UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF INSPECTOR GENERAL

MEMORANDUM

April 16, 2019

Advisory Regarding Fraud in the Lifeline Program

Introduction

FCC-OIG's statutory mandate is to protect the integrity of the Federal Communications Commission's programs and operations by combating fraud, waste, and abuse. OIG provides objective, independent investigations, audits, and reviews of FCC's programs and operations, including Universal Service Fund (USF) programs administered by the Universal Service Administrative Company (USAC). In 2017, USAC disbursed nearly $1.3 billion to telecommunications companies (or Lifeline carriers) to subsidize service to low-income households who participate in qualifying programs, such as Medicaid, SNAP and Supplemental Security Income, or whose income falls below certain poverty thresholds.

OIG issues this advisory letter to alert Lifeline carriers, carrier agents, consumers, and the public regarding pervasive, fraudulent practices that violate program rules and divert monies from the intended beneficiaries of the program. OIG will hold accountable those who defraud the USF and will continue to seek criminal, civil, and administrative sanctions against Lifeline carriers and carrier agents who engage in these and other fraudulent practices.

Lifeline Program Fraud

Fraud remains a serious problem for the Lifeline program. In May 2017, the GAO issued a report after conducting a three-year audit of the Lifeline program that concluded, "[a]dditional action [is] needed to address significant risks in FCC's Lifeline program." Specifically, GAO found Lifeline "companies may have an incentive to enroll as many customers as possible" after it was unable to confirm whether 36% of Lifeline subscribers qualified for program enrollment.

Moreover, GAO identified more than 6,000 individuals receiving Lifeline benefits who were previously reported as deceased to the Social Security Administration. In late 2017, OIG confirmed through its own investigation and analysis that nearly 50,000 already-deceased individuals had been enrolled in the program by carriers. Just last year, OIG published an audit report which estimated the number of improper Lifeline payments at more than $330 million in FY2017 alone.

OIG Investigates & Combats Lifeline Fraud

OIG's Office of Investigations (OI) plays a critical role in combating fraud, waste, and abuse in the Lifeline program by conducting criminal, civil and administrative investigations to target those who perpetrate fraud. OIG works with law enforcement partners, including the U.S. Department of Justice, to prosecute fraud in the program. Among the most noteworthy examples include the following:

- A 2014 joint investigation with the U.S. Attorney's Office for the Western District of Oklahoma resulted in a $27 million recovery and prison sentences for the owners of Icon Telecom and PSPS Sales, the sales agency employed by Icon to enroll low-income customers, after the owners pled guilty to money laundering and other crimes.

- OI partnered with the U.S. Attorney's Office for the Southern District of New York to investigate allegations of fraud against Total Call Mobile in 2016. The investigation resulted in a $30 million recovery and the company's agreement to cease Lifeline operations.

Moreover, OIG routinely recommends corrective measures to the FCC and USAC to mitigate fraud it finds during investigations. In the last year, OIG recommended and USAC adopted a "death check" as part of the Lifeline enrollment process after OI investigations confirmed GAO's preliminary findings that thousands of deceased individuals had been enrolled by Lifeline carriers. OI has a full roster of active investigations targeting companies and individuals who seek to defraud the Lifeline program.

Deceptive Lifeline Enrollment Practices Uncovered by OIG

Much of the fraud found in the Lifeline program occurs during the subscriber enrollment process—OI has observed during its investigations that fraudsters have developed "tricks" to evade program safeguards. Many of these practices should be easily discernable by Lifeline carriers, who must certify compliance with program rules as a condition for receiving reimbursement from the U.S. Treasury.

OIG has observed many instances in which Lifeline carriers, agents, and consumers manipulate subscriber enrollment information, including subscriber names, addresses, and eligibility proof requirements to provide subscribers who may be eligible for one Lifeline phone with a second or third or fourth phone, or to provide a Lifeline phone to an altogether different, ineligible customer. This conduct clearly violates program rules.

<u>Identity/Name Manipulation</u>

Lifeline carriers are required to enter a potential subscriber's name into the National Lifeline

Accountability Database (NLAD). NLAD performs several checks including a duplicate check to confirm the subscriber is not already receiving a Lifeline benefit. NLAD's ability to monitor the integrity of this information and perform these checks is only as reliable as the authenticity of enrollee information submitted by Lifeline carriers.

1. Generational Suffixes: One of the most common forms of name manipulation OIG has detected is the addition of "Sr.," "Jr." or other generational suffixes to a subscriber's legal name. For example, in Figure 1 below, John Smith's name is manipulated by adding generational suffixes to create four fraudulent enrollments. Fraudsters use this simple trick to evade one of the program's duplicate account safeguards. OIG's analyses show some Lifeline carriers have enrolled as many as five to eight times the number of individuals whose name includes a generational suffix into the program than may be expected in the general population.

