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TELECOMMUNICATIONS

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

Statement of Seto Bagdoyan, Director, Forensic Audits and Investigative Service

Accessible Version

GAO-17-802T

GAO Highlights

Highlights of GAO-17-802T, a testimony before the Committee on Commerce, Science, and Transportation, U.S. Senate

Why GAO Did This Study

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

This testimony is based on GAO's May 2017 report and discusses steps FCC has taken to measure Lifeline's performance in meeting goals; steps FCC and USAC have taken to enhance controls over finances, subscribers, and providers; and any weaknesses that might remain.

For the May 2017 report, GAO analyzed documents and interviewed officials from FCC and USAC. GAO also analyzed subscriber data from 2014 and performed undercover tests to identify potential improper payment vulnerabilities. The results of this analysis and testing are illustrative, not generalizable.

What GAO Recommends

In its May 2017 report, GAO made seven recommendations, including that FCC ensure plans to transfer the USF from the private bank to the Treasury are finalized and implemented expeditiously. FCC generally agreed with all the recommendations.

View GAO-17-802T. For more information, contact Seto Bagdoyan at (202) 512-6722 or bagdoyans@gao.gov.

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What GAO Found

In its May 2017 report, GAO found the Federal Communications Commission (FCC) has not evaluated the Lifeline program's (Lifeline) performance in meeting its goals of increasing telephone and broadband subscribership among low-income households by providing financial support, but it has recently taken steps to begin to do so. FCC does not know how many of the 12.3 million households receiving Lifeline as of December 2016 also have non-Lifeline phone service, or whether participants are using Lifeline as a secondary phone service. FCC revamped Lifeline in March 2016 to focus on broadband adoption; however, broadband adoption rates have steadily increased for the low-income population absent a Lifeline subsidy for broadband. Without an evaluation, which GAO recommended in March 2015, FCC is limited in its ability to demonstrate whether Lifeline is efficiently and effectively meeting its program goals. In a March 2016 Order, FCC announced plans for an independent third party to evaluate Lifeline design, function, and administration by December 2020.

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

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

Chairman Thune, Ranking Member Nelson, and Members of the Committee,

I am pleased to be here today to discuss the Federal Communications Commission's (FCC) oversight of the Lifeline program (Lifeline). Over the past two decades, telecommunications carriers and their customers have paid over $100 billion to support the federal policy of "universal service." Universal service is the principle that all Americans should have access to communications services. FCC carries out this policy through four programs, including Lifeline.[1] Lifeline was created in the mid-1980s to promote telephone subscribership among low-income households. In the mid-2000s, such service came to include wireless communications, and, in December 2016, FCC also began including broadband service. Average Lifeline enrollment as of the fourth quarter of calendar year 2016 was approximately 12.3 million subscribers.

To participate in Lifeline, households must either have an income that is at or below 135 percent of the Federal Poverty Guidelines or participate in one of several qualifying assistance programs, such as Medicaid or the Supplemental Nutrition Assistance Program (SNAP).[2] After subscribers are enrolled in Lifeline, they receive a monthly benefit on home or wireless phone and broadband service. The Lifeline benefit can lower or eliminate the cost of a subscriber's monthly phone or Internet bill.

By statute, every telecommunications carrier providing interstate telecommunications services—including Lifeline providers—must contribute to federal universal service unless exempted by FCC.[3] Contributions are deposited into the Universal Service Fund (USF). Although not required to do so, carriers typically pass on the cost of USF fees as a separate line item to their customers' phone bills. A not-for-

[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]Medicaid is a joint federal–state health-coverage program for certain low-income and medically needy individuals. SNAP, previously known as the Food Stamp Program, offers nutrition assistance to eligible, low-income individuals and families.

[3]47 U.S.C. § 254(d).

profit, private corporation designated by FCC as the administrator of universal service programs, the Universal Service Administrative Company (USAC) pays Lifeline providers a subsidy from the USF for each subscriber to offset forgone revenues.[4] From calendar year 1998 through 2016, USAC had disbursed approximately $20.2 billion to Lifeline providers.

