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``THE BUDGET AND SPENDING OF THE FEDERAL COMMUNICATIONS COMMISSION

THURSDAY, FEBRUARY 16, 2012

House of Representatives,

Subcommittee on Communications and Technology

Committee on Energy and Commerce

Washington, D.C.

The Subcommittee met, pursuant to call, at 9:05 a.m., in Room 2123 of the Rayburn House Office Building, Hon. Greg Walden [Chairman of the Subcommittee] presiding.

Members present: Representatives Walden, Terry, Shimkus, Blackburn, Bilbray, Bass, Scalise, Latta, Upton (ex officio), Eshoo, Matsui, Barrow, Dingell, and Waxman (ex officio).

Staff present: Ray Baum, Senior Policy Advisor/Director

of Coalitions; Michael Beckerman, Deputy Staff Director; Nicholas Degani, FCC Detailee; Mike Gruber, Senior Policy Advisor; Debbee Keller, Press Secretary; Katie Novaria, Legislative Clerk; Roger Sherman, Democratic Chief Counsel; Hadass Kogan, Democratic Legal Fellow; and Kara Van Straben, Democratic Special Assistant.

Mr. {Walden.} Good morning, everyone, and welcome to today's hearing on what I am sure will be a riveting subject, especially if you are the chairman of the FCC: the budget and spending of the Federal Communications Commission. Despite the groans and droopy eyelids, some of us were up pretty late last night negotiating on the final spectrum fees and the big fees, and some of you were watching pretty intently, this is really important. This is important work that we are doing here today. We have an obligation as a Subcommittee to review the budgets and spending activities of every agency under our jurisdiction, whether they get that money from rate payers or users, or from the general taxpayers. And so I welcome the Chairman of the FCC, Mr. Genachowski, here today.

Given the state of our Nation's finances, I think it is time to call all hands on deck. As the Committee with jurisdiction over the Federal Communications Commission, it is our responsibility to review how the Federal Communications Commissions collects and spends federal funds. We are the Committee that created the FCC; although I don't think any of us was exact--well, maybe some were around when that happened. I don't think so, though. We are the Committee that created the FCC; we are the Committee that authorized it to collect regulatory fees; we are the

Committee that authorized spectrum auctions; and we are the Committee that enabled the creation of the Universal Service Fund. It is high time that we looked clearly and deeply at how this Commission spends money outside of the yearly appropriations process.

Three days ago, the Administration released its proposed budget for fiscal year 2013, and the FCC has in turn submitted its corresponding budget estimates. And I was pleased to see some of those numbers. Last year, the FCC was given a budget of $424.8 million, and the FCC has reported that it can maintain current services with a budget of $421.2 million. Although that is less than a 1 percent decrease, hey, it is a start, and I appreciate the work the FCC is doing to keep costs down.

But the FCC's proposal still leaves some open questions about its budget. What are the concrete results that taxpayers and regulatees can expect if Congress funds the FCC's requested new programs? If it consolidates its data centers, as proposed, what will that produce in terms of savings and will those savings be rolled into a lower base budget next year? And what is it doing to redirect its existing resources to address and resolve its backlogs and respond to changes in the marketplace?

Similarly, I want to explore a bit about the sources of

the FCC's funding. For example, it withholds up to $85 million each year to cover the costs of spectrum auctions. Is that sufficient? Does it actually need all of that money to conduct auctions? The rest of the FCC's own funding comes from regulatory fees, which are supposed to be assessed on the communications industry in proportion to the benefits that industry receives from the Commission. Given the swiftly converging communications marketplace, I am interested in how the Commission has reevaluated and reapportioned regulatory fees to ensure that all are paying their fair share.

Finally, I want to better understand how the FCC's watchdogs, the Inspector General and the Universal Service Administrative Company, are funded and what they are doing to combat waste, fraud, and abuse. Although the Universal Service Fund isn't paid for with taxpayer funds, it does come out of the pocketbooks of taxpayers in the form of consumers, and the American people deserve to know that that money is being well spent. What is USAC doing to streamline the universal service funding process so that funded companies can focus on serving their constituents and not on filling out paperwork? Conversely, what are USAC and the Inspector General doing to make sure that universal service funds are not wasted or fraudulently obtained? What is the bang for

the buck that we are getting from these watchdogs, and are additional resources needed to equip their oversight efforts?

I thank today's witnesses, Chairman Genachowski, Inspector General Hunt, and Mr. Barash, for attending today's hearing and helping us sort through these important budgetary issues. With your help, we will have a better handle on what Congress can do to reduce the costs of government and improve its efficiency and accountability.

[The prepared statement of Mr. Walden follows:]

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Mr. {Walden.} With that, I would welcome my colleague from California, Ms. Eshoo, and turn over the time to her for an opening statement.

Ms. {Eshoo.} Thank you, Mr. Chairman, and good morning to everyone. Welcome, Chairman Genachowski.

The last time this Committee authorized appropriations for the FCC was in 1990, before I came to Congress, and it was when my friend, Ed Markey, chaired what was then known as the Telecommunications and Finance Subcommittee. At that time, Congress authorized 109.83 and $119.83 million for fiscal years 1990 and 1991 for spending on what now seems like a technological--technology stone age. Today, we are examining the proposed fiscal year 2013 budget of $346.78 million for the Commission and its operations over a complex, advanced telecommunications sector.

The FCC is charged with a portfolio of technological challenges. These include making broadband available to all Americans, finding new sources of spectrum, upgrading and reforming universal service, fostering public safety interoperability, E-911 dependability and availability, and reforming the internal mechanisms of an agency that has been in continuous operation since 1934. These are not easy tasks, but they are essential to the economic well-being of

our country.

In reviewing the Commission's budget, I am sure we want to know, first and foremost, that the Commission has made very effort to streamline its budget while ensuring that it has the financial resources to perform its mission. In my view, we have to balance budget costs with smart investments. Our Nation's advanced communications are increasingly essential for new opportunities in almost every sector, including small businesses, education, health care, and the government. Money spent wisely at the Commission can give us a good bang for our buck. Enhancements in the Agency's cloud security and upgrades to the technical equipment used in the FCC's laboratory are two such examples.

I can see from the FCC's budget that the Commission has a 10-year low in federal employees, that the contracting staff has been cut nearly in half during the past year. I wish that were the case in the Intelligence community. The Commission is currently operating under a budget that is lower than it was in 2009, with a 2 percent increase over the previous year's spending level. This doesn't sound exactly like empire building to me.

Chairman Genachowski, I look forward to hearing about where the FCC stands today, and where you envision the agency to be in the future. I also look forward to hearing from the

FCC’s Inspector General Hunt. Inspector Generals are, in my book, a group of the most important people in the Federal Government. And Scott Barash--I hope I have pronounced your name correctly, the CEO of the Universal Service Administrative Company, USAC, on how their work and budgets compliment the mandate of the Communications Act.

So thank you, Mr. Chairman, for holding this very important hearing. It has been a long time since we have had one on this subject matter, and I will yield the balance of my time to Congresswoman Matsui.

[The prepared statement of Ms. Eshoo follows:]

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Ms. {Matsui.} Thank you, Ranking Member Eshoo, for yielding me time. I also thank Chairman Genachowski for being with us here today.

The FCC, under the Chairman's leadership, has been dealing with important issues, head on, many of which were difficult to address. The FCC's funding is essentially flat, and has had limited staff movement since 2008, yet the FCC has moved major policy reforms forward. Just over the past few months, for instance, some of the important reviews to the Universal Service Fund. While not perfect, the reforms that the FCC put forth to both the high cost fund and to low income fund are both attempts to bring the USF into the 21st century.

The FCC maintains its commitment to restrain any uncontrolled growth within the Universal Service Fund. I also support USF reforms aimed at addressing duplication and abuse within these programs. These reforms will likely require additional, yet effective, resources to properly certify households and enforce necessary requirements. The FCC's Lifeline proposal to develop a pilot program to extend lifeline for broadband will enable Americans living in both rural and urban areas to access affordable broadband services. After a viable pilot is conducted, it is my hope

that the program becomes permanent and available to millions of Americans.

Lastly, I look forward to your continued leadership, as Congress seems poised to provide the FCC authority to conduct incentive auctions and supporting the continued use of unlicensed spectrum for American innovation.

Thank you, Mr. Chairman, for holding today’s hearing, and I yield back the balance of my time.

