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Report to the Chairman, Committee on Commerce, Science and Transportation, U.S. Senate

March 2015

TELECOMMUNICATIONS

FCC Should Evaluate the Efficiency and Effectiveness of the Lifeline Program

GAO-15-335

GAO Highlights

Highlights of GAO-15-335, a report to the Chairman, Committee on Commerce, Science and Transportation, U.S. Senate

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FCC Should Evaluate the Efficiency and Effectiveness of the Lifeline Program

Why GAO Did This Study

Through FCC's Lifeline program, companies provide discounts to eligible low-income households for telephone service. Lifeline supports these companies through the Universal Service Fund (USF). Companies generally pass their USF contribution obligation on to their customers, typically in the form of a line item on their telephone bills. In 2012, FCC adopted reforms to address problems with duplicate and ineligible participants and to explore adding broadband through a pilot program.

GAO was asked to review FCC's reforms. This report examines (1) the status of reform efforts and the extent to which FCC has evaluated program effectiveness, (2) the extent to which households participate and challenges they face in accessing and retaining benefits, and (3) FCC's plans to evaluate the broadband pilot program.

GAO reviewed FCC orders and other relevant documentation; analyzed 2008–2012 Census Bureau data; and interviewed FCC officials, officials at four pilot projects selected based on features such as technology, and officials from 12 Lifeline providers and four states selected based on factors such as disbursements and participation.

What GAO Recommends

FCC should conduct a program evaluation to determine the extent to which the Lifeline program is efficiently and effectively reaching its performance goals. FCC agreed that it should evaluate the extent to which the program is efficiently and effectively reaching its performance goals and said that FCC staff will address GAO's recommendation.

View GAO-15-335. For more information, contact Mark L. Goldstein at (202) 512-2834 or goldsteinm@gao.gov.

What GAO Found

The Federal Communications Commission (FCC) has made progress implementing reforms to the Lifeline Program (Lifeline), which reduces the cost of telephone service for eligible low-income households. In 2012, FCC adopted a Reform Order with 11 key reforms that aimed to increase accountability and strengthen internal controls, among other things. FCC has implemented seven of the reforms and partially implemented four. In some cases, FCC needs to make a decision, and in other cases, additional time is needed to fully implement the reform. However, FCC has not evaluated Lifeline's effectiveness in achieving its goals—to ensure the availability of voice service for low-income Americans and minimize the burden on consumers and businesses that fund the program. FCC attributes improvements in the level of low-income households' subscribing to telephone service over the past 30 years to Lifeline, but other factors, such as lower prices, may play a role. FCC officials stated that Lifeline's structure makes evaluation difficult, but referred GAO to academic studies that suggest that many low-income households would subscribe to telephone service without Lifeline. GAO has found that program evaluation can help agencies understand whether a program is addressing an intended problem. Without a program evaluation, FCC does not know whether Lifeline is effectively ensuring the availability of telephone service for low-income households while minimizing program costs.

In 2014, over 12 million households participated in Lifeline, up from about 7 million in 2008. At its peak enrollment in 2012, Lifeline served about 18 million households. The introduction of prepaid wireless service contributed to this growth. After the Reform Order, program disbursements declined from $2.2 billion in 2012 to $1.7 billion in 2014, due in part to a reduction in the number of ineligible households receiving benefits. Based on interviews with stakeholders and providers, GAO identified challenges households may face in accessing and retaining benefits, including lack of awareness of the program and difficulty complying with new requirements, such as providing documentation of eligibility. Companies providing Lifeline service have taken steps, such as greater outreach and in-person enrollment, to mitigate these challenges.

The usefulness of information FCC gathered through its broadband pilot program may be limited due to the lack of an evaluation plan and other challenges. The pilot program included 14 projects to test an array of options and provide data on how Lifeline could be structured to promote broadband. According to FCC officials, the 14 projects enrolled about one-tenth of the 74,000 customers anticipated before ending subsidized service in October 2014. Although GAO previously recommended in 2010 that FCC develop a needs assessment and implementation and evaluation plans for the pilot, FCC did not do so and now faces difficulties in evaluating the program without established benchmarks. Although enrollment was lower than anticipated, FCC officials believe information on the number of eligible consumers offered service can provide relevant information regarding the options' effects on broadband adoption. However, FCC did not survey these consumers and does not know why eligible households did not enroll. The pilot projects are substantially complete, and FCC officials noted that the pilot program is one of many factors FCC will consider when deciding whether and how to incorporate broadband into Lifeline.

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Abbreviations

ETC	eligible telecommunications carrier
FCC	Federal Communications Commission
NLAD	National Lifeline Accountability Database
PARIS	Public Assistance Reporting Information System
SIPP	Survey of Income and Program Participation
SNAP	Supplemental Nutrition Assistance Program
TLS	toll limitation service
USAC	Universal Service Administrative Company
USDA	United States Department of Agriculture
USF	Universal Service Fund
WIC	Special Supplemental Nutrition Program for Women, Infants, and Children

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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March 24, 2015

The Honorable John Thune
Chairman
Committee on Commerce, Science
and Transportation
United States Senate

Dear Mr. Chairman:

For many decades, federal policy has called for making affordable residential telephone service available to the greatest number of Americans—a policy known as "universal service." The Federal Communications Commission (FCC) carries out this policy through four universal service programs, including the Lifeline program (Lifeline).[1] This program was created in the mid-1980s to promote telephone subscribership among low-income households. As with all universal service programs, Lifeline is funded through mandatory fees that are usually passed along to consumers through a charge applied to their monthly telephone bills. In 2014, FCC's universal service disbursements totaled $7.9 billion, and the Lifeline program's disbursements totaled approximately $1.7 billion.

Although the Lifeline program traditionally centered on wireline residential telephone service, in 2005 and 2008, FCC acted to pave the way for eligible households to receive prepaid wireless service from non-facilities-based wireless carriers.[2] Subsequent to these actions, the Lifeline

[1]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.

[2]Prepaid wireless service is a wireless telecommunications service that is activated in advance by payment for a finite dollar amount of service or for a finite number of minutes that terminate either upon use or within a certain period of time. Non-facilities-based carriers offer service through the resale of another carrier's services and do not offer service using their own facilities. For example, TracFone is a non-facilities-based wireless provider offering prepaid Lifeline service known as SafeLink Wireless.

program experienced rapid growth in participation and disbursements. For example, in 2009, disbursements increased by 25 percent.[3] In October 2010, we reported that the Lifeline program lacked some internal control features.[4] For example, we found that the program had limited abilities to detect and prevent ineligible and duplicate subscribers from enrolling in the program. We recommended that FCC take actions to improve management and oversight, including conducting a robust risk assessment and implementing a systemic process for considering the results of ETC audits; FCC agreed with our recommendations. To comprehensively reform and modernize the Lifeline program, among other things, FCC adopted a Reform Order in January 2012 that sought to improve the program's internal controls and that included a pilot program to evaluate inclusion of broadband into the program.[5]

You asked us to examine the progress FCC has made toward modernizing the Lifeline program. This report discusses (1) the status of Lifeline reform efforts and the extent to which FCC has evaluated the effectiveness of the program; (2) how the Lifeline program verifies household eligibility and addresses associated privacy and data security; (3) the extent to which households participate in Lifeline and the challenges, if any, they face in accessing and retaining program benefits; and (4) how FCC plans to evaluate the broadband pilot program and the extent to which the pilot program will enable FCC to decide whether and how to include broadband in the Lifeline program.

To address all of these objectives, we reviewed documents and interviewed representatives from FCC, the Universal Service Administrative Company (USAC),[6] and stakeholders from state and industry associations and consumer advocacy organizations. To answer

[3]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).

[4]GAO-11-11.

[5]See *Lifeline and Link Up Reform and Modernization, Report and Order and Further Notice of Proposed Rulemaking* (Lifeline Reform Order), 27 FCC Rcd. 6656 (2012). See also 47 C.F.R. §§ 54.400-54.422.

[6]USAC is a not-for-profit corporation designated by FCC as the administrator of its universal service programs. In fiscal year 2014, USAC incurred administration expenses of $117 million, including about $17 million for the Lifeline program.

our first three objectives, we conducted four state case studies (Alabama, Arizona, New York, and Wisconsin); we selected the states to capture a range of Lifeline disbursement amounts and participation rates, and also considered other factors. In each state, we interviewed officials from the public utility commission and the state consumer advocate, where available,[7] and we collected documentation and interviewed representatives from three prepaid wireless eligible telecommunications carriers (ETC), which are companies eligible to receive Lifeline support. We selected these ETCs based on their Lifeline market share in the state and their nationwide revenues.[8] In addition to these nine wireless ETCs,[9] we also interviewed representatives from the three largest nationwide wireline ETCs. Although using these criteria allowed us to obtain information from a variety of states and ETCs, the findings from our case studies cannot be generalized to all states and ETCs because case studies were selected as part of a nonprobability sample. To assess the extent to which FCC has evaluated the effectiveness of the Lifeline program, we compared information collected from FCC to criteria on program evaluation identified from our previous work. In addition, we reviewed two academic studies that examined the effect of the Lifeline program; we identified the studies through an interview with FCC. To assess the methodological quality of the studies, at least two GAO analysts and an economist reviewed the studies, and we discussed the methodologies with four economists involved with the studies; the studies met our criteria for methodological quality. To analyze how the Lifeline program verifies household eligibility and addresses privacy and data security, we reviewed documentation and interviewed officials from FCC, USAC, and a state association.

To describe the extent to which eligible households participate in Lifeline, we analyzed USAC data on quarterly Lifeline participation counts from 2008 through fourth quarter 2014 and yearly disbursements from 2008 through 2014; we selected 2008 since it was the first year non-facilities-

[7]We contacted but did not interview the Arizona Residential Utility Consumer Office and the Wisconsin Department of Agriculture, Trade, and Consumer Protection. In both cases, officials declined to participate and referred us to the state public utility commission.

[8]Nexus Communications, a prepaid wireless ETC, provided written responses.

