all operating companies and affiliates operating under a parent company.

<sup>62</sup>An agreed-upon procedures engagement is one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on subject matter. Auditors performing this type of engagement do not perform examinations or reviews or issue an opinion on the subject matter.

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- Starting in fiscal year 2016, USAC implemented a risk-based selection method when conducting Beneficiary and Contributor Audit Program (BCAP) audits to identify the entities with the greatest risk. BCAP audits are conducted on each USAC program in accordance with Generally Accepted Government Auditing Standards, with their primary purpose to ensure compliance with FCC rules and program requirements, and to assist in program compliance. USAC officials told us that, before fiscal year 2016, many of the audited entities were randomly selected, and the selection process was designed to provide a wide variety of entities with regard to size and geographic location. See appendix III for more information.

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## Oversight Weaknesses of Lifeline Adversely Affect Overall Program Integrity

Our analysis of FCC and USAC oversight of Lifeline providers found weaknesses in how they oversee providers entering and implementing the program, and enforcing penalties for violations of program rules. FCC has plans or has taken some steps to address some of these weaknesses.

### FCC Has Not Developed Evaluation Criteria for Providers' Compliance Plans or Applications for Entering Lifeline and Faces a Substantial Backlog of Both

In its 2012 Reform Order, FCC described how its review of compliance plans was critical to helping evaluate Lifeline providers' stated plans to adhere to program rules before providers receive any Lifeline funds. The compliance plan review process requires telecommunications providers to provide specific information regarding their service offerings and the measures they will take to implement the Lifeline provider obligations as well as further safeguards against fraud, waste, and abuse that FCC may deem necessary. However, FCC officials told us that no agency document exists that instructs reviewers how to evaluate compliance plans. Without written instructions with criteria for how to review compliance plans, there is some risk that the compliance plan review process is not applied consistently or effectively, or is not conducted in such a way as to help facilitate Lifeline program goals. As a result, the compliance plan review process is limited in providing some level of oversight prior to disbursing funds.

Furthermore, FCC has a backlog of pending compliance plans. In 2012, FCC approved its first 20 compliance plans, and did not approve any additional plans until August 2016. In August 2016, FCC approved two plans from Lifeline providers specifically dedicated to wireline service. According to FCC, the approval of these two compliance plans was necessary to prevent disruption of Lifeline service for affected wireline customers. As of March 2017, 22 compliance plans had been approved, 22 had been denied, and 34 were pending. FCC officials told us that the

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delay in approving compliance plans was caused by other agency priorities, but were unable to detail what those priorities were. They also added that the number of staff assigned to reviewing compliance plans was limited to four; the staff have also had other assignments and responsibilities; and these factors were among those that led to the number of plans pending without an FCC decision. According to FCC officials, absent statutory time frames specific to the review of compliance plans and ETC petitions, FCC has not established any time frames for approving or denying these documents. The resulting situation limits the expansion of Lifeline service for companies providing and seeking to provide Lifeline service.

As with the compliance plans, FCC had a backlog of 35 pending ETC petitions and had approved 7 providers and denied 15 providers as of March 2017. According to federal statute, telecommunication providers must submit a petition and be designated as ETCs before they can receive reimbursement for providing Lifeline service. ETC designations are made by state regulatory commissions or by FCC if state law does not grant a state the authority to do so. By not making determinations on pending compliance plans and ETC petitions, FCC has not implemented a key aspect of the program's 2012 reforms. This has created a group of carriers that can begin or expand their Lifeline service offerings and a group of carriers that are prevented from entering the marketplace altogether or from expanding to new geographical markets.

FCC also faces a backlog for petitions to provide broadband services. As previously discussed, providers seeking to provide Lifeline broadband service must obtain the newly created Lifeline Broadband Provider (LBP) designation from FCC. The 2016 Lifeline Broadband Order states that FCC will take action on LBP designation petitions within 6 months of the submission of a completed filing. By January 2017, FCC had conditionally designated nine ETCs as LBPs, but revoked their LBP designations in February 2017, and returned their LBP petitions to pending status. According to FCC, revoking the designation provides the agency with additional time to consider measures that might be necessary to prevent

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FCC and USAC Have Limited Oversight of Provider Operations and Internal Control Structure, Risking Noncompliance with Program Rules

further fraud, waste, and abuse in Lifeline.<sup>63</sup> In March 2017, the FCC Chairman stated interest in initiating a proceeding to eliminate the new federal LBP designation process.

**Program Oversight**

FCC and USAC have limited oversight of Lifeline provider operations and the internal controls used to manage those operations. The current structure of the program relied throughout 2015 and 2016 on over 2,000 ETCs to provide Lifeline service to eligible beneficiaries. These companies are relied on to not only provide telephone service, but also to create Lifeline applications, train employees and subcontractors, and make eligibility determinations for millions of applicants. Federal internal control standards state that management retains responsibility for the performance and processes assigned to service organizations performing operational functions. Consistent with internal control standards, FCC and USAC would need to understand the extent to which a sample of these internal controls are designed and implemented effectively to ensure these controls are sufficient to address program risks and achieve the program's objectives. However, we identified key Lifeline functions for which FCC and USAC had limited visibility.

While FCC approves providers' participation in Lifeline and USAC conducts audits to ensure providers comply with program rules, we found that they do not have full insight into providers' operations. For example, we found instances of Lifeline providers utilizing domestic or foreign-operated call centers for Lifeline enrollment. We spoke with officials from two Lifeline carriers and inquired about their operations. One Lifeline provider explained to us that it contracts with a company that then contracts with a back office and a call center in a different country to handle Lifeline operations. Lifeline provider officials told us that individuals at this overseas back office are responsible for reviewing government assistance program documentation and making eligibility determinations for Lifeline applicants. Officials from the other carrier we spoke with told us that they use a third-party contractor located in the

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<sup>63</sup>Twelve states, along with the National Association of Regulatory Utility Commissioners (NARUC) have filed a petition for review with the U.S. Court of Appeals for the D.C. Circuit challenging FCC's decision to create a separate designation and approval for broadband providers that will not go through the states. Part of the petitioners' concern is that this change removes the states' ability to provide a line of defense against fraud and abuse, normally provided by the states' ETC designation process. In April 2017, the D.C. Court of Appeals granted the FCC's request for a voluntary remand of the litigation.

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United States to verify eligibility. Through our undercover tests, we also found that this company uses an overseas call center to enroll subscribers. When we asked FCC officials about Lifeline providers that outsource program functions to call centers, including those overseas, they told us that such information is not tracked by FCC or USAC. With no visibility over these call centers, FCC and USAC do not have a way to verify whether other such call centers comply with Lifeline rules.

Additionally, FCC and USAC have limited knowledge about potentially adverse incentives that providers might offer employees to enroll subscribers. For example, some Lifeline providers pay commissions to third-party agents to enroll subscribers, creating a financial incentive to enroll as many subscribers as possible. Companies responsible for distributing Lifeline phones and service that use incentives for employees to enroll subscribers for monetary benefit increase the possibility of fictitious or ineligible individuals being enrolled into Lifeline. Highlighting the extent of the potential risk for companies, in April 2016 FCC announced approximately \$51 million in proposed fines against one Lifeline provider, due to, among other things, its sales agents purposely enrolling tens of thousands of ineligible and duplicate subscribers in Lifeline using shared or improper eligibility documentation.

### **GAO Testing**

To test internal controls over employees associated with the Lifeline program, we sought employment with a company that enrolls individuals to Lifeline. We were hired by a company and were allowed to enroll individuals in Lifeline without ever meeting any company representatives, conducting an employment interview, or completing a background check. After we were hired, we completed two fictitious Lifeline applications as employees of the company, successfully enrolled both of these fictitious subscribers into Lifeline using fabricated eligibility documentation and received compensation for these enrollments. The results of these tests are illustrative and cannot be generalized to any other Lifeline provider. We plan to refer this company to FCC and USAC for appropriate action as warranted.

