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Homeland Security and Governmental Affairs
FCC's Lifeline Program: A Case Study of Government
Waste and Mismanagement
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Good morning, Chairman Johnson, Ranking Member McCaskill, and Members of the

Committee. Thank you for this opportunity to represent the Universal Service Administrative

Company (USAC) and its hard-working professionals who conscientiously strive to ensure

Lifeline program integrity and performance. I look forward to discussing USAC's efforts to

effectively and efficiently implement the Federal Communications Commission's (FCC) Lifeline

program as part of the Universal Service Fund (USF).

I am honored to appear here today alongside Chairman Pai. It is my privilege to work

together with him and our colleagues at the FCC to ensure that the intent and expectations of this

Congress and the FCC are met and yes, even exceeded, for the Lifeline program.

I am also honored to be here today with Mr. Bagdoyan of the Government Accountability

Office (GAO). My colleagues and I at USAC appreciate the hard work and keen eye his staff

have brought to their review of Lifeline and universal service issues. Their analysis and

questions, as reflected by this most recent GAO report and all of the GAO reports on the Lifeline

program, raise the right issues and directly contribute to our ability to improve program

performance and root out waste, fraud and abuse.

I joined USAC in February 2016, after serving in various positions at the FCC for over

14½ years. I held leadership roles in the FCC bureaus charged with universal service policy and

enforcement matters. As such, I brought to USAC an up-close understanding of the FCC's goals

for the USF and its programs as well as an understanding of the importance of a strong working relationship between the FCC and USAC. I am committed to building upon that relationship.

I want to assure the Committee that sound fiscal stewardship of the taxpayers' money, who ultimately fund the universal service programs, is of paramount importance to me and to my colleagues at USAC. I am committed to ensuring that not one cent of universal service funds is wasted, and that the USF monies are spent only as directed by the FCC's rules and requirements.

In this testimony, I seek to describe the role USAC plays in administering the Lifeline program. I will endeavor to provide you with the fullest accounting possible of the efforts USAC is taking to improve program integrity and performance, including actions initiated before and since the release of the 2017 GAO Lifeline Report. In particular, I will describe our efforts to be responsive to the GAO report and Chairman Pai's subsequent directive, as well as other administrative changes that USAC has implemented to strengthen the subscriber eligibility verification process and the oversight of Lifeline providers.

The Role of USAC

Over 30 years ago, the FCC began the Lifeline program, and in the Telecommunications Act of 1996 (1996 Act), Congress ratified and expanded the program with the aim of narrowing the digital divide through the principle that "consumers in all regions, including low-income consumers . . . should have access to telecommunications and information services." The Lifeline program impacts the lives of millions of Americans every day and meets the goals set forth by Congress in Section 254 of the Communications Act, as amended by the 1996 Act.

Since it was established, USAC, as USF administrator, has endeavored to ensure that the intent of Congress and the FCC is faithfully followed. In 1998, USAC was designated as the permanent administrator to manage the day-to-day operations of the Lifeline program and other

USF programs including the Schools and Libraries program (commonly referred to as the E-rate program), High Cost (now referred to as the Connect America Fund), and the Rural Health Care program, and overall management of the fund, including contributions, disbursements, auditing USF recipients and contributors, and reporting to the FCC. USAC does not establish policy and may not advocate policy decisions.

As administrator, USAC works closely with the FCC to implement policies and guidance promulgated by the FCC. USAC also works with program participants and the public to provide training and information concerning the Lifeline program. USAC has built upon its experience and has used technological advances, such as the use of third-party identity verification, to safeguard the USF and to make its programs more effective and efficient. Where problems have arisen, we take responsibility and drive hard to implement solutions. USAC is committed to continuous improvement.

In May 2017, the GAO issued a report casting a critical spotlight on the administration of the Lifeline program. Among its many findings, the GAO expressed concern about efficiencies in the Lifeline program, program oversight, and the risk of waste, fraud, and abuse. Over the last few years, USAC has partnered with the FCC to implement modernization of the universal service programs and eliminate the sources of waste, fraud and abuse that were the focus of the most recent GAO report. This testimony focuses on our deliberate and comprehensive efforts to improve Lifeline, but of course, our approach to this program has implications for our contributor activities and USAC's overall management.

Pre-GAO Report Creation of the National Lifeline Accountability Database

In 2014, USAC executed the FCC's direction to create a National Lifeline Accountability Database (NLAD) to help eliminate fraud by detecting duplicate subscribers within the program.

The NLAD is one of the most important tools we have to prevent waste, fraud, and abuse in the Lifeline program. Under the FCC's rules, Lifeline subscribers may only receive support for one connection per household. The NLAD is a database of Lifeline subscriber information collected and submitted by the service providers. Service providers and USAC use the database to perform name and address verification, duplicate checking, and management of enrollment, de-enrollment, and transfer of subscribers between Lifeline service providers.