[9]Although we interviewed three wireless ETCs in each of the four states we selected, in three instances, the ETC served two states. Therefore, we interviewed a total of nine wireless ETCs.

based wireless carriers offered Lifeline service. We also analyzed data from the Census Bureau's Survey of Income and Program Participation (SIPP) and the United States Department of Agriculture's (USDA) Supplemental Nutrition Assistance Program (SNAP) to estimate trends in the number of households that would satisfy the federal criteria to participate in Lifeline from 2008 through 2012. To assess the reliability of these data, we reviewed relevant USAC, SIPP, and SNAP documentation and interviewed USAC officials; we determined that the data were sufficiently reliable for our purposes of reporting trends. To identify the challenges, if any, eligible households face in accessing and retaining program benefits, we reviewed FCC, USAC, and ETC policies, processes, and practices that could influence participation in Lifeline. To determine how FCC plans to evaluate the broadband pilot program, we interviewed FCC officials and representatives from 4 case study pilot projects that we selected from a universe of 14 projects to include both wireline and wireless service, diverse locations (urban and rural), and based on other factors. We also reviewed documentation from USAC on each case study project and interviewed consumer advocates and representatives from broadband adoption programs. Appendix I describes our objectives, scope, and methodology in greater detail.

We conducted this performance audit from May 2014 to March 2015 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.

Background

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 policy since enactment of the Communications Act of 1934.[10] To this end, FCC has established four universal service programs:

[10]Communications Act of 1934, Act of June 19, 1934, ch. 652, title I, § 1, 48 Stat. 1064 (1934), codified as amended at 47 U.S.C. § 151.

- High-Cost Program—Provides support to telecommunications carriers serving high-cost, rural, or insular areas.

- Schools and Libraries Program—Provides support to eligible schools and libraries in procuring telecommunications, telecommunications services, internet access services, internal connections, and basic maintenance of internal connections.

- Rural Health Care Program—Provides support to eligible health care providers through discounts for broadband and telecommunications services.

- Lifeline Program—Provides support to telecommunications carriers that in turn offer discounts on telecommunications services to eligible low-income households.

The Telecommunications Act of 1996 requires every telecommunications carrier providing interstate telecommunications services to contribute to federal universal service, unless exempted by FCC. The commission also has broad permissive authority to require other providers of telecommunications to contribute if the public interest so requires. Contributions are to be equitable and nondiscriminatory[11] and are to be deposited into the Universal Service Fund (USF). Each quarter, FCC calculates a “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. In the fourth quarter of 2014, the contribution factor was 16.1 percent, down from a historic high of 17.9 percent in the first quarter of 2012.[12] Carriers generally pass their USF contribution obligation on to their customers, typically in the form of a line item on their monthly telephone bill.

FCC, USAC, states, and ETCs all have roles and responsibilities in the Lifeline program. At the federal level, FCC is responsible for setting policy, making and interpreting rules, providing oversight, and, in certain states, designating carriers as ETCs. Meanwhile, USAC, a not-for-profit

[11]Communications Act of 1934, § 254, as amended by Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56, § 101(a) (1996), codified as amended at 47 U.S.C. § 254(d).

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

corporation designated by FCC as the administrator of its universal service programs, manages the day-to-day operations of the Lifeline program, including collecting USF contributions, disbursing payments, auditing USF recipients, 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, adding to the list of programs that households use to qualify for Lifeline, or both. For example, the Public Service Commission of Wisconsin contributes state funds to Lifeline recipients and adds programs such as Wisconsin Works, which provides employment preparation and other services to eligible low-income families, to the list of programs that households use to qualify for Lifeline. States can also play a role in Lifeline enrollment either by accepting applicants directly or providing ETCs 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 support, carriers must be designated as ETCs by state public utility commissions or FCC.[13] 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 state jurisdiction, FCC may designate the carrier as an ETC. ETCs are generally responsible for advertising the availability of the program, submitting forms for reimbursement, and verifying applicants' eligibility for Lifeline.

Traditionally, Lifeline discounts only applied to wireline service and eligibility standards varied significantly by state. In addition to Lifeline, FCC's efforts to promote phone service among the low-income population included Link Up, which discounted the connection charges associated with telephone service installation. In addition, carriers could receive support to offset certain costs for providing consumers with toll limitation service (TLS); TLS support subsidized carriers' costs for blocking or restricting long-distance service for low-income consumers, thus allowing these consumers to specify a limit on the amount of toll charges that could be incurred per billing cycle. In the past, certain states, called "federal default states," used FCC's eligibility criteria, which included household participation in one of several public assistance programs or

[13]See 47 U.S.C. § 214(e); 47 C.F.R. § 54.201.

income at or below 135 percent of the federal poverty guidelines.[14] FCC also authorized states with their own Lifeline programs to develop their own eligibility criteria and eligibility thresholds.[15] As a result, the ways in which households could become eligible varied significantly by state. However, in 2012, FCC reported that most consumers qualified for Lifeline through Medicaid, the Supplemental Nutrition Assistance Program (SNAP), and Supplemental Security Income.

In 2005, FCC issued an order that allowed a non-facilities-based wireless service provider to apply as an ETC for purposes of offering Lifeline, if it met certain conditions. In particular, FCC granted TracFone forbearance from the requirement that a carrier designated as an ETC for the purpose of federal USF support provide services, at least in part, over its own facilities.[16] But, FCC required TracFone to meet several conditions, such as obtaining self-certifications from subscribers that they will comply with program requirements and establishing safeguards to prevent customers from receiving multiple benefits.[17] While FCC found that TracFone's Lifeline offering would provide a variety of benefits to Lifeline-eligible consumers, including increased consumer choice, program participation, and mobility, FCC did not quantify or estimate potential increases in participation in the Lifeline program arising from its decision. In 2008, FCC approved TracFone as an ETC for the limited purpose of providing

[14]The qualifying programs are: Supplemental Nutrition Assistance Program, Medicaid, Supplemental Security Income, Temporary Assistance for Needy Families, National School Lunch Program's free lunch program, Low-Income Home Energy Assistance Program, and Federal Public Housing Assistance or Section 8. In addition, households residing on Tribal lands may be eligible through additional programs.

[15]Currently, states must base additional eligibility criteria solely on income or other factors directly related to income. 47 C.F.R. § 54.409(a)(3).

[16]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 ETC 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). TracFone and many other prepaid wireless carriers are nonfacilities based, meaning they do not own their own facilities.

[17]*Federal-State Joint Board on Universal Service, Petition of TracFone Wireless, Inc. for Forbearance from 47 U.S.C.* § *214(e)(1)(A) and 47 C.F.R.* § *54.201(i),* Order, 20 FCC Rcd. 15095 (2005).

Lifeline service.[18] FCC's TracFone orders paved the way for other non-facilities-based wireless carriers to offer Lifeline service, and the first Lifeline offerings by these carriers began in 2008.

Following FCC's actions on non-facilities-based wireless carriers offering prepaid service, participation in Lifeline as well as disbursements began to increase significantly. We previously reported that program participation and disbursements were stable from 2005 to 2008. Specifically, in 2005 the program had 6.9 million participants and disbursed $802 million, compared to 7.1 million participants and $823 million disbursed in 2008. However, in 2009 Lifeline had 8.6 million participants and disbursed approximately $1 billion.[19] In 2010, we found that the Lifeline program lacked some features of internal controls, such as the ability to detect duplicate benefits across ETCs.[20] In 2012, FCC noted that up to an estimated 15 percent of Lifeline subscribers could be ineligible for program benefits. In addition, in April 2014, the Department of Justice announced the indictment of three men for defrauding FCC of approximately $32 million by submitting false Lifeline claims between September 2009 and March 2011.[21] To improve management and oversight, in 2010, we recommended that FCC conduct a robust risk assessment and implement a systemic process for considering the results of ETC audits, among other things. FCC has taken some actions to address these recommendations, as noted below.

In particular, FCC adopted the Lifeline Reform Order (the Order) in 2012 to strengthen internal controls, improve accountability, and explore the inclusion of broadband in the program through a pilot program. Table 1 describes the key reforms contained in the Order. Among other things, the Order required all states to use, at a minimum, the income and program eligibility criteria previously used by federal default states. To

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[18]*Federal-State Joint Board on Universal Service, TracFone Wireless, Inc. Petition for Designation as an Eligible Telecommunications Carrier in the State of New York, et al.*, Order, 23 FCC Rcd. 6206 (2008).

[19]GAO-11-11.

[20]GAO-11-11.

[21]According to the indictment, the three men owned and operated Associated Telecommunications Management Services LLC, a holding company that owned and operated multiple subsidiary telephone companies that allegedly caused the submission of falsely inflated claims to the Lifeline Program.

reduce the number of ineligible consumers in the program, the Order adopted measures to check consumers' initial and ongoing eligibility for Lifeline. Further, in 2010, FCC began exploring the idea of modifying Lifeline to support broadband service (high-speed internet access) as part of FCC's duty to periodically review its universal service programs in light of advances in telecommunications and information technologies and services.[22] To this end, the Order included a broadband pilot program to gather data on whether and how broadband could be incorporated into Lifeline.

Table 1: Key Reforms Contained in the Federal Communications Commission (FCC) Lifeline Reform Order (2012)

Lifeline reform	Description
One-per-household rule	The Order limits Lifeline to a single subscription per household and defined a household as any individual or group of individuals who are living together at the same address and share income and expenses as one economic unit.
Elimination of Link-Up support on non-Tribal lands and phase out support for toll limitation service	The Link Up program was originally designed to offset the activation charges wireline providers charged to install telephone service. The Order eliminated Link Up on non-Tribal lands, noting that many carriers no longer charged an activation fee. In addition, subsidies for toll limitation service, which allowed consumers to block or restrict long-distance telephone service, were phased out and eliminated beginning January 2014 since many carriers no longer distinguished between toll and non-toll calls.
Uniform eligibility criteria	Requires all states to use, at a minimum, the income and program eligibility criteria used by federal default states. These criteria include: (1) household income at or below 135 percent of the federal poverty guidelines or (2) participation in at least one of a number of federal assistance programs. Previously, FCC did not have a minimum standard and eligibility requirements varied by state.
Non usage requirements	Eligible telecommunications carriers (ETC) providing Lifeline service without a monthly bill (e.g., prepaid carriers) must notify and de-enroll subscribers that do not use the service after a specified period of time. When a subscriber fails to use Lifeline service for 60 consecutive days, the ETC must provide the subscriber 30 days' notice that he or she must use the service within the 30-day notice period or the Lifeline service will be terminated.
Payments based upon actual support claims	Lifeline disbursements to ETCs are now based on the actual support claims. Before this, disbursements were based on projections that were "trued up" against actual claims.
Independent and first year audit requirements	In addition to audits that were previously ongoing, ETCs that are receiving more than $5 million in annual support are required to hire independent auditors to conduct an audit of their compliance with the Lifeline rules on a biennial basis. In addition, FCC directed the Universal Service Administrative Company (USAC) to audit all new Lifeline service providers within their first year of service.

