



**Federal Communications Commission
Office of the Managing Director
Washington, D.C. 20554**

July 15, 2020

The Honorable Ron Johnson
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate
340 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Johnson:

The Federal Communications Commission (FCC or Commission) is writing to you to follow up on the results of the audit by its Office of Inspector General of the FCC's compliance with Improper Payments Elimination and Recovery Improvement Act (IPERIA) reporting requirements for Fiscal Year (FY) 2019.

Summary

The Improper Payments Information Act of 2002 (IPIA, P.L. 107-300), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA, P.L. 111-204) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA, P.L. 112-248), requires each agency Inspector General to review the annual Agency Financial Report (AFR) and accompanying materials of the most recent fiscal year (FY) to determine compliance with improper payment requirements.

The Federal Communications Commission (FCC or Commission) Inspector General's auditors determined that one of the FCC's programs, the Universal Service Fund (USF) Lifeline Program, was out of a compliance for three consecutive fiscal years. The FCC reported a gross improper payment rate for the USF Lifeline Program of 21.93% for FY 2017, 18.47% for FY 2018, and 9.32% for FY 2019.

The FCC does not fully concur with the auditors' finding that the FY 2019 gross improper payment rate of 9.32% reported for the USF Lifeline program was understated and noncompliant with IPERIA. Nevertheless, the FCC provides this report to fulfill the requirement under Office of Management and Budget (OMB) Memorandum M-18-20 that an agency that is out of compliance for three consecutive years must submit to Congress and OMB within 30 days of the Inspector General's report either (1) a reauthorization proposal for the program or (2) proposed statutory changes necessary to bring the program into compliance.¹ The FCC notes that the USF Lifeline

¹ Office of Management and Budget (OMB) Memorandum M-18-20, Appendix C to OMB Circular A-123, *Requirements for Payment Integrity Improvement*, Part IV.B.1 (OMB Memorandum M-18-20).

Program is a mandatory program; thus, the requirement to submit reauthorization proposals for discretionary programs is not applicable. Nor does the FCC believe that statutory changes are necessary at this time.

The FCC and the Universal Service Administrative Company (USAC), the USF administrator, are committed to continually improving and strengthening the integrity of the USF Lifeline program. This is evidenced by the substantial reduction in improper payments in the USF Lifeline Program since FY 2017. The Commission continues to make significant improvements to the Lifeline program that will further prevent and reduce improper payments in the program. A number of these efforts are described in detail below.

USF Lifeline Program

The following are descriptions of the FCC and USAC's key efforts to prevent and reduce improper payments in the USF Lifeline Program:

- **Standardized Forms:** To prevent payments for improperly certified subscribers, the FCC and USAC developed standardized forms for the USF Lifeline Program's certification, re-certification, and one-per-household worksheets. Since July 1, 2018, all Lifeline service providers have been required to use these forms to verify and recertify subscriber eligibility.
- **National Verifier:** The FCC and USAC launched the National Verifier in all states and territories by the end of 2019. The National Verifier increases program integrity by applying a consistent eligibility standard for Lifeline Program participants. California, Texas, and Oregon will continue to manage their own eligibility process for most Lifeline participants living in those states, in which eligibility determinations are processed by a state agency or its administrator, and USAC will monitor these states' eligibility determination processes to ensure compliance with the Commission's rules. The National Verifier will significantly reduce improper payments related to prior program integrity issues, such as ineligible subscribers, deceased subscribers, duplicate subscribers, and oversubscribed addresses. The National Verifier utilizes a combination of automated and manual processes to verify eligibility and confirm whether a consumer is qualified for the Lifeline program. To confirm participation in a qualifying program, the National Verifier connects to multiple eligibility databases, including connections with the U.S. Department of Housing and Urban Development database to verify federal public housing assistance, and with the Centers for Medicare and Medicaid Services (CMS) database to verify Medicaid participation. The National Verifier also connects to state Supplemental Nutrition Assistance Program, Medicaid, Supplemental Security Income, and/or income databases in 19 of the launched states and territories. With its existing connections, the National Verifier is automatically verifying the eligibility of up to 83% of consumers seeking to enroll in the Lifeline program. To further refine the verification process, USAC continues to work with states and territories to implement additional automated connections to eligibility databases. USAC is revisiting its programmatic review and audit procedures to properly address risks in the program, which are changing as a result of the National Verifier. USAC's Office of General Counsel has also stood up the Fraud Risk

Group which will continue to refer potential cases of waste, fraud, and abuse to OIG and conduct internal investigations to better provide OIG with critical information at the outset.