Source: GAO | GAO-17-536

FCC and USAC also have limited insight into when Lifeline providers do not abide by program rules. As a result, there may be increased risks that Lifeline providers are not adhering to rules. On the basis of our audit and undercover work, we identified instances in which Lifeline providers were

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applying different policies regarding Lifeline eligibility and enrollment, contrary to program rules. Examples we encountered of Lifeline providers applying the rules incorrectly are noted below.

- Officials from one provider told us they do not enroll subscribers who reside in a zip code that includes tribal lands, because it is too difficult to confirm the subscribers' addresses as nontribal. According to Lifeline rules, low-income residents living on tribal lands may be eligible for Lifeline benefits based on either income or participation in federal or tribal assistance programs.
- Officials for one provider told us that when a subscriber fails the NLAD identity-validation process, they do not use the dispute-resolution system designed by USAC and FCC to verify the subscriber's identity as required by program rules, because it is too costly. The company opts to not enroll the customer or attempt to verify the customer's identity using the dispute-resolution system.
- Customer-service representatives for one provider checked the authenticity of the SSI documentation we provided as evidence of qualifying for Lifeline against a state eligibility database that does not contain SSI information and denied our application. In this case, the representative was seemingly unaware of the contents of the state eligibility database and could potentially disqualify legitimate qualified applicants that use SSI documentation to apply for Lifeline.

Variations in Lifeline provider policies and practices could also affect the ability of FCC and USAC to provide oversight of how providers maintain subscriber documentation, which may contain personally identifiable information, in a secure fashion. The risk to consumer information security in Lifeline was highlighted by a security breach and associated FCC enforcement action. In 2013, an investigative reporter alerted two Lifeline providers that documents submitted by Lifeline applicants were being stored on an unprotected Internet site. The providers notified FCC, prompting an investigation. The investigation found that, from September 2012 through April 2013, two Lifeline providers stored sensitive information collected from subscribers to determine Lifeline eligibility in a format readily accessible via the Internet, exposing up to 300,000 subscribers' information to public view and to identity theft and fraud. This information included full SSNs, names, addresses, and other sensitive information. In October 2014, FCC proposed a penalty of \$10 million.

FCC's planned National Verifier may address many of the issues we identified with FCC's and USAC's oversight of Lifeline provider operations

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if it is fully implemented by the current planned date of 2019. FCC officials told us that, as the National Verifier is rolled out, responsibility for eligibility determinations, storage of supporting documentation, and creation of all application forms will transfer to USAC.

Additionally, USAC has a process that allows Lifeline subscribers to submit complaints about their service, which could provide USAC with insights into provider operations, but we identified weaknesses in this process. USAC has information on its website informing subscribers to contact their provider if they are experiencing service issues, broken handsets, or billing disputes. If the provider does not resolve the issue, then subscribers are informed to contact their state regulatory commission. After stating an option to contact USAC about the issue, the final option provided is for subscribers to call FCC for assistance. On the basis of our review of complaints recorded in 2014 by USAC, some were closed after USAC referred them back to Lifeline providers without evidence stating that a subscriber's issue had been addressed. Some subscribers stated that they were having difficulty using Lifeline service, though the individuals' carriers were potentially billing and receiving funds for these individuals. Other complaints USAC received included service not working and phones that were never received. As previously discussed, we experienced a similar issue with a Lifeline provider approving us for the program, but not providing us with a phone or other method to utilize Lifeline while conducting our undercover testing. USAC told us that it plans to review and revise these processes to improve how it handles customer complaints.

### **Lifeline Improper-Payment Rate**

USAC further conducts a separate review of Lifeline that provides incomplete visibility over the providers. Specifically, USAC performs Program Quality Assurance (PQA) assessments to determine the improper-payment rate for Lifeline pursuant to federal statute and OMB guidance. The Improper Payments Information Act of 2002, as amended, (IPIA) requires federal agencies to review programs and activities they administer and identify those that may be susceptible to significant improper payments.<sup>64</sup> For programs and activities identified as susceptible, agencies must annually estimate the amount of improper payments, implement actions to reduce improper payments, and report

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<sup>64</sup>Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002) (codified as amended at 31 U.S.C. § 3321 note).

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those estimates and actions. IPIA focuses on payments made by a federal agency, contractor, or an organization administering a federal program or activity. We have previously reported that improper payments have consistently been a government-wide issue despite efforts to identify their root causes and reduce them.<sup>65</sup>

FCC has determined that IPIA applies to the USF programs and that Lifeline is susceptible to significant improper payments.<sup>66</sup> When conducting PQA reviews for Lifeline, USAC reviews enrollment and recertification forms; FCC Form 497s for accuracy; subscriber listings for completeness; and duplicate subscribers with matching primary address, date of birth, and SSN. Using results of these assessments, USAC calculates estimates of improper-payment rates and provides this information to FCC. According to FCC's Fiscal Year 2015 Agency Financial Report, the estimated 2015 improper-payment rate reported for Lifeline is 0.45 percent, or \$7.3 million.<sup>67</sup>

USAC's reliance on Lifeline providers to determine eligibility and subsequently submit accurate and factual invoices is a significant risk for allowing potentially improper payments to occur, and under current reporting guidelines these occurrences would likely go undetected and unreported. For example, the improper-payment rate resulting from the PQA assessments accounts for duplicate subscribers, missing or incomplete subscriber data, and other factors that identify various types of improper-payments, but does not account for payments made to Lifeline providers that claimed beneficiaries who were not actually enrolled in the qualifying programs or were ineligible.

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<sup>65</sup>GAO, *Fiscal Outlook: Addressing Improper Payments and the Tax Gap Would Improve the Government's Fiscal Position*, [GAO-16-92T](#) (Washington, D.C.: Oct. 1, 2015).

<sup>66</sup>Agencies were required to conduct risk assessments for all programs and activities in fiscal year 2011 and at least once every 3 years thereafter. Under IPIA, improper payments are considered "significant" if they may have exceeded both 1.5 percent of program payments and \$10 million annually. For each program identified as susceptible, agencies are required to report the annual amount of estimated improper payments along with steps taken and actions planned to reduce such improper payments.

<sup>67</sup>FCC's OIG raised concerns in 2015 about FCC's reported improper payment rate, reporting that the data used in calculating the rate were not complete and that the rate might have been significantly understated. FCC management did not concur with the OIG's report findings. Specifically, FCC disagreed that its improper payment rate had been inaccurately reported because it had obtained OMB approval to use a statistically valid alternative methodology for calculating the rate while not testing all of the Lifeline rules.



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FCC officials told us, however, that FCC and USAC will be better able to include eligibility testing in future year PQA testing given the new Lifeline rules pertaining to the retention of eligibility documentation. FCC officials told us that they have discussed these changes in Lifeline rules with OMB and both parties agree that adding testing procedures in a methodical manner is reasonable and appropriate.

### **FCC Has Inconsistently Penalized Providers with Duplicate Lifeline Subscribers and Has Not Developed an Enforcement Strategy**

FCC directed USAC in May 2011 to perform in-depth validations (IDV) to uncover duplicative claims for Lifeline support. USAC was to do this by identifying and resolving instances of subscribers who receive simultaneous Lifeline benefits from multiple Lifeline providers and had duplicate subscribers within their own subscriber lists. After identifying providers with duplicate subscribers, FCC was not consistent in the actions it took, as it penalized some but not all of those providers. IDVs were conducted at the state level from 2011 to 2013 on 57 Lifeline providers prior to the implementation of the NLAD database. During this process, USAC contacted subscribers it identified as having duplicate service and advised them that they had to choose a single Lifeline provider. According to information provided by USAC, the IDVs resulted in the identification of approximately 87,000 intracompany duplicate subscribers.

Following the IDVs, FCC issued Notices of Apparent Liability that proposed penalties of approximately \$94 million to 12 Lifeline providers believed to have willfully and repeatedly violated Lifeline rules by enrolling duplicate subscribers.<sup>68</sup> As of October 2016, FCC had not yet determined the final penalties for these 12 Lifeline providers.

