



OFFICE OF
THE CHAIRMAN

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

July 11, 2017

Ms. Vickie Robinson
Acting Chief Executive Officer and General Counsel
Universal Service Administrative Company
700 12th St NW, Suite 900
Washington, DC 20005

Dear Ms. Robinson,

Last year, I sought USAC's aid in combating the waste, fraud, and abuse that has riddled the Universal Service Fund's Lifeline program since wireless resellers began participating in this program in earnest in 2009. I appreciate your responsiveness to those inquiries.

As you know, I was not the only one concerned with waste, fraud, and abuse in the program. In parallel with my office's investigation, the FCC's Office of Inspector General has been reviewing the program, its Enforcement Bureau has been investigating specific instances of potential fraud and abuse, and its Wireline Competition Bureau and Office of the Managing Director have been studying how to improve programmatic safeguards. In addition, the nonpartisan Government Accountability Office recently issued a report stemming from its thorough review of the program and the National Lifeline Accountability Database (NLAD).

In light of these investigations and their findings, I believe immediate action is warranted. We must be vigilant in stopping abuse of the Universal Service Fund. American taxpayers demand, and deserve to know, that the money they contribute each month to the Fund is not wasted or put to fraudulent use by unscrupulous eligible telecommunications carriers (ETCs).

Please implement the following safeguards to mitigate the risk of waste, fraud, and abuse as soon as possible:

1. *Ineligible Subscribers.*—GAO was “unable to confirm whether 1,234,929 individuals out of the 3,474,672 that [it] reviewed, or 36 percent, participated in the qualifying benefit programs they stated on their Lifeline enrollment applications or were recorded as such by Lifeline providers.” That translates into approximately \$137 million a year in potentially wasted funds, which GAO said “likely understate[s]” the magnitude of the problem given that GAO only reviewed applicants claiming eligibility through the Supplemental Nutritional Assistance Program (SNAP), Medicaid, and the Supplemental Security Income (SSI) program in certain states.
 - a. USAC shall identify the top ten ETCs (on a holding company basis) with the highest number of potentially ineligible subscribers according to GAO's study. USAC shall audit each of these ETCs to determine whether they are properly verifying the eligibility of their subscribers.
 - b. Every month over the course of the next year, USAC shall review a statistically valid sample of subscribers enrolled or recertified by each of these ten ETCs in the prior month to determine whether those subscribers are in fact eligible to participate in the Lifeline program. USAC's sampling should focus on qualifying programs and states

- with the highest potential risk of ineligible subscribers. USAC shall require each ETC to de-enroll any subscribers whose eligibility cannot be verified.
- c. USAC shall require all ETCs with GAO-identified potentially ineligible subscribers to verify the eligibility of such subscribers and to de-enroll from the Lifeline program any subscribers whose eligibility the ETC cannot properly verify.
 - d. USAC shall refer the substantial enrollment or recertification of ineligible subscribers by any ETC to the Commission's Office of Inspector General for evaluation as to whether civil or criminal action is appropriate and to the Enforcement Bureau for administrative action and remedies.
2. *Oversubscribed Addresses.*—GAO identified 59 instances where a single address was associated with 500 or more subscribers, including “a single address . . . associated with 10,000 separate subscribers, all receiving Lifeline benefits through the same Lifeline provider. This address could not be verified by the U.S. Postal Service address verification system [the GAO] consulted.” Although there may be a reasonable explanation in some circumstances (e.g., the address is that of a large homeless shelter), the Total Call Mobile case revealed oversubscribed addresses are also an opportunity for abuse.
- a. USAC shall identify and review every address associated with 500 or more subscribers. USAC shall require all relevant ETCs to de-enroll any subscribers that cannot verify their residence at a location that could reasonably accommodate them as well as any subscribers that cannot confirm they are “independent economic households” (within the meaning of the FCC's rules) from other subscribers at that address.
 - b. Every quarter going forward, beginning with the third quarter of 2017 (July-September), USAC shall review a statistically valid sample of addresses associated with 25 or more subscribers. USAC shall require all relevant ETCs to de-enroll any subscribers that cannot verify their residence at a location that could reasonably accommodate them as well as any subscribers that cannot confirm they are independent economic households from other subscribers at that address.
 - c. USAC shall recapture any improper payments associated with such de-enrolled subscribers from the relevant ETC(s).
 - d. USAC shall explore automating the process of detecting oversubscribed addresses in the NLAD.
 - e. USAC shall refer the substantial enrollment or recertification of individuals at oversubscribed addresses in the Lifeline program to the Commission's Office of Inspector General for evaluation as to whether civil or criminal action is appropriate and to the Enforcement Bureau for administrative action and remedies.
3. *Phantom Subscribers.*—My office's investigation revealed in August 2016 that one ETC, [REDACTED], claimed support for 22,325 more subscribers (on average) than it had enrolled in the NLAD each month for more than a year. The following month, [REDACTED] notified the FCC that it had erroneously received over \$13 million in Lifeline funds. Independently, the Inspector General has identified that the lack of correlation between NLAD and support claims created an “increased risk that federal funds are provided to carriers for Lifeline-supported services to ineligible subscribers, subscribers receiving multiple Lifeline-supported services, or household receiving multiple Lifeline-supported services that are enrolled in NLAD; and fictitious subscribers that are not enrolled in NLAD.”