[The prepared statement of Ms. Matsui follows:]

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Mr. {Walden.} The Chair recognizes--thank you. The Chair recognizes the gentleman from Nebraska.

Mr. {Terry.} Thank you, Mr. Chairman, and I thank our witness, Mr. Genachowski, for being here today, and we have had a good working relationship, and I really appreciate that.

The FCC, this last year, has tackled many of the toughest issues, particularly high cost USF, and while I think maybe the screws were ratcheted a little too tightly and we may have to review that order, that is not the subject of why we are here today. It is to review the budget, see where you see the FCC going forward. Like all of Congress and committees and our individual offices who have received 12 percent cuts and cutting staff and really focusing to be lean and financially lean. We are seeing where you see the FCC doing the same thing, and that is what we want to hear.

On issues of USF overall, while you were able to get some controls in place on the high cost, we see lack of controls and explosion in other areas of USF, particularly in Link Up and Lifeline, and want to see how you are going to control that, what your plans are in that area.

So I look forward to your testimony, and with that, I will yield to the gentlelady from Tennessee.

[The prepared statement of Mr. Terry follows:]

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Mrs. {Blackburn.} I thank the gentleman, and Mr. Chairman, we welcome you. We appreciate that you are here and you are going to give us the opportunity to talk with you about this budget. You know, at a time when the Defense Department is taking a $32 billion cut and looking at that right on the table, we are kind of curious as to why the FCC would say we need a 2 percent bump. And we want to make certain that we review that with you. As others have said, you know, part of this focus is on your agenda. Some of us think that you have supported or have moved toward an agenda that is restricting free markets and innovation, and that sometimes you are getting into issues that we don’t--places where we don’t think you should be going. And you do it because you say you can.

Section 706, your interpretation on that, the same language that you used for net neutrality regulations, data roaming mandates, things of that nature, you and I have discussed that and so maybe this is a time for us to see some regulatory humility and restraint and pull those issues, and say is that the proper use of your time?

And so I appreciate the Chairman of the Subcommittee allowing us to work with you and have the time to review this purpose that you have in your budget, and then the means that

you go through in using the dollars that are given to you.

I yield back.

[The prepared statement of Mrs. Blackburn follows:]

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Mr. {Walden.} Do any of our other members want to--Mr. Scalise, Mr. Latta, do you want to use any of the remaining time, or should we get on with the hearing? Okay.

Mr. Dingell, would you like to offer an opening statement?

Mr. {Dingell.} Mr. Chairman, defer just briefly if you please.

Mr. {Walden.} I don’t believe we have any other speakers on our side, or I would.

Mr. {Dingell.} Then at your suggestion, I will proceed.

I don’t have an opening statement, so I will defer on that.

Mr. {Walden.} All right, thank you.

Then I don’t see any other members who have not had a chance to say something, so Mr. Genachowski, the microphone is yours for a limited duration. We will take it back later, but we do appreciate your being here and we look forward to your testimony. Welcome.

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^STATEMENT OF THE HONORABLE JULIUS GENACHOWSKI, CHAIRMAN, FEDERAL COMMUNICATIONS COMMISSION

} Mr. {Genachowski.} Thank you, Chairman Walden and Ranking Member Eshoo, the other members who are here, for the opportunity to appear today. Before taking your questions, I would like to make two overarching points about the FCC's budget.

First, the FCC creates tremendous value for our economy and the American people. Indeed, few, if any, federal agencies deliver a high return on investment than the FCC. Spectrum auctions have raised more than $50 billion for the U.S. Treasury, and economists regard the economic value created by FCC auctions as being about 10 times that number, $500 billion. The U.S. has long led the world in developing policies to unleash spectrum for mobile investment and invasion. The FCC was the first agency to develop spectrum auctions, and also the first to free up so-called junk bands for unlicensed use, such as Bluetooth, cordless phones, and Wi-Fi. As Wi-Fi plays an increasingly important role in the spectrum ecosystem, the economic benefit created by unlicensed spectrum is estimated at up to $37 billion a year.

Because of the work of this Committee and the Senate

Commerce Committee, the voluntary incentive auctions proposed in the FCC's National Broadband Plan could become the next big value creating breakthrough in spectrum policy, leading to very substantial new auctions of spectrum and freeing up unlicensed spectrum for white spaces and other higher-powered unlicensed use holds tremendous promise to become another value-creating breakthrough on the order of magnitude of Wi-Fi.

Spectrum policy is just part of the FCC's overall efforts to create value by promoting private investment, innovation, competition, and job creation. Through our Broadband Acceleration Initiative, the FCC has removed barriers to broadband deployment and accelerated broadband buildout. For example, we have adopted orders to ease access to utility poles and established a shot clock to speed cell tower and antenna siting.

As the FCC does its work under the Communications Act, more than 95 percent of our decisions have been bipartisan and our policies are working. Investment, job creation, and innovation are up across the information and communications technology sector, the broadband economy. These metrics are up both when looking at broadband absent services and when looking at broadband providers and networks. In 2011, the U.S. tech sector grew three times faster than the overall

economy. Broadband is helping create new jobs all across the country, and not just for engineers, but also for construction workers, salespeople, and small business owners who are increasingly using the internet to increase sales and lower costs. The apps economy, which barely existed in 2009, has already created almost 500,000 new jobs, according to expert estimates.

The U.S. has regained global leadership in mobile innovation. We are also now ahead of the world in deploying 4G mobile broadband at scale. These next generation 4G networks are projected to add $151 billion in GDP growth over the next 4 years, creating a project 770,000 new American jobs.

Broadband providers invested tens of billions of dollars in wired and wireless networks in the first three quarters of 2011, a double digit increase over the same period in 2010. Internet startups attracted 7 billion in venture capital in 2011, almost double 2009 levels, and the most investment since 2001.

The value contributions I have identified would be enhanced even further by closing broadband gaps, and so the agency is focused on bringing universal service into the broadband era. Today, approximately 18 million rural Americans live in areas with no broadband infrastructure.

Our plan adopted in October to modernize the Universal Service Fund will spur wired and wireless broadband buildout to hundreds of thousands of rural homes in the near term, and put us on a path to universal broadband by the end of the decade without increasing the size of the fund. The major overhaul of USF and intercarrier compensation was done on a unanimous basis at the Commission, and with bipartisan support by this Committee, and I thank you for that.

In addition to the broadband deployment gap, we are making strides on the broadband adoption gap. Nearly a third of Americans, 100 million people, haven’t adopted broadband. Our Connect to Compete Initiative enlists government, nonprofit, and private sector leaders to tackle the barriers to adoption, one of several public private partnerships driven by the Commission to promote solutions to major challenges.

We have adopted smart reforms to the successful E-Rate program, helping schools and libraries, and working with this Committee, the FCC is also implementing the recently enacted legislation, such as the Communications and Video Accessibility Act, and the Local Community Radio Act.

The agency is working to harness the power of communications to make our public safer. We granted waivers authorizing more than 20 jurisdictions to begin development

of an interoperable public safety broadband network, and we support bipartisan congressional efforts to fund such a network. We are working with multiple stakeholders to advance next generation 911, an issue that Ranking Member Eshoo and Congressman Shimkus have championed, along with others on the Committee. And we accelerated the launch of PLAN, a reverse 911 alert system that allows local, State, and federal authorities to send targeted alerts to mobile devices during an emergency.

The FCC also provides value by protecting and empowering consumers, as we have done with our bill shock, text alert initiative, and our small business cyber planner, as well as our enforcement activities.

The FCC provides value to our economy and the American people in many ways. That is point one. Point two is that the FCC is committed to smart, responsible government, and we have taken significant steps to modernize our programs and ensure that they are efficient and fiscally responsible, saving billions of dollars.

Our work to modernize USF and Intercarrier Compensation will not only spur broadband buildout, it also eliminates billions of dollars in hidden subsidies on consumers' phone bills. Our work to reform the Lifeline program is expected to save up to $2 billion over the next 3 years, and includes

an elimination of link up. Even before the order was adopted, we made changes that eliminated 270,000 duplicate subscriptions, saving $33 million in 2011. We have reformed our Video Relay Service Program, which provides vital communications for people who are deaf or hard of hearing, saving about $250 million without reducing availability of service.