We found, however, that FCC proposed penalties inconsistently against Lifeline providers that had duplicate subscribers. For example, USAC's IDVs determined that 41 Lifeline providers had intracompany duplicates; of these, FCC proposed penalties against 12. In some cases, Lifeline providers that FCC penalized had fewer duplicates than others that were not penalized. For example:

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<sup>68</sup>FCC's proposed penalties for Lifeline providers are issued in Notices of Apparent Liability that afford companies the opportunity to respond to FCC before the proposed penalties become final.

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- One Lifeline provider had received \$8,300 in overpayments due to intracompany duplicate subscribers from February through April 2013, and FCC proposed a fine of \$3.7 million. Another Lifeline provider received approximately \$81,000 in overpayments from intracompany duplicates during the same period and approximately \$250,000 in intracompany duplicate overpayments found during the course of the IDV review and FCC did not propose a fine for having duplicate subscribers.
  - FCC proposed a fine to another Lifeline provider of \$1.2 million for approximately \$8,000 in overpayment of duplicate subscribers and did not propose a fine for another Lifeline provider that had approximately \$16,000 in duplicate subscriber overpayments through the IDV process.

As a result of FCC's actions, Lifeline providers that were issued a Notice of Apparent Liability for duplicate subscribers may have been prevented from expanding Lifeline service, while others with duplicates were unaffected. Officials from one Lifeline provider told us that California did not approve their petition to offer Lifeline service in their state because of the penalties levied against them.

According to FCC officials, FCC had been unable to issue a Notice of Apparent Liability against some providers because of the statute of limitations and delays in receiving IDV results from USAC. FCC is constrained by a statutory 1-year limitation, which begins when the violation occurs, on assessing forfeitures against carriers for Lifeline rule violations.<sup>69</sup> FCC officials explained that the 1-year limitation has prevented FCC from attempting to assess fines against Lifeline providers when duplicate subscribers or other Lifeline rule violations were discovered near the end of this time frame. FCC told us that when the IDVs were initiated, there was not a formalized process or strategy for how FCC would address Lifeline providers with duplicate subscribers. The FCC proceeded with issuing Notices of Apparent Liability after reviewing the IDV results provided by USAC, though FCC officials were unable to provide us with information on when the results of the IDVs were provided to them by USAC.

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<sup>69</sup>Forfeitures assessed by the Enforcement Bureau are paid to the Treasury, whereas the monies due to the USF to make it "whole," are paid back to the USF.

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According to Standards for Internal Control in the Federal Government, management should implement and document control activities through policies. FCC officials told us that the penalties that FCC proposed to levy against Lifeline providers with identified duplicate subscribers were part of a particular enforcement strategy during that time, but they did not provide further details on that strategy. Further, according to FCC officials, in June 2015, the agency did not have a documented enforcement strategy for proposing penalties against Lifeline providers who retain duplicate subscribers. As of March 2017, FCC still does not have a documented enforcement strategy. FCC officials told us that because its Enforcement Bureau lacks resources to take action in all instances, targets for enforcement action are generally prioritized where a problem appears to be pervasive, represents a trend, affects many consumers, or reflects particularly egregious abuse.

Grounding that approach in an articulated strategy with a rationale and method for resource prioritization could benefit FCC and the Lifeline providers against which it may choose to take action in the future. For example, an enforcement strategy could help FCC and USAC to allocate resources more effectively so that future IDVs are coordinated and any potential problems identified can be used for enforcement within the 1-year statutory time frame for enforcement actions. In addition, a strategy could help enhance the transparency of reasoning behind any enforcement actions that FCC might take and maximize the effectiveness of enforcement activities.

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## Conclusions

Lifeline's large and diffuse administrative structure creates a complex internal control environment susceptible to significant risk of fraud, waste, and abuse. FCC's and USAC's limited oversight of important aspects of program operations further complicates the control environment—heightening program risk. For example, FCC and USAC have limited knowledge about whether individuals receiving Lifeline benefits are truly eligible and are receiving services from providers prior to paying Lifeline providers, or whether Lifeline providers use the state eligibility databases available to them.

Nevertheless, while some academic studies have raised questions whether Lifeline is a costly and inefficient means of achieving universal service, FCC has not evaluated the program to determine whether it is efficiently and effectively meeting its goals, as we recommended in our March 2015 report. In March 2016, FCC expanded the program's performance goals by including subsidies for broadband service.

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However, FCC lacks information about the potential impact of the expansion and about the extent to which it is meeting its goals of telephone subscribership, as FCC reported 96 percent of low-income qualifying households already have phone service. The expansion to broadband may face many of the challenges that arose in 2008 when Lifeline expanded to include non-facilities-based wireless service. In light of our findings, we believe that our March 2015 recommendation remains valid and relevant.

While FCC established a budget mechanism for the first time in 2016, FCC did not establish requirements for approving any additional Lifeline spending beyond budget levels in a timely manner. If the budget is exceeded in the future, absent a requirement for the Commissioners to review and approve additional spending in a timely manner, up to a year or more could pass before the Commission takes any actions, all of which limits the budget's ability to control costs.

FCC and USAC have taken steps to address issues we have raised about the eligibility of subscribers by improving controls to prevent and detect duplicate enrollment through NLAD. In addition, FCC's 2016 order establishing a National Verifier, if implemented as planned, could further help to address weaknesses in the eligibility-determination process. In the interim, as evidenced by our data analysis and undercover testing results, relying on thousands of private companies to verify eligibility creates significant risks. Further, providers may not have access or may be unaware of tools available to them to help facilitate such verification. Maintaining and disseminating an updated list of state eligibility databases would better position providers to have and use such information.

New challenges may also occur given that the 2016 reform order now allows broadband providers to bypass the state ETC designation process, and instead receive designation from FCC, potentially limiting the states' ability to guard against waste and abuse. This change is concerning, as our review of FCC's current ETC designation and compliance plan review process found that FCC has a significant backlog, in part because it has not established time frames for completing such reviews. FCC also does not have documented instructions with criteria for how to evaluate Lifeline compliance plans.

Although classified as federal funds, the USF, with net assets of \$9 billion, is maintained outside the Treasury in an account with a private bank. As a result, OMB observed that USF funds do not enjoy the same

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rigorous management practices and regulatory safeguards as funds for other federal programs. In an effort to improve management and oversight of the funds, FCC has developed a preliminary plan to move the funds to the Treasury. While acknowledging that, we note that several years have passed since this issue was brought to FCC's attention. Further, the preliminary plan would not result in the funds actually being moved to the Treasury until next year, at the earliest, which means the risks that FCC identified will persist and the benefits of having the funds in the Treasury will continue to not be realized in the near term.

Moreover, USAC's ability to provide oversight for the collection and disbursement of billions of dollars of USF funds is complicated by many factors, including the challenge of ensuring that over 6,000 telecommunications carriers pay USF contributions correctly, and do not overcharge USF fees to millions of customers when those fees are passed through to end-users. USAC's contribution audits were conducted on less than 1 percent of carriers for the period we reviewed, and typically found that carriers collected and contributed incorrect amounts of USF fees. When overpayment of USF fees was identified, FCC did not consistently follow up on audit findings to ensure customers are reimbursed and the overcharges stop. FCC recently initiated a new referral process to help address this issue.

When FCC takes action to address program violations, it does so inconsistently, likely because it has not established an enforcement strategy. FCC has also not yet responded to USAC requests for guidance on whether technologies, such as text services, require USF fees. As a result, some carriers collect more from customers and pay more into the fund than others for the same service, though USF fees are required by law to be paid on an equitable and nondiscriminatory basis. Further, when carriers pass through USF charges via line items on customer bills, USAC's contribution audits do not determine whether the labeling meets FCC Truth-in-Billing rules, which are intended to help ensure customer bills are transparent and appropriately labeled and described to help consumers detect and prevent unauthorized charges. Taking action to address these weaknesses would help FCC address risks we identified.

