REMARKS OF FCC COMMISSIONER AJIT PAI
AT THE CITIZENS AGAINST GOVERNMENT WASTE POLICY BREAKFAST

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In 1982, President Reagan challenged the President's Private Sector Survey on Cost Control, better known as the Grace Commission, to "work like tireless bloodhounds to root out government inefficiency and waste of tax dollars." Those who work for Citizens Against Government Waste, founded by the Grace Commission's eponymous leader, understand President Reagan's perspective better than most. There are some organizations that pick easy tasks. You most certainly have not. There's a lot of government excess to sniff out, and much spending to howl about—and it sometimes seems like the only thing unleashed is the public checkbook.

But take comfort in knowing that your work ferreting out waste, fraud, and abuse has made a real difference. I'm sure you've heard the adage popularized by former Senate Minority Leader Everett Dirksen: "A billion here, a billion there, and pretty soon you're talking about real money." You have adjusted that sentiment for inflation, and then some: You've helped to save American taxpayers over $1 trillion dollars over the years. Thank you for all that you've done to reduce mismanagement and inefficiency in the federal government, and congratulations on your 30th anniversary.

Speaking of real money, the Federal Communications Commission, where I work, is responsible for the Universal Service Fund (USF). The USF currently distributes about $8.3 billion a year. This money comes from charges on Americans' monthly phone bills.

You might have noticed that those charges have been going up in recent years. In January 2009, the universal service contribution factor—which you see represented on your phone bill as something like "Universal Service Charge"—was 9.5 percent. Today, it is 15.7 percent. That's a 65 percent increase in the last five-and-a-half-years.

Where do all those dollars go? The USF spends money on four different programs. One subsidizes phone service in areas of our country that are costly to serve, and is called the "high-cost program." Another subsidizes Internet access for schools and libraries, and is known as "E-Rate." A third subsidizes rural health care providers. And the fourth program is known as "Lifeline." It's this last program that I'd like to focus on this morning.

The single largest driver of the increase in the USF—and hence, consumers' phone bills—has been the Lifeline program. Since January 2009, the high-cost program has grown by 6.5 percent. Subsidies to schools and libraries have grown 11 percent. Subsidies to rural health care providers have grown 16 percent. But the size of the Lifeline program has grown by 102%, more than double!

What exactly is the Lifeline program? Well, if you type "the Lifeline program" into Google, the first link that comes up belongs to a life-insurance settlement program for seniors promoted by the only living "Golden Girl," the ever-charming Betty White. That's not quite what I had in mind.

The Lifeline program that is part of the Universal Service Fund provides discounts on telephone service to low-income individuals. Eligible subscribers can enroll through their choice of phone providers. Those providers, in turn, receive funds out of the Lifeline program equal to $9.25 a month per customer or $34.25 a month for customers living on tribal lands. The FCC's rules allow discounts for landline or wireless service, but prohibit any household from getting more than one Lifeline discount.

The Lifeline program has a noble purpose. It's historically been a part of the FCC's effort to advance the principle of universal service—a principle that is enshrined in the very first section of the Communications Act. When an emergency strikes and someone needs to call 911, a phone line can indeed become a lifeline.

And for about a couple of decades after its inception in 1985, the program was generally free of substantial controversy. During the last Administration, for example, Lifeline grew at an annual rate of just 2.1 percent in real terms. Unfortunately, things quickly changed thereafter.

From the end of 2008 to 2012, the size of the program exploded from $819 million to $2.19 billion, an increase of 25.9 percent a year in real terms. This growth was fueled by substantial fraud and abuse. Phone companies were claiming subsidies for phantom customers or siphoning multiple subsidies for the same person. Let me share just a couple of examples with you.

Consider the case of Icon Telecom, an Oklahoma telephone company. Icon's owner was part of a scheme to defraud the Lifeline program out of more than $27 million. Specifically, he knowingly asked the FCC for subsidies for tens of thousands of phantom customers. Here's how the scheme worked: The company's vendor had employees go through phone books in order to find names and addresses and register unsuspecting people for the Lifeline program. Then, they sold the phones registered to those fake customers on the street for $5 each.

The number of customers the company fabricated was astounding. In September 2011, Icon reported having 2,200 customers in the program. Just over a year later, that number was more than 135,000! That type of growth might even make Bernie Madoff blush. In order to conceal this fraud, and to continue their phony customers' "participation" in the program, the vendor's employees forged over 40,000 signatures. To cover up the fabrications, they used different pens, different handwriting styles, and different formats for dates. And the icing on the cake? Earlier this year, Icon's owner pleaded guilty to money laundering for transferring over $20 million from the company's account to his personal account.