In addition to our programmatic changes, we have also reviewed the agency's rules and processes, asking tough questions to make sure the agency is operating efficiently and effectively. In connection with this review, we have already eliminated more than 200 outdated rules and five unnecessary data collections. We have identified two dozen more data collections for elimination, including seven voted on at yesterday's Commission meeting. We have significantly reduced backlogs, including, for example, a 52 percent reduction in satellite licensing applications, and increased the inclusion of proposed rules in NPRMs from 38 percent to 86 percent. We have made it a priority to move information and processes online, for example, revising our rules to the filing of all tariffs electronically, decreasing burdens on carriers and the Commission. We estimate that internal reforms like consolidated IT maintenance and new financial system have already saved the agency $8 million. And we have

been able to do everything I have listed and more with the lowest number of full-time employees in 10 years.

Harnessing 21st century communications technology to deliver value to the American people, and doing so in a smart and fiscally responsible way, that is the FCC's record the past 3 years and that is our plan for the year and years ahead as reflected in our fiscal year 2013 requested budget.

Because we are funded by fees, the budget is deficit neutral. Though of course, we are sensitive to those regulatory fees. The budget reflects a 2 percent increase in spending. It is flat on dollars adjusting for inflation. We plan to be flat on the number of full-time employees. The budget includes a few new initiatives, primarily technology investment designed to save money, and public safety investments aimed at saving lives. The budget includes proposals to reauthorize the Commission's auction authority, which expires in September 2012, and to provide incentive auction authority, which I hope Congress will grant, in a way that enables the FCC to maximize the amount and benefit of recovered spectrum for our economy. The budget lays out strategic goals for the FCC, such as promoting innovation, investment, and America's global competitiveness. This will keep the agency focused on policies that will yield a substantial return on investment for our economy and the

American people.

I look forward to continuing to work with this Committee. We have incorporated many of your suggestions over the last 3 years. I look forward to continuing constructive engagement with each of you.

[The prepared statement of Mr. Genachowski follows:]

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Mr. {Walden.} Chairman, thank you. I can’t help myself. We had been here until one o’clock in the morning negotiating some of these things. Part of your testimony is so like 10:38 p.m., you know, others like--thank you for being here.

I want to ask you about the Universal Service Fund. Obviously there is a lot of discussion about that and Jerry and others have spent a lot of their life trying to help improve this system, and I am sure you will hear more from them. But the contribution factor at 17.9 percent this quarter projected to stay above 17 percent so it is coming right off the phone bill. When will the Commission take a hard look at contributions reform?

Mr. {Genachowski.} We will be doing that in the near future. Our strategy was to first tackle the spend in the programs, get those under control, direct them to where they should be directed. Having done that, the next step is to look at the contribution base and get that in a healthy place. We thought it made sense to sequence them, and the next step in sequence is contributions.

Mr. {Walden.} So are you thinking 6 months, 3 months, next week, a year?

Mr. {Genachowski.} I would say starting the process

certainly within the next 6 months.

Mr. {Walden.} Okay. I noticed in the Commission's budget there is a proposal for $1.1 million for eight new vehicles along with equipment that can be used to detect sources of radio interference. Can you explain to us how these eight vehicles end up costing $1.1 million? I know that is pretty specific and granular, but it does stand out.

Mr. {Genachowski.} These are vehicles that are used to detect and prevent interference across the spectrum, so to speak, from aviation interference to pirate radio. It does require sophisticated equipment. They are also used in times of disaster to help with early assessment and recovery efforts. We certainly insisted that the professional staff at the agency responsible for this keep those numbers as low as possible. In many cases, they are replacing equipment that objectively should have been replaced 10 years ago.

Mr. {Walden.} All right. We may follow up a little bit on that.

The Commission's budget proposal is half a million dollars for a study on the link between the identity of broadcast--a broadcast station owner and that station's ``service, including important content to all Americans.'' Do you know what is about and what the link is? Is that to something regarding ongoing media ownership?

Mr. {Genachowski.} There are several statutory provisions that in order for us to implement we need data, and this is agreed upon by everyone at the Commission. There is Section 257, which requires us to understand what is going on with small businesses, there are the ownership provisions and there are the EEO provisions. We are also under a directive from the Third Circuit to improve our data in this area. As you know, we are starting small with an initial essentially study of studies so that we can make sure that what we do in this area, what we need to do under the Communications Act is done as efficiently as possible.

Mr. {Walden.} It just seems like $500,000 is a lot of money for a study of studies.

Mr. {Genachowski.} No, well the study of studies will cost much less than that, under 100,000. The 500,000 is a budget amount for what would be the next step. I will tell you that the prior studies of the sort have cost closer to a million dollars, and in the spirit of fiscal responsibility, what we have said to our team at the agency is we are just going to have to figure out a way to do it for a lot less.

Mr. {Walden.} So this is a link between media ownership and content, or what? What are you really looking at?

Mr. {Genachowski.} The media ownership provisions in the statute are one area where the studies will help us

exercise our responsibilities. They are not the only area, small businesses and EEO. So this will--it is part of what we need to do to have the data that we need to be able to take whatever steps are appropriate.

Mr. {Walden.} The Commission opened a docket to consider reclassifying broadband as a Title II service, as you all know, back in ’09. That docket remains open today. How many employees are currently working on that docket and why is it still open?

Mr. {Genachowski.} I am not aware that any employees are working on the docket now.

Mr. {Walden.} Well, why not close it?

Mr. {Genachowski.} I am sorry?

Mr. {Walden.} Why not close it, then, if nobody is working on it? It has been open since ’09.

Mr. {Genachowski.} It is something that we will consider. It is not--we have been focused on--

Mr. {Walden.} Well, you are here. We could consider it now, you know.

Mr. {Genachowski.} It is something I will discuss with our staff and colleagues.

Mr. {Walden.} All right. Finally on my questions, you note in your written statement the Commission is allowed 20 jurisdictions to start deploying interoperable communications

in the 700 meg public safety spectrum. My understanding is that 30 more applications are waiting in the wings, but that the review process has stalled. If States are ready to go, including--we have heard from Oklahoma--and already have the funding to deploy their own networks at their own costs, why is the Commission holding them back?

Mr. {Genachowski.} Well, I will say that assuming Congress in the next--in the near term adopts the legislation before including funding in the Public Safety Broadband Network, that will make it very easy for us to complete this very quickly. We have had a certain amount of humility and caution here because we don’t want to start things going that then will be different from what Congress instructs us to do. So I think we are at a point where I understand the frustration, and at some point we have to go ahead and do the waivers, even if Congress doesn’t act. But I am hoping that Congress is on a path to make this easy. Certainly if Congress does pass the legislation we will move forward very, very quickly because it is very important.

Mr. {Walden.} All right, thank you. My time is expired. I turn to the gentlelady from California.

Ms. {Eshoo.} Thank you, Mr. Chairman.

I think that you raised the point about the $85 million in auction proceeds in your--I think you did in your opening

statement, but I would like Chairman Genachowski to elaborate on how the FCC uses the 85 million.

Mr. {Genachowski.} Sure. In many different ways, you know. Auction is a constant activity at the FCC, preparing for auctions, licensing post auction, and we conduct many more auctions than people realize, because many auctions are not high profile auctions. We conducted--

Ms. {Eshoo.} How long do they usually take? What is the average length of time for an auction?

Mr. {Genachowski.} Weeks would be the average, but the work that goes into all the auctions and the work that comes in implementing auctions is really very significant. The--we receive as an agency internally requests each year to spend to what would amount to more than the $85 million figure, because we do think that there is more and more work we could do that would generate a positive return on investment, but we work within the $85 million cap and there are things that we say no to because they hit the cap.

Ms. {Eshoo.} Under the 2013 budget request submitted to Congress earlier this week, the agency requested $2.5 million to consolidate agency data centers. It is not a huge amount of money, but do you have an estimate on the agency’s long-term savings from the decision?

Mr. {Genachowski.} Yes, for the various data

initiatives that we have included, we have run ROI analyses for the data center consolidation. Our analysis shows that we would save a little over a million dollars a year, about $1.1 million a year once it is completed. So it is a $2.5 million investment to save a million a year on an ongoing basis, so it should pay for itself in 2 years. We expect that to be complete in the next 12 to 18 months.

Similarly on the actual cloud updates, we expect that to yield a savings of about almost $1.5 million a year, so again, it pays for itself in the first year or two, and then on an ongoing basis we expect it to save 1.4 over time.