[22]The Telecommunications Act of 1996 described universal service as an evolving level of telecommunications services that FCC should periodically review, taking into account advances in telecommunications and information technologies and services. See 47 U.S.C. § 254(c).

Lifeline reform	Description
National Lifeline Accountability Database (NLAD)	FCC directed USAC to develop NLAD, which ETCs are required to query at enrollment to verify an applicant's identity and to verify the individual is not already receiving Lifeline services. NLAD also checks applicants' addresses against U.S. Postal Service software in part to ensure compliance with the one-per-household requirement.
Flat-rate reimbursement	The Order implemented an interim $9.25 flat rate on non-Tribal lands. Previously, Lifeline had a tiered structure of support, with average monthly non-Tribal support ranging from $4.25 to $10.00 per subscriber in September 2011. FCC reported that the tiered structure was administratively burdensome for both the ETCs and USAC.
Initial eligibility verification and annual recertification procedures	Effective June 2012, ETCs must verify a Lifeline applicant's eligibility at enrollment and annually through recertification. In addition, to reduce the burden on consumers and ETCs, the Order directed FCC and USAC to establish an automated means for determining eligibility.
Broadband pilot program	The Order called for a pilot program to gather data on whether and how Lifeline could be structured to promote broadband. The Order called on FCC to select, fund, and gather data from a variety of pilot projects offering broadband to Lifeline-eligible consumers.
Performance goals and measures	The Order specified three performance goals: (1) to ensure the availability of voice service for low-income Americans, (2) to ensure the availability of broadband for low-income Americans, and (3) to minimize the Universal Service Fund contribution burden on consumers and businesses. The Order directed FCC's Wireline Competition Bureau to define performance measures to evaluate progress made towards these goals.

Source: GAO summary of FCC Order. | GAO-15-335

FCC Has Made Progress Implementing Lifeline Reforms, but It Has Not Evaluated the Program's Effectiveness

FCC Has Made Progress Implementing Lifeline Reforms, but Some Reform Efforts Remain Incomplete

Although FCC has made progress implementing the reforms contained in the Order, four actions remain incomplete.[23] FCC has eliminated Link-up on non-Tribal lands and support for TLS, and it has implemented the one-per-household rule, uniform eligibility criteria, non-usage requirements, payments based on actual claims, and the audit requirements. In addition, the National Lifeline Accountability Database (NLAD) is operational in 46 states and the District of Columbia.[24] However, FCC has not fully implemented four additional reform efforts. In some cases, FCC needs to make a decision, such as determining the permanent rate for Lifeline reimbursement claims. In other cases, FCC needs additional time to fully implement the reform, such as defining performance measures. We provide more information on the status of the partially implemented Lifeline reforms below.

- *Flat-rate reimbursement:* Lifeline reimbursements to ETCs from the USF are passed on to the subscriber in the form of a discount. To simplify administration of the Lifeline program, FCC established a uniform, interim flat rate of $9.25 per month for non-Tribal subscribers. In a Further Notice of Proposed Rulemaking accompanying the Order, FCC sought comment on the interim rate, but it has not issued a final

[23]We did not evaluate the effectiveness of these reform efforts. GAO has ongoing work assessing the internal controls of the Lifeline program. Results from this work will be available in fall 2015.

[24]California, Oregon, Texas, Vermont, and Puerto Rico opted out of participation in NLAD. States could have opted out by filing a request that met the standards specified by FCC in the Order. See ¶ 221 of Order.

rule with a permanent reimbursement rate.[25]

- *Initial eligibility verification and annual recertification procedures:* To reduce the number of ineligible consumers receiving program benefits, the Order required that ETCs verify a Lifeline applicant's eligibility at enrollment and annually through recertification; these requirements have gone into effect. In addition, to reduce the burden on consumers and ETCs, the Order directed FCC's Wireline Competition Bureau and USAC to establish an automated means for determining eligibility for the top three programs through which households qualify for Lifeline as soon as possible and no later than the end of 2013.[26] In a Further Notice of Proposed Rulemaking accompanying the Order, FCC sought comment on how to best achieve the automated means, such as through a state-specific or national eligibility database.[27] FCC has not met the timeframe established in the Order or revised any timeframes for when or how this automated means would be available. We provide more information on eligibility verification below.

- *Broadband pilot program:* FCC established the broadband pilot program to gather data about how Lifeline could be used to support broadband adoption. FCC announced the broadband pilot program in December 2012, and it authorized approximately $13.8 million for 14 projects spanning 21 states and Puerto Rico. The pilot projects completed offering subsidized service at the end of October 2014, but data are still being collected from participants on how the service was used and retained after the pilot finished. FCC has not announced when or how it would share the results of the projects. We provide more information on the broadband pilot program below.

- *Performance goals and measures:* The Order established performance goals for the Lifeline program to help FCC determine

[25]See ¶¶ 462-473 of Order. The FCC officials we spoke to were unsure when a decision would be made since FCC policy decisions, such as rulemakings, are made at the Commission, rather than staff, level of FCC.

[26]See ¶ 97 of Order. As the Order notes, most consumers qualify for Lifeline through Medicaid, SNAP, and Supplemental Security Income. According to data provided by USAC, as of April 2014, about 80 percent of Lifeline consumers enroll through these programs.

[27]See ¶ 404 of Order.

whether Lifeline is being used for its intended purposes and is accomplishing its objectives. These goals were: (1) to ensure the availability of voice service for low-income Americans, (2) to ensure the availability of broadband for low-income Americans, and (3) to minimize the Universal Service Fund contribution burden on consumers and businesses. FCC identified performance measures it will use to evaluate progress toward these goals, but it has not yet fully defined them. For example, the Order stated that the goal of ensuring the availability of voice service will be measured by comparing telephone penetration levels (the percentage of households with telephone service) among low-income households to households with the next highest level of income,[28] but FCC officials note that they are working on defining these measures using the Census Bureau's American Community Survey data, which was made available in late 2014.

FCC Has Not Evaluated the Effectiveness of the Lifeline Program, Which Could Hinder Its Ability to Efficiently Achieve Program Goals

In the Order, FCC established outcome-based goals and noted that the gap in penetration rates for telephone service between low-income and higher-income households has narrowed. We previously concluded that outcome-based performance goals and measures will help illustrate to what extent, if any, the Lifeline program is fulfilling the guiding principles set forth by the Congress.[29] Once adopted, performance measures can help FCC track progress toward reaching its goals. However, performance measures alone will not fully explain the contribution of Lifeline toward reaching the program goals, because performance measurement does not assess what would have occurred in the absence of the program. According to FCC, Lifeline has been instrumental in narrowing the penetration gap between low-income and non-low income households. In particular, FCC noted that since the inception of Lifeline, the gap between telephone penetration rates for low-income and non-low income households has narrowed from about 12 percent in 1984 to 4 percent in 2011. Although FCC attributes the penetration rate improvement to Lifeline, several factors could play a role. For example, changes to income levels and prices have increased the affordability of

[28]FCC defines its telephone penetration rate as the percentage of households with telephone service. In the Order, FCC stated that it intends to compare the penetration rate of low-income households to the next highest income group.

[29]GAO-11-11.

telephone service, and technological improvements, such as mobility of service, have increased the value of telephone service to households.[30]

According to FCC officials, the commission has not evaluated the extent to which Lifeline has contributed to the narrowing of the gap in penetration rates and at what cost. As a result, FCC does not know the extent to which the narrowing of the penetration rate is attributable to the Lifeline program. FCC officials stated that the structure of the program has made it difficult for the commission to determine causal connections between the program and the penetration rate. 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. However, FCC officials noted that two academic studies have assessed the program, including the impact of the Lifeline program on household decisions to subscribe to telephone service.[31]

The studies that FCC referred us to suggest that household demand for telephone service—even among low-income households—is relatively insensitive to changes in the price of the service and household income. This suggests that many low-income households would choose to subscribe to telephone service in the absence of the Lifeline subsidy. For example, one study found that many households receiving the Lifeline subsidy would chose to subscribe to telephone service in the absence of the subsidy.[32] As such, the Lifeline program, as currently structured, may be a rather inefficient and costly mechanism to increase telephone subscribership among low-income households, because several households receive the subsidy for every additional household that subscribes to telephone service due to the subsidy. FCC officials said that this view does not take into account the Lifeline program's purpose of making telephone service affordable for low-income households. However, in the Order, the commission did not adopt affordability as one

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[30]FCC reported Bureau of Labor Statistics data illustrating that the price index for wireless telephone services declined 4.6 percent from January 2011 through July 2014. In contrast, the price index for all goods and services increased 8.3 percent during the same period.

[31]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, David R. DeRemer, Michael H. Riordan, Gregory L. Rosston, and Bradley S. Wimmer, *Estimating the Impact of Low-Income Universal Service Programs*, Center for Economic Studies, CES-13-33 (2013).

