United States Government Accountability Office

Testimony

Before the Subcommittee on Communications, Technology, Innovation and the Internet, Committee on Commerce, Science and Transportation, U.S. Senate

For Release on Delivery
Expected at 9:30 a.m. ET
Tuesday, June 2, 2015

TELECOMMUNICATIONS

FCC Should Evaluate the Efficiency and Effectiveness of the Lifeline Program

Statement of Michael Clements, Acting Director
Physical Infrastructure Issues

ACCESSIBLE VERSION

GAO-15-638T

Chairman Wicker, Ranking Member Schatz, and Members of the Subcommittee:

I am pleased to be here today as you discuss the Federal Communications Commission's (FCC) efforts to promote telephone subscribership among low-income households. Through the Lifeline program, companies provide discounts to eligible low-income households for telephone service. The Lifeline program supports these companies through the Universal Service Fund, which is funded through mandatory fees that are usually passed along to consumers through a charge applied to their monthly telephone bills. The Lifeline program was created in the mid-1980s and has traditionally centered on wireline residential telephone service. However, FCC actions in 2005 and 2008 paved the way for prepaid wireless companies to begin offering Lifeline service in 2008; at the time, FCC did not quantify or estimate the potential increases in participation from its decision. Subsequently, Lifeline experienced rapid growth in participation and disbursements. In particular, from mid-2008 to mid-2012, Lifeline enrollment increased from 6.8 million households to 18.1 million households and annual disbursements increased from $820 million in 2008 to $2.2 billion in 2012, a 167 percent increase. In 2010, we found that the Lifeline program lacked some features of internal controls, such as the ability to detect duplicate benefits across companies.[1] We recommended that FCC take actions to improve management and oversight, including conducting a robust risk assessment and implementing a systematic process for considering the results of company audits; FCC agreed with our recommendations.

To comprehensively reform and modernize the program, among other things, FCC adopted a Reform Order in January 2012 that sought to improve the program's internal controls and included a pilot program to evaluate the inclusion of broadband into the program (see Table 1 for the Order's key reforms).[2] For example, to reduce the number of ineligible consumers in the program, the Order adopted measures to check consumers' initial and ongoing eligibility for Lifeline. After FCC began implementing the

[1] *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).

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

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.

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.
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. 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.
Uniform eligibility criteria	Requires all states to use, at a minimum, eligibility criteria including (1) household income at or below 135 percent of the federal poverty guidelines or (2) participation in at least one of the following: 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. Households residing on Tribal lands may be eligible through additional programs.
Non usage requirements	Lifeline providers delivering service without a monthly bill must notify and de-enroll subscribers that do not use the service after a specified period of time—60 consecutive days of nonuse and a 30-day notice period.
Payments based upon actual support claims	Lifeline providers receive payment based on actual support claims. Before this, payments 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, Lifeline providers that receive 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, all new Lifeline providers are audited by the program administrator—the Universal Service Administrative Company (USAC)—within their first year of service.
National Lifeline Accountability Database (NLAD)	Lifeline providers are required to query NLAD 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.
Broadband pilot program	The Order called for a pilot program to gather data on whether and how Lifeline could be structured to promote broadband and called on FCC to select, fund, and gather data from pilot projects offering broadband to Lifeline-eligible consumers. FCC selected 14 pilot projects that completed offering subsidized service at the end of October 2014. In May 2015, FCC published the results of these projects.
Flat-rate reimbursement	The Order implemented an interim $9.25 flat rate reimbursement 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.
Initial eligibility verification and annual recertification procedures	Effective June 2012, Lifeline providers must verify an applicant's eligibility at enrollment and annually through recertification. In addition, to reduce the burden on consumers and providers, the Order directed FCC and USAC to establish an automated means for determining eligibility.

Lifeline reform	Description
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 to define performance measures to evaluate progress made towards these goals.

Source: GAO summary of FCC Order. | GAO-15-638T

My remarks today highlight key findings from our recently issued report, Telecommunications: FCC Should Evaluate the Efficiency and Effectiveness of the Lifeline Program.[3] I will discuss (1) the status of FCC's Lifeline reform efforts, (2) the extent to which FCC has evaluated the effectiveness of the program, and (3) 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. For our report, we reviewed FCC orders and other relevant information; analyzed 2008-2012 Census Bureau data to estimate trends in the number of households that would satisfy the federal Lifeline criteria; and interviewed FCC officials, officials at four broadband pilot projects selected based on features such as technology, and officials from 12 Lifeline providers and four states that were selected based on factors such as disbursements and participation. We also reviewed two academic studies that examined the effect of the Lifeline program. More detailed information on our objectives, scope, and methodology can be found in the issued report. We conducted the work on which this statement is based 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.

[3] GAO-15-335 (Washington, D.C.: Mar. 24, 2015).