And these are both the kinds of things that private companies are doing and they know that they need to do to save money.

Ms. {Eshoo.} Right. It is my understanding that there are increasing bottlenecks in the FCC's laboratory in terms of reviewing new advanced hand-held devices, like smartphones and tablets that use LTE technology. What is the FCC doing to expedite the device approval process, and does this require additional engineering staff?

Mr. {Genachowski.} Well this is something that I am concerned about, and your question is right on target. We have had an unbelievable proliferation of devices in the last few years, and each device has more antennas inside of it

than it used to. And so the work of--to certify devices has gotten a lot greater, and that process is under pressure. We launched an internal review of this a few months ago. This is handled out of our Office of Engineering and Technology, and they are working on recommendations on how we can meet this new world where the volume of devices that have to be certified is going way up.

Ms. {Eshoo.} Do you have any outstanding issues relative to the IG that have not yet been fully implemented by the FCC?

Mr. {Genachowski.} Not that I am aware of. We take the role of the IG very seriously. He has independence and a track record of savings prosecutions over the last few years has been very significant.

Ms. {Eshoo.} Thank you. I will yield back.

Mr. {Walden.} Gentlelady yields back her time. Chairman recognizes the Vice Chairman of the Subcommittee, Mr. Terry.

Mr. {Terry.} Thank you, Mr. Walden.

I want to thank you again for coming to Nebraska and coming to a couple of our great cities like Liberty and Diller, towns of what, 50 people or something like that, and 290, so it was a great event and hopefully everyone learned a little bit.

Speaking of high cost fund, though, as Greg mentioned--asked a question about the contribution side and the bill that Rick Boucher and I did paired the two, and on the contribution side there was always a thought that you needed legislative support for that area. Do you feel that you need legislative support to be able to change or adopt different ways to bring new revenue in, or not new revenue, but make everyone that does primarily voice pay into the Universal Service Fund as it was intended? Do you need us?

Mr. {Genachowski.} I am not sure yet. Our general counsel's office has looked at this. This will be something that we look at in the proceeding. Certainly we come to you and ask for help if we need it, and we will work together to make sure that we understand the authority that is there.

Mr. {Terry.} All right. Well, I appreciate the work that has been done so far, but keep us up to date.

The second part is on the other part as I mentioned in my opening statement of Link Up and Lifeline. You mentioned that Link Up is going to be phased out. I would like you to comment further on that, time, are you just going to merge the two into Lifeline? And then how do we control the exploding costs in Lifeline, specifically, is there a plan set out and--well, go ahead and answer that.

Mr. {Genachowski.} So we took this reform very

seriously, and we reviewed all aspects of the program. We eliminated Link Up completely. It wasn't eliminated over here and put in over there because we thought that the mechanism of providing, I believe it was a $30 bounty for every Lifeline customer that was signed up, created incentives for waste, fraud, and abuse, and as the market changes it simply couldn't be justified. And there were some people who came to us and said why don't you just reduce the amount? We looked at it and said we can't justify that part of the program at all and we eliminated it, and I think--as a sign of our seriousness. With respect to the rest of the program, we tackled in a systematic way the problems that we saw. There were problems with duplicates, people receiving Lifeline support twice when they shouldn't. We have taken steps on that, including moving toward a database that will make it much, much easier for States and companies to enforce or to prevent duplicates. We tackled--we identified and tackled other unscrupulous practices.

It is an important program. We have a history in this country of making sure that the lowest income among us have access to basic communication services, so we wanted to make sure that the program is on a strong foundation, and we were highly motivated to make sure that anything in the program we couldn't defend, we got rid of.

Mr. {Terry.} I appreciate that.

You mentioned 2 billion over 3 years. I want you to get into that a little more granular. Where is that 2 billion coming from?

Mr. {Genachowski.} It is the status quo increases that we inherited if we had done nothing. We are on a curve. I think both Chairman Walden and you mentioned it. That curve was going up at a rate that was very hard to defend. Now in a bad economy, it is not surprising that this particular program goes up because low income people are eligible for it. In a bad economy there are more people who qualify, so it is not surprising that this program would go up in bad times, and it should go down in good times. Also, communications services are becoming more essential. But it was going up too fast and our goal was to remove from the, you know, the up all of the wasteful, inefficient, unjustified spending. And so what we believe we did is turn this line into this line, and over the next 2 or 3 years, that is a $2 billion difference in the program.

Mr. {Terry.} My next question will take more than 25 seconds to answer, so I will just submit it in writing.

Mr. {Genachowski.} Thank you, and thank you for inviting me to Nebraska. That trip was very valuable and informed in a positive way our reform only the things that

you liked. The other things we got from other States.

Mr. {Walden.} Wow, and you said that under oath, right?

The Chair now recognizes the gentleman from California, Mr. Waxman.

Mr. {Waxman.} Thank you, Mr. Chairman.

Since the 20 years that Congress last reauthorized the FCC, this Subcommittee has held oversight hearings to look at your budget and to also review how the agency is functioning. I want to say that by all accounts, the FCC under your leadership is well-managed and it operates in a transparent and open manner. Since you became chairman, the agency has reformed the way dockets are managed. The number of notices in proposed rulemaking that contain the full text of rules has increased from 38 percent to 85 percent. The amount of time between a vote on a Commission decision and the release of the full text of the decision has decreased from 14 calendar days to 3 calendar days, with a majority of actions released in 1 calendar day. The ex parte rules underwent significant reform. The FCC has closed 999 dormant dockets, which represents approximately 1/3 of the agency’s open proceedings, while reducing the number of pending broadcast applications by 30 percent and the number of pending satellite applications by 89 percent. In addition, the FCC has removed or streamlined unnecessary requirements. One

hundred and ninety obsolete regulations have been removed since November 2011, and the Commission is working to eliminate unnecessary data collections and exempting small businesses from certain reporting requirements.

The FCC has also made great efforts under your leadership to work on a bipartisan basis. Ninety-five percent of agency actions over the past 2 years have been bipartisan. And finally, staff morale has improved so much that the FCC was named the most improved federal agency. This was accomplished despite a flat budget and flat staffing levels.

On the issues, FCC has been greatly ambitious. The Commission has tackled difficult topics from universal service and intercarrier compensation reform, open engineer protections, and numerous measures to promote broadband deployment. These efforts require a tremendous amount of time and dedication from the FCC staff, as well as agency resources. Based on my experiences over the past few years working closely with the agency, I am convinced that the FCC employees a disproportionate number of the most talented, experienced, and dedicated public servants in government.

Now while you deserve a great deal of credit for all these accomplishments, I am confident that these accomplishments would not happen unless you realize you have

to come before this Subcommittee and answer our questions. But I do want to pay tribute to the work that you have been doing.

Since this is an opportunity to ask you a question and the hearing is on the FCC's budget, you are going to be overseeing one of the most innovating and complex spectrum auctions ever. I want to know from you what sense of expertise is going to be required to administer this process, and could you provide us with a sense of what skills the Commission's staff requires to do the work that they do overseeing the communications marketplace? You have talented people with a great deal of expertise. You have got to be able to pay them adequately, give them a sense of job satisfaction, and as we look at the budget for the FCC, we have to recognize your needs. So if you could give us some sense of this?

Mr. {Genachowski.} Well first of all, thank you for those very generous comments, and I particularly appreciate the comments about the staff. It is a great staff. They work very hard every day to deliver value to the American public. And as you know, in addition to honoring the staff, the career staff that was there, we focused on bringing in new people representing the full range of skills that the agency needs. And so lawyers obviously, but not just

lawyers. We need very strong economists. We need very strong engineers. We need very strong business analysts. We need to understand the landscape in a very sophisticated way. I do spend a lot of my time on talent. I think we have recruited terrific people to the agency. It has to be an ongoing job, and you are right that implementing the auctions will require the very best of the agency, and may well require us to add to our expert resources to make sure that we get it right.

Mr. {Waxman.} Well, I think the FCC is government at its best, and I commend you and your staff for doing the excellent work that you have been doing. That is why we are going to give you more work to do.

Mr. {Genachowski.} Thank you.

Mr. {Waxman.} Thank you very much, Mr. Chairman.

Mr. {Walden.} Thank the gentleman.

The Chair recognizes the gentlelady from Tennessee, Ms. Blackburn.