Implementing the NLAD has drastically reduced instances where subscribers had more than one connection, and were therefore violating Lifeline program rules. Once identified, USAC takes all necessary actions to recover wrongly-disbursed funds. Upon initial launch in 2014, the NLAD detected over 2.5 million duplicate subscribers that have since been eliminated. This led to hundreds of millions of dollars in savings. Lifeline disbursements dropped from $2.2 billion in 2012 to $1.5 billion in 2015 following implementation of the NLAD.

USAC has continually worked to upgrade the functionality of the NLAD and to improve Lifeline program safeguards. For example, we added safeguards that prevent service providers from selecting eligibility programs for a subscriber that is not actually available in the state or territory were service will be provided. We also set up restrictions on the phone numbers that can be enrolled to ensure numbers enrolled reflect a valid number under the North American Numbering Plan. In addition, we improved the NLAD's search logic to detect unobvious duplicates using algorithms that must remain secret for enforcement reasons. We are using more data analytics to improve the rigor for duplicate detection and to enhance the accuracy of the NLAD, including automated reports and alerts that are sent to USAC staff for detailed review and further inquiry or referral to the Commission as necessary. These improvements and other

upgrades help USAC identify funds erroneously disbursed and to recover the funds from service providers.

Additional Steps to Combat Waste, Fraud, and Abuse

In-Depth Data Validation & Analysis. Additional steps have been taken by USAC both before and after the NLAD came into being to combat waste, fraud, and abuse. For example, in 2013, USAC conducted In-Depth Data Validation (IDV) on select providers to identify any duplicate subscribers within their subscriber listing. This effort led to the elimination of approximately 2.2 million duplicate subscribers from the Lifeline program before the NLAD was implemented. USAC notified the FCC's Enforcement Bureau of the Lifeline rule violations from the IDV efforts, resulting in the issuance of Notices of Apparent Liability (NALs) for tens of millions of dollars against the violators. USAC continues to collaborate with the FCC on these matters. We are continuously refining our data analysis methodologies in order to better identify, detect, and eliminate waste, fraud, and abuse from the Lifeline program. We have also improved our processes for referring possible incidents of waste, fraud and abuse to the FCC's Enforcement Bureau and the Office of the Inspector General.

Using the NLAD for Lifeline Disbursement Calculations. Another example of our efforts to combat inefficiencies is in the upcoming changes to the reimbursement process that will further reduce fraud. Current Lifeline program rules require service providers to enroll subscribers in the NLAD to perform certain verifications and prevent duplicate enrollments. At the same time, service providers separately claim reimbursement from the Lifeline program on the FCC Form 497. As the GAO report noted, this process creates a risk that Lifeline service providers may be claiming subscribers that were not validated by the NLAD. This risk will be reduced significantly when, beginning with the January 2018 data month (February 2018

disbursement), all Lifeline program reimbursement claims will be calculated based on the subscribers actually recorded in the NLAD. Also, starting this month (September 2017), and until the FCC Form 497 is eliminated in January 2018, USAC will reject any reimbursement requests where the subscriber count exceeds the NLAD subscriber count. USAC will continue to actively monitor the NLAD to address any unusual trends in reimbursements to ensure improved program integrity.

       Coordination and Consultation with the FCC. USAC cooperates closely with the FCC to facilitate the efficient management, oversight, and execution of the FCC's universal service programs. USAC regularly consults with the FCC concerning program implementation. USAC also provides the FCC with many reports on USAC's administration of the USF, including the Lifeline program. These detailed reports include improper payment analysis, risk assessments and remediation efforts, as well as audit follow-up efforts. From these meetings and reports, USAC is able to continually identify and rectify areas requiring improvement.

The National Verifier

       The FCC's 2016 *Lifeline Modernization Order* directed USAC to establish the National Verifier to authenticate program eligibility prior to enrollment. USAC is closely working with the FCC, state and federal agencies, program participants and other interested parties to develop a system that will ensure program integrity by placing under USAC's control responsibility for verification of subscriber eligibility.

       The National Verifier will complement the NLAD. The NLAD was designed to help detect duplicate subscribers; it was not designed as a portal to intake new applications for Lifeline service, or to interface with other systems or databases for automated eligibility verification, which are functions to be incorporated within the National Verifier. The NLAD did

not alter the rules permitting service providers to seek new subscribers, to certify them as eligible, and then obtain reimbursement for these new program participants.

