



**UNITED STATES GOVERNMENT**  
**FEDERAL COMMUNICATIONS COMMISSION**  
**Office of Inspector General**  
445 12th Street, SW  
Washington, DC 20554

March 26, 2018

Universal Service Administrative Company  
Attn: Michelle Garber  
Vice President, Lifeline Division  
700 12th Street, NW, Suite 900  
Washington, DC 20005

Reference: Final Audit Report No. 15-AUD-10-09 on the Universal Service Administrative Company's Implementation of the National Lifeline Accountability Database

Dear Ms. Garber:

The Federal Communications Commission (FCC), Office of Inspector General (OIG) contracted Lani Eko and Company, CPAs, PLLC (LEC) to audit the Universal Service Administrative Company's (USAC) implementation of the Universal Service Fund (USF) Lifeline Program's National Lifeline Accountability Database (NLAD). The OIG contracted for this audit consistent with its authority under the Inspector General Act of 1978, as amended, including, but not limited to sections 2(1), 4(a)(1) and 5. The audit is not intended as a substitute for any agency regulatory compliance review or regulatory compliance audit.

The primary objective of the audit was to determine if USAC had fully implemented NLAD in accordance with the FCC's 2012 Lifeline Reform Order<sup>1</sup>. Additionally, the audit was to determine if (a) Lifeline subscribers found in NLAD were eligible for Lifeline Program-supported service, based on the Program's eligibility criteria; (b) NLAD includes built-in measures to protect the integrity and reduce misuse of data; and (c) NLAD reduces the risk of Lifeline Program fraud, waste, and abuse among the participating states. The audit scope covered NLAD from its full implementation on March 27, 2014 through June 21, 2016.

LEC conducted the audit in accordance with generally accepted government auditing standards. Those standards require that the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions based on the audit objectives. The auditors believe that the evidence obtained provides a reasonable basis for their findings and conclusions based on their audit objectives.

The auditors found that NLAD had been fully implemented and was functioning as designed. However, the auditors identified four potential deficiencies that may affect the reliability and

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<sup>1</sup>*Lifeline and Link Up Reform and Modernization*, Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Red 6656 (2012).

integrity of NLAD data, and the usefulness of NLAD in deterring fraud, waste and abuse in Lifeline Program disbursements. USAC, in consultation with FCC Management, agreed with the majority of the 20 report recommendations. However, USAC stated that two of the recommendations overstepped its authority, and requested that one recommendation be removed from the report because USAC believed its Lifeline Program policies and procedures already met the intent of the reported recommendation. The detailed findings and recommendations and USAC's response is provided in the attached final audit report.

The auditors are wholly responsible for the audit report. The report is intended solely for the information and use of USAC, the FCC and LEC. However, to the extent it can be made public, the report will be posted on the FCC OIG web page.

If you have any questions or concerns regarding this audit report, please contact Robert McGriff, Assistant Inspector General for Audit, at 202-418-0483 or robert.mcgriff@fcc.gov; or Sharon Spencer, Deputy Assistant Inspector General for USF Program Audits, at 202-418-0477 or sharon.spencer@fcc.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read 'DLH', with a long horizontal stroke extending to the right.

David L. Hunt  
Inspector General

cc: Mark Stephens, Managing Director  
Kris Monteith, Chief, Wireline Competition Bureau  
Kathleen Heuer, Chief Financial Officer, Office of Managing Director  
Daniel Daly, Chief of Staff, Office of Managing Director  
Lani Eko, President, Lani Eko and Company, CPAs, PLLC

Attachment: Final Audit Report No. 15-AUD-10-09



Performance Audit of  
Universal Service Administrative Company  
National Lifeline Accountability Database

(Report No. 15-AUD-10-09)

March 26, 2018



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**FINAL REPORT**





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## EXECUTIVE SUMMARY

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The Federal Communications Commission contracted with Lani Eko & Company, CPAs, PLLC (FCC) Office of Inspector General (OIG) to conduct an independent performance audit of the Universal Service Administrative Company (USAC) implementation and fraud detection measures for the National Lifeline Accountability Database (NLAD). The primary objective of this audit was to determine if USAC has fully implemented NLAD in accordance with the FCC 2012 Lifeline Reform Order. Additional audit objectives were to determine if (a) Lifeline subscribers<sup>1</sup> found in NLAD qualify for Lifeline Program-supported service based on Lifeline Program's eligibility criteria; (b) NLAD includes built-in measures to protect the integrity and reduce misuse of data; and (c) NLAD reduces Lifeline Program fraud, waste, and abuse among the participating states.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit covered NLAD subscribers and activity as of June 21, 2016.

We determined that USAC has fully implemented NLAD and that it is functioning as designed, consistent with the requirements of the 2012 Lifeline Reform Order. However, we observed the following deficiencies:

1. USAC management has weak procedures for identifying, preventing and resolving duplicate and ineligible Lifeline Program subscribers.
2. Weaknesses in NLAD security controls and operations place the confidentiality and integrity of subscribers' Personally Identifiable Information (PII) at risk and expose the Universal Service Fund (USF) to increased risk of fraud, waste, and abuse.
3. USAC management lacks efficient and effective procedures to identify and prevent improper Lifeline Program payments to eligible telecommunications carriers (ETCs).
4. USAC management did not adequately validate subscribers' data before migrating the data into NLAD, which contributed to duplicate or erroneous Lifeline Program payments to

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<sup>1</sup> The subscriber is the recipient of Lifeline benefits.

[REDACTED]

ETCs. [REDACTED]

Out of the 20 recommendations proposed, the FCC and USAC management agreed with 17 recommendations. USAC management did not agree with Recommendations Nos. 2.2 and 2.4. According to USAC management, it may not implement or impose any requirements beyond those set forth in the FCC rules. Also, USAC management requested removal of Recommendation No. 3.3, which requires the development and implementation of additional analytical tools to detect fraud, waste, and abuse.

Detailed findings, recommendations, management comments, and the auditor's responses are provided in the respective sections of this report.



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## BACKGROUND

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The Communications Act of 1934 (the 1934 Act) first established the concept of universal service, calling for "...a rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges<sup>2</sup>." The 1934 Act created the FCC to execute and enforce the provisions of the 1934 Act.

In 1996, Congress codified and expanded on the concept of universal service<sup>3</sup>. Specifically, the 1996 Act called for the creation of a joint federal-state board to make recommendations to the FCC on defining federal universal services and set timetables. Also, the 1996 Act set out the principles to guide the FCC's universal service policies. These principles include providing quality, equitable, nondiscriminatory and reasonably priced services, and access to advanced telecommunications services in rural, low-income and high-cost regions, and to schools, libraries, and health care providers. Telecommunications carriers and Voice over Internet Protocol companies providing service internationally and between states, collectively referred to as contributors, are required to contribute a percentage of their interstate and international end-user telecommunications revenues into the USF.

USAC is an independent, not-for-profit entity designated by the FCC to administer the USF. The FCC established five primary functions for USAC, which include four central services funded by the USF to fulfill the universal service goals. The four central USF services are (a) the High-Cost Program; (b) Lifeline Program; (c) Schools and Libraries Program; and (d) Rural Health Care Program. Additionally, under the oversight of the FCC, USAC manages contributions of revenue into the USF.

In the 2012 Lifeline Reform Order, the FCC tasked USAC to develop NLAD<sup>4</sup>. NLAD's primary purpose is to prevent multiple Lifeline Program-supported services from being provided to a subscriber or household. NLAD aids ETCs in identifying and resolving duplicate Lifeline subscriber claims on a real-time and nationwide basis. The database works in congruence with the minimum Federal Lifeline subscriber eligibility requirements and helps ETCs to prevent duplicate subscribers. NLAD also supports ETCs in recertifying their subscribers' eligibility for continued Lifeline Program-supported service on an annual basis. As of March 30, 2014, USAC had

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<sup>2</sup> 47 U.S.C § 151

<sup>3</sup> 47 U.S.C § 254

<sup>4</sup> *Lifeline and Link Up Reform and Modernization et al., Report and Order and Further Notice of Proposed Rulemaking*, 27 FCC Rcd 6656 (2012) (2012 Lifeline Reform Order).



implemented NLAD in all participating states, the District of Columbia, and U.S. possessions. At NLAD's inception, the FCC allowed five jurisdictions – California, Oregon, Texas, Vermont and Puerto Rico to use a State-developed database rather than NLAD. However, in 2015, Lifeline Program subscribers in Puerto Rico were brought into NLAD.





