GAO Highlights

Highlights of GAO-17-538, a report to congressional requesters

May 2017

TELECOMMUNICATIONS

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

Why GAO Did This Study

Created in the mid-1980s, FCC's Lifeline 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. In 2016, Lifeline disbursed about $1.5 billion in subsidies to 12.3 million households.

In 2010, GAO found Lifeline had limited abilities to detect and prevent ineligible subscribers from enrolling. FCC adopted a reform order in 2012 to enhance Lifeline's internal controls. GAO was asked to examine FCC's reforms. This report discusses, among other objectives, (1) the extent to which Lifeline demonstrates effective performance towards program goals, and (2) steps FCC and USAC have taken to enhance controls over finances, subscribers, and providers, and any weaknesses that might remain.

GAO analyzed documents and interviewed officials from FCC and USAC. GAO analyzed subscriber data from 2014 and performed undercover tests to identify potential improper payment vulnerabilities. The results of GAO's analysis and testing are illustrative, not generalizable.

What GAO Recommends

GAO makes seven recommendations, which FCC generally agreed with, including that FCC take action to ensure the preliminary plans to transfer the USF from a private bank to the U.S. Treasury are finalized and implemented expeditiously.

View GAO-17-538. For more information, contact Seto Bagdoyan at (202) 512-6722 or bagdoyans@gao.gov.

What 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, but has recently taken steps to do so. Lifeline participation rates are low compared to the percentage of low-income households that pay for telephone service, and broadband adoption rates have increased for the low-income population even without a Lifeline subsidy. 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 July 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 Lifeline—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 and related programs. To enhance the program's ability to detect and prevent ineligible subscribers from enrolling, FCC oversaw completion in 2014 of a database with a real-time list of subscribers to assist carriers in identifying and preventing duplicate subscribers. Additionally, 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, 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. Based on 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 2019 to determine subscriber eligibility. Further, FCC maintains the Universal Service Fund (USF)—with net assets exceeding $9 billion, as of September 2016—outside the Department of the Treasury in a private bank account. In 2005, GAO reported that FCC should reconsider this arrangement given the USF consists of federal funds. In addition to addressing any risks associated with having the funds outside the Treasury, where they do not enjoy the same rigorous management practices and regulatory safeguards as other federal programs, FCC identified potential benefits of moving the funds. For example, by having the funds in the Treasury, USF payments could be used to offset other federal debts, and would provide USAC with 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.