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## Recommendations for Executive Action

To address control weaknesses and related program-integrity risks we identified in Lifeline, we recommend that the Chairman of FCC

- require Commissioners to review and approve, as appropriate, spending above the budget in a timely manner;

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- maintain and disseminate an updated list of state eligibility databases available to Lifeline providers that includes the qualifying programs those databases access to confirm eligibility; this step would help ensure Lifeline providers are aware of state eligibility databases and could also help ensure USAC audits of Lifeline providers can verify that available state databases are being utilized to verify subscriber eligibility;
  - establish time frames to evaluate compliance plans and develop instructions with criteria for FCC reviewers how to evaluate these plans to meet Lifeline's program goals; and
  - develop an enforcement strategy that details what violations lead to penalties and apply this as consistently as possible to all Lifeline providers to ensure consistent enforcement of program violations; the strategy should include a rationale and method for resource prioritization to help maximize the effectiveness of enforcement activities.

To address our findings regarding the USF, we recommend that the Chairman of FCC take action to

- ensure that the preliminary plans to transfer the USF funds from the private bank to the U.S. Treasury are finalized and implemented as expeditiously as possible;
- require a review of customer bills as part of the contribution audit to include an assessment of whether the charges, including USF fees, meet FCC Truth-in-Billing rules with regard to labeling, so customer bills are transparent, and appropriately labeled and described, to help consumers detect and prevent unauthorized charges; and
- respond to USAC requests for guidance and address pending requests concerning USF contribution requirements to ensure the contribution factor is based on complete information and that USF pass-through charges are equitable.

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## Agency Comments and Our Evaluation

We provided a draft of this report to FCC and USAC for review and comment. In written comments, reproduced in appendix IV, FCC generally agreed with our recommendations. FCC and USAC both provided technical comments, which we incorporated as appropriate. USAC did not provide written comments on the draft report.

In commenting on our recommendations, FCC stated that it agreed with the recommendations or outlined actions it was already taking to address

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the recommendation. Regarding our recommendation that the commission respond to USAC requests for guidance and address pending requests concerning USF contribution requirements, FCC noted that it has resolved a number of long-standing requests from contributors and expects to address additional questions in the future, which is consistent with what we recommend. However, FCC went on to comment that the commission referred the question of USF contribution reform to the Federal-State Joint Board on Universal Service; thus, these requests for guidance, as well as many of the remaining pending requests from contributors, may be resolved in that proceeding. Moreover, FCC commented that it recognizes the need for administrative efficiency, but must respect the processes of the institutions in place, which are designed to ensure the long-term sufficiency and predictability of the USF. In our report, we noted the steps taken by FCC in attempts to reform and modernize the USF contribution system, including FCC's 2012 Further Notice of Proposed Rulemaking, and FCC's 2014 recommendation on contribution reform sought from the Federal-State Joint Board on Universal Service. However, these items have been pending for years, and the USAC guidance requests pertaining to carrier USF fee requirements have been pending as far back as 2009. Therefore, we urge FCC to come to a resolution and respond to USAC requests for guidance in a timely manner and address pending requests concerning USF contribution requirements to ensure the contribution factor is based on complete information and that USF pass-through charges are equitable.

Finally, FCC commented on our findings regarding its banking practices surrounding the USF. Specifically, in its letter FCC noted that USF funds currently are maintained in an account with a private bank but that it plans to move them to the Treasury. However, in May 2017, while reviewing a draft of this report, a senior FCC official informed us that FCC had experienced some challenges, such as coordinating across the various entities involved, that raised questions as to when and perhaps whether the funds would be moved as planned. Accordingly, we have revised the report and added a recommendation that FCC ensure that the preliminary plans to transfer the USF funds from the private bank to the Treasury are finalized and implemented as expeditiously as possible. We believe such a recommendation is warranted given the amount of time that has passed since FCC became aware of this issue and given the USF's \$9 billion in net assets, as well as the potential risks and benefits cited by FCC when it initially made the decision to move the funds to the Treasury. We provided FCC and USAC with the revised portions of the report, including

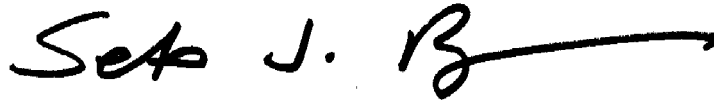
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the new recommendation, for review and comment. FCC agreed with the additional recommendation and USAC provided no comment.

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As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the Chairman of the FCC, the Chief Executive Officer of USAC, and interested congressional committees. This report will also be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-6722 or [bagdoyans@gao.gov](mailto:bagdoyans@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix V.

A handwritten signature in black ink that reads "Seto J. Bagdoyan". The signature is stylized, with a long horizontal line extending from the end of the name.

Seto Bagdoyan, Director  
Forensic Audits and Investigative Service



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# Appendix I: Objectives, Scope, and Methodology

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This appendix discusses in detail our methodology for addressing four research questions: (1) the extent to which the Lifeline program (Lifeline) demonstrates effective performance towards program goals; (2) steps the Federal Communications Commission (FCC) and Universal Service Administrative Company (USAC) have taken to improve financial controls in place for Lifeline and the Universal Service Fund (USF), and any remaining weaknesses that might exist; (3) steps FCC and USAC have taken to improve subscriber-eligibility verification, and any remaining weaknesses that might exist; and (4) steps FCC and USAC have taken to improve oversight of Lifeline providers, and any remaining weaknesses that might exist.

To explore the extent to which Lifeline demonstrates effective performance towards program goals, we reviewed numerous documents including FCC's 2012 Reform Order, FCC's 2016 Modernization Order, and Pew Research Studies cited by FCC in support of expanding Lifeline to include broadband. We followed up on our 2015 work by reviewing two academic studies that evaluated the effect of Lifeline referred to us by FCC. Our prior work determined these academic studies met our criteria for methodological quality. We also gained the perspective of a range of stakeholders through interviews with program agency officials (FCC's Enforcement Bureau, Wireline and Competition Bureau, Office of Managing Director, and Office of General Counsel); officials from Lifeline's program administrator (USAC); state officials (National Association of Regulatory Commissioners); and representatives from an advocacy group with members representing more than 200 national organizations (Leadership Conference on Civil and Human Rights); two of the largest Lifeline providers according to annual disbursements received from Lifeline; and two telecommunications law firms representing numerous Lifeline providers.

To determine the steps taken by FCC and USAC to improve financial controls in place for Lifeline and USF, and any remaining weaknesses that might exist, we examined USAC financial data, including USF bank-account statements, payment data, and financial reports. We performed a walk-through of USAC's processes to enter and approve Lifeline providers and administer USF disbursements. We analyzed 74 USF contribution audits conducted with audit periods in calendar years 2007 through 2013 (approximately the past 5 years of contribution audits issued as of the time we requested them in December 2015). We reviewed USAC guidance requests; FCC Office of Inspector General reports; FCC orders, policies, and other key guidance; and Treasury guidance on fiscal policy. We interviewed officials from USAC's Internal

Audit Division, a USF account manager and attorney with the private bank that holds USF, as well as officials from the U.S. Treasury, Bureau of the Fiscal Service, and FCC's Office of Inspector General. We also attended USAC board meetings.

