FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

OFFICE OF
THE CHAIRMAN

December 11, 2013

The Honorable Markwayne Mullin
U.S. House of Representatives
1113 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Mullin:

Thank you for your letter to then Chairwoman Clyburn expressing concerns over fraud and abuse of the Commission's Lifeline program. The Communications Act's universal service principles mandate that consumers in all regions of the nation, including low income consumers, should have access to communications services.[1] Lifeline is important to millions of Americans who otherwise could not afford phone service which is necessary for jobs, safety and security, and access to government services.

Actions such as those described in your letter are absolutely unacceptable and will not be tolerated.

Such actions violate the Lifeline program rules and undermine the important goals of this program. As such, I agree that we must continue our efforts to root out fraud and abuse in the program. I appreciate your views and am grateful for the opportunity to respond to your questions.

When I became Chairman just over four weeks ago, I inherited a Lifeline program that has undergone significant and very successful reform over the previous two years. The FCC's comprehensive 2012 *Lifeline Reform Order* took numerous steps to eliminate waste, fraud and abuse, resulting in over $200 million of savings in 2012, and putting the Commission on track to save $2 billion by the end of 2014. These reforms have given the FCC's Enforcement Bureau important tools it needs to actively enforce the Lifeline program rules. Of note, the Commission has proposed nearly $100 million in fines for apparent violations of the Commission's Lifeline rules this year, including an order released earlier this week proposing nearly $44 million in forfeitures against three wireless Lifeline service providers.

The enclosed presentation provides a summary of the reforms and the results achieved to date. The Commission will continue to monitor the impact of its recent reforms, enforce its rules, and evaluate whether any additional measures are appropriate to ensure the integrity of the Lifeline program. Below are responses to your specific questions.

1. What procedures are currently in place to ensure Lifeline phone program carriers follow current rules and regulations?

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[1] 47 USC § 254(b)(3).

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Additionally, a central reform that was promulgated in the *Lifeline Reform Order* to address the problem of a single Lifeline subscriber having multiple Lifeline services will be in place imminently. The *Lifeline Reform Order* directed USAC to establish and administer a database to ensure compliance with the requirement that each Lifeline subscriber have no more than one Lifeline service. We expect this National Lifeline Accountability Database ("NLAD") to be completely online and operational in the first quarter of 2014, and we have been working with stakeholders – including the providers that will be using NLAD – to ensure that it functions properly. Once the NLAD is operational, prior to enrolling a new subscriber, all Lifeline carriers must verify with the NLAD that the subscriber is not already receiving Lifeline service. The NLAD will serve as an automatic bar on duplicate subscriptions.

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Companies that violate the Lifeline program rules face significant monetary penalties – up to $1.5 million for each violation. In addition, false statements or misrepresentations to the Commission may result in additional forfeiture liability, and may be punishable by fine or imprisonment under Title 18 of the U.S. Code. Commission staff is working in partnership with state public utility commissions and state and federal law enforcement agencies to ensure that all Lifeline rules are properly implemented and enforced.

3. Are the current procedures adequate to achieve the goal of reducing fraud and abuse by contract agents?

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Sincerely,

Tom Wheeler
Chairman

Enclosure: Lifeline Reform Overview

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December 11, 2013

The Honorable Alan Nunnelee
U.S. House of Representatives
1427 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Nunnelee:

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Sincerely,

Tom Wheeler
Chairman

Enclosure: Lifeline Reform Overview

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

OFFICE OF
THE CHAIRMAN

December 11, 2013

The Honorable Scott Perry
U.S. House of Representatives
126 Cannon House Office Building
Washington, D.C. 20515

Dear Congressman Perry:

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Enclosure: Lifeline Reform Overview

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OFFICE OF
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December 11, 2013

The Honorable Joe Pitts
U.S. House of Representatives
420 Cannon House Office Building
Washington, D.C. 20515

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The 2012 *Lifeline Reform Order* took many steps to eliminate waste, fraud, and abuse from the program (see enclosed presentation). These reforms are working. As described above, the targeted In-Depth Data Validations (IDVs) process has eliminated of over 2 million duplicate Lifeline subscriptions, saving the Fund approximately $260 million on an annualized basis. In addition, an annual Lifeline eligibility subscriber recertification process required by the *Lifeline Reform Order* has resulted in $400 in annual savings from de-enrollments. These two key reforms, in addition to the other measures adopted in the *Lifeline Reform Order*, have substantially reduced the number of duplicative or ineligible Lifeline subscribers. As a result, monthly Lifeline disbursements have substantially decreased since their peak in late 2012.