Mrs. {Blackburn.} Thank you, Mr. Chairman.

Chairman Genachowski, as we are talking about budget and I was getting ready for the hearing, I saw some data from the IRS that suggests that there is a growing trend with regard to FCC employees failing to pay their federal taxes. Were you aware of this?

Mr. {Genachowski.} No.

Mrs. {Blackburn.} You were not, okay. Well it seems that with the majority of your employees making over $125,000 a year, and with there being a growing percentage of them not paying their taxes, I would think that since the President has as one of his goals for people to pay their fair share that we would appreciate if this is an issue that could be addressed. I would like to have your commitment and maybe something in writing that you are going to address this and that we are going to get in behind it and get it cleaned up.

Mr. {Genachowski.} I haven’t heard that. We will certainly look into it.

Mrs. {Blackburn.} And will you respond back to me on that?

Mr. {Genachowski.} Yes.

Mrs. {Blackburn.} Thank you. I appreciate that.

Looking at regulations that we have got out there, did--have you paid attention to the Canadian radio and TV service, and they have just gone through a process where they are eliminating and streamlining 60 percent of their rules. And I think that that is certainly something that--it caught my eye. I hope it is catching the eye of you and your employees. Now, you are going to ask for 140 new employees, is that correct?

Mr. {Genachowski.} That is not correct. I would be happy to explain.

Mrs. {Blackburn.} Okay, what is the number of new employees that you are requesting?

Mr. {Genachowski.} The number of employees that we expect to have next year based on the appropriations we are requesting is flat to this year. There is a higher number that appears that is essentially a ceiling for flexibility, but our appropriations are targeted and in fact, the budget says that we are planning on being flat for the next year.

Mrs. {Blackburn.} Okay, so you have got the flexibility in case you need to add people?

Mr. {Genachowski.} In the circumstances where that could theoretically arise, because it doesn’t change our appropriations. If, for example, we determine that we could save money by in sourcing contractors--we have reduced contractors by about 50 percent over the last year, so conceivably we might say we might save money if we took contractors, made them FTEs, so under our budget we could do that because--

Mrs. {Blackburn.} Okay, well let me ask you this. In your budget, you had stated a top priority was to, and I am quoting, ``conduct a review of rules and regulations within each FCC bureau and office with the goal of eliminating or

revising requirements that are outdated.'' With what the Canadian radio and television agency has done, I hope that that is going to be a top priority.

My question and my curiosity was if you were going to bring in people to make that stated objective a deliverable and an outcome that a year from now, we can say the FCC has indeed done this? So my question is what is the degree of priority that you are going to--budgets are about priorities, and we would like to see removing outdated rules and regulations a priority.

Mr. {Genachowski.} So if I may, this has been a priority from day 1. One of the first hires that I made was a special counsel for government reform and she was tasked with exactly this. We have someone again who is in that role now who is accountable for ongoing review, ongoing elimination of rules. I would be happy to look at the Canada situation. I know that other agencies around the world have looked at our reforms. But I agree with you that one, it is a priority, and two, that if--that one has to organize for it and set goals in order to achieve them.

Mrs. {Blackburn.} Well, and there is a lot of outdated things we would like to get off the books.

One more question. I understand that Section 9 of the Communications Act requires regulatory fees to be apportioned

among industries based on full-time equivalent employees. Here is what I don’t understand. Your budget proposal suggests that the wireless bureau and the media bureau each have more employees than the wire line bureau, and wire line providers pay more in regulatory fees than their competitors, so how do you reconcile this with the Act?

Mr. {Genachowski.} I would like to get back to you on the specifics. In general, I do think it is possible that a--I don’t know if rebalancing is the right word, but looking at the way we do the fees to make sure that they are fair as the markets change is an appropriate goal and that is something that we are looking at.

Mrs. {Blackburn.} Okay. I think that, as you know, one of the things we would love to see is for the reach and the scope to come down, your costs to come down, see you go through the type of reduction we have done in Congress. We have cut our budget 11 percent. We would like for you to do the same.

I yield back.

Mr. {Walden.} Chair recognizes the gentleman from Michigan, Mr. Dingell.

Mr. {Dingell.} Mr. Chairman, I thank you.

I have some questions, Mr. Chairman Genachowski. I ask that the questions be responded to by yes or no.

I note your fiscal year 2013 budget requests cuts in the wire line bureau's funding by 9 percent, while increasing the budget of your office and that of the other commissioners. Now am I correct in assuming that the wire line bureau is heavily involved in the implementation of the Universal Service and Intercarrier Compensation Order? Yes or no?

Mr. {Genachowski.} Yes.

Mr. {Dingell.} Mr. Chairman, does the 9 percent increase in the wire line budget mean that the Commission will complete by the end of this fiscal year all work associated with the USF and ICC Order, as well as the necessary follow on reforms of the USF contribution system? Yes or no?

Mr. {Genachowski.} Yes, that is our goal, I believe.

Mr. {Dingell.} I am sorry?

Mr. {Genachowski.} I believe that is our goal. We have a time table for the implementation.

Mr. {Dingell.} So it is a yes, or hopefully yes?

Mr. {Genachowski.} Hopefully yes.

Mr. {Dingell.} Hopefully. Is that--is the cut that you are making in the budget there going to expedite or retard the completion of that responsibility?

Mr. {Genachowski.} We sought to--neither. We sought to make sure that we have the resources we need to move

efficiently.

Mr. {Dingell.} Now, Mr. Chairman, I would like to discuss Executive Order 13589 issued by President Obama November 15, 2011. The order seeks to promote fiscal responsibility amongst the sundry executive agencies. Now this strikes me as imminently sensible; however, Section 8(c) of the order requests independent agencies to adhere to it. Does the Commission intend to adhere to Executive Order 13589? Yes or no?

Mr. {Genachowski.} Yes, and we have announced that previously.

Mr. {Dingell.} Now, Mr. Chairman, Section 2 of the order instructs agencies to reduce their travel, technology printing, and certain other costs by 20 percent, compared to 2010, 11. I commend you for reducing yours and the other Commissioners travel budget by 10.6 percent. Will similar cuts agency-wise help achieve the order’s 20 percent reduction goal? Yes or no?

Mr. {Genachowski.} I am not sure I completely understand the question, but we are focused on operating efficiently, meeting our obligations with respect to international treaties like the WARC, but reducing travel budget is something that we are certainly looking at.

Mr. {Dingell.} I will ask, Mr. Chairman, that you

provide documentation for the record to confirm this. You will have a chance to look at it and give it perhaps to your purposes a more satisfactory response.

Mr. {Genachowski.} Thank you.

Mr. {Dingell.} Now, Mr. Chairman, Section 3 of the order encourages agencies to devise strategic alternatives to government travel, including local technological alternatives such as teleconferencing and video conferencing. Has the Commission begun any analysis on this particular matter and compliance here?

Mr. {Genachowski.} Yes, we have begun to implement that and we would like to implement--we would like to take advantage of it more. It will require resources to be able to conduct effective teleconferences.

Mr. {Dingell.} Thank you, Mr. Chairman. Would you please provide a copy of the preliminary results for the record?

Mr. Chairman, I note Section 3 of the order directs agencies to designate a senior level official to be responsible for the development and implementing policies and controls related to travel costs. Has the Commission complied with that mandate?

Mr. {Genachowski.} I believe we have.

Mr. {Dingell.} Would you tell us the name of the senior

level official, if you could insert that for the record who will have that responsibility?

Mr. Chairman, if so, which official has been--well, I have asked that question already. Now on a different topic, Mr. Chairman, are you familiar with the voluntary incentive auction legislation this Committee approved last year? And I assume you are, are you not?

Mr. {Genachowski.} Yes.

Mr. {Dingell.} Mr. Chairman, do you recognize the strong possibility of interference in border areas of this country with Canadian and Mexican television stations which might be associated with repacking the markets along border areas? Yes or no?

Mr. {Genachowski.} We recognize that that is an issue.

Mr. {Dingell.} Now, Mr. Secretary, this is a matter of very special concern to me and a number of other members from border States. Can you assure me that as a result of the repacking process, none of my constituents in Michigan will lose access to over the air television signals? Yes or no?

Mr. {Genachowski.} That is the goal and of course, we will faithfully implement the provisions of the law that is adopted.