In May 2017, we published a report on FCC's oversight of Lifeline that identified steps FCC has taken in the last few years to enhance the integrity of the program and stated the weaknesses that remained.[5] We also made seven recommendations to improve FCC's oversight of the program, which the agency agreed to implement.

My statement today discusses key findings from our May 2017 report, as well as steps FCC has taken and the related recommendations we made. Specifically, this testimony discusses (1) the extent to which Lifeline demonstrates effective performance towards program goals; (2) steps FCC and USAC have taken to improve financial controls in place for Lifeline and the USF, and any remaining weaknesses that might exist; (3) steps FCC and USAC have taken to improve subscriber eligibility verification, and any remaining weaknesses that might exist; and (4) steps FCC and USAC have taken to improve oversight of Lifeline providers, and any remaining weaknesses that might exist.

For our May 2017 report, we reviewed documents and interviewed multiple stakeholders associated with Lifeline, including FCC, FCC's Office of Inspector General (OIG), and USAC, among others. We also examined USAC financial data, including USF bank account statements and payment data, and interviewed USF account managers at the bank that holds USF funding. Further, we reviewed internal financial controls established by FCC and USAC and performed data matching and analysis to identify potential improper payments using Lifeline's enrollment data from the National Lifeline Accountability Database (NLAD) and relevant beneficiary databases. The results of the data

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

[5]GAO, *Telecommunications: Additional Action Needed to Address Significant Risks in FCC's Lifeline Program*, GAO-17-538 (Washington, D.C.: May 30, 2017).

analysis are illustrative rather than generalizable. We also performed undercover work to test the vulnerability for improper payments of funds disbursed to both subscribers and Lifeline providers. For example, we submitted 21 Lifeline applications using false information and fabricated supporting documents to determine whether we could obtain Lifeline benefits. These undercover tests were for illustrative purposes to highlight any potential internal control vulnerabilities and are not generalizable to the broader universe of subscribers and providers. Additional information on our scope and methodology is available in our May 2017 report. Our audit work was performed in accordance with generally accepted government auditing standards, and our related investigative work was done in accordance with investigative standards prescribed by the Council of the Inspectors General on Integrity and Efficiency.

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

FCC has not evaluated Lifeline’s performance in meeting program goals but, as we found in May 2017, has taken recent steps toward evaluation. According to GAO’s Cost Estimating and Assessment Guide, to use public funds effectively the government must meet the demands of today’s changing world by employing effective management practices and processes, including the measurement of government program performance.[6] In the past, FCC has called for program evaluations to review the administration of universal service generally, including Lifeline, but has not completed such evaluations. For example, FCC specified that it would review USAC 1 year after USAC was appointed as the permanent administrator to determine whether the universal service programs were being administered effectively. This review, which was planned to have been completed by 1999, was never done. In 2005, FCC awarded a contract to the National Academy of Public Administration to study the administration of the USF programs generally, examine the tradeoffs of continuing with the current structure, and identify ways to improve the oversight and operation of universal service programs. However, we reported in May 2017 that FCC officials stated FCC subsequently terminated the contract and the study was not conducted.

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

In March 2015, we found that FCC had not evaluated Lifeline's effectiveness in achieving its performance goals of ensuring the availability of voice service for low-income Americans, while minimizing the burden on those who contribute to the USF.[7] We recommended, and FCC agreed, to conduct a program evaluation to determine the extent to which Lifeline is efficiently and effectively reaching its performance goals.