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## LIMITATION ON AUDIT SCOPE

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The audit scope did not include an examination to identify fraudulent Lifeline Program benefits, verification of subscribers' household income, an examination of evidence to substantiate that the subscribers are beneficiaries of qualifying Federal programs, or an examination of the Independent Economic Household Worksheet for households receiving multiple Lifeline Program benefits. Therefore, we were not required, and we did not express a conclusion on fraudulent Lifeline Program benefits, or whether subscribers enrolled in NLAD as of June 21, 2016 were eligible for Lifeline Program-supported services.



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## RESULTS OF AUDIT

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### ***FINDING NO. 1 – DUPLICATE AND INELIGIBLE LIFELINE PROGRAM SUBSCRIBERS***

Improvement is needed in identifying, preventing, and resolving duplicate and ineligible subscribers. Implementation of NLAD has helped USAC to significantly reduce duplicate claims for Lifeline Program-supported services and reduced the risk of fraud, waste, and abuse in the Lifeline Program. Since the NLAD implementation, over 2.4 million duplicate and ineligible subscribers have been de-enrolled from the Lifeline Program-supported services. However, additional improvements are needed to further reduce risks of improper payments to ETCs. We performed data analytics on the 10.5 million active subscribers reported in NLAD as of June 21, 2016, and noted potential duplicate and ineligible Lifeline Program subscribers as described below:

- **247,771 subscribers who failed the Third-Party Identity Verification’s (TPIV) checks were not de-enrolled in NLAD.** In December 2015, USAC analyzed personal data for the three million legacy subscribers<sup>5</sup> in NLAD using the TPIV process. The legacy subscribers’ personal data (i.e., first and last names) were compared to official government records to detect and de-enroll duplicate or ineligible Lifeline Program subscribers. USAC identified 368,844 subscribers that failed TPIV checks. Subscribers who failed the TPIV check were given 30 days to provide documentation to support their continued eligibility for Lifeline Program-supported services. We found that out of the 368,844 subscribers that failed TPIV checks, 247,771 subscribers remained in NLAD as of September 30, 2016, and continued to receive Lifeline Program-supported services without providing any evidence to support their continued eligibility. According to USAC management, in October 2016, letters were sent to ten carriers that accounted for 224,576, or 91 percent of the 247,771 subscribers, to verify the eligibility of subscribers for the Lifeline Program-supported services. USAC management plans two additional rounds of letters to the ETCs to verify the identity of the remaining 23,195 subscribers.
- **2,032 duplicate subscribers failed the TPIV** [REDACTED]. USAC management stated that NLAD's duplicate check algorithm should prevent the enrollment of duplicate subscribers. USAC management attributed the

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<sup>5</sup> Legacy subscribers were the first subscribers’ whose data was migrated into NLAD.



[REDACTED]

duplicate subscribers [REDACTED]  
[REDACTED].

- **815 subscribers had invalid primary addresses per the United States Postal Service (USPS) Address Matching System (AMS).** USAC management explained that it is difficult to verify the exact location of tribal land and rural addresses. However, USAC management is investigating geospatial capability enhancements to NLAD that may help confirm addresses on tribal land and rural areas.
- **26,005 subscribers may not have complied with the FCC's one Lifeline-supported service per household rule.** The 2012 Lifeline Reform Order allows only one Lifeline Program benefit per household, except in instances where the additional subscriber in the same household has submitted an Independent Economic Household (IEH) worksheet that is certified by the ETC. We were unable to independently verify whether certified IEH worksheets exist for these subscribers because certified IEH Worksheets are retained by ETCs and were not available for the auditor's examination. According to USAC management, examination of IEH Worksheets is one of the procedures embedded in the USAC Office of Internal Audit's Beneficiary and Contributor Audit Program (BCAP) and Payment Quality Assurance (PQA) reviews. USAC management informed us that it intends to conduct an examination of a sample of IEH worksheets outside of the BCAP and PQA reviews. Also, USAC management will work with FCC management to develop more effective review procedures for IEH worksheets and other related Lifeline Program documentation as part of USAC's overall efforts to ensure Lifeline Program integrity. The BCAP, PQA, and planned IEH worksheet examinations may be effective in detecting ineligible subscribers, but would not prevent ETCs from enrolling ineligible consumers into NLAD and being paid for ineligible subscribers.
- **13 subscribers who resided in states that elected not to participate in NLAD – "Opt-Out States" (i.e., Texas, California, Oregon, and Vermont) – were enrolled in NLAD.** USAC used the USPS AMS to validate subscribers' addresses. USAC disabled AMS when a rural or tribal flag (i.e. non-traditional address) was used to enroll subscribers. [REDACTED] control feature in NLAD was deactivated during subscribers' enrollment [REDACTED]. USAC management was unable to provide specific reasons for Opt-Out States subscribers' enrollment in NLAD. USAC management offered the following possibilities: (a) an ETC could have inadvertently entered a mailing address for a different state when intending to enter a subscriber's residential address, or (b) there are



locations where the jurisdiction of the ETC's Study Area Code (SAC) covers small portions of a bordering state that is an Opt-Out State. According to USAC management, its staff performed periodic reviews and contact ETCs when anomalies in NLAD data are identified.

- **1,455 subscribers had service initiation dates that predated Lifeline Program's implementation in 1985.** USAC management agreed that ETCs had entered subscriber service initiation dates into NLAD that predated the Lifeline Program's 1985 implementation date. This was not consistent with the intent of the service initiation field in NLAD. According to USAC management, in October 2016, a remedy was implemented and NLAD no longer allows ETCs to enter service initiation dates that predate Lifeline Program's implementation. However, USAC management elected not to require ETCs to correct the invalid service initiation dates and they were still being reported in NLAD.
  
- **1,162 subscribers did not meet the minimum age requirement for eligibility for Lifeline Program-supported services or failed to submit evidence to support classification as emancipated minors.** We evaluated subscribers' compliance with the Lifeline Program minimum age requirement based on the service initiation dates reported in NLAD and noted the following:
  - For 1,160 out of 1,162 subscribers, USAC management informed us that the service initiation dates reported in NLAD are misleading because of the ETCs' inadequate record keeping or record retention policy. As a result, USAC management uses the subscribers' NLAD enrollment date, instead of service initiation date, to determine subscribers' compliance with the Program's minimum age requirement. Lifeline Program rules require ETCs to maintain accurate records, establish service initiation dates as a required NLAD data field, and establish a minimum age of 18 years for non-emancipated minors for eligibility for Lifeline Program-supported services. The auditor's position is that subscribers receiving Lifeline Program-supported services must meet the minimum age requirement as of the Lifeline Program service initiation date.
  - The remaining two subscribers were emancipated minors and thus were eligible for Lifeline Program-supported services per USAC management. The auditor could not verify the subscribers' classification as emancipated minors because the court records were not available for examination.





**CRITERIA:**

**47 § 54.404 (b) (1) and (b)(2)**, state, “In order to receive Lifeline support, eligible telecommunications carriers operating in states that have not provided the Commission with approved valid certification pursuant to paragraph (a) of this section must comply with the following requirements: (1) All eligible telecommunications carriers must query the National Lifeline Accountability Database to determine whether a prospective subscriber who has executed a certification pursuant to § 54.410(d) is currently receiving a Lifeline service from another eligible telecommunications carrier; and whether anyone else living at the prospective subscriber's residential address is currently receiving a Lifeline service. (2) If the Database indicates that a prospective subscriber, who is not seeking to port his or her telephone number, is currently receiving a Lifeline service, the eligible telecommunications carrier must not provide and shall not seek or receive Lifeline reimbursement for that subscriber.”

**47 § 54.404 (b) (3)**, states, “If the Database indicates that another individual at the prospective subscriber's residential address is currently receiving a Lifeline service, the eligible telecommunications carrier must not seek and will not receive Lifeline reimbursement for providing service to that prospective subscriber, unless the prospective subscriber has certified, pursuant to § 54.410(d) that to the best of his or her knowledge, no one in his or her household is already receiving a Lifeline service.”

**47 § 54.405 (e) (1)**, states, “If an eligible telecommunications carrier has a reasonable basis to believe that a Lifeline subscriber no longer meets the criteria to be considered a qualifying low-income consumer under § 54.409, the carrier must notify the subscriber of impending termination of his or her Lifeline service.... An eligible telecommunications carrier must terminate any subscriber who fails to demonstrate continued eligibility within the 30-day time period...”

**47 § 54.409 (c)**, states, “In addition to meeting the qualifications provided in paragraph (a) or (b) of this section, in order to constitute a qualifying low-income consumer, a consumer must not already be receiving a Lifeline service, and there must not be anyone else in the subscriber's household subscribed to a Lifeline service.”