[32]Olga Ukhaneva, "Universal Service in a Wireless World" (2013).

of the program's performance goals; rather, it adopted availability of voice service for low-income Americans, measured by the penetration rate.[33]

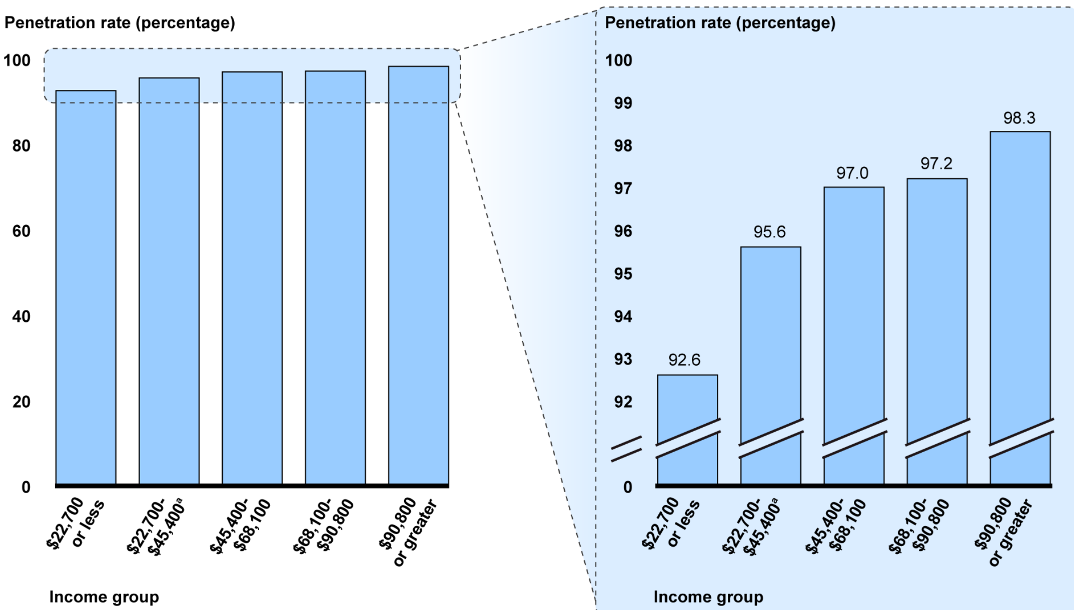
These research findings raise questions about the design of Lifeline and FCC's actions to expand the pool of eligible households. We estimated approximately 40 million households were eligible for Lifeline in 2012.[34] The Order established minimum Lifeline eligibility, which expanded eligibility in some states that had more limited eligibility criteria. Further, FCC proposed adding qualifying programs, such as the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program, and increasing income eligibility to 150 percent of the federal poverty guidelines. These actions, if taken, would expand the pool of eligible households. For example, we estimated that over 2 million additional households would have been eligible for Lifeline in 2012 if WIC were included in the list of qualifying programs. These proposed changes would add households with higher income levels than current Lifeline-eligible households,[35] although the telephone penetration rate increases with income (see fig. 1). Thus, although making additional households with higher incomes eligible for Lifeline might increase telephone penetration somewhat, it may be at a high effective cost, because a substantial majority of these households likely already purchase telephone service. This raises questions about expanding eligibility and the balance between Lifeline's goals of increasing penetration rates while minimizing the USF contribution burden.

[33]FCC officials noted that voice service is only available to low-income consumers to the extent it is affordable. In the Order, FCC found that affordability is a component of the goal of ensuring the availability of voice service. See ¶ 28 of Order.

[34]We estimated the number of Lifeline-eligible households using Census Bureau 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.

[35]For example, GAO previously found that about 2 percent of WIC participants in 2010 had incomes over the federal WIC limit of 185 percent of federal poverty guidelines. See GAO, *WIC Program: Improved Oversight of Income Eligibility Determination Needed,* GAO-13-290 (Washington, D.C.: Feb. 28, 2013). As mentioned previously, the income requirement for Lifeline eligibility is generally 135 percent of the federal poverty guidelines.

Figure 1: Household Telephone Penetration Rates by Income Level, 2013



Source: GAO analysis of FCC data. | GAO-15-335

[a]In 2013, 135 percent of the federal poverty guidelines for a family of four was $31,793.

Note: FCC defines its telephone penetration rate as the percentage of households with telephone service.

Our prior work on federal agencies that have used program evaluation for decision making has shown that it can allow agencies to understand whether a program is addressing the problem it is intended to and assess the value or effectiveness of the program.[36] The results of an evaluation could be used to clarify FCC's and others' understanding of how the Lifeline program does or does not address the problem of interest—subscription to telephone service among low-income households—and to assist FCC in making changes to improve the design or management of the program. For example, a program evaluation might reveal that FCC could reduce the eligible population, while better meeting its dual goals of increasing subscribership and reducing the contribution burden. Without such an evaluation, it will be difficult for FCC to determine whether the

[36]GAO, *Program Evaluation: Strategies to Facilitate Agencies' Use of Evaluation in Program Management and Policy Making*, GAO-13-570 (Washington, D.C.: June 26, 2013). This report found that 80 percent of federal managers who had recent program evaluations reported that the evaluations contributed to assessing the program's effectiveness or value.

Lifeline program is increasing the telephone penetration rate among low-income consumers, while minimizing the burden on those who contribute to the USF. While we recognize the importance of FCC developing performance goals and measures for the program, program evaluations typically examine a broader range of information on program performance and can help inform the commission's performance measures.

Carriers Generally Review Documentation to Verify Household Eligibility, and FCC Officials Believe That Program Rules Limit Privacy and Security Concerns

Carriers Generally Verify Household Eligibility by Reviewing Consumers' Documentation

Carriers must verify an applicant's eligibility for Lifeline and generally do so by reviewing documentation provided by consumers. To increase consistency and reduce the number of ineligible participants in the program, the Order required that ETCs verify consumer eligibility at enrollment using one of three methods:

- rely on confirmation of eligibility from a state agency or state Lifeline administrator;
- query a state or federal database;[37] or
- review applicants' qualifying documentation, such as a program benefit card.

[37]According to FCC, currently no federal database is available for the purposes of determining Lifeline eligibility.

We found that ETCs generally review qualifying documentation. In particular, we estimated approximately 8 states have a state agency or state Lifeline administrator that verifies eligibility, approximately 17 states have eligibility databases that ETCs can potentially use to verify eligibility, and ETCs in the remaining states review consumer-provided documentation.[38] However, even in states with eligibility databases, ETCs may review consumer-provided documentation, either because the database does not cover all qualifying programs or because the ETC does not participate in the database.[39] For example, according to state officials in New York, only two ETCs currently use the state database, despite over 50 ETCs providing Lifeline in the state.

To reduce the burden on applicants and ETCs, the Order set a goal for developing an automated means for verifying Lifeline eligibility; however, as mentioned previously, FCC has not met the time frame defined in the Order or established any revised time frames for when, how, or if this automated means would be available. According to FCC officials, no national database is currently available to check for Lifeline eligibility, as nearly all qualifying program enrollment data are maintained at the state level. The Order noted efforts among federal agencies to facilitate eligibility determinations in various government programs. For example, the federal Public Assistance Reporting Information System (PARIS) is maintained by an intergovernmental board and permits states to check for duplicative claims for several government programs across states, including Medicaid. However, according to FCC officials, PARIS is not designed for or updated regularly enough for the purpose of real-time Lifeline eligibility checks. FCC officials also noted that PARIS officials raised concerns about privacy and third party access. According to FCC officials, there are many development challenges to creating a national eligibility database, including the ability and willingness of other federal agencies to share consumer information. FCC officials told us they

[38]There is no single source with information on state databases. To estimate the number of states with an eligibility database, we reviewed lists from FCC and a state association and information from two ETCs on the states in which they use a database.

[39]The Order requires all ETCs to access state or federal eligibility databases when such databases are available. See ¶ 98 of the Order. FCC and USAC officials say ETCs' compliance with this and other requirements is tested as part of program audits. In addition, FCC officials note that such audit findings can result in monetary recovery or be referred to FCC's Enforcement Bureau for further action.

continue to investigate options for an automated means of eligibility verification and promote the development of state databases.

An FCC Commissioner, along with some stakeholders with whom we spoke, have questioned the appropriateness of ETCs, generally private companies, being required to determine Lifeline eligibility, which requires them to collect and analyze personal information about consumers that they would not otherwise obtain. In a November 2014 speech, FCC Commissioner Mignon Clyburn stated that ETCs should not be responsible for determining Lifeline eligibility, noting that absolving ETCs of this responsibility would improve program integrity and reduce privacy concerns. This view is shared by representatives from both industry associations, one consumer advocate, and 3 of the 12 ETCs we interviewed. Commissioner Clyburn and these stakeholders suggest that Lifeline should follow a similar arrangement as other low-income assistance programs, such as SNAP or Medicaid, where the government determines who is eligible for the benefit, while private companies, such as grocery stores or health care providers, provide goods and services to eligible beneficiaries. Meanwhile, in the Lifeline program, governmental entities, such as states, FCC, and USAC, are not required to determine an applicant's initial eligibility,[40] while ETCs are required to both determine consumer eligibility and provide service to beneficiaries. According to FCC officials, FCC has considered but has not reached a decision on establishing a central administrator to determine consumer eligibility for Lifeline.[41]

The risk to consumer information security in the Lifeline program was highlighted by a recent security breach and associated FCC enforcement action. According to FCC, from September 2012 through April 2013, two ETCs stored sensitive information collected from consumers to determine Lifeline eligibility in a format readily accessible via the internet, exposing up to 300,000 consumers' information to public view and to identity theft and fraud. This information included Social Security numbers, names,

[40]If they elect to do so, states may take on the role of determining an applicant's Lifeline eligibility. In addition, for annual recertification of consumer eligibility, carriers may elect to have USAC conduct the recertification on their behalf.

[41]For example, in a *Further Notice of Proposed Rulemaking* accompanying the Order, FCC sought comment on the costs and benefits of a third-party administrator checking program eligibility, including the cost of implementing such a solution on a nationwide basis.

addresses, and other sensitive information. In October 2014, FCC issued a notice of apparent liability of $10 million. This proposed fine shows the risks associated with ETCs improperly protecting sensitive information they are required to collect to determine eligibility.

FCC Officials Said That Consumer Information Can Be Protected through Databases or Documentation

Each of the approaches ETCs can use to verify eligibility include measures to protect consumer privacy; however, these measures vary on where sensitive information is stored and who is responsible for protecting it.[42] Since ETCs, generally private companies, collect personal information from consumers to meet Lifeline program requirements, security measures are necessary to prevent that information from being disclosed to unauthorized individuals or accessed for unauthorized purposes. Such controls can include establishing firewalls and other boundary protections to prevent unauthorized access to systems, requiring users to authenticate themselves to ensure unauthorized individuals do not access sensitive information, and setting usage restrictions to ensure that even authorized individuals do not access information inappropriately.[43] FCC officials said that security concerns associated with ETCs' accessing a database and reviewing documentation can be mitigated through implementation of appropriate controls. However, the documentation review method places a much greater burden on the ETCs to appropriately protect sensitive information than the other two options, which put the burden on the states. For example, in cases where eligibility is determined by a state agency or where an ETC queries a state database, the state is responsible for implementing security and privacy controls and ETCs do not directly access sensitive consumer information.

[42] We did not independently evaluate the effectiveness of ETCs' implementation of these measures.

[43] GAO, *Federal Information System Controls Audit Manual (FISCAM)*, GAO-09-232G (Washington, D.C.: February 2009).