Our May 2017 report raised additional questions about Lifeline's effectiveness in meeting its program goals. For example, we reported that:

- FCC did not know how many of the 12.3 million households receiving Lifeline as of December 2016 also have non-Lifeline phone service (for which they pay out of pocket) along with their Lifeline benefit. Without knowing whether participants are using Lifeline as a primary or secondary phone service, we concluded that it is difficult for FCC to determine whether it is achieving the program's goal of increasing telephone subscribership among low-income consumers while minimizing the USF contribution burden.
- FCC revamped Lifeline in March 2016 to focus on broadband adoption and generally phase out phone service, in part because FCC recognized that most eligible consumers have phones without Lifeline and to also close the "digital divide" of broadband adoption between low-income households and the rest of the country. However, broadband adoption rates have steadily increased for the low-income population absent a Lifeline subsidy for broadband. We found that at least two companies operating in a total of at least 21 states had begun offering in-home non-Lifeline broadband wireline support for less than $10 per month to individuals that participate in public-assistance programs, such as SNAP or public housing.[8] The offered rate of these providers' own low-income broadband service of $10 per month was less expensive than FCC's broadband reasonable-comparability cost benchmark of approximately $55 per month, which Lifeline subscribers would be paying for a similar level of service.

Our May 2017 report also found that FCC has recently taken some steps toward evaluating Lifeline's performance in meeting program goals.

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

[8]These advertised prices do not include taxes.

Specifically, in the 2016 Lifeline Modernization Order, FCC instructed USAC to hire an outside, independent, third-party evaluator to complete a program evaluation of Lifeline's design, function, and administration. The order stipulated the outside evaluator must complete the evaluation and USAC must submit the findings to FCC by December 2020. As FCC expects Lifeline enrollment to increase as the program is expanded to include broadband service, this expansion could carry with it increased risks for fraud, waste, and abuse, as was the case with past expansions of the program. Completing the program evaluation as planned, and as we recommended in 2015, would help FCC determine whether Lifeline is meeting its stated goals of increasing telephone and broadband subscribership among low-income consumers, while minimizing the burden on those who contribute to the USF.

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

In our May 2017 report we found that FCC and USAC have established financial controls for Lifeline, including obtaining and reviewing information about billing, collecting, and disbursing funds. They have also developed plans to establish other controls, such as establishing a national eligibility verifier (National Verifier) for Lifeline providers to determine the eligibility of applicants seeking Lifeline service. However, as discussed in our May 2017 report, we found that weaknesses remain, including the lack of requirements to effectively control program expenditures above approved levels, concerns about the transparency of fees on customers' telephone bills, and a lack of FCC guidance that could result in Lifeline and other providers paying inconsistent USF contributions. To address these concerns, we recommended the Chairman of FCC (1) require Commissioners to review and approve, as appropriate, spending above the budget in a timely manner; (2) require a review of customer bills as part of the contribution audit to include an assessment of whether the charges, including USF fees, meet FCC Truth-in-billing rules with regard to labeling, so customer bills are transparent, and appropriately labeled and described, to help consumers detect and prevent unauthorized changes; and (3) respond to USAC requests for guidance and address pending requests concerning USF contribution requirements to ensure the contribution factor is based on complete information and that USF pass-through charges are equitable. FCC generally agreed with those recommendations.

In addition, we found that USAC's banking practices for the USF result in oversight and accountability risks that FCC has plans to mitigate. Specifically, FCC maintains USF funds—whose net assets as of September 2016 exceeded $9 billion—outside of the U.S. Treasury pursuant to Office of Management and Budget (OMB) advice provided in April 2000. OMB had concluded that the USF does not constitute public money subject to the Miscellaneous Receipts Statute, 31 U.S.C. § 3302, a statute that requires that money received for the use of the United States be deposited in the Treasury unless otherwise authorized by law. As such, USF balances are held in a private bank account. However, subsequent to this OMB advice, in February 2005 we reported that FCC should reconsider this determination in light of the status of universal service monies as federal funds.[9]

As discussed in our May report, according to correspondence we received from the FCC Chairman's Senior Legal Counsel, as of March 2017, FCC had decided to move the funds to the Treasury. FCC identified potential benefits of moving the funds to the Treasury. For example, FCC explained that having the funds in the Treasury would provide USAC with better tools for fiscal management of the funds, including access to real-time data and more accurate and transparent data. According to FCC, until the USF is moved into the Treasury, there are also some oversight risks associated with holding the fund in a private account. For example, the contract governing the account does not provide FCC with authority to direct bank activities with respect to the funds in the event USAC ceases to be the administrator of the USF. After we raised this matter with FCC officials during the course of our review, beginning in November 2016, FCC sought to amend the contract between USAC and the bank to enable the bank to act on FCC instructions independently of USAC in the event USAC ceases to be the administrator. However, as of May 2017, the amended contract had not yet been signed.