**47 § 54.410 (a)**, states, “All eligible telecommunications carriers must implement policies and procedures for ensuring that their Lifeline subscribers are eligible to receive Lifeline services.”

**2012 Lifeline Reform Order**, paragraph 12 states, “The Lifeline program was implemented in 1985 in the wake of the 1984 divestiture of AT&T...”





**2012 Lifeline Reform Order**, paragraph 87 states, “Lifeline applicants will not be permitted to use a P.O. Box address as their Lifeline address.”

**2012 Lifeline Reform Order**, paragraph 179 states, “In this Order, we establish a National Accountability Database (“database”) to detect and prevent duplicative support in the Lifeline/Link Up program. We direct USAC to establish a database to both eliminate existing duplicative support and prevent duplicative support in the future.

**2012 Lifeline Reform Order**, paragraph 200 states, “... Moreover, by validating a subscriber’s date of birth, minors will be prevented from signing up for service.”

**Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments**, states, “...If an agency deems a program to be susceptible to significant improper payments ...agencies should identify the root causes of, and implement appropriate corrective actions to prevent and reduce the related improper payments. Agencies should continuously identify innovative corrective actions to prevent and reduce improper payments....”

**CAUSE:**

- **System configuration deficiencies:** In certain instances, [REDACTED] [REDACTED]. Also, NLAD did not properly filter and report invalid subscribers’ data, [REDACTED].
- **Data migration deficiencies:** Subscribers' data were migrated into NLAD before being examined for duplicate subscribers and validated for compliance with Lifeline Program rules. According to USAC, it decided, in consultation and agreement with the FCC management, not to conduct a TPIV check during the initial migration of existing subscribers into NLAD.
- **Deficiencies in NLAD’s overrides:** USAC staff approved ETCs’ overrides of NLAD controls during enrollment of consumers for Lifeline Program-supported services without reviewing the underlying documents supporting the appropriateness of the overrides. [REDACTED]





or validated), (b) invalid primary address, and (c) consumer under the age of 18. USAC relied on the dispute resolution request submitted by ETCs to confirm consumer’s eligibility for Lifeline Program-supported services.

- **Poor implementation of Lifeline Program rules:** During the implementation of NLAD, USAC did not adequately address certain Lifeline Program policies, including policies for (a) providing multiple Lifeline Program-supported services for a single household, (b) providing Lifeline Program-supported service to minors, and (c) verifying consumers’ addresses.
- **Inadequate record keeping or record retention policy:** Subscribers’ service initiation dates in NLAD were not accurate because ETCs did not always retain enrollment records supporting the subscribers' service initiation dates.

**EFFECT:**

USAC may have inappropriately reimbursed ETCs for ineligible subscribers and subscribers who received multiple Lifeline Program-supported services from the same or multiple ETCs.

**RECOMMENDATIONS:**

We recommend that FCC management:

- 1.1 Coordinate with the USAC management and ETCs to determine whether the 247,771 subscribers who failed TPIV checks were eligible for Lifeline Program-supported services.
- 1.2 Resolve NLAD limitations and configuration weaknesses, 
- 1.3 Develop and implement monitoring procedures to ensure ETCs comply with the Lifeline Program’s one-per-household rule and prevent ineligible consumers from enrolling in NLAD and receiving Lifeline Program-supported services. Also, on a random basis, request IEH Worksheets before completing consumers’ enrollment in NLAD for households receiving multiple Lifeline Program benefits.
- 1.4 Develop and implement a risk-based methodology for examining subscriber data for ETCs who have an unusually high number of NLAD subscriber overrides or when significant BCAP audit deficiencies are noted.





- 1.5 Implement geospatial technology in addition to current AMS to confirm subscriber addresses in remote locations, including rural areas and tribal lands.
- 1.6 Implement a payment system that reimburses ETCs for Lifeline Program-supported services based on subscribers' enrollment data in NLAD.
- 1.7 Require that ETCs maintain and retain complete and accurate subscriber eligibility records, including records to support information input into NLAD.
- 1.8 Perform periodic reviews of NLAD to identify and investigate subscribers whose zip codes are in the Opt-Out States and determine whether they are eligible for Lifeline Program-supported services.

**MANAGEMENT’S RESPONSE:**

The FCC and USAC management agreed with all the recommendations proposed by the auditor. Management’s response is provided, in full, in Appendix B of this report.

**AUDITOR’S RESPONSE:**

None.

***FINDING NO. 2 – SECURITY CONTROLS OVER PERSONALLY IDENTIFIABLE INFORMATION***

Additional measures are needed to mitigate or eliminate weaknesses in NLAD security controls and operations that place subscribers’ Personally Identifiable Information (PII) at risk of inappropriate disclosure and expose the USF to increased risk of fraud, waste, and abuse. USAC has implemented many information security controls intended to protect PII maintained within NLAD and minimize the risk of fraud, waste, and abuse of the USF. For example, USAC staff who have access to NLAD have properly executed access authorizations on file, and the access privileges appear consistent with staff’s responsibilities. Nevertheless, we noted the following matters:

- **Background Investigations Not Always Conducted or Monitored for Individuals with Access to NLAD.** USAC did not conduct background investigations (i.e., criminal, credit) for its contractor staff, state public utility commission (state commission) officials, and ETCs’ agents and staff who had active access authorizations to use NLAD. According to USAC management, it relied on language in its contracts, which require background investigations for contractor staff who have access to NLAD. However, the type and scope of background investigations conducted by contractors and state commissions might be inadequate to protect





data in NLAD. USAC management informed us that it did not have the authority, under FCC rules, to conduct background investigations for ETCs and state commission officials who have the authorization to access NLAD. We believe that requiring background investigations for ETCs and state officials with access authorization in NLAD would strengthen security over PII and would not impose an unreasonable burden on the ETCs or state commissions.

- **Inadequate procedures for identifying and authenticating the identity of users, authorizing users' access, and for recertifying users' rights.** We noted the following deficiencies in NLAD's access controls:
  1. USAC contractor staff with NLAD query access privileges did not have executed access authorization forms on file.
  2. USAC did not have executed access authorization forms on file for ETCs' staff and independent agents who had access privileges allowing them to enroll low-income consumers for Lifeline Program-supported services.
  3. USAC was unable to provide an executed access authorization form for one USAC employee who had access privileges that allowed the employee to create and modify NLAD accounts.
  4. USAC management recertified users' NLAD access privileges retroactively (i.e. after the effective date of the user's access privileges). For example, we found that an April 2016 NLAD access recertification form had not been approved until May 16, 2016, and an August 2016 NLAD access recertification had not been approved until September 30, 2016.

**CRITERIA:**

**Federal Information Security Modernization Act of 2014** requires federal agencies to identify and provide information security protections commensurate with the risk resulting from the unauthorized access, use, disclosure, disruption, modification, or destruction of: (i) information collected or maintained by or on behalf of an agency; or (ii) information systems used or operated by an agency or by a contractor of an agency or other organization on behalf of an agency.

**FIPS Pub 200, Minimum Security Requirements for Federal Information and Information Systems, (March 2006)** states, "Organizations must limit information system access to authorized users, processes acting on behalf of authorized users, or devices (including other information systems) and to the types of transactions and functions that authorized users are permitted to exercise."





**NIST SP 800-122.** Organizations should develop comprehensive policies and procedures for protecting the confidentiality of PII; reduce the possibility that PII will be accessed, used, or disclosed inappropriately by requiring that all individuals receive appropriate training before being granted access to systems containing PII; and control access to PII through access control policies and access enforcement mechanisms (e.g., access control lists).

**NIST SP 800-122,** states, “Personal data should be protected by reasonable security safeguards against such risk as loss or unauthorized access, destruction, use, modification or disclosure of data.”

**CAUSE:**

USAC management lacks adequate policy and procedures for addressing the risk of unauthorized access to NLAD by ETC staff and agents, and USAC contractors. Also, USAC management did not have adequate policies and procedures for addressing the risk of non-compliance with the Federal Privacy Act.

**EFFECT:**

Deficiencies associated with NLAD access rights and user privileges could result in inappropriate disclosure or loss of PII, and expose the USF to an increased risk of fraud, waste, and abuse.

**RECOMMENDATIONS:**

We recommend that FCC management:

- 2.1 Develop and implement policies and procedures to improve the effectiveness of criminal and credit background checks for USAC contractor’s staff who have access rights for NLAD.
- 2.2 Require that USAC obtain written statements from state commissions and ETCs to confirm that their staff and agents who have NLAD access rights have successfully completed background investigations.
- 2.3 Develop and document policies and procedures that require written authorization for all users who have NLAD access rights and privileges, including the ETCs’ marketing agents.
- 2.4 Require that USAC obtain written statements from state commissions, contractors, and ETCs confirming that their staff and agents who are granted access rights for NLAD have completed appropriate training to reduce the possibility that PII will be accessed, used, or disclosed inappropriately.