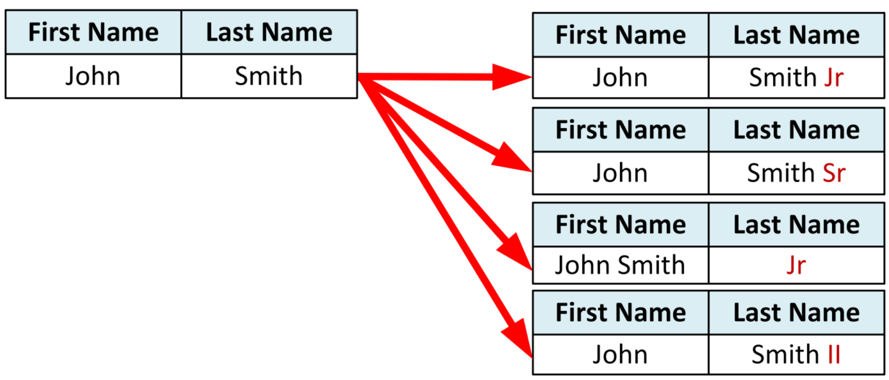

Figure 1 — Generational Suffixes

2. Female Juniors: Bona fide "female juniors," females with a generational suffix as part of their name (e.g. Carolina Herrera Jr. and Anna Eleanor Roosevelt Jr.), are extremely rare, yet OIG sees a high prevalence of female juniors among Lifeline enrollments. For example, carriers and agents manipulate "Mary Smith" to create enrollments for "Mary Smith Sr.," "Mary Smith Jr.," "Mary Smith III," and even "Mary Smith Jr. III." Even if Mary Smith is eligible for a single Lifeline benefit, her identity information has been manipulated to allow either Mary or others access to three additional fraudulent Lifeline benefits in Figure 2. OIG has seen thousands of examples of "female juniors" among Lifeline enrollments.

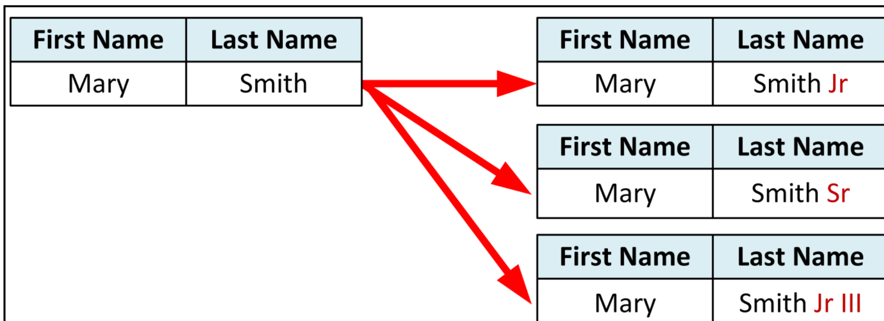

Figure 2 — Female Juniors

3. Middle Initials: Another fraudulent practice involves adding an individual's middle initials to either the first name or last name fields in NLAD to create fraudulent enrollments as seen in Figure 3.

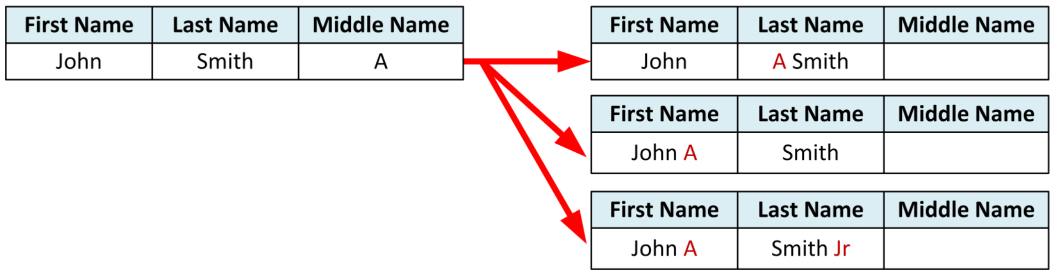

Figure 3 — Middle Initials

4. Name Swapping: This practice involves swapping the positions of the first and last names to create a new identity. For example, "Mary Smith" becomes "Smith Mary."

Figure 4 — Name Swapping

<u>These examples represent just some of the most egregious identity manipulation tricks used by carriers and their agents to evade Lifeline program safeguards.</u>

<u>Address Manipulation and IEH Form Abuse</u>

Lifeline program benefits are limited to one benefit per household, not per person. If a potential subscriber certifies she is part of an independent economic unit, she may receive a Lifeline benefit even if another person who lives at the same address also receives a Lifeline benefit. OIG has observed numerous instances in which Lifeline carriers and their agents fraudulently use the address of one single-family home to enroll dozens and sometimes hundreds of Lifeline subscribers. Even vacant lots have been used to enroll subscribers—one vacant lot in Detroit was used by a carrier as the home address of nearly two hundred Lifeline subscribers.

<u>Non-Qualifying Program Documents</u>

Individuals may receive a Lifeline benefit only if the individual (or household) has an income at or below 135% of the federal poverty guidelines, or participates in a qualifying federal assistance program, including SNAP or Medicaid. However, Lifeline carriers and their agents frequently enroll individuals using proof of non-qualifying programs such as Medicare. Other examples of non-qualifying programs include unemployment insurance programs and health insurance programs unrelated to Medicaid.

****

OIG is deeply concerned about fraud in the Lifeline program and issues this advisory to alert and educate Lifeline stakeholders and the public about some of the techniques used to perpetrate fraud we have learned about during our investigations. OIG is committed to our mandate and will continue to use a full-range of tools to expose and combat fraud, waste, and abuse in USF programs.

OIG encourages anyone with information regarding fraud, waste or abuse in any FCC program, including Lifeline, to use the OIG Hotline to report such allegations.

FCC OIG Hotline

Report Waste, Fraud & Abuse

Telephone: (202) 418-0473

Toll Free: (888) 863-2244

FAX: (202) 418-2811

E-Mail: hotline@fcc.gov