FCC Promotes State Databases to Mitigate Privacy Concerns; However, Development Challenges Are a Potential Barrier

Although FCC promotes state databases to reduce the burden on ETCs and applicants, ETCs and states face challenges to developing databases, including implementing appropriate privacy protections.[44] According to FCC and representatives from 2 of the 12 ETCs we interviewed, state agencies are often hesitant to grant ETCs direct access to their databases because of concerns about protecting the privacy of the personal information they contain. For example, representatives from TracFone noted that states are often concerned about data privacy and how to release information to ETCs while meeting privacy controls of the applicable federal program that governs the data. For example, if a state database grants an ETC access to Medicaid enrollment information, this access must meet Medicaid federal privacy standards. In addition, representatives from 3 of the 12 ETCs and two of the four state public utility commissions we spoke to noted that negotiating with and coordinating among agencies also presents a challenge to database development. Coordination is important because enrollment information for qualifying programs can be housed in numerous agencies within a single state, requiring coordination among these agencies and the public utility commission, which oversees the Lifeline program. Other challenges noted by officials in one state we interviewed include waiting for clarification from FCC on whether a national automated means of verification will be developed, which, if developed, may eliminate the need for state-level databases, and limited state resources for developing and maintaining a database.

FCC has noted that concerns with data privacy can be overcome by limiting ETC access to personally identifiable information. For example, according to state officials in New York and Wisconsin, in those states, ETCs input a minimal amount of identifying information into the state database about an applicant—such as name and last four digits of a Social Security number—and in response, the database returns a yes or no response indicating whether a match exists with an eligible individual enrolled in a qualifying program. This arrangement releases no additional personally identifiable information to the ETC that may be contained in the database, such as the specific program in which the applicant participates. FCC officials note that they have encouraged state

[44]GAO has previously reported on the challenge of balancing greater data sharing among human services programs with privacy protections. See GAO, *Human Services: Sustained and Coordinated Efforts Could Facilitate Data Sharing While Protecting Privacy,* GAO-13-106 (Washington, D.C.: Feb. 8, 2013).

databases through a June 13, 2014, joint letter with the United States Department of Agriculture (USDA) to SNAP state agencies. In this letter, FCC and USDA notified SNAP state agencies that they can release limited information to ETCs for the purpose of determining eligibility, should return only a yes or no response, and should have agreements in place with ETCs that outline what SNAP information will be disclosed, how the information will be used, and how ETCs shall safeguard such information. These agreements must include information on how both ETCs and the SNAP agencies will prevent unauthorized disclosure of consumer information. FCC officials told us they do not establish privacy and data security requirements for state databases, as the information is subject to the requirements of the federal agencies that govern the qualifying programs.

FCC Officials Believe Program Rules Prohibiting Document Retention Limit Security Concerns; However, ETCs Have Requested to Weaken These Policies

As mentioned earlier, ETCs generally determine applicants' eligibility by reviewing qualifying documentation, such as a program benefit card. This transaction of an applicant's producing and the ETC's reviewing documentation often occurs in person, as part of the enrollment process. In particular, of the nine prepaid wireless ETCs we spoke to, six stated that they enroll most of their customers in person, either at a store location or mobile event, with several noting they enroll 90 percent or more of their customers this way.[45] These enrollments often involve agents entering application information and capturing electronic copies of eligibility documentation using a tablet computer. When asked about the privacy and data security provisions for this process, representatives from three ETCs told us this information is stored in a secure software application rather than on the tablet itself and is transmitted to an off-site back office for review,[46] after which the electronic copy of the documentation is deleted. However, as noted above, a recent security breach and associated FCC enforcement action highlights the risk involved when ETCs improperly handle sensitive information.

FCC rules prohibit ETCs from retaining copies of the documentation that applicants provide to verify eligibility; however, many ETCs we spoke to

[45]One of the three wireline ETCs we spoke to allows Lifeline applicants to apply in person. In contrast, consumers generally apply to wireline ETCs through means such as downloading an application online and mailing or faxing it to the ETC.

[46]We did not independently review the implementation of technical security controls at any of the ETCs.

said they would like to retain this documentation indefinitely. Although Lifeline rules require ETCs to keep accurate records on how each consumer demonstrated his or her eligibility, FCC rules prohibit ETCs from retaining any documentation provided by a consumer to demonstrate eligibility after an eligibility determination has been made.[47] FCC officials say the requirement that prohibits ETCs from retaining documentation provides privacy protection against unauthorized access to or release of the information.[48] According to FCC officials, FCC's Enforcement Bureau is charged with enforcing FCC and Lifeline privacy rules, such as the recent notice of apparent liability against the two carriers mentioned above. In addition, USAC officials said they review ETCs' document retention procedures as part of their audits of ETCs. Representatives from 9 of the 12 ETCs we spoke to said that they comply with program rules and destroy copies of customer documentation regularly. Despite this, 7 of the 12 ETCs we spoke to support FCC modifying its rules to allow ETCs to retain this documentation indefinitely. Some of these ETCs state that they can use this documentation during audits to demonstrate how they determined the applicant's eligibility. In addition, these ETCs argue that retaining documentation will better enable the Lifeline program to detect waste, fraud, and abuse. For example, TracFone noted that without a requirement to retain documentation, ETCs have the ability and the economic incentive to claim that they reviewed documentation without being required to retain documentation that FCC and USAC can use to verify the claim. However, because FCC relies on this rule to provide protection against unauthorized access to or release of the information, dropping the rule could also raise privacy and security risks.

[47]See 47 C.F.R. 54.410(b)(1)(B)(ii) and 47 C.F.R. 54.410(c)(1)(B)(ii).

[48]This does not apply to the Lifeline application, which ETCs must retain and which contains information such as the applicant's name, address, and date of birth.

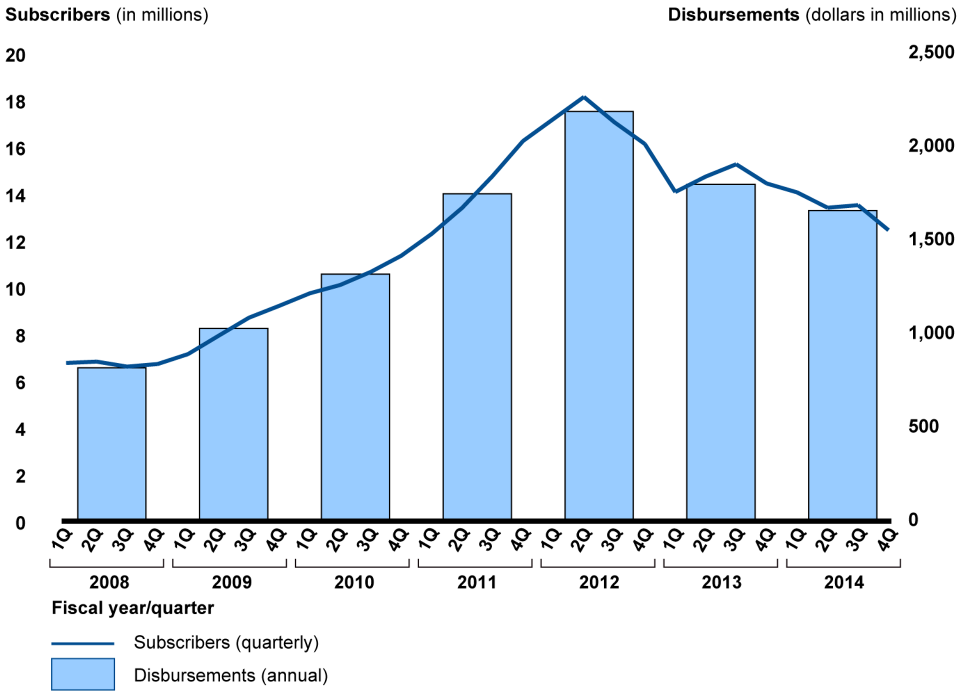
In 2014, Over 12 Million Households Participated in Lifeline, and Some Households Faced Challenges in Accessing and Retaining Benefits

Lifeline Participation Was 18.1 Million Households in 2012 and Declined to 12.4 Million by 2014

Lifeline participation and disbursements increased rapidly from 2008 through mid-2012 and declined after FCC's reform Order in 2012 (see fig. 2). From mid-2008 to mid-2012, Lifeline enrollment increased from 6.8 million households to 18.1 million households, a 166 percent increase.[49] In addition, annual disbursements increased from $820 million in 2008 to $2.2 billion in 2012, a 167 percent increase. After FCC began implementing the Order in mid-2012, Lifeline participation declined to 12.4 million households by the end of 2014, while disbursements declined to approximately $1.7 billion in 2014.

[49]Since the Lifeline program experienced duplicate and ineligible subscribers prior to the Order, subscribership numbers cannot be interpreted as the number of unique and eligible Lifeline subscribers.

Figure 2: Lifeline Program's Quarterly Subscribers and Annual Disbursements, 2008 through 2014



Source: GAO analysis of FCC data. | GAO-15-335

We identified several factors that contributed to the Lifeline program's growth that began in 2008, including the following:

- *Prepaid wireless services:* ETCs offering prepaid wireless service attracted eligible consumers by offering greater mobility and lower prices than traditional wireline ETCs. In 2010, we found that growth in the program was primarily due to the introduction of prepaid wireless as an eligible service.[50] ETCs offering prepaid wireless typically provide consumers with a free handset and 250 free monthly minutes, rather than providing a discount on a monthly telephone bill like traditional wireline ETCs. Since 2008, the Lifeline program shifted from wireline ETCs, which received at least 82 percent of Lifeline disbursements in 2008, to wireless ETCs, which received 85 percent of disbursements in the third quarter of 2014.

[50] GAO-11-11.

- *Duplicate or ineligible enrollment:* Duplicate enrollments and ineligible subscribers may have contributed to the growth in the Lifeline program. The transition to wireless removed the connection between Lifeline service and a physical address, increasing the likelihood that a household could receive more than one Lifeline-supported service. As noted earlier, weak controls resulted in ineligible and duplicate benefits. For example, USAC undertook an in-depth data validation process to identify and remove duplicate subscribers, and reported that it eliminated 2.2 million duplicate subscribers and yielded savings of over $260 million from 2011 through 2013.