2.5 Perform a monthly recertification and authorization for NLAD access and privileges, on a prospective basis, to prevent unauthorized users from accessing subscribers PII.

**MANAGEMENT’S RESPONSE:**

Except for Recommendations No. 2.2 and 2.4, the FCC and USAC management agreed with all the recommendations proposed by the auditor. According to the FCC and USAC management, the FCC’s rules do not allow USAC, as the administrator of the USF, to make policy, interpret unclear provisions of the statute or rules, or interpret the intent of the U.S. Congress. Management’s response is provided, in full, in Appendix B of this report.

**AUDITOR’S RESPONSE:**

The FCC and USAC have acknowledged that they have an on-going obligation to use USF resources efficiently and to protect USF from waste, fraud, and abuse. Government Accountability Office (GAO) Report, GAO-17-802, *Additional Action Needed to Address Significant Risks in FCC’s Lifeline Program*, highlights the importance and relevance of Recommendations No. 2.2 and 2.4. In GAO’s report it stated that its staff performing the Lifeline Program evaluation gained employment with a Lifeline provider and enrolled fictitious individuals for Lifeline Program-supported services without completing a background check. Also, there are overarching Federal laws and regulations (i.e., OMB Circular A-123), which require the Federal managers to effectively mitigate and prevent fraud from occurring, and establish internal control to manage the risk of fraud.

***FINDING NO. 3 – LIFELINE PROGRAM REIMBURSEMENTS TO CARRIERS***

USAC management lacks effective policies and procedures to identify and prevent improper Lifeline Program reimbursements to ETCs. Preventive controls are designed and implemented to discourage fraud, errors, or irregularities from occurring. As currently configured, NLAD does not interface with the USAC Lifeline disbursement system. Lifeline Program reimbursements to the ETCs are based on the number of subscribers reported by the ETCs on their certified FCC Form 497, *Lifeline Worksheet*. FCC Form 497 serves as an invoice for requesting reimbursements from USAC for Lifeline Program-supported services provided to eligible subscribers. USAC did not perform a formal reconciliation between FCC Forms 497 submitted by ETCs and the number of subscribers enrolled in NLAD to support Lifeline Program reimbursements to ETCs. Additionally, the FCC Forms 497 submitted by the ETCs to USAC were not accompanied with supporting documents (e.g., listing of subscribers who received Lifeline Program-supported service for the billing period).





According to USAC management, it compares the number of subscribers reported by ETCs on their FCC Form 497 to the number of subscribers enrolled in NLAD under the ETCs' Study Area Code (SAC). However, USAC did not investigate and reconcile the differences identified between the ETC's FCC Form 497 and subscriber data contained in NLAD to assess the reasonableness and appropriateness of USF Lifeline reimbursements to ETCs. USAC's analysis used different cut-off dates for FCC Forms 497 and NLAD enrollments, making it difficult to reconcile the number of subscribers enrolled in NLAD to the number of subscribers claimed by ETCs on FCC Form 497. For example, the FCC Form 497 reporting the ETC's subscribers as of June 30, 2016, may be compared with NLAD's status as of a date several months later. According to USAC management, due to limitations in NLAD's configuration, the number of subscribers in NLAD could not be determined for a date in the past.

Based on the 2016 Lifeline Modernization Order<sup>6</sup> and information provided by USAC management, FCC Form 497 will be phased out and the National Lifeline Eligibility Verifier will be implemented to help prevent improper payments to ETCs. In the interim, USAC has adopted a snap-shot date requirement that requires every ETC to report on their FCC Form 497 the number of active subscribers as of the first day of each month. Also, USAC informed us that it has developed a tool to determine the number of NLAD subscribers enrolled in a specific SAC on a specific date. The snap-shot date requirement along with the tool has the capability of improving analysis of the differences between the FCC Form 497 and NLAD.

On a quarterly basis, USAC management reports projected Lifeline Program payments to the FCC. The projected payments are based on the average of the prior two-quarter actual Lifeline Program reimbursements to ETCs. USAC did not have procedures for identifying and researching variances between the quarterly projected and actual Lifeline Program reimbursements to ETCs. We consider variance analysis to be an effective tool in detecting improper reimbursements to ETCs.

**CRITERIA:**

**First Amendment to the 2008 FCC-USAC Memorandum of Understanding (MOU), dated November 11, 2014.** According to the MOU, USAC is responsible for effective and efficient administration of the USF programs and for providing timely and relevant information and analysis to the FCC to inform and support the USF program policy making process. Also, USAC must ensure that records and supporting documentation are maintained in a manner that allows expenditures to be related to each subject contributor, service provider, and beneficiary.

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<sup>6</sup> *Lifeline and Link Up Reform and Modernization*, 31 FCC Rcd 3962 (2016) (2016 Lifeline Modernization Order).





47 § 54.407 (a), states, “Universal service support for providing Lifeline shall be provided directly to an eligible telecommunications carrier, based on the number of actual qualifying low-income consumers it serves...”

**CAUSE:**

Under the direction of the Commission, USAC is responsible for administering the Lifeline Program consistent with the FCC’s rules, orders, and written directives and instructions of the FCC’s management. FCC’s written policies and procedures do not require ETCs to provide documentation to support subscriber data reported on their FCC Forms 497 submitted to USAC.

Also, USAC did not have adequate formal procedures to assess the reasonableness and accuracy of FCC Forms 497 submitted by ETCs to USAC for reimbursements. NLAD was not intended to serve as the basis for Lifeline Program disbursements to ETCs, and thus USAC did not reconcile FCC Forms 497 to the ETC’s subscriber data in NLAD.

**EFFECT:**

There is a risk of USAC paying ETCs for Lifeline Program-supported services that were provided to ineligible subscribers, subscribers that received multiple Lifeline Program-supported services from one or more ETCs, households that received multiple Lifeline Program-supported services, or fictitious subscribers.

**RECOMMENDATIONS:**

We recommend that FCC management:

- 3.1 Modify NLAD’s configuration to automatically generate the FCC Forms 497 that serve as the basis of Lifeline Program payments to ETCs.
- 3.2 Refine USAC’s current process for reconciling FCC Forms 497 and NLAD to address differences in cutoff dates, and investigate and reconcile material variances between FCC Forms 497 and NLAD subscriber data.
- 3.3 Develop and implement additional analytical tools to detect fraud, waste, and abuse in the Lifeline Program. For example, implement procedures to investigate and resolve variances between the USAC quarterly projected Lifeline Program payments to ETCs and actual Lifeline Program payments. Also, investigate and reconcile variances in monthly Lifeline Program payments for a risk based sample of ETCs.





**MANAGEMENT’S RESPONSE:**

The FCC and USAC management agreed with Recommendations No. 3.1 and 3.2. FCC and USAC management requested that the auditor remove the finding associated with Recommendation No. 3.3 because USAC has revised its payment process to reject any FCC Form 497 where an ETC seeks reimbursement for more than its subscriber count in NLAD. Management’s response is provided, in full, in Appendix B of this report.

**AUDITOR’S RESPONSE:**

In our finding, we noted that the FCC and USAC lacked effective procedures for reconciling FCC Form 497, NLAD and Lifeline disbursement system to ensure the accuracy of payments to ETCs. We recommend that FCC and USAC management implement an additional analytical process to mitigate the risk of improper payments to ETCs. Because USAC implemented a revision to Lifeline payment process after completion of the audit fieldwork, we are unable to ascertain its effectiveness in addressing the finding.

***FINDING NO. 4 – NLAD SUBSCRIBER DATA QUALITY AND INFORMATION TECHNOLOGY SYSTEM CONTROLS***

Improvement is needed in the quality of NLAD subscriber data and information technology system security controls. Successful implementation of information technology systems requires complete and accurate data, as well as effective system security. During our review of NLAD we noted the following:

- **Third-Party Identity Verification Check (TPIV).** Initial subscriber data from ETCs was migrated into NLAD without going through the TPIV process that assesses subscribers’ eligibility for Lifeline Program-supported services. Initially, USAC management informed us that as of June 21, 2016, all subscribers enrolled in NLAD had been successfully examined for existence and eligibility through the TPIV checks. We selected a sample of 45 subscribers from NLAD and examined evidence supporting USAC’s TPIV checks. From the sample, we noted that USAC did not have any record of a TPIV check being performed for two subscribers, and four subscribers that failed a TPIV check were not de-enrolled from NLAD. USAC management informed us that the two subscribers for which USAC did not have evidence of a TPIV check were part of the initial estimated three million subscribers that were "dumped" (uploaded) into NLAD without going through the TPIV process (see Finding 1). According to USAC, two of the four subscribers who failed the TPIV checks



[REDACTED]

were not de-enrolled because the subscribers successfully completed a dispute resolution process. However, USAC did not provide an explanation as to why the remaining two subscribers were not de-enrolled from NLAD. Those two subscribers may have continued to receive Lifeline Program-supported services, even though they failed the TPIV check.

