

You are Certified Inspector General Auditor (CIGA) for the Federal Communications Commission (FCC) OIG. Your audit team’s audit objectives include determining: (1) the extent to which the FCC Lifeline program is meeting program goals; (2) the extent of fraud risks facing the Lifeline program; and (3) the steps FCC has taken to enhance controls over finances, subscribers, and providers. See pages 2 to 4 below for the case study.

* **What are the fraud risks in terms of reportable “findings” and why?** For each finding, apply and present the four elements of a finding (i.e. criteria using leading practices from GAO’s fraud risk framework; condition; cause; and effect/potential effect). Hint: Apply the Fraud Triangle! To what extent are there any opportunities, rationalizations, or pressures at play here?
* **What would you recommend FCC do (i.e., fraud risk management improvement opportunities)?**  Remember, to support any recommendations, you need to have all four elements of a finding, especially the cause element. Also, determine if your findings are illustrative or generalizable and the extent this informs the type of recommendation you may issue.
* **Budget your time!** Work with your audit team for 25 minutes and answer the relevant questions above. Suggestion: spend 10 minutes reading individually and 15 minutes together with your teammates to answer the questions above.
* **Questions?**

Created in the mid-1980s, the FCC 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 Universal Service Fund (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.

You analyzed documents, interviewed officials from FCC, analyzed subscriber data, and performed undercover tests to identify potential improper payment vulnerabilities.

**Your audit team found the following**:

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, but

* FCC has not evaluated whether the Lifeline program is meeting its goals of increasing telephone and broadband subscribership among low-income households, but has recently told you that it plans to.
* Lifeline participation rates are low compared to the percentage of low-income households that pay for telephone service. And, broadband rates have increased for the low-income population, including for those without the Lifeline subsidy.
* Lifeline has a complex structure that relies on over 2,000 Eligible Telecommunication Carriers that are Lifeline providers responsible for implementing key program functions, such as verifying subscriber eligibility. These carriers can receive financial incentives (i.e., up to $1000) from FCC for every customer they enroll.
* 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. However, FCC has no system in place to evaluate the extent to which this is actually occurring.
* USAC Lifeline transaction data for selected states (more than 500,000 approved and in-process transaction applications from fiscal years 2013-2019 you received from FCC showed the following in the data; hundreds of thousands of:
  + Possible invalid and missing physical household addresses (e.g. P.O. Boxes, etc.) Note: Your OIG shop has access to data from the U. S. Postal Service that reflects the most current valid, vacant, and invalid U.S. physical addresses.
  + Names, Tax Identification Numbers (TINs) and Data Universal Numbering System numbers (DUNS), for most service providers in the data. Although all service providers in the Lifeline program are required to submit a TIN and DUNs, you noticed missing values (physical addresses for households; transaction dates; DUNS/TINs for service providers.) Your OIG shop has access data contained in the federal System of Award Management at the GSA which indicates disbarred/suspended company names (and their DUNS and TINs) of those businesses doing business with the federal government.
  + Missing values (physical addresses for households; transaction dates; DUNS/TINs for service providers.)
  + Service providers having same address as households
  + Duplicate household addresses with different service providers.
  + Review dates occurring after authorization and disbursement dates of subsidies to service providers.
  + Disbursed reimbursement amounts are more than authorization/committed amounts to service providers?
  + Dates services provided occur post authorization dates.
* Lifeline applicants are automatically eligible to participate in the Lifeline program if they self-report on their Lifeline applications that they are already enrolled in another qualifying benefit program, including Medicaid or SNAP. You matched Lifeline participant data to Medicaid and SNAP beneficiary data (by participant names and Social Security numbers) for a five-year period. However, out of the 3.5 million that self-reported to FCC on their applications that they were Medicaid or SNAP enrollees, you were unable to confirm whether nearly 1 million Lifeline participants (across 6 states) were in fact enrolled in Medicaid or SNAP (see details in Figure 5 below).
* Further, FCC maintains the Universal Service Fund (USF)—with net assets exceeding $9 billion, as of September 2016. The fund is maintained outside the Department of the Treasury in a private bank account managed by Fleece Bank where funds do not enjoy the same rigorous management practices and regulatory safeguards as other federal program funds maintained in Treasury accounts. By having funds in a Treasury account, USF payments could be used to offset other federal debts, and would provide USAC with better tools for fiscal management of the funds.

**Figure 5: Count and Percentage of Lifeline Beneficiaries Claiming Eligibility via Participation in Medicaid and SNAP That We Could Not Confirm in Selected Case-Study States**



\*\*\*\*\*\*