To evaluate the steps FCC and USAC have taken to improve subscriber-eligibility verification, and any remaining weaknesses that might exist, we performed data analysis to identify potential improper payments using Lifeline's National Lifeline Accountability Database (NLAD) and other beneficiary databases, conducted covert testing of Lifeline providers while posing as Lifeline applicants, reviewed documentation discussing subscriber-validation and eligibility controls, and interviewed officials from FCC and USAC.<sup>1</sup>

To identify potential improper payments, our Lifeline subscriber data analysis determined whether Lifeline subscribers who reported qualifying for the program due to participation in another federal program were enrolled in the specific programs recorded in NLAD. We obtained NLAD data in November 2014. The data contained a snapshot of enrolled Lifeline subscribers as of that date. We selected the three largest qualifying programs identified by FCC to test the eligibility of subscribers in NLAD; the U.S. Department of Agriculture's Supplemental Nutrition Assistance Program (SNAP), the Department of Health and Human Services' Medicaid program, and the Social Security Administration's (SSA) Supplemental Security Income (SSI) program. We obtained nationwide SSI eligibility data from SSA and obtained SNAP and Medicaid data from selected states as these two programs' data are maintained at the state level. Specifically, we obtained SNAP eligibility data from five states and Medicaid eligibility data from six states. As a result, we obtained data from a nongeneralizable selection of states. Our state selections were selected based on the highest dollar amount of 2013 nontribal Lifeline disbursements<sup>2</sup> and were selected to include states that do and do not have a third-party administrator that can make

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<sup>1</sup>NLAD is a Lifeline enrollment database designed to help carriers identify and resolve duplicate claims for Lifeline-supported service and prevent future duplicates. NLAD provides a means for carriers to check on a real-time and nationwide basis whether the consumer is already receiving a Lifeline Program-supported service. The NLAD database was completely implemented by March 2014.

<sup>2</sup>Eligible residents of tribal lands are eligible to receive a monthly discount of up to \$34.25 off of the cost of telephone service, and a onetime discount of up to \$100 on the initial installation or activation of a telephone from an ETC receiving High Cost support.

eligibility determinations and states that do and do not have an eligibility database that can be used by Lifeline providers to validate eligibility in a qualifying Lifeline program.

We obtained SNAP data from Florida, Georgia, Michigan, New York, and Ohio. Lifeline providers in these states received the largest Lifeline disbursements of NLAD participating states. We identified Florida as a state with a third-party administrator that verifies eligibility. We identified Georgia, Michigan, and New York as states with an eligibility database that can be used to validate enrollment in a Lifeline qualifying program. Ohio did not have an eligibility database or third-party administrator at the time of our state selection. We utilized Center for Medicare & Medicaid Services (CMS) Medicaid Statistical Information System (MSIS) data to obtain Medicaid eligibility information from Florida, Georgia, Michigan, Nebraska, New York, and Ohio. Nebraska was another state identified as using a third-party administrator to verify eligibility, and was selected as an alternative to Florida because the Florida Medicaid data at the time of our state selection were only validated through 2011. However, during the course of our audit, Florida validated Medicaid data that met our review time frame. Consequently, both states were included in our analysis of Medicaid eligibility data.

To assess the reliability of the different datasets, we interviewed officials from agencies responsible for their respective databases to discuss data-related considerations and performed electronic testing to determine the validity of specific data elements in the federal and selected state databases that we used to perform our work. We also reviewed related documentation, including data layouts and information on database controls. On the basis of our discussions, documentation review, and our own electronic testing of the data, we concluded that the data fields used for this report were sufficiently reliable for the purpose of this engagement. However, we did identify issues in the NLAD data that suggested the potential for data-entry errors (such as a February 30 birthdate). We excluded cases that were clearly in error from our analysis.

We utilized the most up-to-date SNAP and MSIS data available at the time of our analysis. The six states selected for our Medicaid analysis had eligibility dates from the third quarter of 2012 through the most recent eligibility fiscal quarter available for each state—at the time of our data request—which ranged from the third quarter of 2012 to the fourth quarter of 2014. Specifically, Medicaid eligibility data for Florida and Michigan were available through September 2013; for Nebraska and Ohio, through December 2013; and for Georgia and New York, through September

2014. For our analysis of NLAD and Medicaid data, we only matched against Lifeline subscribers that enrolled prior to the latest Medicaid eligibility data available for each state. States can take up to 3 years to adjust their Medicaid data, and as a result beneficiaries can be included or excluded retroactively. Because Medicaid data are collected and maintained by the states, the consistency, quality and completeness of the data can vary from state to state.

Our nationwide SSI eligibility data ranged from October 2012 to December 2014, and each of the five selected states' SNAP data ranged from October 2013 to December 2014. Therefore, it was not necessary to exclude any Lifeline subscribers prior to matching. In the event that any of the Lifeline subscribers were only shown as eligible for the month of December 2014, they were nevertheless counted as a match and deemed likely eligible for Lifeline, even though NLAD data were only as of November 2014.

To ensure that our tabulations of unconfirmed eligibility are not overstated, we excluded any Lifeline subscribers that were enrolled in NLAD after the date range available for our review for each qualifying program. For example, if NLAD showed a subscriber enrolled in Lifeline in July 2014 and the corresponding date range for the qualifying program we reviewed had enrollment data only through December 2013, then this subscriber was excluded from our matching results. To further prevent the possibility of overstating unconfirmed eligibility, we counted subscribers as likely eligible for Lifeline if the Lifeline subscriber was enrolled in the qualifying programs at any time within the range of dates provided to us for each qualifying program we reviewed. For example, if NLAD shows a subscriber enrolled in April 2014, but was not enrolled in the qualifying program until June 2014, it was nevertheless counted as a match and that the subscriber was likely eligible for Lifeline. As a result, we are likely understating the unconfirmed match rate as some individuals may have enrolled in the qualifying program after the Lifeline enrollment date. However, given the potential for data-entry errors in NLAD, there is also potential for overstatement of unconfirmed eligibility.

We conducted work to determine that each subscriber was enrolled in a Lifeline qualifying program. To do this, we matched NLAD data to the SNAP, Medicaid, and SSI data to identify potential improper payments. We compared the enrolled Lifeline subscriber identity information recorded in NLAD as of November 2014 to the SNAP, Medicaid, and SSI eligibility data. For the purpose of our analysis, we considered a subscriber in NLAD to be a likely match and enrolled in SNAP if at least

four of the following fields matched between NLAD and SNAP data from each state: subscriber first name; subscriber last name; subscriber date of birth; last four digits of the subscriber's Social Security Number (SSN); and an exact address, zip-code, and state match. We considered a subscriber listed in NLAD to be a likely match and enrolled in SSI if the subscriber first name, last name, date of birth, and last four digits of the SSN matched exactly with the SSI program data.

To ensure that our tabulations of unconfirmed eligibility do not overstate potential problems with the data, for SNAP and SSI we counted first and last name matches with inexact, but similar, spelling to be a likely match and enrolled in the qualifying programs. Whereas, for Medicaid, we considered a subscriber listed in NLAD as a likely match enrolled in the qualifying program if the date of birth, last four digits of the SSN, and zip code matched exactly with Medicaid data for each state because the Medicaid data we utilized did not contain beneficiary first or last name information. As a result of not using first or last name, our Medicaid matching may understate unconfirmed eligibility for Medicaid. We also matched NLAD data against the SSA's Death Master File (DMF) to identify subscribers that were listed as deceased at least 1 year prior to their initial Lifeline enrollment or required annual Lifeline recertification. To ensure that our tabulations of those Lifeline subscribers showing deceased in the DMF were not overstated, we required an exact match between NLAD and the DMF for the following four fields: first name, last name, date of birth, and last four digits of the SSN.

The results of our data matching are not generalizable to any other state or qualifying Lifeline program. It is not possible to determine from data matching alone whether these matches definitively identify recipients who were not eligible for Lifeline benefits without reviewing the facts and circumstances of each case. For example, we could not identify based on the data alone whether there were data-entry errors at the time of enrollment incorrectly stating the qualifying Lifeline program presented by the subscriber at the time of enrollment. Alternatively, our matches may also understate the number of deceased individuals receiving assistance because matching would not detect Lifeline subscribers whose identifying information in the Lifeline qualifying program data differed slightly from their identifying information in NLAD.