- **Multiple Enrollment Attempts.** The audit identified weaknesses in USAC’s controls for monitoring and investigating inappropriate activity in NLAD. While USAC management maintained a log of NLAD activity, it did not have adequate procedures [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]	[REDACTED]

USAC management stated that NLAD does not limit ETCs to a specific number of enrollment attempts. According to USAC management, NLAD will not allow enrollment of ineligible

<sup>7</sup> [REDACTED]

[REDACTED]



consumers or duplicate subscribers, regardless of the number of enrollment attempts made by ETCs or their agents. Contrary to USAC management’s assertions, we identified both potentially ineligible consumers, and duplicate subscribers enrolled in NLAD.

USAC management informed us that a program integrity team has been established to conduct data analytic testing of NLAD to identify and resolve NLAD vulnerabilities and weaknesses. According to USAC management, when the National Lifeline Eligibility Verifier becomes operational, consumers will not be enrolled in NLAD until their eligibility is independently verified.

**CRITERIA:**

**2012 Lifeline Reform Order, paragraph 179.** Under provisions of the 2012 Lifeline Reform Order, the FCC's commissioners directed USAC to establish a database to both eliminate existing duplicative Lifeline Program support and prevent duplicative support in the future, and prevent waste in the Universal Service Fund.

**Federal Information Security Modernization Act of 2014.** The head of each agency shall be responsible for providing information security protections commensurate with the risk and magnitude of the harm resulting from unauthorized access, use, disclosure, disruption, modification, or destruction of: (i) information collected or maintained by or on behalf of the agency; and (ii) information systems used or operated by an agency or by a contractor of an agency or other organization on behalf of an agency.

**CAUSE:**

The FCC’s management directive and its instructions for migrating initial subscribers into NLAD are deficient because they did not prevent duplicate and ineligible subscriber data from ETCs from being migrated into NLAD.

USAC lacked effective monitoring procedures to mitigate the risks of enrolling ineligible consumers in NLAD, and had not established effective input controls to restrict the number of attempts that could be made to enroll a consumer into NLAD. Also, it appears that NLAD’s functionality was not effectively tested to ensure that its controls would, in fact, deter and detect ETCs’ staff and agents making multiple attempts to enroll ineligible consumers into NLAD.





**EFFECT:**

There is an increased risk of improper USF payments to ETCs for Lifeline-supported services provided to ineligible consumers. There is also an increased risk of consumers inappropriately receiving multiple Lifeline Program-supported services.

**RECOMMENDATIONS:**

We recommend that FCC management:

- 4.1 Complete TPIV checks for all subscribers that were migrated into NLAD; investigate and resolve any discrepancies identified; and de-enroll all subscribers who are determined to be ineligible for, or are receiving multiple Lifeline Program-supported services.
- 4.2 Enhance controls over NLAD by ensuring that risks are understood and effective controls are selected, implemented, and operating as intended to detect and mitigate those risks.
- 4.3 Strengthen NLAD’s configuration management controls to ensure that all known NLAD vulnerabilities, including weaknesses that allowed ETCs to make an unlimited or a high number of Lifeline Program enrollment attempts, are patched.
- 4.4 Develop and implement monetary-based sanctions to deter ETCs and agents from making inappropriate attempts to enroll ineligible consumers into NLAD.

**MANAGEMENT’S RESPONSE:**

The FCC and USAC management agreed with all the recommendations proposed by the auditor. Management’s response is provided, in full, in Appendix B of this report.

**AUDITOR’S RESPONSE:**

None.





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## APPENDIX A – OBJECTIVES, SCOPE, AND METHODOLOGY

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The objectives of the performance audit are to determine whether:

1. USAC fully implemented the NLAD database.
2. Lifeline subscribers found in NLAD qualify for Lifeline Program-supported services based on Lifeline Program’s eligibility criteria
3. USAC has built anti-fraud measures to protect the integrity and reduce the misuse of NLAD data.
4. NLAD reduced fraud, waste, and abuse within the Lifeline Program among the participating states.

We conducted the performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit covered NLAD from its full implementation on March 27, 2014, through June 21, 2016.

To achieve the audit objectives, we performed audit procedures as deemed appropriate, including:

- Gained an understanding of the history, structure, and implementation of NLAD.
- Obtained and reviewed:
  1. Title 47 of the Code of Federal Regulations, 47 C.F.R. §§ 54.400-54.422, 2012 Lifeline Reform Order and the 2016 Lifeline Modernization Order.
  2. NLAD implementation plan.
  3. USAC directive, policies, and procedures regarding the Lifeline Program.
  4. Government Accountability Office’s 2010 report on the Lifeline Program.<sup>8</sup>
  5. Applicable FCC regulations governing the USF and Lifeline Program.
- Identified and evaluated fraud risk factors.

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<sup>8</sup> GAO-11-11, TELECOMMUNICATIONS - Improved Management Can Enhance FCC Decision Making for the Universal Service Fund Low-Income Program, October 2010.





- Gained an understanding of NLAD business rules, processes, and controls.
- Obtained an understanding of the NLAD implementation plan.
- Tested and evaluated selected NLAD information technology system security controls.
- Analyzed NLAD subscriber data using Lifeline Program criteria (e.g., under-age subscribers, duplicate names and addresses, and multiple subscribers in a single household) relevant to the audit objectives.





Universal Service  
Administrative Co.

Via E-Mail

November 13, 2017

David Hunt  
Inspector General  
Federal Communications Commission  
445 12<sup>th</sup> Street, S.W.  
Washington, DC 20054

Dear Mr. Hunt:

Thank you for the opportunity to review and comment on the Office of the Inspector General’s (OIG) draft Report entitled *Performance Audit of Universal Service Administrative Company National Lifeline Accountability Database*.<sup>1</sup> The Universal Service Administrative Company (USAC) is committed to fulfilling its responsibilities pursuant to the Memorandum of Understanding (MOU) between the Federal Communications Commission (FCC or Commission) and USAC to administer the federal Lifeline program in an efficient and fiscally responsible manner.<sup>2</sup> The draft Report contains thoughtful analysis and recommendations concerning USAC’s obligations and responsibilities related to the Lifeline program.

In its *Draft Report*, the OIG determined that USAC has fully implemented the National Lifeline Accountability Database (NLAD) and that it is functioning as designed, consistent with the requirements of the *2012 Lifeline Reform Order*.<sup>3</sup> However, the OIG observed weaknesses in several areas. Specifically, OIG observed the following four deficiencies: (1) USAC has weak procedures for identifying, preventing, and resolving duplicate and ineligible Lifeline Program subscribers; (2) weaknesses in NLAD security controls and operations place the confidentiality and integrity of subscribers’ personally identifiable information (PII) at risk and expose the Universal Service Fund (USF) to increased risk of fraud, waste, and abuse; (3) USAC management lacks efficient and effective procedures to identify and prevent improper Lifeline program payments to eligible telecommunications carriers (ETCs); and (4) management did not adequately validate subscribers’ data before migrating the data into NLAD which contributed to duplicate or erroneous Lifeline program payments to ETCs. In addition, OIG states that the NLAD’s information technology system security controls need to be strengthened.

We appreciate OIG’s attention to the Lifeline program, the NLAD, and its recommendations. We address each of OIG’s recommendations below.

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<sup>1</sup> Office of Inspector General, Federal Communications Commission, *Performance Audit of Universal Service Administrative Company National Lifeline Accountability Database* (Oct. 2017) (*Draft Report*).

<sup>2</sup> See Memorandum of Understanding between Federal Communications Commission and the Universal Service Administrative Company (May 2016).

<sup>3</sup> See *Lifeline and Link Up Reform and Modernization, et al.*, Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Rcd 6656 (2012) (*2012 Lifeline Reform Order*).

