

Opening Statement of Ranking Member Claire McCaskill

Thursday, September 14, 2017

“FCC’s Lifeline Program: A Case Study of Government Waste and Mismanagement”

First, I’m really grateful Mr. Chairman that you agreed to hold this hearing. It is really important. I have been working on this, as Chairman Pai will tell you, for years. It all began when I got a solicitation for a free phone at the condominium I stay at in Washington. I looked at it and thought “what in the world?” and brought it to work and said “what is this?” I then began to dive in and realized how poorly designed this program was from the get-go. You correctly pointed out that this program began under Reagan. The wireless part of this program began under President Bush. This program was set up in a way that was fatally flawed under President Bush. Then these phones became known as the “Obama Phones,” so I want to make sure everyone knows there are lots of parents of this particular program that has gone awry. We are going to spend a lot of time talking today about what has gone wrong with the lifeline program. I know there are lots of people who depend on the lifeline program, and I know that we need to look at ways we can support them. But the idea that we can continue a program that is still structurally deficient, in the same way we have been doing it, is frankly a non-starter for me.

The combination of ineffective oversight and the greed of private carriers has led to hundreds of millions of dollars of wasted public money. Since 2014, when the GAO began the most recent audit that I requested, the FCC has identified and pursued several companies that have fraudulently profited from the lifeline program. However, this investigation demonstrates this may only be the tip of the iceberg. GAO’s multiyear audit found evidence suggesting that lifeline may have paid more than \$138 million a year in subsidies for 1.2 million potentially fraudulent accounts. We’re not talking about highly sophisticated fraud here. There were 1.2 million accounts that were either duplicates of existing subscribers or there was no record that the listed subscriber was actually eligible or where the subscriber is dead. It should not have taken a three-year GAO audit to spot these glaring red flags. I am so grateful for GAO’s hard work. I asked them to assess the effectiveness of the 2012 reforms, which began after my solicitation in 2011, and I began hollering about this on the Commerce Committee. I don’t believe any of us could have anticipated the extent of the problems that GAO would uncover, in spite of the 2012 reforms.

I would like to personally thank GAO who has spent more than three years on this, and I would like to thank the team, your team Mr. Bagdoyan, that did this. I know that, as a former auditor, there is a tremendous amount of focus and dedication needed for an audit like this. I also know that the FCC and the USAC have taken steps to improve the oversight. Today we will hear from the FCC Chairman and the Acting Executive Director of USAC about the efforts underway to combat the waste, fraud, and abuse that have long plagued this program. I do not

doubt the sincerity of the FCC and USAC and their desire to address the shortcomings. The reality is that these are not new problems, which investigative journalists and the FCC OIG and many of my colleagues in congress have pointed out time and time again over the last decade.

Chairman Pai, you have been among those who have brought attention to lifeline's serious weaknesses. During your time as an FCC Commissioner, you urged the FCC to implement much needed reforms and called for proactive measures to increase accountability and more aggressive enforcement. Now that you are leading the Commission, I am cautiously optimistic about the possibility of meaningful reform. I know that you are aware that past attempts to increase accountability have fallen woefully short. One of the reasons for these past failures is that many of the weaknesses are deeply entrenched in the basic structure of the program. You don't tell people that they get to verify whether or not somebody needs a phone when they are the ones that are going to make the money if they verify the phone. It will never work because the incentives are in the wrong place. The incentives are to override the database. The incentives are to put more people on the program because every person you put on the program is \$9.25 a month to your company, and it is just a money maker to push the envelope.

It does not take an auditor to tell you it might not be the best idea to blindly trust the companies that are going to make the money who receive \$1.5 billion from this program based on the number of accounts they receive. The FCC has taken the initial step to address this structural flaw by creating the National Eligibility Verifier to independently screen eligibility; however, last year's lifeline reform order does not require that crucial reform to be complete until the end of 2019 and there are still mechanisms to override that the companies can do. So if we know the companies are overriding the database now, I have no confidence they are not going to override and self-certify over the National Verifier.

We have made progress—I do want to acknowledge that. This program went from about \$800 million to \$2.2 billion in breakneck speed, then we began the reforms and found massive duplications, and it fell down to about \$1.5 billion now. We just skimmed the surface and found \$600 million which, by the way, is real money that is desperately needed for rural broadband deployment. I have a lot of questions particularly on the enforcement end. We have \$94 million that has been identified that should be paid back. The companies that should be paying this back get over \$1 billion a year from this program and, guess what, they have not paid us a dime—not one thin nickel. I do not understand why we keep paying these companies who owe us money, so be prepared for that question as I need an answer. Thank you, Mr. Chairman, for this hearing.