While FCC has put in place a preliminary plan to move the USF funds to the Treasury, as well as plans to amend the existing contract with the bank as an interim measure, several years have passed since this issue was brought to FCC's attention without corrective actions being implemented. Further, under FCC's preliminary plan, it would not be until next year, at the earliest, that the funds would be moved to the Treasury.

[9]GAO, *Telecommunications: Greater Involvement Needed by FCC in the Management and Oversight of the E-Rate Program*, GAO-05-151 (Washington, D.C.: Feb. 9, 2005).

In May 2017, while reviewing a draft of this report, a senior FCC official informed us that FCC experienced some challenges associated with moving the funds to the Treasury, such as coordinating across the various entities involved, which raised some questions as to when and perhaps whether the funds would be moved. Until FCC finalizes and implements its plan and moves the USF funds, the risks that FCC identified will persist and the benefits of having the funds in the Treasury will not be realized. As a result, in our May 2017 report, we recommended that the Chairman of FCC take action to ensure that the preliminary plans to transfer the USF funds from the private bank to the Treasury are finalized and implemented as expeditiously as possible. FCC agreed with this recommendation.

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

FCC and USAC have implemented controls to improve subscriber eligibility verification, such as implementing the NLAD database in 2014, which helps carriers identify and resolve duplicate claims for Lifeline-supported services. However, as discussed in our May 2017 report, our analysis of data from 2014, as well as our undercover attempts to obtain Lifeline service, revealed significant weaknesses in subscriber eligibility verification. Lifeline providers are generally responsible for verifying the eligibility of potential subscribers, but we found that their ability to do so is hindered by a lack of access to, or awareness of, state eligibility databases that can be used to confirm eligibility prior to enrollment. For example, not all states have databases that Lifeline providers can use to confirm eligibility and some providers with whom we spoke were unaware of databases that were potentially available to them. These challenges might be overcome if FCC establishes a National Verifier, as it plans to do nationwide by the end of 2019, to remove responsibility for verifying eligibility from the providers. Additionally, since USAC was not maintaining and providing information to providers about these databases, we recommended they maintain and disseminate an updated list of state eligibility databases available to Lifeline providers that includes the qualifying programs those databases access to confirm eligibility, to help ensure Lifeline providers are aware of state eligibility databases and USAC audits of Lifeline providers can verify that available state databases are being utilized to verify subscriber eligibility. FCC agreed with the recommendation.

For our May 2017 report, to identify Lifeline subscribers who were potentially ineligible to participate in the program, we tested the eligibility of subscribers who claimed participation in Medicaid, SNAP, and Supplemental Security Income (SSI) using NLAD data as of November 2014. We focused our analysis on these three programs because FCC reported in 2012 that these were the three qualifying programs through which most subscribers qualify for Lifeline. We compared approximately 3.4 million subscribers who, according to information entered in NLAD, were eligible for Lifeline due to enrollment in one of these three programs to eligibility data for these programs.[10]

On the basis of our analysis of NLAD and public-assistance data, we could not confirm that a substantial portion of selected Lifeline beneficiaries were enrolled in the Medicaid, SNAP, and SSI programs, even though, according to the data, they qualified for Lifeline by stating on their applications that they participated in one of these programs.[11] In total, we were unable to confirm whether 1,234,929 subscribers out of the 3,474,672 who we reviewed, or about 36 percent, participated in the