- 1.1 *Coordinate with the USAC management and ETCs to determine whether the 247,771 subscribers who failed TPIV checks were eligible for Lifeline Program-supported services.*

USAC Response: USAC agrees with this recommendation and notes that in September 2016 it began working with the FCC to resolve the eligibility of subscribers that failed third-party identity verification (TPIV).

In coordination with the FCC's Wireline Competition Bureau (WCB or Bureau), USAC developed a comprehensive plan to review the subscriber records for the remaining 247,764 legacy subscribers<sup>4</sup> and de-enroll those subscribers whose identities could not be verified (hereinafter referred to as the Legacy Project). Beginning in September 2016, USAC sent letters to impacted carriers requesting that they reach out to the residual batch subscribers in order to verify the data or de-enroll the subscriber. USAC has conducted outreach with all of the Legacy Project carriers regarding their impacted subscribers, and directed the carriers to revise the FCC Form 497 filings consistent with the eligible subscriber count in the NLAD.

In addition, when states or territories that had formerly opted-out of NLAD choose to opt-in, USAC has an established process of subjecting subscribers in that state or territory to TPIV after they migrate into the NLAD. Puerto Rico subscribers were entered into NLAD in 2016, and by August 2017, USAC implemented a review process that resolved the [REDACTED] Puerto Rican subscribers that failed TPIV.<sup>5</sup> USAC is currently undergoing this process for Vermont subscribers, as Vermont opted back into the NLAD in early November 2017.

- 1.2 *Resolve NLAD limitations and configuration weaknesses, including [REDACTED] when invalid address formats are entered into NLAD (i.e., post office box or postal zip codes).*

USAC Response: USAC agrees with the recommendation that NLAD should prohibit the [REDACTED], and notes that it has already resolved the configuration issues flagged in the recommendations.

*Duplicate Validation:* [REDACTED]

<sup>4</sup> As of September 2016, through normal program attrition, the number of legacy subscribers had been reduced to 247,764.

<sup>5</sup> We previously reported [REDACTED]. This has been reduced due to the passage of time, particularly due to completing recertification efforts.

<sup>6</sup> Approximately 100 additional customers were removed from NLAD through normal program attrition.

*P.O. Boxes:* On December 2, 2015, USAC implemented logic into NLAD that displays an error message when entering a P.O. Box number in the primary address field and informs the carrier that a P.O. Box number cannot be entered as a primary address. As of March 2017, USAC required ETCs with customers that had P.O. Boxes as their primary address to revise the address information. This review was completed in August 2017.

*Invalid Zip Codes:* Regarding invalid zip codes, the majority of these instances occur where the Tribal or rural flag has been checked and subscribers have self-certified their address. In these cases, there is often no valid zip code for subscribers to use. On February 28, 2017, USAC implemented a system update in NLAD to prevent entry of subscribers with invalid zip codes. USAC reviewed the approximately 300 (0.003% of NLAD subscribers) invalid zip codes that were in NLAD. In April 2017, USAC contacted 43 ETCs that had invalid zip codes in NLAD and instructed them to enter valid zip codes in NLAD. This effort resulted in the de-enrollment of 23 records. USAC continues to monitor for invalid zip codes and will conduct outreach where appropriate.

We note that the report observed 815 invalid addresses in the Results of Audit Section. USAC requests the list of those addresses so that it may confirm that the corrective actions above are fully responsive.

- 1.3 *Develop and implement monitoring procedures to ensure ETCs comply with the Lifeline Program's one-per-household rule and prevent ineligible consumers from enrolling in NLAD and receiving Lifeline program-supported services. Also, on a random basis, request IEH Worksheets before completing consumer's enrollment in NLAD for households receiving multiple Lifeline Program benefits.*

USAC Response: USAC agrees with the recommendation that we should develop and implement monitoring procedures to ensure that ETCs comply with the Lifeline program's one-per-household rule. As part of USAC's overall efforts to ensure Lifeline program integrity, USAC is working with the FCC to develop more effective review procedures for Independent Economic Household (IEH) worksheets and other related Lifeline program documentation. Specifically, in USAC's August 8, 2017 response to the July 11, 2017 letter from Chairman Pai,

[REDACTED]

. In addition, in October 2017,

[REDACTED]. Furthermore, with the implementation of the National Lifeline Eligibility Verifier (National Verifier), the applicant will provide the IEH Worksheet directly to USAC where it will be reviewed by our staff.<sup>7</sup> As a result, the ETC will not be able to enroll a subscriber in NLAD that shares an address with an existing subscriber, unless a certified IEH Worksheet is on file with USAC. The transition of this review from ETCs to USAC is consistent with the National Verifier's principal goal of having eligibility verification conducted by the neutral administrator.

<sup>7</sup> The National Verifier is being implemented in states and U.S. territories in phases. For the first phase, the National Verifier will launch in six states in December 2017 and is expected to be fully operational in March 2018. By December 31, 2019, the National Verifier will be implemented in all states and U.S. territories.

- 1.4 *Develop and implement a risk-based methodology for examining subscriber data for ETCs who have an unusually high number of NLAD subscriber overrides or when significant BCAP audit deficiencies are noted.*

USAC Response: USAC agrees with the recommendation that we implement a risk-based methodology based on the subscriber behaviors identified. The Lifeline program will work with the Internal Audit Division (IAD) and the FCC to incorporate [REDACTED]. In addition, USAC [REDACTED].

- 1.5 *Implement geospatial technology in addition to current AMS to confirm subscriber addresses in remote locations, including rural areas and tribal lands.*

USAC Response: USAC agrees with this recommendation. In June 2017, USAC modified the NLAD to begin preventing improper Tribal enrollments where appropriate. USAC has implemented a process to geocode all addresses when they are entered into the NLAD. On October 26, 2017, the FCC circulated a draft Order, subject to Commission vote on November 16, 2017, that would direct USAC to use this geospatial technology along with specific maps for the purpose of validating whether a subscriber resides on Tribal lands that qualify for enhanced support.

- 1.6 *Implement a payment system that reimburses ETCs for Lifeline program-supported services to subscribers based on subscribers' enrollment data in NLAD.*

Please see response to Recommendation 3.1.

- 1.7 *Require that ETCs maintain and retain complete and accurate subscriber eligibility records, including records to support information input into NLAD.*

USAC Response: USAC agrees with this recommendation. Currently, under the FCC's rules, ETCs are required to maintain copies of all documentation reviewed to verify a subscriber's eligibility for the Lifeline program. If USAC determines that an ETC may not be using proper documentation to confirm eligibility, USAC may refer the matters to IAD, FCC OIG and FCC EB for further investigation. With the implementation of the National Verifier, all eligibility checks for new and re-certified Lifeline subscribers will be performed by USAC.

- 1.8 *Perform periodic reviews of NLAD to identify and investigate subscribers whose zip codes are in the Opt-Out States and determine whether they are eligible for Lifeline Program-supported services.*

USAC Response: USAC agrees with this recommendation. With the implementation of the National Verifier, all eligibility checks, including address verification, will be reviewed by USAC. As such, if a rural or Tribal address shows a zip code in an NLAD opt-out state, the

individual will not be able to enroll until their eligibility has been validated by the National Verifier.

- 2.1 *Develop and implement policies and procedures to improve the effectiveness of criminal and credit background checks for USAC contractor's staff who have access rights for NLAD.*

USAC Response: USAC agrees with this recommendation and notifies OIG that NLAD's security complies with the FCC and other federal requirements, including National Institute of Standards and Technology (NIST) Special Publications (SP) 800-122. USAC has adopted numerous security processes related to the NLAD. Specifically, USAC has conducted a federal information processing standards (FIPS) 199 Security Categorization Assessment, System Security Plan, Security Assessment Report, Privacy Threshold Analysis and Privacy Threshold Assessment of NLAD. Currently, in conjunction with implementing the National Verifier, USAC is in the process of accrediting the NLAD in accordance with NIST SP 800-37, Revision 1.

All USAC employees are subject to the following background checks upon hiring: SSN Trace and Address History Locator; County Criminal Checks; Multi-State and Multi-Jurisdictional Criminal Record Locator (National); Education Verification; and Employment Verification. In addition, as noted in USAC's October 7, 2016 response, USAC's contractor, ICF Inc. (ICF), whose employees have access to the NLAD, conducts background checks of all applicable employees. As USAC stated in that response, "[p]ursuant to the contract between USAC and ICF, all ICF personnel are screened and ICF conducts background checks of these individuals. In addition, ICF conducts training on confidentiality and handling of personally identifiable information (PII). Finally, ICF is contractually obligated to protect the confidentiality of the information pursuant to FCC and USAC standards, including applicable Office of Management and Budget and National Institute of Standards and Technology requirements." As such, USAC believes the existing background checks of its employees and contractors with NLAD access are sufficient.