- **Sales Agent Compliance:** In October 2019, the Commission adopted a rule prohibiting Lifeline service providers from paying commissions to enrollment representatives based on the number of applications or enrollments processed by those representatives. In addition, the Commission established the Representative Accountability Database to identify and register sales agents who assist consumers in applying for Lifeline. The Representative Accountability Database, which became mandatory for all Lifeline service providers on May 25, 2020, issues unique identifiers to enrollment representatives that allow USAC to monitor those representatives' activities in USAC's Lifeline systems, such as the National Lifeline Accountability Database (NLAD) and the National Verifier. As part of this monitoring effort, USAC will be able to better detect suspicious activity in its systems and restrict the access of enrollment representatives engaged in potentially fraudulent activity (e.g., enrolling fictitious subscribers). These restrictions may include a permanent lock-out of an enrollment representative from USAC's systems, and referral of individual enrollment representatives to the FCC's enforcement authorities where appropriate.
- **Prevention of Duplicate Support:** As part of duplicate prevention, the NLAD continues to be the system of record to associate enrollments of consumers with a Lifeline service provider. With the launch of the National Verifier, USAC has enhanced the NLAD to ensure that no enrollment is permitted in a fully launched state until the NLAD confirms that the National Verifier has found the consumer to be eligible. Further, the National Verifier itself will not deem a consumer eligible until it confirms that the consumer is not already enrolled in the program as recorded in the NLAD. These cross-checks should prevent service providers from attempting to enroll a duplicate subscriber.
- **Eliminating Phantom Subscribers:** Phantom subscribers are described as those that are not enrolled in the NLAD and claimed for support, or vice versa. Beginning in January 2018, all claims for support are limited to only those subscribers that have been validated and enrolled in NLAD. As a result, no Lifeline service provider can claim more subscribers than have been validated. In the three states that have opted out of the NLAD (California, Oregon, and Texas), payment is based on a subscriber listing provided by the state administrator. In October 2019, the Commission codified a requirement that ETC reimbursement requests be based on the service provider's claimed subscriber list in NLAD or provided by a state administrator in the three states that operate their own duplicate checks. USAC also undertook an effort to look back to periods prior to 2018 to recover overclaimed amounts. While not all subscribers enrolled in NLAD are eligible to be claimed in a particular month based on program rules, if a service provider is not claiming a high percentage of its subscribers in NLAD, it may indicate that the subscribers are not receiving service. On a quarterly basis, service providers are asked to provide an explanation when their unclaimed subscriber count is 10 percent or more of their total subscriber base, or when they have not claimed the same active subscriber in NLAD for three consecutive data months. The number of subscribers requiring this review dropped from an initial review of 5,200 subscribers to less than 300 in the most recent review.

- **Preventing Support for Deceased Subscribers:** USAC automatically prevents the enrollment of a deceased subscriber through its connection to LexisNexis, which leverages the Social Security Administration’s Death Master File, among other source data. Beginning in July 2020, USAC will also obtain direct access to the Social Security Administration’s death master file. On a quarterly basis, USAC also reviews a statistical sample of existing subscribers to verify they are not deceased or did not die after enrollment. The most recent reviews have determined less than 2 percent of sampled subscribers are deceased. In October 2019, the Commission codified a rule prohibiting ETCs from enrolling or claiming for reimbursement a Lifeline subscriber if the National Verifier or NLAD cannot verify the subscriber as living.
- **Program Integrity Reviews:** USAC reviews a statistical sample of subscribers to verify eligibility, to confirm the subscriber is not deceased, to review oversubscribed households, and to evaluate possible phantom subscribers. Between August 2017 and March 2020, USAC has de-enrolled 35,600 subscribers and has identified approximately \$769,000 in recoveries as a result of these reviews. The result of these quarterly reviews has improved the number of eligible subscribers in the program. Based on the results of these audits and reviews, USAC de-enrolls consumers, recovers disbursements, and refers non-compliance to the FCC where appropriate.² USAC’s Lifeline Program integrity team will also conduct detailed analysis of Lifeline subscribership data to identify potential instances of non-compliance. Based on the analysis, the Lifeline Program integrity team will perform targeted program integrity reviews of high-risk areas. The results of these reviews will be used to address compliance gaps and enhance preventative controls with the goal of reducing improper payments.
- **Improper Payment Analysis:** USAC management is performing a deep-dive analysis of its improper payments to more thoroughly understand the root cause and to identify corrective actions that will address the root cause. Through this analysis, USAC management is institutionalizing corrective actions as part of its program integrity efforts that will reduce future instances of improper payments.
- **Improper Payment Testing Procedures, including Non-Usage Testing:** The FCC and USAC will work together to determine what procedures can be added or enhanced to better ensure that improper payment testing procedures adequately assess the risk associated with the USF Lifeline Program. To assist with this initiative, USAC will engage an external auditor to test compliance by one or more service providers with the Lifeline Program non-usage rules. The methodology used in such targeted audit will be used by USAC’s audit department to test other service providers in the future.

² In light of the ongoing COVID-19 pandemic, the FCC has paused these reviews until August 31, 2020. See *Lifeline and Link Up Reform and Modernization*, Order, 35 FCC Rcd 2950, 2953, para. 12 (WCB 2020); *Lifeline and Link Up Reform and Modernization*, Order, DA 20-577, para. 12 (WCB June 1, 2020).

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark Stephens', with a long horizontal line extending to the right.

Mark Stephens
Managing Director