To test subscriber controls and the vulnerability of improper payments, we also conducted undercover testing of 19 Lifeline providers to determine whether we could obtain Lifeline service using fictitious eligibility documentation. We selected these providers based on the providers with

the largest 2014 Lifeline disbursements that allowed us to apply electronically, through telephone, fax, or mail. We submitted 21 Lifeline benefit applications or otherwise attempted to obtain service using false information and fabricated supporting documents. These undercover tests were for illustrative purposes and are not generalizable. We also reviewed FCC's Lifeline Reform and Modernization Orders, FCC and USAC documentation discussing subscriber controls, FCC guidance, and Lifeline enforcement actions and proposed penalties for violations of Lifeline rules.

To determine the steps FCC and USAC have taken to improve oversight of Lifeline providers, and any remaining weaknesses that might exist, we met with officials from FCC, FCC's Office of Inspector General, USAC, and two Lifeline providers. We reviewed FCC documentation, including Lifeline Reform Orders, Lifeline provider enforcement actions, and required Eligible Telecommunications Carrier (ETC) petitions and Lifeline compliance plans. We reviewed USAC documentation, including audits conducted by USAC and certified public-accounting firms, Lifeline subscriber complaints, and work performed to identify duplicate subscribers. We reviewed information on 93 USAC Lifeline Beneficiary and Contributor Audit Program (BCAP) audits. We also analyzed reports released by the FCC Office of Inspector General.

We conducted this performance audit from June 2014 to May 2017 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. We conducted our related investigative work in accordance with investigative standards prescribed by the Council of the Inspectors General on Integrity and Efficiency.

# Appendix II: Nationwide Percentage of Likely Lifeline Eligibility Confirmed and Unconfirmed for those Claiming Eligibility, Based on Supplemental Security Income

**Table 3: Nationwide Percentage of Likely Lifeline Eligibility Confirmed and Unconfirmed for those Claiming Eligibility, based on Supplemental Security Income (SSI)**

	Total population	Total confirmed	Percentage confirmed as eligible	Percentage not confirmed as eligible
<b>All</b>	<b>460,745</b>	<b>162,408</b>	<b>35.3%</b>	<b>64.7%</b>
State				
Alaska (AK)	1,698	543	32.0%	68.0%
Alabama (AL)	15,582	4042	25.9%	74.1%
Arkansas (AR)	5,640	1681	29.8%	70.2%
Arizona (AZ)	15,396	4795	31.1%	68.9%
Colorado (CO)	4,710	2297	48.8%	51.2%
Connecticut (CT)	3,365	1,109	33.0%	67.0%
District of Columbia (DC)	1,100	430	39.1%	60.9%
Delaware (DE)	1,087	233	21.4%	78.6%
Florida (FL)	38,421	11,677	30.4%	69.6%
Georgia (GA)	22,583	4,756	21.1%	78.9%
Hawaii (HI)	730	259	35.5%	64.5%
Iowa (IA)	2,429	1,046	43.1%	56.9%
Idaho (ID)	492	292	59.3%	40.7%
Illinois (IL)	20,359	6,359	31.2%	68.8%
Indiana (IN)	6,114	3,018	49.4%	50.6%
Kansas (KS)	5,732	2,742	47.8%	52.2%
Kentucky (KY)	13,251	7,028	53.0%	47.0%
Louisiana (LA)	17,768	5,830	32.8%	67.2%
Massachusetts (MA)	24,488	8,651	35.3%	64.7%
Maryland (MD)	9,078	2,899	31.9%	68.1%
Maine (ME)	2,701	994	36.8%	63.2%
Michigan (MI)	15,616	5,101	32.7%	67.3%
Minnesota (MN)	4,627	2,304	49.8%	50.2%
Missouri (MO)	8,579	3,199	37.3%	62.7%
Mississippi (MS)	16,497	7,643	46.3%	53.7%
Montana (MT)	557	232	41.7%	58.3%
North Carolina (NC)	16,011	3,691	23.1%	76.9%
North Dakota (ND)	258	88	34.1%	65.9%
Nebraska (NE)	59	28	47.5%	52.5%
New Hampshire (NH)	1,441	521	36.2%	63.8%
New Jersey (NJ)	11,023	3,727	33.8%	66.2%

**Appendix II: Nationwide Percentage of Likely  
Lifeline Eligibility Confirmed and Unconfirmed  
for those Claiming Eligibility, Based on  
Supplemental Security Income**

	Total population	Total confirmed	Percentage confirmed as eligible	Percentage not confirmed as eligible
New Mexico (NM)	7,573	2,693	35.6%	64.4%
Nevada (NV)	5,593	1,285	23.0%	77.0%
New York (NY)	29,882	11,585	38.8%	61.2%
Ohio (OH)	31,988	11,656	36.4%	63.6%
Oklahoma (OK)	13,309	3,447	25.9%	74.1%
Pennsylvania (PA)	29,659	12,596	42.5%	57.5%
Rhode Island (RI)	2,062	880	42.7%	57.3%
South Carolina (SC)	5,609	1,814	32.3%	67.7%
South Dakota (SD)	395	133	33.7%	66.3%
Tennessee (TN)	16,023	5,980	37.3%	62.7%
Utah (UT)	1,390	472	34.0%	66.0%
Virginia (VA)	9,241	2,383	25.8%	74.2%
Washington (WA)	11,478	5,898	51.4%	48.6%
Wisconsin (WI)	6,833	3,467	50.7%	49.3%
West Virginia (WV)	2,252	874	38.8%	61.2%
Wyoming (WY)	66	30	45.5%	54.5%

Source: GAO analysis of Lifeline enrollment data and Supplemental Security Income (SSI) data | GAO-17-538



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# Appendix III: Additional Information about Beneficiary and Contributor Audits

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Beneficiary and Contributor Audit Program (BCAP) audits are conducted on each Universal Service Administrative Company (USAC) program in accordance with Generally Accepted Government Auditing Standards, with their primary purpose to ensure compliance with Federal Communications Commission (FCC) rules and program requirements, and to assist in program compliance. As part of these audits, USAC determines whether the number of Lifeline subscribers that providers claim for reimbursement can be supported by the providers' internal records. The scope of these audits does not include work to determine whether Lifeline service was working for subscribers, or to determine the extent of any service issues and how many potential subscribers could be affected. USAC officials told us that, before fiscal year 2016, many of the audited entities were randomly selected, and the selection process was designed to provide a wide variety of entities with regard to size and geographic location. Starting in fiscal year 2016, USAC implemented a risk-based selection method to audit the entities with the greatest risk.

A small percentage of Lifeline providers and Lifeline disbursements undergo BCAP audits. Of the 93 BCAP Lifeline audits with audit periods covering Lifeline disbursements from 2010 to 2014, 13 were of providers that received less than \$1,000 in support during the period reviewed by USAC. In its 2012 Reform Order, FCC directed USAC to audit new carriers within the first year they begin receiving federal low-income Universal Service Fund (USF) support.<sup>1</sup> FCC concluded that an initial audit will aid efficient administration of the program by confirming early on that the new Eligible Telecommunications Carriers (ETC) are providing Lifeline service in accordance with program requirements. According to USAC, many of these required audits were of carriers with nominal subscribers, and thus, in receipt of nominal disbursements. Table 4 below illustrates the audit coverage from BCAP audits from 2010 to 2014 and displays the percentage of carriers that were audited and the percentage of the total USAC Lifeline provider disbursement during these periods.

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<sup>1</sup> FCC 12-11, para. 288-290.

**Appendix III: Additional Information about  
Beneficiary and Contributor Audits**

**Table 4: Universal Service Administrative Company Beneficiary and Contributor Audit Program Audits for Calendar Years 2010–2014**

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Number of audits conducted	7	27	0	41	18
Total audited Eligible Telecommunications Carriers (ETC) Lifeline disbursement	\$4.3 million	\$17.1 million	\$0	\$11.6 million	\$1.2 million
Total ETC Lifeline disbursement	\$1.2 billion	\$1.6 billion	\$2.1 billion	\$1.8 billion	\$1.6 billion
Percentage of Lifeline disbursement audited	0.36%	1.07%	0%	0.65%	0.08%

Source: GAO calculations based on Universal Service Administrative Company (USAC) data. | GAO-17-538

The audit findings for the audits we reviewed found that some carriers were not complying with Lifeline rules in some capacity, such as inaccurate Lifeline subscriber claim reporting, inaccurate recertification reporting, and lack of required subscriber certification documentation.