[10]The six states selected for our Medicaid analysis had eligibility dates from the third quarter of 2012 through the most-recent eligibility fiscal quarter available for each state—at the time of our data analysis—which ranged from the third quarter of 2012 to the fourth quarter of 2014. For our analysis of NLAD and Medicaid data, we only matched against Lifeline subscribers who enrolled prior to the latest Medicaid eligibility data available for each state. Our nationwide SSI eligibility data ranged from October 2012 to December 2014, and each of the five selected states' SNAP data ranged from October 2013 to December 2014. Therefore, it was not necessary to exclude any Lifeline subscribers prior to matching. To ensure a conservative estimate of unconfirmed eligibility, in the event that any of the Lifeline subscribers were only shown as eligible for the month of December 2014, they were nevertheless counted as a match and deemed likely eligible for Lifeline, even though NLAD data were only as of November 2014. For more information about our scope and methodology, see the full report, GAO-17-538.

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

qualifying benefit programs they stated on their Lifeline enrollment applications or were recorded as such by Lifeline providers.[12]

If providers claimed and received reimbursement for each of the 1.2 million subscribers, then the subsidy amount associated with these individuals equals $11.4 million per month, or $137 million annually, at the current subsidy rate of $9.25 per subscriber. Because Lifeline disbursements are based on providers’ reimbursement claims, not the number of subscribers a provider has in NLAD, our analysis of NLAD data could not confirm actual disbursements associated with these individuals. Given that our review was limited to those enrolled in SNAP or Medicaid in selected case-study states, and SSI in states that participated in NLAD at the time of our analysis, our data results are likely understated compared to the entire population of Lifeline subscribers. These results indicate that potential improper payments have occurred and have gone undetected. We plan to refer potentially ineligible subscribers identified through our analysis for appropriate action as warranted.

Our undercover testing, as discussed in our May 2017 report, also found that Lifeline may be vulnerable to ineligible subscribers obtaining service and the testing found examples of Lifeline providers being nonresponsive, or providing inaccurate information. To conduct our 21 tests, we contacted 19 separate providers to apply for Lifeline service. We applied using documentation fictitiously stating that we were enrolled in an eligible public-assistance program or met the Lifeline income requirements. We were approved to receive Lifeline services by 12 of the 19 Lifeline providers using fictitious eligibility documentation. We also experienced

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

instances during our undercover tests where our calls to providers were disconnected, and where Lifeline provider representatives transmitted erroneous information, or were unable to provide assistance on questions about the status of our application. For example, one Lifeline provider told us that our application was not accepted by the company because our signature had eraser marks; however our application had been submitted via an electronic form on the provider’s website and was not physically signed. While our tests are illustrative and not representative of all Lifeline providers or applications submitted, these results suggest that Lifeline providers do not always properly verify eligibility and that applicants may potentially encounter similar difficulties when applying for Lifeline benefits. As described above, these challenges might be overcome if FCC establishes a National Verifier, as it plans to do nationwide by the end of 2019, to remove responsibility for verifying eligibility from the providers.

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

FCC and USAC have implemented some mechanisms to enhance oversight of Lifeline providers, as discussed in our May 2017 report, but we found that remaining gaps could allow noncompliance with program rules. For example, in July 2014, FCC took additional measures to combat fraud, waste, and abuse by creating a strike force to investigate violations of USF program rules and laws. According to FCC, the creation of the strike force is part of the agency’s commitment to stopping fraud, waste, and abuse and policing the integrity of USF programs and funds. Similarly, in June 2015, FCC adopted a rule requiring Lifeline providers to retain eligibility documentation used to qualify consumers for Lifeline support to improve the auditability and enforcement of FCC rules.