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While such policy measures are important, nothing is as effective in preventing abuse as strong enforcement of the rules. To that end, the Commission is committed to actively pursuing and prosecuting those who violate the rules. In February of this year, the FCC entered into a consent decree with two companies who paid more than $1 million in reimbursements and voluntary contributions to the U.S. Treasury to resolve an ongoing FCC Enforcement Bureau investigation. Then on September 30, 2013, the Commission adopted orders proposing more than $14.4 million in forfeitures against five wireless Lifeline service providers for apparent violations of the Commission's Lifeline rules. These apparent violations involved thousands of consumers who had more than one Lifeline subscription from the same provider, resulting in duplicative support requests and payments. Immediately before I joined the Commission, we proposed $32.6 million in fines against three companies for apparent violations of the rules. The Commission also proposed a penalty of $300,000 against one company for its apparent willful and repeated failure to provide timely and complete responses to the agency's requests. And, most recently, as mentioned above, earlier this week the Commission released several orders proposing nearly $45 million in forfeitures against three wireless Lifeline service providers for apparent violations of the Commission's Lifeline rules. In sum, that is almost $100 million of proposed forfeitures against parties for violations of the Commission's Lifeline program rules.

Separately, the FCC's Inspector General (OIG) is investigating allegations of fraud on the Low Income Program and is supporting active investigations in coordination with the U.S. Department of Justice and the FBI. Some states have also taken action in this regard. For example, the Nebraska Public Service Commission recently expelled from the program a provider that failed to comply with that state's eligibility verification requirements and in September of this year, an Oklahoma provider withdrew from the program in response to state allegations.

These activities and efforts on the part of my predecessors and colleagues at the Commission demonstrate our shared commitment to root out waste, fraud, and abuse in the Lifeline program. I intend to continue to support and encourage these efforts, and I look forward to working with you as we move forward.

Please let me know if there is any additional information about this matter I can provide.

Sincerely,

Tom Wheeler
Chairman

Enclosure: Lifeline Reform Overview

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

OFFICE OF
THE CHAIRMAN

December 11, 2013

The Honorable Ted Poe
U.S. House of Representatives
2412 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Poe:

Thank you for your letter to then Chairwoman Clyburn expressing concerns over fraud and abuse of the Commission's Lifeline program. The Communications Act's universal service principles mandate that consumers in all regions of the nation, including low income consumers, should have access to communications services.[1] Lifeline is important to millions of Americans who otherwise could not afford phone service which is necessary for jobs, safety and security, and access to government services.

Actions such as those described in your letter are absolutely unacceptable and will not be tolerated.

Such actions violate the Lifeline program rules and undermine the important goals of this program. As such, I agree that we must continue our efforts to root out fraud and abuse in the program. I appreciate your views and am grateful for the opportunity to respond to your questions.

When I became Chairman just over four weeks ago, I inherited a Lifeline program that has undergone significant and very successful reform over the previous two years. The FCC's comprehensive 2012 *Lifeline Reform Order* took numerous steps to eliminate waste, fraud and abuse, resulting in over $200 million of savings in 2012, and putting the Commission on track to save $2 billion by the end of 2014. These reforms have given the FCC's Enforcement Bureau important tools it needs to actively enforce the Lifeline program rules. Of note, the Commission has proposed nearly $100 million in fines for apparent violations of the Commission's Lifeline rules this year, including an order released earlier this week proposing nearly $44 million in forfeitures against three wireless Lifeline service providers.

The enclosed presentation provides a summary of the reforms and the results achieved to date. The Commission will continue to monitor the impact of its recent reforms, enforce its rules, and evaluate whether any additional measures are appropriate to ensure the integrity of the Lifeline program. Below are responses to your specific questions.