As part of the BCAP audit, USAC officials stated they generally review a Lifeline provider’s operations in one or two states during a 1-month period of time regardless of how many states the provider operates in. USAC officials told us that when it notes a material issue that could impact the program from a holding company level, the audit work is expanded. For example, during an audit of one provider, USAC found the company was failing to reenroll subscribers, which led to a \$10.9 million forfeiture assessed by FCC.

# Appendix IV: Comments from the Federal Communications Commission



Federal Communications Commission  
Washington, D.C. 20554

May 9, 2017

David Bruno  
Assistant Director  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548  
[brunod@gao.gov](mailto:brunod@gao.gov)

Dear Mr. Bruno:

Thank you for the opportunity to review and comment on the Government Accountability Office's (GAO) draft Report entitled *Additional Action Needed to Address Significant Risks in FCC's Lifeline Program* (GAO-17-538).<sup>1</sup> The Federal Communications Commission (Commission or FCC) is committed to fulfilling its responsibilities under Section 254 of the Telecommunications Act of 1996 (the Act) to advance the availability of communications services to low-income consumers and to do so in a fiscally responsible manner.<sup>2</sup> The draft Report contains thoughtful analyses and recommendations concerning the Commission's obligations pursuant thereto.

In its draft Report, GAO finds weaknesses in several areas. Specifically, GAO finds that "Lifeline's structure relies on over 2,000 private companies that are Lifeline providers to implement key program functions, such as verifying subscriber eligibility. This complex internal control environment is susceptible to risk of fraud, waste, and abuse as companies may have financial incentives to enroll as many customers as possible." GAO was also "unable to confirm whether about 1.2 million individuals of the 3.5 million it reviewed, or 36 percent, participated in a qualifying benefit program, such as Medicaid, as stated on their Lifeline enrollment application." GAO found other weaknesses as well, such as "a single address . . . associated with 10,000 separate subscribers, all receiving benefits from the same Lifeline provider" even though the address "could not be verified by the U.S. Postal Service address verification system," and "5,408 individuals reported as deceased who are receiving Lifeline benefits." And GAO noted that the Universal Service Fund, with net assets of \$9 billion, is maintained outside the Department of the Treasury in a private bank account.

GAO makes the following four recommendations to address control weaknesses and program integrity risks in the Lifeline program: (1) require Commissioners to review and approve, as appropriate, spending above the budget in a timely manner; (2) maintain and disseminate an updated list of state eligibility databases available to Lifeline providers that includes the qualifying programs those databases access to confirm eligibility; (3) establish timeframes to evaluate compliance plans and instructions with criteria for FCC reviewers regarding how to evaluate these plans to meet Lifeline program goals; and (4) develop an enforcement strategy that details what violations lead to penalties and apply this as consistently as possible to all Lifeline providers to ensure consistent enforcement of program violators (including a rationale and methods for resource prioritization).

In addition, GAO provides the following two recommendations concerning the Universal Service contribution methodology: (1) require a review of customer bills as part of the contribution audit process to include an assessment of whether charges, including Universal Service Fund (USF) fees, meet FCC

<sup>1</sup> Government Accountability Office, *Additional Action Needed to Address Significant Risks in FCC's Lifeline Program*, GAO-17-538 (May 2017) (GAO Draft Report or Draft Report).

<sup>2</sup> 47 U.S.C. § 254(b); *Universal Service First Report and Order*, 12 FCC Rcd at 8955, para. 335.

Truth-in-Billing rules; and (2) respond to Universal Service Administrative Company (USAC) requests for guidance and address pending requests concerning USF contribution requirements.

We appreciate GAO's attention to the Lifeline program and its recommendations. We address each of GAO's recommendations below.

**Budget Approval.** GAO recommends that FCC Commissioners review and approve spending above the budget in a timely manner.

Chairman Pai has emphasized the importance of implementing and administering the Lifeline program in a fiscally responsible manner.<sup>3</sup> To that end, establishing an enforceable budget remains a key component of the Chairman's commitment to the Lifeline program. In April 2016, before becoming Chairman, as part of then Commissioner Pai's statement in dissent of the *Lifeline Modernization Order*, he observed the Commission's \$2.25 billion annual Lifeline budget neglected to constrain spending because Commission action is not required to exceed the budget.<sup>4</sup> Instead, similar to GAO's findings, then Commissioner Pai noted the *Order* contained only a reporting trigger requiring the Wireline Competition Bureau (WCB) to issue a report by July of the following year if Lifeline disbursements exceed 90 percent of the budget in a previous calendar year.<sup>5</sup> Chairman Pai has directed WCB and the Office of Managing Director (OMD) to examine options for the Commission to address GAO's recommendation in future Lifeline program proceedings.

**Disseminate Updated List of State Eligibility Databases.** GAO observed a low number of Lifeline providers have access to databases (e.g., Medicaid, Supplemental Nutrition Assistance Program (SNAP)) to confirm subscriber eligibility, and that some providers were unaware of available state eligibility databases.<sup>6</sup> GAO recommends Lifeline providers should know the states with program-based eligibility databases to better determine applicant eligibility prior to enrollment.<sup>7</sup> In doing so, GAO emphasizes that maintaining and identifying an updated list of state Lifeline eligibility databases enhances Lifeline providers' awareness and use of such databases.<sup>8</sup> In addition, GAO states that such a list enables USAC, in coordination with the states, to determine Lifeline provider access to state eligibility databases and provides confidence that providers are fulfilling their responsibility of enrolling only eligible subscribers.<sup>9</sup>

We agree with GAO's recommendation and have implemented procedures to disseminate updated lists of state eligibility databases to Lifeline providers. Specifically, WCB and OMD, in collaboration with USAC, will compile a comprehensive list of state databases that may be used to verify consumers' eligibility for Lifeline participation. Once compiled, USAC will post this list on its website, updated every six months, and share it with Lifeline providers via e-mail on a regular basis. In addition, as GAO recognizes, the Commission is working to establish a National Lifeline Eligibility Verifier (National Verifier) to make eligibility determinations and perform other functions necessary to enroll

<sup>3</sup> Dissenting Statement of then Commissioner Ajit Pai, *Lifeline and Link Up Reform and Modernization*, Third Report and Order, Further Report and Order, and Order on Reconsideration, 31 FCC Rcd 3962, 4165-66 (2016) (*Dissenting Statement*).

<sup>4</sup> *Dissenting Statement* at 4166.

<sup>5</sup> *Id.*

<sup>6</sup> See GAO Draft Report at 42-44.

<sup>7</sup> See GAO Draft Report at 46.

<sup>8</sup> See GAO Draft Report at 46. See also 47 CFR § 54.410(c)(1)(i)(A) (requiring Lifeline providers to utilize eligibility databases to verify consumer eligibility where they can do so).

<sup>9</sup> See GAO Draft Report at 46.

eligible subscribers into the Lifeline program.<sup>10</sup> Once operational, the responsibility for eligibility determinations will shift from Lifeline providers to the National Verifier. We anticipate the National Verifier will begin to allow for this transition starting in late 2017.