Mr. {Dingell.} Now, Mr. Secretary, can you give me and my colleagues on this Committee the same insurance--

assurances, namely that none of their constituents will lose access to an over the air television signal? Yes or no?

Mr. {Genachowski.} Again, that is the goal and we will be guided by the act that is adopted.

Mr. {Dingell.} Now, Mr. Chairman, you understand that there are two problems that plague us all. One here is that we will have loss of access to over the air television signals, but the other is that there will be the creation of significant interference, which will cause trouble to all manner of services if that is not addressed. Are we going to have the service continuing but somewhat defaced by interference? Yes or no?

Mr. {Genachowski.} I think yes. I didn’t hear the last part of the question, but I--

Mr. {Dingell.} Well, let us find what that yes means. The yes means that we are going to have the service, but we are also going to have interference. Is that right?

Mr. {Genachowski.} Well, the yes means that we are aware of these concerns and an important part of our work will be to address them consistent with the provisions in the statute.

Mr. {Walden.} And Mr. Chairman--

Mr. {Dingell.} I have used more time than I am entitled to. For your courtesy, Mr. Chairman, I thank you.

Mr. {Walden.} Thank you. And we are going to go now to Mr. Scalise. You are up next.

Mr. {Scalise.} Thank you, Mr. Chairman, and thank you, Chairman Genachowski for coming before us to talk about your budget.

I want to follow up on some questions Mr. Terry was asking on the free cell phone program, as I know a lot of my constituents refer to it. What is the actual amount of the tax that people pay to provide that service?

Mr. {Genachowski.} Well as the Chairman mentioned, there is an overall contribution rate that funds several things, high cost fund for rural areas, schools, libraries--

Mr. {Scalise.} Right. Do you have any kind of a breakdown, though? Is it just as it relates to the free cell phone program, because that--we have seen a mushrooming, a 1,000 percent increase in that program over the last 15 years, and it just seems like that specific program has been rife with waste, fraud, and abuse. I know you said you are looking into it and hope to achieve $2 billion in savings. I mean, the fact that over a 3-year period you feel you can get 2 billion in savings says there is tremendous waste, fraud, and abuse, and you know, especially in tough economic times you have got people that are struggling, they are maybe working two jobs, and they are struggling to pay their cell

phone bill, and yet they are paying an increased tax to provide somebody else with a free cell phone. In some cases, you might have a family with four or five free cell phones in the household that they are paying for. A lot of people find that real offensive, and it just seems like can we quantify how much in taxes are people paying for that particular program that has mushroomed over the last 15 years.

Mr. {Genachowski.} So a couple of points. I completely agree with your point that in looking at these programs, we both have to look at the recipients and the consumers who are paying into it. And that has been a core part of our work and it is why we have been so serious about removing any waste or inefficiencies from the program.

Mr. {Scalise.} Can you get me or the full Committee the actual costs to consumers, how much people are paying for that--

Mr. {Genachowski.} Yes.

Mr. {Scalise.} --that component, and you know, of course we can see if we can break it down for how much an individual would pay, but definitely the broad costs or what the total cost of the program is. And then if you were to achieve that $2 billion in savings by rooting out the waste, fraud, and abuse, which unfortunately should have been done years ago, but if it is done tomorrow or over the next 3

years, would your Commission actually reduce the amount of taxes people are paying under that program to accommodate for the $2 billion in savings?

Mr. {Genachowski.} Yes, we don’t--the contribution rate is set by the payouts, and so these savings will translate into lower contributions that otherwise we would have--

Mr. {Scalise.} Is that automatic, because it seems like an open-ended entitlement as the program has mushroomed by 1,000 percent increase, basically just forces an increased tax on what folks were paying.

Mr. {Genachowski.} The savings are--and the reflection of contribution rate are automatic. We can’t control things--

Mr. {Scalise.} So it is not at the discretion of the Commission? If the usage goes down by $2 billion, the tax will go down by 2 billion, or does your Commission have to actually do something to lower it?

Mr. {Genachowski.} My understanding is that the answer is yes. Whether or not technically the Commission has to do something, I don’t know, but there is a direct--

Mr. {Scalise.} And we will take a look, because clearly if it is not automatic, I surely would like to see us bring legislation forward that would ensure that the taxpayers would get that 2 billion in savings, it wouldn’t just be

spent in other places.

Looking at your budget, you have 12 full-time employees requested in the wire line bureau under the goal to maximize the benefits of spectrum. That seems like a duplication of--between wire line and wireless. Is there any reason why that request is there to do something that looks like it is duplicated somewhere else?

Mr. {Genachowski.} I would like to get back to you on that. In general, we see more and more overlap between what happens, for example, for a healthy and successful wireless infrastructure. The wire line back haul is very important, because of course the signals go into a tower and then they go into the wires. So that could explain what you are pointing to, but we will get you a specific explanation.

Mr. {Scalise.} I appreciate that.

Switching gears, I want to talk a little bit about video regulation. I would just like to get your take on the marketplace when you have got MVPDs negotiating between broadcasters. Would you consider the current relationship a true free market, or is there some government intervention there?

Mr. {Genachowski.} Well as you know, we have exercised humility, regulatory humility in the area of retransmission consent negotiations. Certainly some have argued that there

isn’t a true free market there, that there are advantages that one side has over the other. We have opened a proceeding to monitor it. We haven’t yet seen a strong enough case for government intervention.

Mr. {Scalise.} But there is--I mean, there are rules right now for channel placement, basic to your must carry. Those are government mandates that interfere with a pure free market. I don’t know if you would agree with that or not.

Mr. {Genachowski.} I think there is certainly the argument is that provisions like that distort the market when it comes to retransmission consent negotiations. That is the subject of an open proceeding that we have right now.

Mr. {Scalise.} And a final question. I know this is something that Congress would have to decide, but if Congress were to repeal compulsory copyright license and retransmission and go to kind of a broader free market, in that relationship between--with the satellite and the cable carriers and the broadcasters, wouldn’t there still need to be a negotiation over a copyright license? If we were to repeal those laws, would the carriers just be able to get it for free or would they have to have still some negotiated agreement to carry that signal from a broadcaster?

Mr. {Genachowski.} I presume there would have to be an arm’s length negotiation in any situation.

Mr. {Scalise.} Yes, because there would still be traditional copyright laws that would be in effect, wouldn't that be the case?

All right, I appreciate it. I yield back the balance of my time.

Mr. {Walden.} The gentleman yield back, and I am sure he doesn't know anybody that has a bill that would do any of those things, but we--

Mr. {Scalise.} We could sure get one out there and have a hearing on it, if you would be so gracious, Mr. Chairman.

Mr. {Walden.} We now go to the gentleman from Illinois, Mr. Shimkus, for 5 minutes.

Mr. {Shimkus.} Thank you, Mr. Chairman. Thank you, Chairman, for coming here. I was talking to some colleagues before I was moseying over, and I just told them, you know, you were going to be appearing before us. I said a lot can be learned about friendliness, returning phone calls, gracious smile. I mean, even though I am public policy, there is always fights. You handle yourself with great decorum, and I just--I appreciate that and I think that helps us in the bipartisan nature in trying to deal with some of this stuff, so--

Mr. {Genachowski.} Thank you.

Mr. {Shimkus.} This is--Congresswoman Blackburn and

actually Congressman Scalise kind of hit on this, and you answered a little bit about the employees in the landline, as I would use the vocabulary, and how, you know, everything is moving to cellular technology. And of course, you know, my interest in broadband applications to rural America. You did mention how there is a backbone so there is still a need, but is there--I guess in looking through the budget, seeing the number of full-time employees that are dealing in the wire line, is there a plan to be able to shift full-time equivalent positions while keeping what you need for the backbone, but also there is still more of an explosion in the area of broadband and wireless technology.

So I guess that is the question is how many--not exactly, but this shifting of that, is that a possibility in what you have got planned?

Mr. {Genachowski.} Well these are exactly the kinds of issues we talk about in the budgeting process, and we run it as a company would run it, and different bureaus make their case for what they need, and we regard our job as doing capital allocation as against overall targets. So it is--I would say that, you know, no one--none of our specific areas are completely satisfied with their budget, but we also think at the end of the day they have what they need to get their work done.

Mr. {Shimkus.} And again, obviously the turf fights that are involved in government and also in private sector, trying to--we would hope to see that move and that a new technology area maintaining enough to maintain, like we talked about, they need a backbone, but we want to make sure that we have the people on the ground. And of course, we are not in a growing government mode, as everyone agrees, so that--the shifting would be a better aspect of being able to do that.