- *Increase in eligible households:* The growth in Lifeline may also have been partially due to an increase in the number of households eligible for the benefit. Using Census data, we found the number of households eligible for Lifeline grew from approximately 35 million in 2008 to 40 million in 2012, a 15 percent increase.[51] In addition, enrollment in SNAP, one of the primary programs through which consumers become eligible for Lifeline, increased 64 percent from 2008 to 2012, according to USDA.

Lifeline enrollment and disbursements have declined since their peak in 2012 when FCC issued the Order. FCC's reform efforts, such as initial eligibility verification and recertification, resulted in declines in enrollment and disbursements. For example, FCC reported that disbursements fell by nearly $40 million in one month after the eligibility verification requirements went into effect in June 2012, and projected that the 2012 recertification process could de-enroll up to 4 million subscribers and save as much as $400 million in 2013. However, as noted earlier, some FCC reforms are still in progress and therefore the full impact of the reforms is not known. In addition, some Lifeline reforms may have inadvertently reduced participation by eligible households as well as ineligible households.

[51]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. As stated earlier, prior to the Order, Lifeline eligibility did not have a minimum standard and varied by state.

Some Eligible Households Face Challenges in Accessing and Retaining Lifeline Benefits, and Some Actions Have Been Taken to Mitigate These Challenges

Although some Lifeline-eligible households face challenges in accessing and retaining benefits, ETCs, particularly prepaid wireless ETCs, have taken actions to help mitigate these challenges (see table 2).

Table 2: Challenges Faced by Lifeline-Eligible Households and Actions Taken by Eligible Telecommunications Carriers (ETC) That Can Mitigate These Challenges

Challenge	Means of mitigating
Lack of knowledge about the program	• In-person and community-based outreach and events to raise awareness of the program.
Accessing and submitting applications	• In-person enrollment to assist consumers in submitting applications.
Providing documentation of eligibility	• Electronic capture of copies of consumers' documentation during in-person enrollment. • Use of state eligibility databases, where available, to reduce the need for applicants to submit documentation.
Recertification may de-enroll eligible households	• Increased outreach to notify consumers of the requirement and more options for reply, such as interactive voice response. • Use of state eligibility databases, where available, to eliminate the need to contact consumers to recertify.

Source: GAO. | GAO-15-335

Some Eligible Households May Face Challenges in Accessing and Retaining Lifeline Benefits

Some eligible households may face a variety of challenges enrolling in Lifeline and retaining benefits over time. Some challenges stem from eligible households' unawareness of or difficulty in applying for the program. Other challenges stem from FCC reforms, such as initial eligibility verification and annual recertification, which may inadvertently hinder participation by some eligible households while attempting to prevent participation by ineligible households. We identified the following challenges:

- *Knowledge about the program:* Eligible households may be unaware of the program. FCC requires ETCs to publicize the availability of Lifeline in a manner reasonably designed to reach those likely to qualify. In a 2010 recommended decision, the Federal-State Joint

Board on Universal Service[52] observed that ETCs' outreach efforts may not reach some eligible households and that insufficient outreach efforts by some ETCs may have contributed to low Lifeline participation rates. The consumer advocacy organizations we interviewed agreed that consumers' lack of knowledge about Lifeline remains a concern for the program.

- *Accessing and submitting applications:* Eligible households may have difficulty accessing or submitting Lifeline applications. For example, representatives from two of the three wireline ETCs we interviewed said applicants can access the application online and submit the application by mail or fax. However, applicants may be challenged to access or submit applications through such methods because they may lack access to the Internet or fax machines. In addition, two stakeholders we interviewed said that eligible consumers may struggle to complete an application due to a lack of literacy or language skills given the complexity of the form. For example, representatives from one ETC noted that some applicants may not understand statements such as "One Lifeline service is available per household, and that, to the best of my knowledge, no other person in my household is receiving a Lifeline service. For purposes of Lifeline, a household is any individual or group of individuals who live together at the same address and share income and expenses."

- *Providing documentation of eligibility:* Some households may be unable to submit copies of their eligibility documentation such as a SNAP benefit card with their applications. As mentioned earlier, ETCs are now required to verify eligibility, which is often done by reviewing documentation. Consumers submitting applications need to send copies of documentation, but may be unable to do so due to a lack of access to equipment such as scanners or photocopiers. According to representatives from one ETC, this may result in consumers failing to complete the application. In addition, some consumers may have difficulty providing required documentation to prove eligibility, such as tax returns or Social Security statement of benefits.

[52]The Federal-State Joint Board on Universal Service comprises FCC Commissioners, state utility commissioners, and a consumer advocate representative, and makes recommendations to implement the universal service provisions of the Telecommunications Act of 1996.

- *Recertification:* FCC requires ETCs to annually recertify the eligibility of all of their Lifeline customers and de-enroll those who do not reply to recertification attempts,[53] which stakeholders we interviewed said may result in eligible households de-enrolled from the program. In order to verify eligibility, ETCs often contact customers directly through a variety of means, such as mail, telephone, and text message. Customers must then reply to affirm their ongoing eligibility for Lifeline. Representatives from all 12 ETCs we interviewed noted that it is a challenge to get customers to respond.[54] In the two completed recertification rounds to date, 2012 and 2013, USAC reports that many households were de-enrolled due to non-response.[55] According to representatives from 3 of the 12 ETCs we interviewed, eligible households may not respond because they have moved and did not receive mailed notices or may not respond to telephone calls from unknown callers. In addition, representatives from ETCs, public utility commissions, and consumer advocates we spoke to said that subscribers may have difficulty understanding the recertification process or the language used on recertification forms. For example, households responding to recertification must agree to the same attestations included in the Lifeline application.

Some Actions Have Been Taken to Mitigate the Challenges Households Face

ETCs and some states have taken actions to mitigate the challenges eligible households face in accessing and retaining Lifeline benefits. ETCs, particularly prepaid wireless ETCs, have developed methods of marketing to low-income consumers. In addition, some states have developed eligibility databases that reduce the challenges associated with submitting documentation and recertifying eligibility.

[53]ETCs must also de-enroll subscribers who respond that they are no longer eligible or are determined to be ineligible by a state administrator, USAC, or a database query.

[54]Eligibility verification also imposes burdens on ETCs and USAC. FCC's Paperwork Reduction Act filing with the Office of Management and Budget stated that the annual costs of initial eligibility data collection and recertification would be $175,820,000 and $419,300,000 respectively.

[55]FCC requires that ETCs report their recertification results, including the number of customers de-enrolled due to non-response, through FCC Form 555. We attempted to analyze these results for 2012 and 2013. However, we found variation in how ETCs reported those data and determined the results were not reliable for our purposes. FCC has since revised Form 555 and its guidance for ETCs. According to FCC officials, the revisions should improve the quality of the data.

- *Outreach and in-person enrollment:* Prepaid wireless ETCs conduct outreach, including in-person outreach and enrollment, to overcome challenges such as lack of customer knowledge about the program, inability to submit applications, and recertification. FCC and USAC officials report that states with more ETCs offering prepaid wireless service tend to have higher Lifeline participation rates due to greater outreach. Representatives from seven of the nine wireless ETCs we spoke to reported that they use mobile in-person enrollment events outside community locations such as thrift stores or food banks to effectively target the eligible low-income population. Some wireless ETCs noted that in-person enrollment agents can assist applicants by translating the application's legal language into layman terms, explaining program requirements, or verifying eligibility. These agents may verify eligibility by taking images of applicants' eligibility documentation with handheld tablet computers for review by ETC employees. Representatives from all nine of the prepaid wireless ETCs we interviewed also reported using a variety of channels to contact and solicit responses from customers during recertification, such as interactive voice response telephone systems. Some of these wireless ETCs noted that increased outreach can overcome the challenge of getting customers to respond to recertification.

- *Eligibility databases:* Databases used by ETCs to verify household eligibility could eliminate the need for applicants to provide eligibility documentation and the need for ETCs to contact customers during the recertification process. Some ETCs, public utility commissions, and other stakeholders we spoke to said that databases could increase participation by eligible households. For example, representatives from one state public utility commission we spoke to reported that ETCs that contacted customers during recertification experienced a 30 to 40 percent drop in participation, while ETCs that queried the state eligibility database experienced a 10 percent drop. However, as discussed above, FCC has not created a national database, most states lack databases, and ETCs may not use the databases that states have created.

Usefulness of Broadband Pilot Program May Be Limited by FCC's Lack of Evaluation Plan and Other Challenges

FCC Designed the Broadband Pilot Program to Test a Variety of Factors, but Did Not Conduct a Needs Assessment or Develop an Evaluation Plan

FCC's broadband pilot program includes 14 pilot projects that test an array of options and will generate information that FCC intends to use to decide whether and how to incorporate broadband into Lifeline. According to FCC, the projects are expected to provide high-quality data on how the Lifeline program could be structured to promote broadband adoption by low-income households. FCC noted the diversity of the 14 projects, which differed by geography (e.g., urban, rural, Tribal); types of technologies (e.g., fixed and mobile); and discount amounts. Projects were also designed to test variables such as digital literacy training and equipment discounts.[56] FCC selected projects that were designed as field experiments and offered randomized variation to consumers. For example, one project we reviewed offered customers three different discount levels and a choice of four different broadband speeds, thereby testing 12 different program options. FCC officials said they aimed to test and reveal "causal effects" of variables. FCC officials said this approach, for example, would test how effective a $20 monthly subsidy was relative to a $10 subsidy, which would help FCC evaluate the relative costs and benefits of different subsidy amounts. However, FCC officials noted that there was a lack of FCC or third party oversight of the program, meaning that pilot projects themselves were largely responsible for administration of the program.

We found that FCC did not conduct a needs assessment or develop implementation and evaluation plans for the broadband pilot program, as

[56]FCC reimbursements to ETCs only discounted the price of monthly broadband service and non-recurring fees such as broadband service activation fees, and did not subsidize discounted equipment or digital literacy training. However, FCC encouraged projects to partner with organizations to offer discounted equipment and digital literacy training.

we had previously recommended. In October 2010, we recommended that if FCC conducted a broadband pilot program, it should conduct a needs assessment and develop implementation and evaluation plans, which we noted are critical elements for the proper development of pilot programs.[57] We noted that a needs assessment could provide information on the telecommunications needs of low-income households and the most cost-effective means to meet those needs. Although FCC did not publish a needs assessment, FCC officials said they consulted with stakeholders and reviewed research on low-income broadband adoption when designing the program. Well-developed plans for implementing and evaluating pilot programs include key features such as:

- well-defined, clear, and measurable objectives;
- criteria or standards for determining pilot program performance;
- clearly articulated methodology, including sound sampling methods, determination of appropriate sample size for the evaluation design, and a strategy for comparing the pilot results with other efforts;
- benchmarks to assess pilot success; and
- detailed evaluation time frames, roles, and responsibilities.[58]

We noted in our October 2010 report that such evaluation plans help ensure that evaluations will yield methodologically sound results and support effective program and policy decisions. FCC officials said they did not set out with an evaluation plan because they did not want to prejudge the results by setting benchmark targets ahead of time. FCC officials said they are optimistic that the information gathered from the pilot projects will enable FCC to make recommendations regarding how broadband could be incorporated in Lifeline.[59] However, FCC officials said they do not have

[57]GAO-11-11.