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

Our March 2015 report found that FCC has made progress implementing reform efforts contained in the Order.[4] In particular, FCC has implemented eight reforms, including the one-subscription-per-household rule, uniform eligibility criteria, non-usage requirements, payments based on actual claims, and the audit requirements. Furthermore, FCC eliminated Link-up on non-Tribal lands and support for toll limitation service, and the National Lifeline Accountability Database (NLAD) is operational in 46 states and the District of Columbia. In May 2015, FCC reported the results of the broadband pilot program.[5] However, FCC has not fully implemented three reform efforts:

- Flat-rate reimbursement: To simplify administration of the Lifeline program, FCC established a uniform, interim flat rate of $9.25 per month for non-Tribal subscribers. FCC sought comment on the interim rate, but has not issued a final rule with a permanent reimbursement rate.

- Initial eligibility verification and annual recertification procedures: To reduce the number of ineligible consumers receiving program benefits, the Order required that Lifeline providers verify an applicant's eligibility at enrollment and annually through recertification; these requirements have gone into effect. In addition, to reduce the burden on consumers and Lifeline providers, the Order called for an automated means for determining Lifeline eligibility by the end of 2013. FCC has not met this timeframe or revised any timeframes for how or when this automated means would be available.

- Performance goals and measures: FCC established three outcome-based 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. FCC identified performance measures it will use to evaluate progress towards these goals, but it has not yet fully defined these measures. FCC officials noted they are working on defining them using the Census Bureau's

[4]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.

[5]Federal Communications Commission, Wireline Competition Bureau, *Low-Income Broadband Pilot Program Staff Report*, WC Docket No. 11-42 (May 22, 2015).

American Community Survey data, which were made available in late 2014.

FCC Has not Evaluated the Extent to which Lifeline is Efficiently and Effectively Reaching its Performance Goals

In our March 2015 report, we found that FCC has not evaluated the effectiveness of the Lifeline program, which could hinder its ability to efficiently achieve program goals. Once adopted, performance measures can help FCC track the Lifeline Program's progress toward its goals. However, performance measures alone will not fully explain the contribution of the Lifeline program toward reaching 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 (the percentage of households with telephone service) 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 telephone service, and technological improvements, such as mobility of service, have increased the value of telephone service to households.

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. However, FCC officials noted that two academic studies have assessed the program.[6] These studies 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 would choose to subscribe to telephone service in the absence of the subsidy.[7] As a result, we concluded that the Lifeline program, as currently

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[6]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).

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

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 of the program's performance goals; rather, it adopted availability of voice service for low-income Americans, measured by the penetration rate.[8]

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.[9] The Order established minimum Lifeline eligibility, including households with incomes at or below 135 percent of the federal poverty guidelines, 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 of Women, Infants, and Children (WIC) program, and increasing income eligibility to 150 percent of the federal poverty guidelines. 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. Given that the telephone penetration rate increases with income, making additional households with higher incomes eligible for Lifeline may increase telephone penetration somewhat, but at a high cost, since a 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 burden on consumers and businesses that fund the program.

[8]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.

[9]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.

In our March 2015 report, we recommended 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 program costs. 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. 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 program design or management. We believe that without such an evaluation, it will be difficult for FCC to determine whether the Lifeline program is increasing the telephone penetration rate among low-income customers, while minimizing the burden on those that contribute to the Universal Service Fund. FCC agreed that it should evaluate the extent to which the Lifeline program is efficiently and effectively reaching its performance goals and said that it would address our recommendation.

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

In our March 2015 report we also found that FCC's broadband pilot program includes 14 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 pilot 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. 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 would, for example, 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 we had previously recommended in October 2010. At that time, 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.[10] 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 clear and measurable objectives, clearly articulated methodology, benchmarks to assess success, and detailed evaluation time frames. 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 into Lifeline.[11] FCC officials noted that the pilot program is one of many factors it 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. Since our report was issued, FCC released a report on the broadband pilot program, which discusses data collected from the 14 projects.

We also found that the broadband pilot projects experienced challenges, such as lower-than-anticipated enrollment. The pilot projects enrolled approximately 12 percent of the 74,000 low-income consumers that FCC indicated would receive broadband through the pilot projects. According to FCC's May 2015 report, 8,634 consumers received service for any period of time during the pilot. FCC officials said that the 74,000 consumers was an estimate and was not a reliable number and should not be interpreted as a program goal. FCC officials said they calculated

[10] GAO-11-11.

[11] 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.

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 those eligible would enroll. FCC officials told us they do not view the pilot's low enrollment as a problem, as the program sought variation. 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 reported that about $1.7 million of the $13.8 million authorized was disbursed to projects.

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.[12] 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, we found one project that offered service at no monthly cost to the consumer 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. 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.

Chairman Wicker, Ranking Member Schatz, and Members of the Subcommittee, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

[12] In its May 2015 report, FCC noted that the cost to consumers affects their adoption choice.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact Michael Clements, Acting Director, Physical Infrastructure Issues at (202) 512-2834 or clementsm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Antoine Clark and Emily Larson.

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