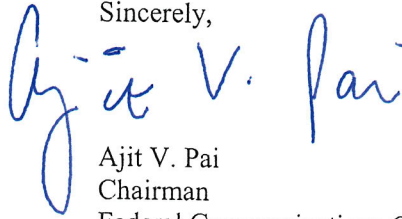
- a. USAC shall develop a process to identify ETCs with material discrepancies that cannot be adequately explained between the NLAD and claimed support on their Form 497 submissions.
 - b. Every quarter going forward, USAC shall direct ETCs with discrepancies that cannot be adequately explained to correct their NLAD listings and Form 497 submissions as appropriate.
 - c. As part of USAC's audits of ETCs, USAC shall check any discrepancies between the NLAD and the claimed support of the audited ETC. USAC shall require such ETC to correct any material differences in their NLAD listings and Form 497 submissions as appropriate.
 - d. USAC shall recapture any improper payments associated with such de-enrolled subscribers from the relevant ETC(s).
 - e. USAC shall explore automating the process of comparing NLAD listings and Form 497 submissions.
 - f. USAC shall refer ETCs with material differences between their NLAD listings and their Form 497 submissions to the Commission's Office of Inspector General for evaluation as to whether civil or criminal action is appropriate and to the Enforcement Bureau for administrative action and remedies.
4. *Deceased Subscribers.*—GAO identified 6,378 individuals who enrolled in Lifeline, recertified eligibility, or both after they were reported dead. Each such individual was recorded as deceased in the Social Security Master Death Index more than one year before enrollment or recertification.
- a. USAC shall require the relevant ETCs to immediately de-enroll the deceased subscribers identified by GAO and recover improper Lifeline payments associated with these subscribers.
 - b. Every quarter going forward, USAC shall check a statistically valid sample of subscribers enrolled or recertified during the previous quarter against the Social Security Master Death Index. The sampling should be risk-based, including a focus on subscriber age groups with a higher potential risk of mortality. USAC shall require the relevant ETCs to de-enroll any deceased individuals. USAC shall use the results to determine whether additional testing accompanied by de-enrollment is warranted.
 - c. USAC shall recapture any improper payments associated with such de-enrolled subscribers from the relevant ETC(s).
 - d. As part of USAC's audits of ETCs, USAC shall check at least a sample of subscribers against the Social Security Master Death Index. USAC shall require the relevant ETCs to de-enroll any deceased individuals.
 - e. USAC shall explore automating the process of comparing subscriber records against the Social Security Master Death Index at the time of subscriber enrollment or recertification.
 - f. USAC shall refer ETCs with the substantial enrollment or recertification of deceased individuals in the Lifeline program to the Commission's Office of Inspector General for evaluation as to whether civil or criminal action is appropriate and to the Enforcement Bureau for administrative action and remedies.