The National Verifier working in tandem with the NLAD will comprise a more comprehensive system to verify eligibility and prevent waste, fraud and abuse. The two systems combined will interface with one another to provide an end-to-end review of the eligibility of both existing and potential subscribers to the Lifeline program. This integration will provide a much-needed eligibility verification system, in a cost-effective manner, to improve the integrity of the program. The National Verifier development is on track to be completed on time and on budget.

Using the National Verifier, prior to allowing enrollment of new Lifeline subscribers, USAC will check available federal and state agency databases to verify that the applicants are eligible for Lifeline qualifying programs, such as the Supplemental Nutritional Aid Program (SNAP), Medicaid, Supplemental Security Income, Federal Public Housing Assistance, and Veterans and Survivors Pension Benefit. USAC has already entered into computer matching agreements with the Department of Housing and Urban Development (HUD) and several state agencies allowing for automated eligibility verification of enrollment in qualifying programs. At the end of August, USAC and the FCC announced that by the first week in December 2017, the National Verifier will launch in six states – New Mexico, Colorado, Utah, Mississippi, Wyoming, and Montana. It will also utilize the connection with the HUD database to verify federal housing eligibility in all of these states. And this is just the start – working in close consultation with the FCC, as well as other federal and state agencies, our intent is that many more states and more federal agencies will join the National Verifier in 2018.

USAC is committed to ensuring the privacy of the information retained in the National Verifier. Each of the computer matching agreements with federal and state agencies comply with the federal Privacy Act. We are also designing the National Verifier system to comply with all applicable federal privacy and data security requirements, and USAC will also require mandatory privacy and security training of all individuals working on the National Verifier.

Using the National Verifier system, subscriber eligibility will be re-checked with these databases yearly, as required by the FCC's rules. If no data sources are available, USAC will manually review documentation collected from the consumer applicant to verify eligibility and require each subscriber to certify their continued eligibility through self-attestation, as required by the FCC's rules.

As more and more states and federal agencies join the National Verifier, and its capabilities expand to nationwide coverage, USAC will use the databases to verify the eligibility of all existing subscribers in those states as they become partners in the National Verifier. If eligibility cannot be determined by a National Verifier data source, USAC will require service providers to either (1) submit documentation they have on file for subscribers or (2) obtain current eligibility documentation from subscribers and submit it to the National Verifier for review. If eligibility documentation cannot be obtained or the documentation submitted is not sufficient, USAC will de-enroll those subscribers from the NLAD and notify the service provider.

The execution of the National Verifier, coupled with the NLAD duplicates review and USAC's aggressive program monitoring, ensures that both new Lifeline applicants and already enrolled applicants will be carefully reviewed to confirm their eligibility to receive the benefits of the program.

The NLAD and the National Verifier combined will serve as a considerable and effective tool for combatting waste, fraud, and abuse. Eligibility checking and verification combined with identity and address verification, duplicate checking, and management of enrollment, de-enrollment, and transfer of a subscriber between Lifeline service providers, are all critical to Lifeline program administration and integrity. The NLAD showed the possibilities for identifying and eliminating waste, fraud and abuse in Lifeline; the National Verifier will build on that base and expand it exponentially. USAC will continuously review the NLAD and National Verifier systems to make improvements to its efficiency and effectiveness.

USAC's Lifeline Safeguard Implementation Plan

The NLAD's and the National Verifier's waste, fraud and abuse detection capabilities are greatly improving USAC's ability to safeguard Lifeline funds. However, duplicate detection and eligibility verification are only a part of how USAC prevents and detects waste, fraud and abuse. The Commission has directed USAC to be vigilant in its efforts to combat against waste, fraud, and abuse. We are therefore grateful that the 2017 GAO report identified additional tools that may assist this effort.

USAC has studied the 2017 GAO report and taken its findings to heart, as we know the FCC and Chairman Pai have. In his letter to USAC dated July 11, 2017, Chairman Pai identified six key areas from the GAO report for action and increased USAC collaboration with the FCC: Ineligible Subscribers, Oversubscribed Addresses, "Phantom" Subscribers (i.e., subscribers who were not enrolled in the NLAD), Deceased Subscribers, Exact Duplicates, and Sales Agent Accountability. Building upon the data analytics and program integrity projects already underway at USAC, we developed the "Lifeline Safeguard Implementation Plan" (Plan), which focuses on the six areas identified by Chairman Pai as detailed below.

- Ineligible subscribers – USAC will review the GAO data to determine the status of the 1.2 million individuals identified as ineligible and de-enroll any remaining ineligible subscribers. Given the age of the data analyzed by the GAO, USAC believes many of these issues have been resolved. In addition to resolving any ineligible subscribers identified by the GAO, USAC will continue to verify the compliance and accuracy in eligibility verification processes of carriers during its audits. USAC is also beginning a monthly sampling effort to check the eligibility verification work of carriers on a routine basis until the National Verifier is implemented.