1. What procedures are currently in place to ensure Lifeline phone program carriers follow current rules and regulations?

[1] 47 USC § 254(b)(3).

The FCC takes seriously its responsibility to ensure its rules are followed and to identify and deter any abuse of the program. Even before the release of the 2012 *Lifeline Reform Order*, Commission staff was working on several fronts to eliminate waste, fraud and abuse. For example, to eliminate duplicative support, the Commission worked with the Universal Service Administrative Company (USAC), the third-party administrator of the Lifeline program, to initiate targeted audits known as In-Depth Data Validations (IDVs) in 2011. To date, the IDV process has produced savings of approximately $260 million on an annualized basis through identification and elimination of duplicate subscriptions. The *Lifeline Reform Order* bolstered this effort by adopting new requirements that increase oversight of Lifeline providers and enhance the auditing program. USAC must now audit all newly designated Lifeline providers that have not previously provided Lifeline service to ensure they have established effective controls and procedures to comply with the Commission's rules. The Commission's reforms also require all Lifeline providers that draw $5 million or more from the Lifeline program on an annual basis to hire an independent audit firm to assess the providers' overall compliance with the program's requirements. And the reforms require most companies that are seeking to participate in the program for the first time to submit a compliance plan describing in detail how they will comply with all Lifeline program rules. Such companies may not receive any Lifeline funds until the FCC approves its compliance plan.

Additionally, a central reform that was promulgated in the *Lifeline Reform Order* to address the problem of a single Lifeline subscriber having multiple Lifeline services will be in place imminently. The *Lifeline Reform Order* directed USAC to establish and administer a database to ensure compliance with the requirement that each Lifeline subscriber have no more than one Lifeline service. We expect this National Lifeline Accountability Database ("NLAD") to be completely online and operational in the first quarter of 2014, and we have been working with stakeholders – including the providers that will be using NLAD – to ensure that it functions properly. Once the NLAD is operational, prior to enrolling a new subscriber, all Lifeline carriers must verify with the NLAD that the subscriber is not already receiving Lifeline service. The NLAD will serve as an automatic bar on duplicate subscriptions.

In addition to the requirements discussed above, the Commission, in conjunction with other state and federal government partners, is actively enforcing its rules as described in detail in response to Question 4 below.

2. What procedures are currently in place to ensure Lifeline phone program carriers properly vet and supervise their agents?

Companies that receive federal universal service support from the Lifeline program are liable for any conduct by their agents, contractors, or representatives that violates the Lifeline rules. Specifically, Section 217 of the Communications Act provides generally that any "act, omission, or failure" of an agent acting within the scope of its employment by a common carrier "shall in every case be also deemed to be the act, omission, or failure of such carrier."[2] In

[2] 47 U.S.C. § 217.

addition, the *Lifeline Reform Order* states that Lifeline providers that contract with agents and representatives in connection with providing Lifeline service "remain[] liable for ensuring the agent's or representative's compliance with the Lifeline program rules."[3]

Earlier this summer, in response to reports that some Lifeline providers were activating phones that they represented as permitting the use of Lifeline supported service prior to fully verifying the eligibility of such consumers, the FCC's Wireline Competition Bureau released an order emphasizing that the Commission's rules require a full eligibility determination prior to activating Lifeline service. Simultaneously, the FCC's Enforcement Bureau issued an advisory reminding ETCs that they are liable for the actions of their agents, contractors, and representatives. We will not hesitate to use such authority to enforce our rules.

Companies that violate the Lifeline program rules face significant monetary penalties – up to $1.5 million for each violation. In addition, false statements or misrepresentations to the Commission may result in additional forfeiture liability, and may be punishable by fine or imprisonment under Title 18 of the U.S. Code. Commission staff is working in partnership with state public utility commissions and state and federal law enforcement agencies to ensure that all Lifeline rules are properly implemented and enforced.

3. Are the current procedures adequate to achieve the goal of reducing fraud and abuse by contract agents?

I believe that current procedures provide a solid foundation for moving forward with our shared goal, but I have also asked Commission staff to present me with proposals for additional reforms that could further our efforts. More can always be done to prevent fraud and abuse by recipients of Lifeline funds, by company employees or contract agents who are treated as one and the same under the law as described above.