5. *Exact Duplicates.*—GAO’s analysis of NLAD revealed 5,510 potential cases involving internal duplicate subscribers—that is, cases in which the first name, last name, date of birth, last 4 digits of a Social Security Number, street address, and zip code of one subscriber exactly matched that of another subscriber in the program. Although USAC reported that it scrubbed the NLAD record to identify additional duplicates in May 2015, safeguards should be in place to protect NLAD from new exact duplicate subscriber entries.
 - a. USAC shall continue requiring ETCs to verify the identities of the ETCs’ potentially duplicate subscribers.
 - b. As part of USAC’s audits of ETCs, USAC shall review a statistically valid sample of transferred subscribers to verify their old subscriptions have been removed in the NLAD from the subscriber’s prior carrier.
 - c. For any new subscriber who can provide proof of address and identity but cannot enroll in the program because someone else has already enrolled using his or her address or personal information, USAC shall request that the existing service using that personal information or address should be discontinued.
 - d. USAC shall recapture any improper payments associated with such de-enrolled subscribers from the relevant ETC(s).
 - e. USAC shall explore automating the process of detecting exact duplicates in the NLAD.
 - f. USAC shall refer ETCs with the substantial enrollment or recertification of exact duplicates in the Lifeline program to the Commission’s Office of Inspector General for evaluation as to whether civil or criminal action is appropriate and to the Enforcement Bureau for administrative action and remedies.
6. *Sales Agent Accountability.*—The Inspector General has determined that the payment structure that many Lifeline resellers use to compensate sales agents can create substantial incentives for fraud. Further, the Inspector General has found that sales agents are the primary drivers of inappropriate data manipulation in the Lifeline program.
 - a. USAC shall require each sales agent to register with USAC with sufficient information so that USAC can verify the agent’s identity and determine the ETC(s) he or she works for. Each registered sales agent shall receive a unique identifier that must be used for all such agent’s interactions with the NLAD.
 - b. USAC shall adjust the NLAD to lock sales agents out of the system for a set period of time after too many invalid subscriber entry attempts. USAC shall determine the appropriate parameters for this lock-out system, and may escalate the length of any lock-out period based on repeated misuse. USAC may also determine that certain sales agents must be locked out of the system pending further investigation.
 - c. USAC shall determine how best to incorporate the inclusion of sales agent registration data and unique identifiers into its existing audit programs or whether special audits of sales agents would further reduce waste, fraud, and abuse within the Lifeline program.
 - d. USAC shall refer any substantial enrollment or recertification of ineligible subscribers by particular sales agents, as well as any program violations by sales agents, to the Commission’s Office of Inspector General for evaluation as to whether civil or criminal action is appropriate and to the Enforcement Bureau for administrative action and remedies.

Thank you for your attention to these issues. I would appreciate a report on USAC's implementation of these safeguards by August 8, 2017. I also ask that you share this letter with the USAC Board of Directors, whom I trust will work with you to implement these recommendations. I would also welcome any further recommendations the Board may have to tighten federal safeguards for this program. In addition, I appreciate the joint project between USAC and FCC staff to review the information technologies used by USAC to carry out its mission and how they could be improved. Once that review is complete, I may follow up with additional requests to curb waste, fraud, and abuse in the Lifeline program.

Again, I appreciate USAC's continued work to protect the American taxpayer and safeguard the Universal Service Fund and am grateful for your leadership of the company.

Sincerely,

A handwritten signature in blue ink that reads "Ajit V. Pai". The signature is written in a cursive style with a large initial "A" and a long tail on the "i".

Ajit V. Pai
Chairman
Federal Communications Commission