However, we found FCC and USAC have limited oversight of Lifeline provider operations and the internal controls used to manage those operations. The current structure of the program relied throughout 2015 and 2016 on over 2,000 Eligible Telecommunication Carriers (ETC) to provide Lifeline service to eligible beneficiaries. These companies are relied on to not only provide telephone service, but also to create Lifeline applications, train employees and subcontractors, and make eligibility determinations for millions of applicants. USAC’s reliance on Lifeline providers to determine eligibility and subsequently submit accurate and factual invoices is a significant risk for allowing potentially improper payments to occur, and under current reporting guidelines these occurrences would likely go undetected and unreported. Federal internal control standards state that management retains responsibility for the performance and processes assigned to service organizations performing operational functions. Consistent with internal control standards, FCC and USAC would need to understand the extent to which a sample of these internal controls are designed and implemented effectively to ensure these controls are sufficient to address program risks and achieve the program's objectives.

We identified key Lifeline functions for which FCC and USAC had limited visibility. For example, we found instances of Lifeline providers utilizing domestic or foreign-operated call centers for Lifeline enrollment. When we asked FCC officials about Lifeline providers that outsource program functions to call centers, including those overseas, they told us that such information is not tracked by FCC or USAC. With no visibility over these call centers, FCC and USAC do not have a way to verify whether such call centers comply with Lifeline rules. FCC and USAC have limited knowledge about potentially adverse incentives that providers might offer employees to enroll subscribers. For example, some Lifeline providers pay commissions to third-party agents to enroll subscribers, creating a financial incentive to enroll as many subscribers as possible. Companies responsible for distributing Lifeline phones and service that use incentives for employees to enroll subscribers for monetary benefit increase the possibility of fictitious or ineligible individuals being enrolled into Lifeline. Highlighting the extent of the potential risk for companies, in April 2016 FCC announced approximately $51 million in proposed fines against one Lifeline provider, due to, among other things, its sales agents purposely enrolling tens of thousands of ineligible and duplicate subscribers in Lifeline using shared or improper eligibility documentation.

To test internal controls over employees associated with Lifeline for our May 2017 report, we sought employment with a company that enrolls individuals to Lifeline. We were hired by a company and were allowed to enroll individuals in Lifeline without ever meeting any company representatives, conducting an employment interview, or completing a background check. After we were hired, we completed two fictitious Lifeline applications as an employee of the company, successfully enrolled both of these fictitious subscribers into Lifeline using fabricated eligibility documentation, and received compensation for these enrollments. The results of these tests are illustrative and cannot be generalized to any other Lifeline provider. We plan to refer this company for appropriate action as warranted. As stated above, these challenges might be overcome if FCC establishes a National Verifier, as it plans to do nationwide by the end of 2019, to remove responsibility for verifying eligibility from the providers. In addition, in May 2017, we made two recommendations to help address control weaknesses and related program-integrity risks. Specifically, we recommended that FCC establish time frames to evaluate compliance plans and develop instructions with criteria for FCC reviewers how to evaluate these plans to meet Lifeline's program goals. We also recommended that FCC develop an enforcement strategy that details what violations lead to penalties and apply this as consistently as possible to all Lifeline providers to ensure consistent enforcement of program violations. FCC generally agreed with these recommendations.

In conclusion, Lifeline's large and diffuse administrative structure creates a complex internal control environment susceptible to significant risk of fraud, waste, and abuse. FCC's and USAC's limited oversight of important aspects of program operations further complicates the control environment—heightening program risk. We are encouraged by FCC's recent steps to address weaknesses we identified, such as the 2016 order establishing a National Verifier, which, if implemented as planned, could further help to address weaknesses in the eligibility-determination process. We also plan to monitor the implementation status of the recommendations we made in May 2017.

Chairman Thune, Ranking Member Nelson, and members of the Committee, this concludes my prepared remarks. I would be happy to answer any questions that you may have at this time.

GAO Contact and Staff Acknowledgments

For further information regarding this testimony, please contact Seto J. Bagdoyan at (202) 512-6722 or bagdoyans@gao.gov. In addition, contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this testimony are Dave Bruno (Assistant Director), Scott Clayton (Analyst-in-Charge), and Daniel Silva.

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