4. What steps is the FCC currently taking to reduce fraud and abuse in the Lifeline phone program?

The 2012 *Lifeline Reform Order* took many steps to eliminate waste, fraud, and abuse from the program (see enclosed presentation). These reforms are working. As described above, the targeted In-Depth Data Validations (IDVs) process has eliminated of over 2 million duplicate Lifeline subscriptions, saving the Fund approximately $260 million on an annualized basis. In addition, an annual Lifeline eligibility subscriber recertification process required by the *Lifeline Reform Order* has resulted in $400 in annual savings from de-enrollments. These two key reforms, in addition to the other measures adopted in the *Lifeline Reform Order*, have substantially reduced the number of duplicative or ineligible Lifeline subscribers. As a result, monthly Lifeline disbursements have substantially decreased since their peak in late 2012.

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Separately, the FCC's Inspector General (OIG) is investigating allegations of fraud on the Low Income Program and is supporting active investigations in coordination with the U.S. Department of Justice and the FBI. Some states have also taken action in this regard. For example, the Nebraska Public Service Commission recently expelled from the program a provider that failed to comply with that state's eligibility verification requirements and in September of this year, an Oklahoma provider withdrew from the program in response to state allegations.

These activities and efforts on the part of my predecessors and colleagues at the Commission demonstrate our shared commitment to root out waste, fraud, and abuse in the Lifeline program. I intend to continue to support and encourage these efforts, and I look forward to working with you as we move forward.

Please let me know if there is any additional information about this matter I can provide.

Sincerely,

Tom Wheeler
Chairman

Enclosure: Lifeline Reform Overview

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

OFFICE OF
THE CHAIRMAN

December 11, 2013

The Honorable Bill Posey
U.S. House of Representatives
120 Cannon House Office Building
Washington, D.C. 20515

Dear Congressman Posey:

Thank you for your letter to then Chairwoman Clyburn expressing concerns over fraud and abuse of the Commission's Lifeline program. The Communications Act's universal service principles mandate that consumers in all regions of the nation, including low income consumers, should have access to communications services.[1] Lifeline is important to millions of Americans who otherwise could not afford phone service which is necessary for jobs, safety and security, and access to government services.

Actions such as those described in your letter are absolutely unacceptable and will not be tolerated.

Such actions violate the Lifeline program rules and undermine the important goals of this program. As such, I agree that we must continue our efforts to root out fraud and abuse in the program. I appreciate your views and am grateful for the opportunity to respond to your questions.

When I became Chairman just over four weeks ago, I inherited a Lifeline program that has undergone significant and very successful reform over the previous two years. The FCC's comprehensive 2012 *Lifeline Reform Order* took numerous steps to eliminate waste, fraud and abuse, resulting in over $200 million of savings in 2012, and putting the Commission on track to save $2 billion by the end of 2014. These reforms have given the FCC's Enforcement Bureau important tools it needs to actively enforce the Lifeline program rules. Of note, the Commission has proposed nearly $100 million in fines for apparent violations of the Commission's Lifeline rules this year, including an order released earlier this week proposing nearly $44 million in forfeitures against three wireless Lifeline service providers.

The enclosed presentation provides a summary of the reforms and the results achieved to date. The Commission will continue to monitor the impact of its recent reforms, enforce its rules, and evaluate whether any additional measures are appropriate to ensure the integrity of the Lifeline program. Below are responses to your specific questions.

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Please let me know if there is any additional information about this matter I can provide.

Sincerely,

Tom Wheeler
Chairman

Enclosure: Lifeline Reform Overview

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

OFFICE OF
THE CHAIRMAN

December 11, 2013

The Honorable Ed Royce
U.S. House of Representatives
2185 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Royce:

Thank you for your letter to then Chairwoman Clyburn expressing concerns over fraud and abuse of the Commission's Lifeline program. The Communications Act's universal service principles mandate that consumers in all regions of the nation, including low income consumers, should have access to communications services.[1] Lifeline is important to millions of Americans who otherwise could not afford phone service which is necessary for jobs, safety and security, and access to government services.

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