- 2.2 *Require that USAC obtain written statements from state commissions and ETCs to confirm that their staff and agents who have NLAD access rights have successfully completed background investigations.*

USAC Response: USAC does not agree with this recommendation. USAC may not implement or impose any requirements beyond those set forth in the FCC's rules. Specifically, the rules state that "the Administrator [USAC] may not make policy, interpret unclear provision of the statute or rules, or interpret the intent of Congress."<sup>8</sup> Therefore, with regard to other NLAD users, such as state public utility commissions or carriers, USAC does not have authorization pursuant to an FCC order or rule to impose additional requirements, such as criminal or credit checks, upon those users.

- 2.3 *Develop and implement policies and procedures that require written authorization for all user who have NLAD access rights and privileges, including the ETCs' marketing agents.*

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<sup>8</sup> See 47 C.F.R. § 54.702(c).

USAC Response: USAC agrees with this recommendation with regard to USAC employees and contractors, but notes there are already established policies and procedures for the authorization of users at the state public utility commissions and for the authorization of carriers' agents, as described in further detail below.

*USAC Employees and Contractors:* USAC has determined that it needs to document its existing policies and procedures for providing NLAD access to employees and contractors. Currently, USAC utilizes its information technology (IT) ticketing system to authorize users. A user is only provided a username and password for NLAD once the ticket is approved by the Director of the Lifeline program. USAC has determined that these processes are not sufficiently documented. By the end of the year, the Lifeline program will document the policy and procedure currently in place.

*State Commissions:* As required by WCB, USAC developed a written process by which state commissions can request and obtain query-only access to NLAD subscribers in their state.

*Carriers:* A carrier's NLAD users are electronically authorized by its company officer and the authorization process for carriers is detailed in the NLAD User Guide. With nearly 6,000 NLAD carrier users, USAC does not believe it is practical to implement this recommendation, but asserts the process in place by USAC is sufficient to protect NLAD's data.

2.4 *Require that USAC obtain written statements from state commissioners, contractors, and ETCs confirming that their staff and agents who are granted access rights in NLAD have completed appropriate training to reduce the possibility that PII will be accessed, used, or disclosed inappropriately.*

USAC Response: USAC already conducts training of USAC employees and contractors, but again notes that it does not have authority to require state officials or carriers' staff and agents to implement training requirements before obtaining access to NLAD.

*USAC Employees and Contractors:* USAC routinely conducts mandatory training of all USAC employees on cybersecurity and related security and confidentiality issues. Specifically, every USAC employee must complete mandatory computer security training on an annual basis. In addition, USAC's personnel will undertake annual mandatory role-based advanced security training if they have access to certain systems or data such as NLAD or PII.

In addition to USAC employees who may access NLAD, USAC has also retained ICF Inc. for NLAD customer service and provided those contractors with query-only access to NLAD. As noted in response to Recommendation 2.1, ICF is contractually required to provide training related to PII to all relevant personnel.

*State Officials and Carriers' Staff and Agents:* USAC may not implement or impose any requirements on carriers beyond those set forth in the FCC's rules. Specifically, the rules state that "the Administrator [USAC] may not make policy, interpret unclear provision of the statute or rules, or interpret the intent of Congress."<sup>9</sup> Currently, the FCC rules require carriers to protect

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<sup>9</sup> See 47 C.F.R. § 54.702(c).

PII about all of their customers, as well as data about their Lifeline program subscribers.<sup>10</sup> However, the FCC has not specifically directed USAC to require carriers to conduct training before providing access to NLAD. Without supplemental orders or rules from the FCC, USAC may not unilaterally require carriers to undertake training prior to obtaining access to NLAD.

2.5 *Perform a monthly recertification and authorization for access and privileges on a prospective basis, to prevent unauthorized users from accessing subscribers PII.*

USAC Response: USAC agrees that monthly recertification of authorization of access and privileges are important, but notes that access authorization for USAC employees and contractors is already recertified on a prospective basis.

For state public utility commissions and staff, USAC developed a process, approved by WCB, by which NLAD access authorization is recertified on a quarterly basis. USAC believes that renewing the authorization on a quarterly basis balances the need to verify users without instituting burdensome processes on busy state commission staff. Again, as with USAC employees and contractors, the recertification is completed on a prospective, and not retroactive basis.

Since USAC currently conducts recertification of user access to NLAD on a prospective and not retroactive basis, USAC does not believe any further action needs to be taken.

3.1 *Modify NLAD's configuration to automatically generate the FCC Form 497 that serves as basis of Lifeline Program payments to the ETCs.*

USAC Response: USAC agrees with the recommendation that disbursements paid to Lifeline service providers be based on subscribers enrolled in NLAD. USAC is already preparing to implement this process, as directed by the FCC in the *2016 Lifeline Modernization Order*.<sup>11</sup> In that order, the FCC stated that “[t]he National Verifier will also function as the default basis for determining support payment to providers. Providers will be paid based upon the records of claimed subscribers in the [Lifeline Eligibility Database (LED)] absent other basis for suspending, delaying or declining to provide such support. This approach will serve to enforce Commission rules and significantly reduce duplicates, ineligible subscribers, and improper payments.”<sup>12</sup> In addition to the National Verifier’s system, USAC is implementing a process by which carriers’ payments will be based on their subscriber listings in the NLAD as of the monthly snapshot date. The new process, which eliminates the FCC Form 497, will be implemented in all states for the January 2018 data month and corresponding February 2018 disbursements.

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<sup>10</sup> See 47 U.S.C. § 222, 47 C.F.R. § 64.2009. See also *TerraCom, Inc. and YourTel America, Inc.*, Notice of Apparent Liability, 29 FCC Rcd 13325 (Oct. 24, 2014) (proposing a \$10 million forfeiture for failure to safeguard PII information of Lifeline subscribers).

<sup>11</sup> *Lifeline and Link Up Reform and Modernization, et al.*, WC Docket Nos. 11-42 *et al.*, Third Report and Order, Further Report and Order and Order on Reconsideration, 31 FCC Rcd 3962, 4014-15, para. 143 (2016) (*2016 Lifeline Modernization Order*).

<sup>12</sup> *Id.* at para. 143.

- 3.2 *Refine the current USAC reconciliations of the FCC Form 497 and NLAD to address differences in cutoff dates, and investigate and resolve material variances between the FCC Form 497 and NLAD subscriber data.*

USAC Response: USAC agrees with this recommendation and has already implemented processes to investigate and resolve variances between the FCC Form 497 and the number of NLAD subscribers.

Specifically, on September 1, 2017, USAC began rejecting any FCC Form 497 claiming support for a number of subscribers that exceeds those subscriber records enrolled in NLAD. This process prevents the issuance of Lifeline support reimbursements in excess of the number of subscribers in NLAD.

Also, starting with the February 2018 disbursement (based on the January 2018 data month), the Lifeline program disbursements will be based on the number of subscribers in the NLAD and the FCC Form 497 will be phased out. This will preclude ETCs from seeking reimbursement for more than their subscriber count in NLAD.

- 3.3 *Develop and implement additional analytical tools to detect fraud, waste, and abuse in the Lifeline Program. For example, implement procedures to investigate and resolve variances between the USAC quarterly projected Lifeline Program payments to ETCs and actual Lifeline Program payments. Also, investigate and reconcile variances in monthly Lifeline Program payments to a risk based sample of ETCs.*

USAC Response: We request that this recommendation be removed as a finding. Pursuant to Lifeline program rules, a carrier may only receive Lifeline support “based on the number of actual qualifying low-income consumers it serves directly as of the first day of the month.”<sup>13</sup> Currently, USAC employs a payment process that makes disbursements to carriers based on subscriber counts reported on the FCC Form 497 as of a specific date, the snapshot date – the first day of the following month. As noted above, USAC has revised its payment processes to reject any FCC Form 497 where a carrier seeks reimbursement for more than its subscriber count in NLAD.

Given that USAC disbursements are based on the number of subscribers carriers report on the FCC Form 497 as of the snapshot date, USAC believes the auditors may have misunderstood the use of projections. These projections are required by the FCC and necessary for USAC to fulfill its FCC required budgeting activities. USAC’s Finance Division meets with the FCC’s Chief Financial Officer on a monthly basis to review actual disbursements against previously projected disbursements. In addition to the submission of projections to the FCC, USAC posts detailed information on its website of actual disbursements on a monthly basis so that the public and other interested parties may see the amount of payments to specific carriers and locations.