[58]GAO-11-11 and GAO, *Tax Administration: IRS Needs to Strengthen Its Approach for Evaluating the SRFMI Data-Sharing Pilot Program,* GAO-09-45 (Washington, D.C.: Nov. 7, 2008).

[59]Under the Administrative Procedure Act, the law that governs agency rulemakings, FCC must give notice and seek public comment on any proposed regulations prior to their enactment through a *Notice of Proposed Rulemaking*. See 5 U.S.C. § 553. FCC officials noted that the commission may draw on many sources of information in crafting its final rule, such as outside studies.

set milestones, time frames, or specific deliverables for their evaluation of the program. In particular, according to FCC officials, the pilot projects completed offering subsidized service in October 2014, but FCC has not announced when or how it would share the results of the projects.

Broadband Pilot Projects Experienced Challenges, Including Lower-than-Anticipated Enrollment

The pilot projects enrolled approximately one-tenth of the 74,000 low-income consumers that FCC indicated would receive broadband through the pilot projects. According to FCC officials, at the peak of enrollment in October 2013, projects reported serving 7,425 consumers. FCC officials said that the 74,000 consumers noted in the December 2012 order adopting the pilot program was an estimate of consumers who could be served through the program given the available funding and was not a reliable number and should not be interpreted as a goal for the program. FCC officials said they calculated this figure by adding together the enrollment estimates provided by projects, which varied in their methodologies. For example, some projects estimated serving all eligible consumers, while others predicted that only a fraction of eligible consumers would enroll. Due to the low enrollment in the pilot program, a small fraction of the total money FCC authorized for the program was spent. Specifically, FCC officials report that about $1.7 million of the $13.8 million authorized was disbursed to projects.

FCC officials told us they do not view the pilot's low enrollment as a problem, as the program sought variation and the data collected will still enable FCC to make comparisons across different treatments. In addition, FCC officials noted that although insufficient sample size could be a problem for some projects, most projects offered service to a sizable number of consumers, even if a relatively small portion of those offered service subsequently enrolled in the service. FCC officials believe information on the number of consumers offered service can provide relevant information regarding the subsidy's effect on broadband adoption. However, the program did not survey consumers who were offered but did not enroll in the service and will not generate information on why these consumers did not enroll.

FCC and pilot project officials we spoke to noted that a preliminary finding from the pilot was that service offered at deeply discounted or free monthly rates had high participation. FCC officials and representatives from the four pilot projects we interviewed noted that broadband offered at no or the lowest cost per month resulted in the highest participation. For example, according to USAC data, one project that offered service at no monthly cost to the customer reported 100 percent of its 709 enrollees were enrolled in plans with no monthly cost as of October 2013, with no customers enrolled in its plans with a $20 monthly fee.[60] This information raises questions about the feasibility of including broadband service in the Lifeline program, since on a nationwide scale, offering broadband service at no monthly cost would require significant resources and may conflict with FCC's goal to minimize the contribution burden.

In addition, representatives from the projects we interviewed noted other challenges, such as difficulties with marketing the program and getting customers to pay their bills. Representatives from all four pilot projects we interviewed noted they had difficulty marketing the program. For example, representatives from one pilot project we interviewed noted that without a coordinated national brand, it was difficult to overcome the perception among eligible consumers that the carrier was trying to sell a product. Further, representatives from three of the four projects we spoke to noted that eligible customers they contacted were unaware of or did not see the benefits of broadband. In addition, officials from three of the four pilot projects we interviewed noted the difficulty of getting customers to pay their monthly bills. For example, at one project, an official noted that all enrolled customers in the pilot lost service during the course of the project due to inability to pay. FCC officials noted that understanding these challenges faced by pilot projects will help the commission as it considers whether and how to incorporate broadband into the Lifeline program.

For the reasons noted above, FCC's broadband pilot program experienced challenges. In particular, FCC did not adopt our previous recommendation to conduct a needs assessment or develop implementation and evaluation plans prior to establishing the program. Without such planning, FCC now faces difficulties in evaluating the program without established benchmarks for success. Further, FCC does not know why large numbers of eligible households did not enroll in the pilot projects. As noted earlier, FCC approved the introduction of non-facilities-based wireless service into the Lifeline program without quantifying or estimating the potential cost increases, which contributed to a 167 percent increase in disbursements from 2008 to 2012. The risk of significant costs to the program are even greater given that FCC notes that a lesson learned from the broadband pilot program is that higher

[60]Although the monthly service cost was free for this plan, consumers had to pay an up-front cost. According to FCC officials, none of the pilot project plans offered completely free broadband service.

subsidies have the highest participation rates. However, the pilot projects are now substantially complete. Further, FCC officials noted that the pilot program is one of many factors the commission will consider when deciding whether and how to incorporate broadband into Lifeline, and to the extent the pilot program had flaws, those flaws will be taken into consideration.

Conclusions

Although FCC is establishing performance measures for the Lifeline program, these measures will not fully explain the program's contribution toward its performance goals, including ensuring voice service for low-income Americans and minimizing the contribution burden on consumers and businesses. FCC attributes the narrowing of the gap between low-income and higher-income households' telephone penetration rates over the past 30 years to the Lifeline program. However, several factors could play a role in this change, such as a reduction in the price of service over time. Program evaluation is a critical strategy that can allow agencies to assess the value or effectiveness of a program, among other things. Officials report that FCC has not conducted a program evaluation of Lifeline, noting that the program's structure makes it difficult to determine a causal connection between the program and the penetration rate. However, FCC officials referenced academic studies that evaluated the impact of Lifeline and suggest that the program may be a rather inefficient and costly mechanism to increase telephone subscribership. This suggested lack of efficiency is a concern, particularly since FCC has proposed expanding the pool of households eligible for Lifeline. Such actions may increase overall penetration, but might do so at a high cost because households may enroll that already have phone service. Without evaluating the program, FCC does not have information on which to base program changes, such as expanding eligibility requirements. Taking such actions without evaluating the program raises concerns about the Lifeline program's ability to meet its goals to increase telephone penetration rates among low-income households and to minimize the contribution burden.

Recommendation for Executive Action

We recommend that FCC conduct a program evaluation to determine the extent to which the Lifeline program is efficiently and effectively reaching its performance goals of ensuring the availability of voice service for low-income Americans while minimizing the contribution burden on consumers and businesses.

Agency Comments

We provided a draft of this report to FCC and USAC for review and comment. In written comments, reproduced in appendix II, FCC agreed that it should evaluate the extent to which the program is efficiently and effectively reaching its performance goals, and said that FCC staff will address our recommendation. In addition, both FCC and USAC provided technical comments that we incorporated as appropriate.

We are sending copies of this report to the Chairman of the Federal Communications Commission, the Chief Executive Officer of the Universal Service Administrative Company, and appropriate congressional committees. We will make copies available to others on request. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-2834 or goldsteinm@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 that made major contributions to this report are listed in appendix III.

Sincerely yours,

Mark L. Goldstein
Director, Physical Infrastructure Issues

Appendix I: Objectives, Scope, and Methodology

The objectives of this report were to examine (1) the status of Lifeline reform efforts and the extent to which the Federal Communications Commission (FCC) has evaluated the effectiveness of the program; (2) how the Lifeline program verifies household eligibility and addresses associated privacy and data security; (3) the extent to which households participate in Lifeline and the challenges, if any, they face in accessing and retaining program benefits; and (4) how FCC plans to evaluate the broadband pilot program and the extent to which the pilot program will enable FCC to decide whether and how to include broadband in the Lifeline program.

To examine the status of Lifeline reforms, we reviewed documents and interviewed officials from FCC and the Universal Service Administrative Company (USAC). In particular, we reviewed the Lifeline Reform Order and other key guidance. To determine the extent to which FCC has evaluated the effectiveness of the program, we compared information collected from FCC to criteria on program evaluation identified from our previous work.[1] We also gained the perspective of a range of stakeholders through interviews with representatives from industry associations (CTIA-The Wireless Association and the United States Telecom Association), state associations (the National Association of State Utility Consumer Advocates and the National Association of Regulatory Utility Commissioners), and consumer advocates (AARP and the National Consumer Law Center). To analyze the extent to which the Lifeline-eligible population subscribes to telephone service and how this differs from higher income groups, we analyzed 2013 telephone service penetration rates reported by FCC from the Census Bureau's Current Population Survey. To assess the reliability of the penetration data, we reviewed documentation from FCC; we determined that the data from these sources were sufficiently reliable for our purposes of comparing penetration rates across income levels. Lastly, we reviewed two academic studies that evaluated the impact of the Lifeline program and interviewed four economists involved with the studies regarding the studies' methodologies and findings; we identified these studies through an interview with FCC. At least two GAO analysts and an economist

[1]GAO, *Program Evaluation: Strategies to Facilitate Agencies' Use of Evaluation in Program Management and Policy Making*, GAO-13-570 (Washington, D.C.: June 26, 2013). This report found that 80 percent of federal managers who had recent program evaluations reported that the evaluations contributed to assessing the program's effectiveness or value.

reviewed the studies we cite in this report for methodological adequacy; the studies met our criteria for methodological quality.