Or take the case of Associated Telecommunications Management Services. The U.S. Department of Justice has alleged that the company, through the firm's subsidiaries, fraudulently received more than $32 million dollars from the Lifeline program between September 2009 and March 2011. The three men who owned the subsidiaries and allegedly bilked the program out of millions were indicted this April and charged with wire fraud, false claims, and money laundering, along with conspiracy. With the ill-gotten millions they received from the Lifeline program, they allegedly went on a spending spree. They purchased, among other things, a private jet, a yacht named the "Knight Crew", an orange Lamborghini convertible, a black Mercedes-Benz S63, a black Cadillac Escalade, a blue Audi R-8, a red-bronze Corvette, and a Chevrolet Suburban limousine. Somehow, I doubt they used coupons or credit card points.

Unfortunately, these stories are not isolated incidents. Lifeline has been laced with fraud. *The Wall Street Journal*, for example, reported last year that among customers of the top five carriers in the program, 41% were unable to demonstrate their eligibility for Lifeline or failed to respond to requests to certify their eligibility. That's more than two million people.

Of course, not all of this fraud involves yachts and Lamborghinis. But it is no less pernicious. A common tactic has been for carriers to receive duplicative benefits for the same customer, which is a clear violation of the FCC's rules. For example, spot checks uncovered that in just one state—Oklahoma —and in just one month—September 2012—one carrier received duplicative support for 428 subscribers, a second received duplicative support for 307 customers, and a third received duplicative support for 238 customers. And some carriers have been caught receiving duplicative support for thousands of customers. One had 4,387 duplicative customers in a spot check of just nine states.

And that's only the fraud on the corporate side. On the consumer side, there's substantial evidence that some people are signing up with every Lifeline company around. Contestants on "Who Wants To Be a Millionaire?" might get multiple lifelines, but the FCC's rules permit only one Lifeline account per household. And that's going to remain our "final answer" as long as I have anything to say about it. Nevertheless in the spring of 2013, the FCC identified 306 individuals, each of whom had signed up for at least four Lifeline accounts. Some actually had 11 accounts in their name!

Needless to say, this waste, fraud, and abuse is wrong. It is a moral and fiscal affront to the hard-working Americans who have been forced to pick up the tab in their monthly phone bills. And it harms those low-income Americans who are legitimately eligible for the program and rely on it for phone service. Good people suffer when bad people profit.

After hearing all of this, you're probably asking yourself: How could such rampant fraud occur? There are a number of reasons. First, the size of the Lifeline program has been on autopilot. Each of the other three USF programs—high-cost, E-Rate, and rural health care—has been placed on a budget. So it would be impossible for any of these programs to have doubled in size in three years without a vote among the FCC's five Commissioners. Only the Lifeline program remains uncapped. So spending can spiral out of control with no accountability.

Second, Lifeline expanded beyond landlines to cellphones provided by wireless resellers—companies that use others' networks because they don't have their own. This happened because the FCC eliminated the long-standing legal requirement that only providers with their own network facilities could receive financial support from the Universal Service Fund. Breaking the link between a Lifeline subsidy and investment in the network threw the door wide open for fly-by-night operators and those looking for a quick buck. Indeed, the FCC's decision had the effect of welcoming many new carriers into the program whose sole business model was to make money off of Lifeline. Many of them went on to perpetrate substantial fraud.

Third, the Lifeline program shifted from providing discounted phone service to free phone service. When Lifeline customers had to contribute towards their own phone bills, there was a strong incentive for them not to sign up more than once for the program. But when the program expanded to include wireless resellers, carriers began to give away phones and minutes for free. Needless to say, this made it much more enticing for people to sign up many times for the program.

And fourth, the FCC failed to put in place effective anti-fraud measures. There were not serious efforts to verify customers' eligibility for the program, to prevent carriers from claiming duplicative support for the same customer, or to block carriers from getting support for fake customers. Despite the sudden growth in Lifeline subsidies in 2009, the FCC did nothing for three years. Taken as a whole, the FCC's approach to the Lifeline program was a recipe for disaster. So the end result shouldn't have come as a surprise to anyone.

Fortunately, there is some good news to report. In 2012, the FCC adopted new rules designed to reduce waste, fraud, and abuse. For example, the agency created a National Lifeline Accountability Database to prevent multiple carriers from getting subsidies for the same customer. It also began to establish eligibility databases, making it easier for carriers to verify consumers' initial and ongoing Lifeline eligibility.

The Commission has also started to beef up its enforcement efforts. Between September 2013 and February 2014, the FCC proposed fines against eleven carriers totaling over $89 million. A single proposed fine was for over $22 million. In each of these cases, companies allegedly received duplicative subsidies for the same customer in the same month. Within the FCC, I was a strong advocate of proposing stiff financial penalties for blatant violations of the Lifeline rules. I'm glad Chairman Wheeler and my other colleagues saw it the same way and that each of these forfeiture proposals was adopted by a unanimous vote.

These initiatives have begun to bear fruit. From 2012 to 2013, Lifeline spending fell by almost 18%. So when it comes to combatting fraud, we are at least starting to move in the right direction.

But there's much more work to be done. Even in 2013, Lifeline spending was more than double what it had been only five short years before. So here are four simple steps that we should take to further reduce waste, fraud, and abuse in the Lifeline program.