- Oversubscribed Addresses – USAC will review and conduct outreach on any addresses with 500 or more subscribers, with continuing review of addresses with 25 or more subscribers going forward. We will report our results to the Commission, along with proposals for administrative action.

- Phantom Subscribers – USAC is implementing processes by the first quarter of 2018 to make certain that payments for reimbursement for Lifeline subscribers are not issued before subscribers are confirmed in the NLAD, thus eliminating the question of issuing payments for phantom subscribers. In the interim, USAC will reject any Lifeline support claims where the number of subscribers exceed the number of subscriber in NLAD.

- Deceased Subscribers – USAC will work with GAO data and determine if any of the individuals identified as deceased remain in the NLAD. USAC will work to de-enroll ineligible subscribers, initiate recovery and report results to the FCC.

USAC is also evaluating additional death verification features with its third party identity verification vendor.

- Exact Duplicates – Because the data relied upon by the GAO for its report was provided several years ago, USAC believes it is highly likely these duplicates have already been removed from the database. However, USAC will review the GAO data, and resolve any remaining issues including de-enrollment and recovery of funds.

- Sales Agent Accountability – USAC is working with the FCC to develop a detailed plan on the technical requirements and processes for adding information about sales agents to our databases. A final plan and timeline for implementation will be provided to the FCC by January 2018.

USAC is incorporating additional processes, reviews, and reporting in order to better protect the Lifeline program. Our team is working assiduously to automate several of these checks into the NLAD's processes. We are also working with Chairman Pai and the FCC to develop new tools and conduct reviews to prevent and detect fraud where the NLAD or the National Verifier cannot be leveraged. For example, we expanded the USAC Lifeline Program Integrity Team, and we are incorporating data-driven analytics to better identify trends and fraud risks. As a first step, USAC has identified service providers who have a higher than normal percentage of subscribers that trigger certain "red flags" in the NLAD or other data sources. USAC has requested to review a sample of supporting identity or eligibility documentation for those subscribers. In another process, USAC will identify addresses with 500 or more subscribers and, if the location is not a homeless shelter, nursing home or similar facility, USAC

will conduct outreach to the applicable service providers to ensure the address is verified and the necessary certifications have been obtained as required by FCC rules.

Additionally, USAC is working with its Board of Directors to develop and refine insights and recommendations to address waste, fraud and abuse in the Lifeline program. For example, several members of the USAC Board are involved with program integrity functions in other government programs, and provided informed recommendations based on lessons learned from these activities. The Board's High Cost and Low Income Committee actively works with USAC staff to ensure compliance with the FCC's rules and regulations. We rely on our experienced Board to provide leadership and guidance in our administration of Lifeline and other universal service programs.

USF Fund Accountability

One area of concern raised by the GAO report warrants further elaboration – fund accountability. Since the issuance of the report, USAC has taken concrete steps to ensure accountability for the USF funds. Along with the FCC, we reached agreement with our current private bank to ensure an FCC role in the oversight of the funds until they are transferred to the U.S. Department of the Treasury. USAC is working closely with the FCC and the U.S. Department of the Treasury to transfer the funds in the second quarter of 2018. Further, as recommended by the GAO report, USAC has formalized its banking relationship by entering into a new contract with the bank that handles the USAC administrative funds for expenses such as rent, salaries, and benefits. These actions will resolve specific concerns expressed by the GAO.

Conclusion

Thank you to the Committee for providing me with the opportunity to describe the efforts underway at USAC to improve program integrity and performance. On behalf of all USAC team

members, I want to assure you that we are committed to being responsible stewards of the taxpayers' dollars and delivering an effective and efficient program that fulfills its intended purpose, as defined by Congress and the FCC. We have made real progress, but much remains to be done. With the GAO's keen observations and Chairman Pai's recommendations, USAC will work diligently to ensure that the specific past weaknesses found do not persist, and no new weaknesses arise.

Be assured that USAC will continue to take a multi-pronged approach to strengthening the integrity of the Lifeline program and ensuring program compliance. Specifically, USAC will continue to improve the NLAD by refining its processes, adding additional data collection to support investigations into non-compliance, and increasing the use of data for analysis and detection of potentially improper actions. USAC will move forward vigorously with implementing the National Verifier plan as it begins to roll out later this year and expands in the next two years. USAC will also implement the detailed plan provided to Chairman Pai to study the results issued by the GAO, and is working to implement immediate changes. In addition, USAC will continue to work to develop an even closer partnership with the FCC to improve communications and transparency, including better coordination on referring possible non-compliance to the appropriate offices or bureaus of the FCC for further investigation and enforcement.

I look forward to responding to the Committee's questions.