To analyze how the Lifeline program verifies household eligibility, we reviewed documentation from FCC and a state association and conducted four state case studies—Alabama, Arizona, New York, and Wisconsin. We selected states to capture a range of Lifeline disbursement amounts and Lifeline participation rates, which we estimated as the number of Supplemental Nutrition Assistance Program (SNAP) subscribers in the state relative to the number of Lifeline subscribers. We also selected states that varied on whether or not the state had an eligibility database and geography in terms of number of urbanized areas. Within each selected state, we interviewed representatives from the public utility commission, the state consumer advocate, where available,[2] and three wireless eligible telecommunications carriers (ETC), and collected supporting documentation such as comments filed to FCC. We selected the wireless ETCs based on the carrier's market share of Lifeline participation in the state and the overall size of the company. See table 3 for the case study wireless ETCs we interviewed. In addition to these nine wireless ETCs, in order to gain the perspective of wireline ETCs, we collected documentation and interviewed representatives from the three largest nationwide providers: AT&T, Verizon, and CenturyLink. Although using these criteria allowed us to obtain information from a variety of states and ETCs, the findings from our case studies cannot be generalized to all states and ETCs because they were selected as part of a nonprobability sample.

[2]We contacted but did not interview the Arizona Residential Utility Consumer Office and the Wisconsin Department of Agriculture, Trade, and Consumer Protection. In both cases, officials declined to participate and referred us to the state public utility commission.

Table 3: Selected Wireless Eligible Telecommunications Carriers (ETC) Interviewed by State

State	Selected ETCs
Alabama	I-Wireless
	Virgin Mobile (Sprint)
	TracFone Wireless
Arizona	Boomerang Wireless
	Smith Bagley
	Telrite Corporation
New York	Cricket Wireless (AT&T)
	I-Wireless
	Virgin Mobile (Sprint)
Wisconsin	Budget Prepay
	Nexus Communications[a]
	TracFone Wireless

Source: GAO | GAO-15-335

[a]Nexus Communications provided written responses to our interview questions.

To examine how the Lifeline program addresses privacy and data security associated with eligibility verification, we reviewed documentation and interviewed officials from FCC and USAC, including relevant requirements, policies, and guidance. We interviewed case study state officials and representatives from ETCs on the methods used to protect personal consumer information. In addition, we interviewed stakeholders about their views on data security and privacy.

To describe the extent to which eligible households participate in Lifeline, we analyzed data on Lifeline participation and disbursements. In particular, we collected data from USAC on Lifeline participation by quarter from 2008 through fourth quarter 2014 and disbursements by year from 2008 through 2014; we selected 2008 since it was the first year non-facilities based wireless carriers offered Lifeline service. Using data from the Census Bureau's Survey of Income and Program Participation (SIPP), we estimated the number of households that would satisfy the federal criteria to participate in Lifeline by calculating the number of households participating in Lifeline qualifying programs and the number of households at or below 135 percent of the federal poverty guidelines from 2008 through 2012. We also used SIPP data to estimate the number of additional households that would be added if the Special Supplemental Nutrition Program for Women, Infants, and Children were added as a Lifeline qualifying program. In addition, we used SIPP data along with

SNAP participation data reported by the United States Department of Agriculture (USDA) to analyze participation trends in the Lifeline-qualifying programs from 2009 through 2013. To assess the reliability of the SIPP, SNAP, and USAC data, we reviewed documentation and interviewed officials from USAC and reviewed documentation from the Census Bureau and USDA; we determined that the data from these sources were sufficiently reliable for our purposes of reporting trends. In addition, we interviewed state officials, representatives from ETCs, consumer advocates, and other stakeholders on the causes for Lifeline participation trends.

To identify the challenges, if any, eligible households face in accessing and retaining program benefits, we interviewed stakeholders and representatives from the case-study states and ETCs. In addition, we reviewed FCC and USAC policies and processes that could influence household participation in Lifeline, including outreach, initial enrollment, and annual recertification. We reviewed data ETCs reported to FCC regarding the results of their recertification efforts.[3] To analyze the challenge posed by annual recertification, we interviewed officials from FCC, representatives from USAC, and representatives from selected ETCs regarding practices and approaches to overcome challenges to participation, such as the relative merits of various enrollment and recertification methods.

To determine how FCC plans to evaluate the broadband pilot program and the extent to which the pilot will enable FCC to promote adoption by eligible households, we reviewed policies and interviewed FCC officials regarding the pilot program, including the solicitation for applications and the December 2012 Order announcing the projects. We also selected four case studies—Nexus Communications, XChange Telecom Corporation, Virgin Mobile (an affiliate of Sprint), and Troy CableVision—from the universe of 14 broadband pilot projects. We selected these projects based on the technology types they used (wireline, wireless, or both); whether they offered digital literacy training or equipment discounts; and

[3]FCC requires that ETCs report their recertification results, including the number of customers de-enrolled due to non-response, through FCC Form 555. We attempted to analyze these results for 2012 and 2013. However, we found variation in how ETCs reported those data and determined the results were not reliable for our purposes. FCC has since revised Form 555 and its guidance for ETCs. According to FCC officials, the revisions should improve the quality of the data.

geographic diversity, including whether they offered service in urban or rural areas. For each case study project, we interviewed representatives[4] regarding the project's expectations, results, and lessons learned. We also reviewed documentation from USAC on each case study project, including the application and preliminary results, such as number of participants. In addition, we interviewed consumer advocates and representatives from broadband adoption programs, such as Comcast's Internet Essentials and CenturyLink's Internet Basics, on best practices to promote broadband adoption among the low-income population.

We conducted this performance audit from May 2014 to March 2015 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.

[4]In the case of Nexus Communications, we received written responses.

Appendix II: Comments from the Federal Communications Commission

Federal Communications Commission
Washington, D.C. 20554

March 10, 2015

Mr. Mark Goldstein
Director, Physical Infrastructure Issues
Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Goldstein:

Thank you for the opportunity to review and comment on the U.S. General Accountability Office's (GAO) draft report entitled "FCC Should Evaluate the Efficiency and Effectiveness of the Lifeline Program" (Draft Report).

We appreciate the GAO's attention to the Lifeline program, a critical effort to ensure that low-income Americans have access to essential communications services, and its recommendations on program evaluation. Specifically, GAO recommends that the FCC "should conduct a program evaluation to determine the extent to which the Lifeline program is efficiently and effectively reaching its performance goals."[1] As you know, the Commission in 2012 adopted performance goals and measures to improve efficiency and effectiveness in the program and ensure that the program is accomplishing its ultimate objectives. The Commission set out the goals of ensuring the availability of voice service and broadband service, while minimizing the contribution burden on consumers and businesses.

We agree with the GAO that the Commission should continue to evaluate the Lifeline program to assess whether it is achieving these goals. In fact, since the Commission's 2012 Order reforming the program, Commission staff has taken many steps to review the efficacy of the program. The staff has looked to soundly developed academic studies, for example, to gauge the effect and impact of the program on achieving its goals. These studies measured the impact of Lifeline on voice penetration among low income Americans, independent of other factors, as well as the burden on consumers and businesses of achieving this impact and informed the Commission's view the effectiveness of the program.[2]

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[1] GAO, DRAFT – FCC Should Evaluate the Efficiency and Effectiveness of the Lifeline Program, GAO-15-335, at 31 (Mar. 2015) (GAO Draft Report).

[2] The Commission measured success towards its goal of increasing the availability of voice service by examining penetration of low-income voice service. *See Lifeline and Link Up Reform and Modernization et al.*, WC Docket No. 11-42 et al., Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Rcd 6656, 6672, para. 30 (2012) (*Lifeline Reform Order*); *see also* GAO Draft Report at n.31 (citing Olga Ukaneva, "Universal Service in a Wireless World," Paper presented at the 42nd Research Conference on Communications, Information and Internet Policy, Washington, D.C. (Sept. 2014), Daniel A. Ackerberg, David R. DeRemer, Michael H Riordan, Gregory L. Rosston, and Bradley S. Wimmer, "Estimating the Impact of Low-Income Universal Service Programs," Center for

The Commission also has taken the first step to achieve the goal of ensuring broadband availability for low income Americans by launching a pilot program to examine whether and how to refocus the program to support broadband. In evaluating this pilot program, the Commission has taken into account many of the evaluation concepts contained in the GAO Report entitled "Program Evaluation: Strategies to Facilitate Agencies' Use of Evaluation in Program Management and Policy Making."[3] For example, the Commission sought to implement techniques that would enable the agency and others to obtain statistically valid data regarding the impact of a number of factors on broadband adoption among low-income households.[4] The pilots generated statistically significant data regarding the barriers to greater broadband adoption among low-income consumers. These data, which we are still gathering, will be part of the information that the Commission will draw upon to determine whether and how to make further improvements to the program.

Finally, as you note, the Commission has made progress implementing the reforms adopted in 2012 to eliminate waste, fraud, and abuse in the program, and Commission staff has closely monitored the impact of these changes to ensure demand for these funds is rationalized and the burden on the contributors to the universal service is minimized.[5] Our evaluation suggests the program is achieving this goal. Since 2012, disbursements have been reduced by more than $500 million, with the size of the program reduced from over $2.1 billion to approximately $1.6 billion by the end of 2014 – minimizing the contribution burden on consumers and businesses. These savings were achieved through reform and modernization of all aspects of the program.

We appreciate GAO's recommendation that we evaluate the Lifeline program to assess whether it is achieving the Commission's goals. We agree that the Commission should continue to examine and evaluate the extent to which the program is efficiently and effectively reaching its performance goals and we concur with the conclusion that a Commission-generated public document evaluating the program and providing useful insights into the program is of great value. Commission staff will address this recommendation and we look forward to working with the GAO in the future.

Sincerely,

Julie A. Veach

Julie A. Veach
Chief
Wireline Competition Bureau
Federal Communications Commission

Economic Studies CES-12-33 (2013)). As the GAO notes, these third-party academic studies meet GAO's "criteria for methodological quality." GAO Draft Report at 3, 33.

[3] GAO, Program Evaluation: Strategies to Facilitate Agencies' Use of Evaluation and Program Management in Policy Making, GAO-13-570 (June 26, 2013).

[4] *See Lifeline Reform Order*, 27 FCC Rcd at 6794-6807, paras. 321-54 (drawing on experiences of other broadband adoption programs such as Broadband Technology Opportunities Program within the National Telecommunications and Information Agency).

[5] GAO Draft Report at 10.

2

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Mark L. Goldstein, (202) 512-2834 or goldsteinm@gao.gov

Staff Acknowledgments

In addition to the contact named above, Michael Clements (Assistant Director), Amy Abramowitz, Melissa Bodeau, Antoine Clark, Tobias Gillett, Bert Japikse, Emily Larson, Grant Mallie, Joshua Ormond, Cheryl Peterson, and Kelly Rubin made key contributions to this report.

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