First, the time has come to put the Lifeline program on a budget. It's as true for a federal program as it is for a family: A budget induces careful spending. A Lifeline budget will increase incentives to eliminate fraud and improve accountability within the program. And placing a cap on Lifeline spending will prevent any future explosion in spending without direct Commission accountability.

Now, some might complain that Lifeline is too important to have a spending cap. But the other three components of the Universal Service Fund—the E-Rate program, rural health care program, and high-cost program—are also important. Each of them is currently on a budget. Lifeline should be, too.

Second, we must reduce the financial incentives for people to commit Lifeline fraud. As I indicated earlier, Lifeline was not designed to give people free phone service. It was intended to provide low-income consumers with discounted phone service. And the recent shift to free wireless service plans has dramatically increased the incentive for individuals to break the FCC's rules by signing up for the program more than once.

The FCC has several options for properly aligning people's incentives. One option would be to prohibit wireless carriers participating in Lifeline from giving away free phone service to Lifeline recipients. Instead, recipients of wireless service would make at least a minimal monthly contribution. Requiring some skin in the game would align the Lifeline program with our other universal service programs, each of which requires some contribution by recipients to cut down on waste, fraud, and abuse.

A second option would be to empower the states to play a stronger role in helping to police the program. The Lifeline program has historically been a federal-state partnership, with states offering their own funds to supplement the federal program and doing their part to squelch misconduct. But a recent court ruling has threatened that partnership—preventing the State of Georgia from taking reasonable steps to cut down on fraud, such as requiring a minimum contribution from Lifeline subscribers. Nothing in the law prevents the FCC from clarifying that states are free to take appropriate measures to ensure the integrity of the program.

A third option would be to review the size of the current Lifeline subsidy—$9.25 per month—and ask whether it's too high, given that it often pays for the entire cost of a monthly phone bill. Cutting the monthly support amount would directly cut both the incentive for fraud and the phone bills for consumers who pay into the USF. And it would better account for the falling costs of wireless service, so that consumers, not Lifeline carriers, benefit from the industry's newfound efficiencies.

Third, the FCC should fill the gaps in its rules that still encourage fraudulent behavior. For example, Lifeline carriers don't have to keep proof that consumers are eligible for the program when they sign up. Some of them distribute free Lifeline phones on the spot, without verifying that consumers are eligible or that they live where they say they do. All of this means it's almost impossible for us to make sure that Lifeline funds will be wisely spent before we start disbursing them.

Reform here shouldn't be hard. Requiring carriers to maintain customers' proof of eligibility is common sense. And prohibiting the free-phone events that show up on YouTube—well, I just don't see why we'd want to encourage such behavior. These steps would eliminate some of the most glaring examples of abuse, which is something everyone should support.

And *fourth*, the FCC must step up its enforcement efforts. To be clear, I'm glad that the FCC has proposed substantial forfeitures against carriers for allegedly violating our Lifeline rules. But that's not the end of the process at the FCC. After proposing forfeitures and receiving the company's response, the FCC must take another vote to impose a forfeiture. So while proposing forfeitures generates good publicity for the agency, that alone isn't good enough. What really counts is imposing forfeitures.

Now is the time to take that step with respect to Lifeline fraud. Spotting violations only to let cases languish—all while providers continue to participate in the program—is not the way to combat abuse. As Yoda put it in *The Empire Strikes Back*, "Try not. *Do* . . . or do not. There is no try."

Now is the time for the Commission to hold up-and-down votes. If we don't, we will invite more fraud by sending the signal that the FCC won't actually seek to collect fines.

Taking such action will also help us move aggressively to kick out of the Lifeline program those who perpetrate fraud. Take, for example, the case of True Wireless. Its owner was one of the three men indicted by the Department of Justice for Lifeline fraud three months ago in connection with the Associated Telecommunications Management Services case I discussed earlier. And the FCC has proposed to fine the company over $5 million for getting duplicative subsidies for the same customers.

Yet, True Wireless is *still* receiving disbursements from the Lifeline program. So at the same time that the federal government was attempting to seize the CEO's 2010 Audi R8, his company received about $1.5 million in federal funds last month. Twiddling our thumbs in the face of all this? That's not right.

Taken together, I am confident that these four proposals—imposing a budget, properly aligning financial incentives, filling gaps in our rules, and stepping up enforcement—would help to further reduce the waste, fraud, and abuse that have run rampant in the Lifeline program. At the same time, they would allow low-income consumers who are genuinely in need to get a discount on phone service.

I am under no illusion that it will be easy to get these things done. You know far better than most how difficult it can be to eliminate government waste. But we owe it to all Americans who fund the Lifeline program through their monthly phone bills. We should do whatever we can to ensure that their hard-earned money isn't wasted and doesn't end up in a fraudster's bank account or automobile garage.

Thanks once again for letting me speak with you this morning. And to borrow from former Senator Phil Gramm, when it comes to government spending, I hope you continue to do the Lord's work in the Devil's city.