Following up on last July, the Commission promised to open a further rulemaking on rebalancing the regulatory fees before the end of 2011. Can you give us a status report on where that is at?

Mr. {Genachowski.} I asked about this, and the status report that I got is it is being actively worked on. We recognize that it is something that we should move forward on, and I have asked the team to accelerate that.

Mr. {Shimkus.} And the final question I have is really the fees used to manage the spectrum auctions. Obviously based upon what may happen pretty soon, that is going to be really important. We have seen some years where there is a big need, and some years may not be as big. But you can correct me if I am wrong, but there seems to be a consistent $85 million per year every year. And the concern is, is that

really an evaluation of the costs needed to do the spectrum auction, ramping up or ramping down, some years that may not be enough. We may be coming to one. Some years it may be way too much, so can you give me some analysis on that pot of money and the whole spectrum debate?

Mr. {Genachowski.} Yes, of course, a few thoughts. One is the auction work is very active all the time, even when it is not in the newspapers. For example, we held several auctions last year. They were not super high value auctions, but they require the machinery, they require the expertise, and they require them to be professionally handled. And then the auction teams are always getting ready for the next auction and licensing and implementing the last auction.

We do find that almost every year the requests from the auction team for funding are higher than the $85 million cap, and I have mixed feelings about it because on one hand, auctions have proven to be such a high return on investment for the country. If we could put more resources into it, could we move faster on auctioning spectrum? Possible, although given fiscal constraints, we are working within the cap that is there, and yes, we will have a challenge next year assuming incentive auction legislation passes to do what we need to do, but we will burn all the candles, the midnight oil, whatever it is that one has to burn to get it done.

Mr. {Shimkus.} So you are basically saying the 85 is really a ceiling that really is accounted for every year, regardless of what the perception maybe is the real value of an auction? You are saying that that is a pretty good baseline for what you need every year?

Mr. {Genachowski.} Yes, and we have internal processes to make sure that it is appropriate, yes. And we didn’t go back and look at what the value would be if we increased that by 10 or 20, you know, in this fiscal climate we think our obligation is to work with what we have to be efficient everywhere. Because we are working through assuming the legislation is passed. We are working through it. If issues come up, you can be sure I will be back and we will work on it together.

Mr. {Shimkus.} Thank you. Thank you, Mr. Chairman.

Mr. {Walden.} I now recognize the gentleman from Ohio, Mr. Latta.

Mr. {Latta.} Well thank you, Mr. Chairman, and thank you, Mr. Chairman, for being with us today. I appreciate it, and also to hear your testimony.

There has been a lot of discussion, first, with the USF and I might change gears just a little bit here and might get back to it, but I find in your testimony it is kind of interesting. You were talking about the small business cyber

planner, and to ward off cyber tax. I served on the Republican Cyber Security Task Force not too long ago. It is an ongoing problem.

I guess a couple of the questions are how are you getting that information out to businesses, that they know they should be contacting, who they can contact? Who--is it someone specifically at the Commission that is in charge of it? Are you working with other departments and agencies so you are not--once again, like sometimes we do in government, reinvent the wheel each time someone touches it, then somebody else does it, instead of having it all put together?

Mr. {Genachowski.} It is a great point, and I feel very strongly about this. In the cyber planner, we did that together with the Small Business Administration, the Chamber of Commerce, the National Urban League, some other companies. We wanted to start with a base of people who said listen, here is one piece of paper. You don’t have to look at a lot of different pieces of paper. Since then, we have been working to extend the distribution. We just met 2 days ago and I asked my team for a game plan to take distribution to the next level. What agencies, can we work with members of Congress and ask you to distribute it in your communities? What else can we do? We did something similar with FEMA and emergency communication tips, where I approached Craig Fugate

at FEMA and said let us work on this together. We put out a joint tip sheet to help consumers prepare for disasters, and we are now putting in a place--a plan in place to get other agencies, federal, State, and local to look at those, work on having a common set of advice for consumers, and then use all our collective distribution capacities to get it out. And I very much enjoy working with you on this.

Mr. {Shimkus.} Well that is important, because I know the more that I have talked with a lot of my constituents there is just little--you know, they are not really aware of it. They--it happens to somebody else, it never happens to me, or they don’t even know it happened to them, you know. They are hit by someone from another country and we just had hearings in this Committee last week, a week ago Wednesday it was, and how fast these cyber attacks occur. I think it is really important that we make sure that these small businesses--but also I think that we always talk in some cases about the small businesses. I think some of the larger businesses out there don’t realize what risk they are at. So I think it is incumbent on us also to make sure we get that information out to everybody out there to make sure they understand that there is a real problem.

But I am sorry, did you say that you do have somebody at the Commission that is designated as the point person so you

will be all coordinating and working together like with Homeland Security or whoever else?

Mr. {Genachowski.} Yes--

Mr. {Shimkus.} Okay, thank you.

And going back to the gentlelady from Tennessee and her line of questions and talking to you had mentioned your testimony about that you eliminated more than 200 outdated rules and five unnecessary data collection. Now this is going in the reverse way whatever we were just talking about.

We hear from a lot of different businesses, and again, small and large, that there is a lot--one of the things that really costs them a lot of money and a lot of time is they have six agencies or departments that they have got to comply with. Is that something that you all are looking at within the Commission to make sure all of a sudden that, you know, there are other agencies and departments out there that are trying to do the exact same thing that are incurring more costs on these individuals out there, small businesses, to prevent them from going out and making a profit?

Mr. {Genachowski.} Yes, I will give you a bit of what we did yesterday. We found that--yesterday--the way that the landscape works--different circles. So in doing now what was yesterday--essentially the same over what they did--

Mr. {Latta.} Mr. chairman, I see my time is expired,

and I yield back.

Mr. {Walden.} Gentleman yields back his time.

Mr. Chairman, thank you for being here today. We look forward to continuing our good work together, and if all comes to fruition on the spectrum bill as part of the overall agreement. I have no reason to doubt it won’t. We will be spending a lot of time, because I don’t think anybody has ever done an incentive auction before and we want to make sure we are in partnership with you to get it right, so thank you very much.

Mr. {Genachowski.} Thank you.

Mr. {Walden.} We will call up our second and final panel of witnesses, the Inspector General for the Federal Communications Commission, Mr. David H. Hunt, and the Chief Executive Officer of the Universal Service Administrative Company, Scott Barash.

I will just give you the microphone guidance here. The closer you can get to them, the better they work, and the light needs to be on, so then we will be able to hear you. You really have to get close to these microphones.

Mr. Hunt, thank you for being--well, thank you both for being here. Mr. Hunt, thank you and we will start with your testimony today, sir. I am not sure that microphone is on. Push the button there. No.

Mr. {Hunt.} Is that okay?

Mr. {Walden.} That is much better, thank you.

Mr. {Hunt.} Oh, the light was on before.

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^STATEMENTS OF DAVID H. HUNT, INSPECTOR GENERAL, FEDERAL COMMUNICATIONS COMMISSION; AND SCOTT BARASH, CHIEF EXECUTIVE OFFICER, UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

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^STATEMENT OF DAVID H. HUNT

} Mr. {Hunt.} Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to come before you today to discuss the activities and budget of the Office of Inspector General for the Federal Communications Commission. I have been the Inspector General at the FCC since June of 2009, first in an acting capacity and then a permanent role since January 2011.

Somebody mentioned to me when I first walked in, I understand you are a veteran of these and I am not. This is my first time at a hearing, and I really appreciate the opportunity. I have a very well-written speech by my staff, but as a former trial attorney I am better just going off my notes and that is what I am going to do. The silent groan you hear behind me is my staff who wrote my speech.