Where a projection deviates significantly from actuals, it represents a change in the trend. When this occurs, USAC will review to see what has driven the change in the trend. USAC conducts analysis in conjunction with its monthly disbursement process to identify those ETCs that have a significant variance from prior months (the basis of our projection calculation) and the current

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<sup>13</sup> 47 C.F.R. § 54.407(a).

month. USAC contacts the carrier to obtain an explanation in order to ensure there are no mistakes and to develop a better understanding of what is happening in the industry. At times, USAC may re-evaluate its projection methodology based on this information.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- 4.1 *Complete TPIV checks for all subscribers that were migrated into NLAD; investigate and resolve any discrepancies identified; and de-enroll all subscribers who are determined to be ineligible for, or are receiving multiple Lifeline Program-supported services.*

Please see response to Recommendation 1.1.

- 4.2 *Enhance controls over NLAD by ensuring that risks are understood and effective controls are selected, implemented, and operating as intended.*

USAC Response: USAC agrees with this recommendation. While USAC has already implemented multiple processes and is consistently analyzing NLAD to improve its integrity and operations, the Lifeline team is continuously seeking new ways to enhance controls and operations.

Since the development and implementation of NLAD, the Lifeline staff has conducted data analysis of the subscriber information and conducted inquiries based on those reviews. For



In order to expand and improve these functions, USAC reorganized the Lifeline Division in 2016, including the creation of a program integrity team whose function is to analyze this type of data and implement improvements to the system.

Also in 2016, USAC reorganized the Office of General Counsel to include a Compliance and Risk (C&R) team. The C&R team is responsible for the internal controls function within USAC, the implementation of enterprise risk management, and policies and procedures. The C&R team works in collaboration with the IAD's Corporate Assurance team to conduct internal control testing and risk assessments. C&R maintains process narratives that detail key processes within the corporation, including the Lifeline program. The Lifeline process narrative specifically details the duplicate resolution processes for NLAD. C&R is working with the Lifeline team to develop comprehensive policies and procedures associated with NLAD by the end of the year.

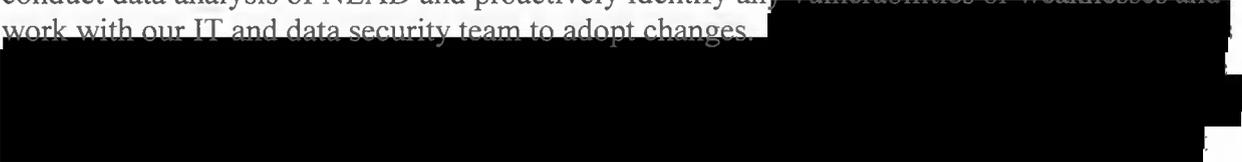
In USAC's August 8, 2017 response to the July 11, 2017 letter from Chairman Pai, USAC highlighted a number of areas where USAC is evaluating additional controls in NLAD, including tracking sales agent activity, monitoring the use of the IEH flag, and identifying deceased subscribers.

Finally, as the National Verifier is implemented, ETCs will no longer be able to enroll subscribers in Lifeline based on the ETC's own reviews validating a prospective subscriber's eligibility, duplicate status, identity, or address. All of these activities will be performed by USAC.

These combined efforts will enhance NLAD, ensuring that the system has effective controls and that they are routinely monitored. Furthermore, targeted enterprise risk management will ensure that USAC identifies and understands NLAD-related risks and vulnerabilities and employs practices to mitigate said risks.

4.3 *Strengthen NLAD's configuration management controls to ensure all known NLAD's vulnerabilities, including weaknesses that allow ETCs to make an unlimited or high number of Lifeline Program enrollment attempts, are patched.*

USAC Response: USAC agrees with this recommendation and notes that USAC has undertaken several steps to address known and potential vulnerabilities in the NLAD. First, as previously discussed, USAC has developed a program integrity team, which includes a forensic auditor, to conduct data analysis of NLAD and proactively identify any vulnerabilities or weaknesses and work with our IT and data security team to adopt changes.



[REDACTED] Finally, with the development and implementation of the National Verifier, a subscriber may not be enrolled in the NLAD system until the person has been verified as eligible in the National Verifier. The subscriber record will be compared against both systems, and therefore, the ability to make multiple enrollment attempts will be eliminated.

4.4 *Develop and implement monetary-based sanctions to deter ETCs and agents from repeatedly enrolling ineligible consumers into NLAD.*

USAC Response: USAC, in its role as administrator of the Lifeline program, is prohibited from making policy or advocating policy positions. However, USAC will work with the FCC to explore implementing monetary-based sanctions to deter ETCs and agents from repeatedly enrolling ineligible consumers into NLAD. USAC will provide the FCC with any relevant information regarding agents that repeatedly enroll ineligible subscribers into NLAD in order to assist with the review of this issue.

\* \* \*

Thank you for the opportunity to respond to the draft Report and please do not hesitate to contact us with any additional questions or concerns.

Sincerely,



Vickie S. Robinson  
Acting Chief Executive Officer and  
General Counsel



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## APPENDIX C – LIST OF ACRONYMS

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AMS	Address Matching System
BCAP	Beneficiary and Contributor Audit Program
ETC	Eligible Telecommunication Carriers
FCC	Federal Communications Commission
IEH	Independent Economic Household
NLAD	National Lifeline Accountability Database
PII	Personally Identifiable Information
PQA	Payment Quality Assurance
SAC	Study Area Code
TPIV	Third Party Identity Verification
USAC	Universal Service Administrative Company
USF	Universal Service Fund
USPS	United States Postal Service



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## APPENDIX D – GLOSSARY

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**Algorithm:** An algorithm is a self-contained sequence of actions that perform calculations, data processing and automated reasoning tasks.

**Beneficiary and Contributor Audit Program (BCAP):** BCAP measures rate of program compliance among universal service beneficiaries and contributors.

**Data migration:** Data migration was the process of ETCs transitioning from duplicate resolution, or data cleaning, to transferring data into NLAD ‘live’ production phase.

**Emancipated minor:** A legal process where a minor petitions the court for the ability to assume the rights, privileges, and duties of adulthood before actually reaching a legally fixed age, also referred to as the “age of majority”.

**Eligible Telecommunications Carrier (ETC):** A telecommunications carrier designated as an ETC under §214(e) of the Communications Act may receive universal service support so long as the carrier, throughout its service areas: (a) offers the services that are supported by federal universal service support mechanisms under §254(c) of the Act, either using its own facilities or a combination of its own facilities and resale of another carrier’s service (including services offered by another ETC); and (b) advertises the availability of and charges for such services using media of general distribution.

**Filter:** The term “filter” in the context of this report, refers to NLAD’s capability to identify and report invalid subscriber data.

**Geospatial:** Geospatial refers to data that has a geographic component in the form of coordinates, address, city or zip code.

**Independent Economic Household (IEH):** IEH refers to the adults that share in the income and expenses of the household and represents one economic unit. NLAD has an IEH indicator or flag that may allow a subscriber to receive Lifeline benefits if sharing a residence with another Lifeline benefits recipient.

**Input controls:** Input controls are a type of application control used to verify the integrity of data entered into a business application, whether the data is entered directly, remotely or through a Web-enabled application or interface.

**Marketing agent:** Marketing agents work on behalf of ETCs to process enrollments. Marketing agents may be third-party vendors or direct employees of ETCs.





**National Lifeline Eligibility Verifier:** The National Lifeline Eligibility Verifier will determine initial subscriber eligibility, conduct annual recertification, populate the Lifeline Eligibility Database, and calculate Lifeline support payments to ETCs.

**Payment system:** A payment system is any system used to settle financial transactions through the transfer of monetary value.

**Personally Identifiable Information (PII):** PII is information that can be used on its own or with other information to identify, contact, or locate a single person; such as name, social security number and date of birth.

**Payment Quality Assurance (PQA):** PQA provides the FCC information about improper payments to USF program beneficiaries, as required by Improper Payments Elimination and Recovery Improvement Act.

**Real-time:** Hardware and system software that must return a response in a specified time limit.

**Study Area Code (SAC):** The six-digit number used to identify a ETC service area.

**Subscriber:** The subscriber is the recipient of Lifeline Program benefits.

**System configuration:** System configuration refers to design and operational information that controls its performance, functional and physical attributes over the system's life cycle.

**Third Party Identity Verification (TPIV):** TPIV is a process used to ensure that consumer provides information that is associated with the identity of a real person.

**United States Postal Service (USPS) Address Matching System (AMS):** AMS is an application program interface with NLAD that allows ETCs to verify a subscriber's address using United States Postal Service (USPS) standardized format to search the nationwide database.

