BUDGET | HOUSE BUDGET COMMITTEE

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Chairman Diane Black

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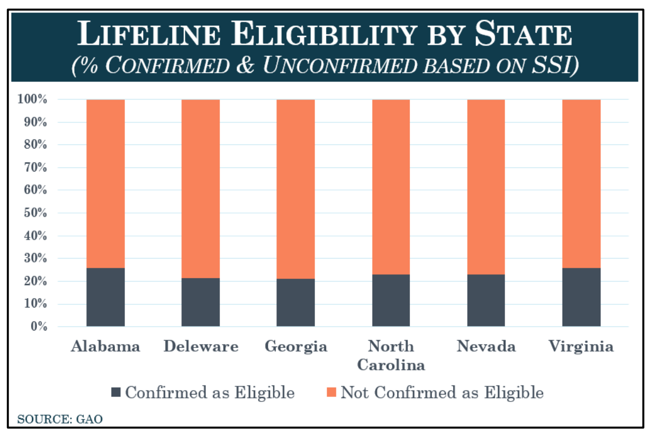
HIGHLIGHTING WASTE, FRAUD, AND ABUSE: THE FCC'S LIFELINE PROGRAM

The Lifeline Program provides subsidies to eligible low-income households for land or wireless telecommunication services. When launched in the mid-1980s, Lifeline covered only telephones. More recently, it has expanded to include broadband and wireless, and during former President Obama's tenure, many carriers also began offering free or low-cost cell phones – which came to be called "Obamaphones." In 2016, Lifeline disbursed roughly $1.5 billion in subsidies to carriers servicing 12.3 million low-income households, but loose oversight makes the program highly susceptible to waste, fraud, and abuse, as explained recently by the Government Accountability Office [GAO].

Perverse Financial Incentives. Although overseen by the Federal Communications Commission [FCC], Lifeline relies on more than 2,000 telecommunication carriers to verify subscribers' eligibility, which is based on income or enrollment in a government benefit program such as Medicaid or Supplemental Security Income [SSI]. The carriers have an incentive to sign up as many subscribers as possible. Not surprisingly, when GAO sampled 3.5 million Lifeline subscribers, it could not verify eligibility for more than a third – some 1.2 million households. In an undercover test using fictitious names and documentation, GAO gained approval for Lifeline service from 12 of 19 providers contacted.

Service to the Dearly Departed. GAO also discovered that a portion of current subsidies consisted of duplicative payments, and found 6,378 recipients who were deceased, according to the Social Security Administration's Death Master File. While the audit highlighted only a snapshot of Lifeline's waste, fraud, and abuse, GAO found millions of dollars in annual subsidies paid for either potentially ineligible or fictitious people.

Tip of the Iceberg. On top of all of this, Lifeline's funding source – the Universal Service Fund [USF] –has more than $9 billion in net assets that are held not in the U.S. Treasury, but in a private bank account. These accounts should be relocated into the Treasury to mitigate risk and ensure additional regulatory safeguards – yet the FCC will not act on this longstanding GAO recommendation until next year at the earliest.



Behind the Curve. The FCC has taken steps to rectify some of the program's lax internal controls, implementing reforms that, by agency accounts, have currently trimmed $200 million annually in fraudulent spending. Still, the most significant reform plans – creation of a third-party national eligibility verifier, and an independent third party to evaluate the program's design, function, and administration – will not materialize until 2019 and 2020, respectively. Meanwhile, the program remains subject to wasteful spending.

Prepared by:
Robert Yeakel, Policy Advisor