**Compliance Plan Time Frames & Instructions.** GAO recommends that the Commission establish timeframes and criteria for reviewing compliance plans submitted by non-facilities-based service providers seeking to participate in the Lifeline program.<sup>11</sup>

We appreciate this recommendation to improve the function of the agency's compliance plans review process. The Commission's review of compliance plans focuses on various factors including the number of service providers participating in the Lifeline program, the relevant geographic area, and the nature of the proposed Lifeline offerings. To minimize the potential for waste, fraud, and abuse, the Commission also considers the service provider's internal procedures, history, and financial and technical ability to provide Lifeline service in compliance with Lifeline program rules. Fiscal responsibility and program integrity are two of the Commission's top priorities for the Lifeline program. Keeping these priorities and GAO's specific recommendation in mind, WCB and OMD will consider ways to best conduct compliance plan reviews while ensuring the integrity of the Lifeline program.

**Enforcement Strategy.** GAO recommends that the Commission develop an enforcement strategy that details what violations lead to penalties and apply this as consistently as possible to all Lifeline providers to ensure consistent enforcement of program violations; the strategy should include a rationale and method for resource prioritization to help maximize the effectiveness of enforcement activities.<sup>12</sup>

We agree with the recommendation concerning the importance of a consistent enforcement strategy to maintaining the integrity of the Lifeline program. The Commission's Enforcement Bureau (EB) will be taking a comprehensive view of Lifeline cases in order to improve consistency in its Lifeline enforcement strategy, including imposition of monetary penalties and other corrective actions. Pertinent EB managers will meet regularly with the Lifeline team to discuss referrals and complaints related to the Lifeline program, review the progress of existing cases, and identify any trends of potential Lifeline violations. The Lifeline team will identify cases that most merit enforcement action, such as matters that address such trends or involve potentially egregious violations. Prospectively, the Lifeline team will meet regularly to discuss potential and ongoing investigations, and will reach out to the appropriate bureaus and USAC to gather information as necessary. In addition, EB will continue efforts to streamline the USAC referral process to help encourage timely referral of potential violations. We believe that these actions will increase consistent enforcement action related to the Lifeline program. We note, however, that every case is unique, and specific enforcement action will depend on myriad factors, including staff resources, the willfulness and egregiousness of the violation, the financial resources of the target of the investigation, and the specific information that the EB uncovers in its investigation.

**USF Fees and Customer Bills.** GAO recommends that the Commission require a review of customer bills as part of audits of USF contributors to include an assessment of whether the charges, including USF fees, meet the FCC's Truth-in-Billing rules with regard to labeling so customer bills are transparent and appropriately labeled and described to help consumers detect and prevent unauthorized charges.

Currently, as part of the Commission's ongoing oversight of the USF system, the FCC has directed USAC to perform audits of both USF beneficiaries and contributors to ensure compliance with the Commission's rules and to promote efficiency and effectiveness in the program's functions. As GAO

<sup>10</sup> *Lifeline and Link Up Reform and Modernization*, Third Report and Order, Further Report and Order, and Order on Reconsideration, 31 FCC Rcd 3962, 4006, para. 126 (2016).

<sup>11</sup> GAO Draft Report at 50-51.

<sup>12</sup> GAO Draft Report at 61.

notes in its report, as part of the contributor audits, USAC's auditors review carriers' bills to ensure that carriers are complying with the Commission's rules and not charging USF fees to customers beyond the assessable contribution rate. Using the knowledge gained through these audits, USAC's website provides carriers with information about how to avoid common audit findings related to billing issues. Furthermore, the Commission's website provides consumers with information about their rights concerning billing through consumer guides. In addition, consumers may file complaints with the FCC about Truth-in-Billing issues through the FCC's online complaint system. The FCC sends certain billing complaints directly to the carriers to obtain a response for the consumer, and the FCC may also pursue enforcement actions against carriers for violating the Commission's Truth-in-Billing rules. Finally, as an additional layer of oversight and in accordance with GAO's recommendation, the Commission is evaluating if and how USAC could amend the procedures used by USAC's auditors for contributor audits to assess whether the USF assessments on carriers' bills are transparent and appropriately labeled in accordance with the FCC's Truth-in-Billing rules.

**USAC Requests for Guidance.** GAO recommends that the Commission respond to USAC requests for guidance and address pending requests concerning USF contribution requirements.<sup>13</sup>

Within the last few months WCB has resolved a number of long-standing requests from contributors and in the process provided necessary guidance to participants.<sup>14</sup> WCB expects to address additional questions in the near future.

Moreover, as GAO observed, the three pending requests for guidance from USAC involve complicated and wide-ranging issues regarding the overall contribution base that must be determined in a proceeding before the full Commission. With those issues in mind, the Commission referred the question of contributions reform to the Federal-State Joint Board on Universal Service; thus, these requests for guidance, as well as many of the remaining pending requests from contributors, may be resolved in that proceeding. Although we recognize the need for administrative efficiency, we also must respect the processes of the institutions in place, which are designed to ensure the long-term sufficiency and predictability of the Universal Service Fund.<sup>15</sup>

In addition to the above executive recommendations, throughout the Draft Report, GAO provides analysis concerning improving: (1) performance towards program goals; (2) USF program financial controls; (3) eligibility verification; and (4) oversight of Lifeline providers. For example, GAO acknowledges that the FCC and USAC have planned improvements to the USF program's financial controls but weaknesses remain.<sup>16</sup> Some of these weaknesses, such as transparency on customer bills and Lifeline budget expenditures, are addressed above. In addition, GAO raised concerns regarding USAC's management of USF funds, but determined that the FCC has plans to mitigate these risks, which include among other things, a plan to move USF funds to the Department of Treasury, amend the USAC contract with Bank of America to provide the FCC authority to direct bank activities with respect to the USF in the event USAC ceases to be the USF administrator, and other related improvements.<sup>17</sup> GAO further reported

<sup>13</sup> GAO Draft Report at 31-33.

<sup>14</sup> *Universal Service Contributions Methodology; Application for Review by American Teleconferencing Services, Ltd. d/b/a Premiere Global Services*, WC Docket No. 06-122, 31 FCC Rcd 10773 (WCB 2016); *Universal Service Contributions Methodology; Federal-State Joint Board on Universal Service; American Telecommunications Systems Inc. Application for Review; Eureka Broadband Corporation Petition for Reconsideration; Value-Added Communications, Inc. Petition for Review; InComm Solutions, Inc. Request for Review; Five9, Inc. Request for Review*, WC Docket No. 06-122; CC Docket No. 96-45, 32 FCC Rcd 535 (WCB 2017).

<sup>15</sup> 47 U.S.C. §254(b)(5).

<sup>16</sup> GAO Draft Report at 19-32.

<sup>17</sup> GAO Draft Report at 22-23.

**Appendix IV: Comments from the Federal  
Communications Commission**

on USAC's efforts to enhance the accuracy of the National Lifeline Accountability Database (NLAD) beneficiary eligibility data entered by Lifeline providers<sup>18</sup> and noted that USAC has improved efforts to use data analytics to check NLAD data quality, and recognized that the implementation of the National Verifier should help mitigate GAO's critique.<sup>19</sup> We appreciate GAO's acknowledgement of ongoing FCC and USAC efforts in these areas.

Thank you for the opportunity to respond to the draft Report and please do not to hesitate to contact us if you have questions or would like to discuss further.

Sincerely,

		
Mark Stephens Managing Director Office of Managing Director	Kris Monteith Acting Chief Wireline Competition Bureau	Michael Carowitz Acting Chief Enforcement Bureau

<sup>18</sup> GAO Draft Report at 42.

<sup>19</sup> GAO Draft Report at 43.

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# Appendix V: GAO Contact and Staff Acknowledgments

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## GAO Contact

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In addition to the contact named above, Dave Bruno (Assistant Director), Scott Clayton (Analyst-in-Charge), and Daniel Silva made key contributions to this report. Other contributors include Maurice Belding, Gary Bianchi, Clayton Clark, Julia DiPonio, Michelle Duren, Colin Fallon, Robert Graves, Scott Hiromoto, Mary Catherine Hult, Mitch Karpman, Lauren Kirkpatrick, Barbara Lewis, George Ogilvie, Joshua Parr, Ramon Rodriguez, and Julie Spetz.



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