What I would like to talk about primarily because I think I may have given you more information than you may have wanted in my written statement, just about my staff and their

dedication. It ties to the fact that we have a very small staff looking over a very large amount of money. In the past 2 years alone, I have had an auditor who--we had a filing that was due at midnight, a mandatory filing. She had suddenly gotten sick, was sent to the hospital. She, on her own accord, ripped the IVs out of her arm and came back to work to make sure everything was filed on time. I have an auditor who has worked on E-Rate for over a decade. He has spent, on average, 6 to 9 months of his life on the road, tracking down fraud, waste, and abuse in schools and libraries. I have an attorney who dictated an affidavit from a hospital bed with the nurse taking notes, running faxes to and from a judge in Texas, because he required the affidavit before he made a filing on a motion in court. I had sent half of my staff to Texas to support the Department of Justice in another USF investigation because of the number of staff that we had left, I had to send interns with them. These attorneys and auditors, including just regular staff people, had to crawl under wireless equipment, had to crawl under buildings, had to pull wires and just check everything. You would be surprised how many times you go to a school and see all the lights on, and you go behind it and there’s nothing plugged in except a--somebody wrote a program to make the lights go on and off. I have had an attorney who had to

do a conference call, and had to do the conference call in the emergency room while the nurse was placing nitroglycerin under his tongue. Our staff works very, very hard with what assets we have.

You are asking for actually very few people to oversee billions and billions of dollars. Any other IG office out there would have several people, if not dozens of people, working on the stuff that we rely on one or two people to do.

Anyway, I just want you to know that we really appreciate the chance to come here. We work very closely with the Department of Justice, the Department of Education, Department of Interior. We are trying to save money all the time. We are trying to run as efficiently as humanly possible. Financially-wise we can’t do anything less, because like I said, we are operating on such a tight budget. But I want to let you know that the staff you have at the FCC Office of Inspector General are as dedicated a staff as you will ever see in the Federal Government, and we appreciate this chance to talk. I look forward to coming back and talking again, if I have the opportunity.

Thank you very much.

[The prepared statement of Mr. Hunt follows:]

********** INSERT 2 **********

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Mr. {Walden.} Thank you, Mr. Hunt. That is very moving testimony. We appreciate and applaud the work that you and your people do at the agency.

Mr. {Hunt.} Thank you.

Mr. {Walden.} We might want to have some guidance here about pulling out IVs and things, but--

Mr. {Hunt.} It wasn’t easy, apparently. One of our staff drove her to the hospital, Mr. Chairman, and just waited there with her. In fact, the hospital had called wondering where she was. She was back in her office. But thank you very much.

Mr. {Walden.} Thank you, Mr. Hunt.

Sir, is it Barash or Barash.

Mr. {Barash.} Barash.

Mr. {Walden.} Barash, I am sorry. Mr. Barash, thank you for being here. We look forward to learning more about USAC and we appreciate your testimony.

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^STATEMENT OF SCOTT BARASH

} Mr. {Barash.} Good morning, Mr. Chairman, and good morning, Ranking Member Eshoo. My name is Scott Barash and I am the acting Chief Executive Officer of the Universal Service Administrative Company, or USAC. USAC is the independent, not-for-profit corporation created in 1997 to administer the universal service support mechanisms. USAC is governed by a Board of Directors selected by the Chairman of the FCC from nominations by universal service stakeholder groups. USAC’s mission is to collect FCC-mandated contributions from telecommunications carriers and distribute these funds to beneficiaries in the four universal service support programs--High Cost, Low Income, Rural Health Care, and Schools and Libraries--in accordance with FCC rules, orders, and directives. As a neutral administrator, USAC does not establish policy and may not advocate for policy positions. In order to accomplish our mission, we work very closely with the FCC, which oversees our operations.

In 2011, USAC collected $8.4 billion in contributions from telecommunications carriers and disbursed approximately 8.1 billion to beneficiaries. USAC spent $106.9 million to collect and distribute these funds, generating an

administrative expense rate of 1.34 percent. In other words, 98.66 percent of contributions from telecommunications carriers went to universal service program beneficiaries. This percentage compares favorably to the rate at which other federal assistance programs and non-profit organizations deliver funds to their beneficiaries.

I will now briefly describe the four universal service programs, what USAC does to administer those programs, and how much we spent in 2011 to do so.

The High Cost Program provides support to ensure that telecommunications rates and services available to customers who live in rural or hard-to-serve areas are reasonably comparable to rates and services available in urban areas. In calendar year 2011, the High Cost Program disbursed $4 billion to 1,903 companies in support of 110 million lines. To provide program support, every month USAC gathers data from companies, performs extensive calculations to derive the support they are eligible for, and makes disbursements to them. To administer the High Cost Program in 2011, USAC spent $16.9 million.

The Low Income Program provides support to make voice telephony affordable to eligible low-income consumers. USAC’s role is to disburse to telecommunications carriers a defined dollar amount each month for each eligible consumer

to whom they provide discounted service. Administering the Low Income Program is similar to the High Cost Program: we gather data from companies every month, performs calculations on that data, and then makes monthly disbursements. In 2011, the Low Income Program disbursed $1.7 billion to 2,025 companies. To administer the Low Income Program in 2011, we spent $5.4 million.

The Rural Health Care Program provides reduced rates to eligible health care providers for telecommunications and Internet services necessary for the provision of health care. Eligible participants must be a rural public or non-profit health care provider.

USAC is responsible for processing applications for support, confirming eligibility pursuant to FCC rules, and reimbursing service providers for discounts delivered to rural health care providers. We review applications, invoices, and other program information to ensure that applicants and service providers follow FCC rules and support FCC efforts to prevent and detect waste, fraud and abuse. In 2011, the Rural Health Care Program disbursed $81.5 million to 472 companies representing 3,088 eligible health care providers, and another $54.3 million to beneficiaries of the Rural Health Care Program. To administer this program, we spent $12.7 million.

The Schools and Libraries Program, commonly known as E-Rate, provides discounts of up to 90 percent to assist most schools and libraries in the United States in obtaining affordable telecommunications and Internet access services. Program funds are disbursed to companies providing services to eligible beneficiaries, in this case public and most non-profit K through 12 schools, and all public and many private libraries. Administration of the Schools and Libraries Program is much like it is in the Rural Health Care: we process applications for support, confirm eligibility, and reimburse telecommunications companies and Internet access providers for discounts delivered to beneficiaries. In 2011, the program reviewed 44,651 applications and disbursed $2.2 billion to 4,165 companies providing services to tens of thousands of schools and libraries in all States and territories of the United States. To administer the program, we spent $71.9 million.

Universal service contributions, which we spoke of in the prior panel, come from telecommunications carriers earning revenues from providing interstate and international calling services. These companies file revenue data with USAC, which we aggregate and submit to the FCC. In 2011, to bill and collect the $8.4 billion in universal service contributions, we spent approximately $3 million.

An important responsibility of USAC is to support FCC efforts to protect the integrity of the fund. We do this in many ways, from reviewing information submitted by contributors and beneficiaries to assessing details about individual payments to full-scale audits of contributors and beneficiaries. These measures are designed to verify the accuracy of data used in calculating collections and disbursements, the eligibility of supported goods and services, and participants' compliance with program requirements. A Memorandum of Understanding between the FCC and USAC defines the roles and responsibilities, and contains detailed operational and reporting requirements.

Once we disburse money to beneficiaries, we want to validate that the payments were properly made. To this end, working with the FCC and OMB, we launched in 2010 a Payment Quality Assurance, or PQA, Program. PQA is designed to provide estimates of improper payments in all four programs, as required by the Improper Payments Elimination and Recovery Act, or IPERA. Based on these assessments, an independent statistician calculates estimates of improper payment rates for whole programs and reports this information to the FCC.

We also use these results as a basis to improve internal procedures associated with improper payments and provide outreach to beneficiaries. Results for 2011, based on 1,600

assessments, show improper payment rates in the High Cost Program of 0.11 percent, the Low Income Program of 0.23 percent, the Rural Health Care Program of 1.7 percent, and the Schools and Libraries Program of 0.94 percent. We spent $1.3 million on this activity in 2011.

We have also done audits of beneficiaries and contributors. Shortly after the PQA launch in 2010, again in close consultation with the FCC and OMB, we launched the Beneficiary and Contributor Audit Program, or BCAP. Under BCAP in 2011, we completed 79 audits examining $1.7 billion in universal service funding. When fully implemented, BCAP will give USAC the capacity to conduct up to 343 audits each year. As with PQA, results will shape corrective actions for both auditees and USAC.

Outside auditors have consistently delivered clean opinions on USAC’s finances and procedures. In the last 4 years, USAC has significantly revised and upgraded its internal controls review program, in compliance with the principles of OMB Circular A-123. Program staff members have incorporated these controls into operational activities to enhance the security and accuracy of procedures that define how we handle the information we gather and the funds we collect and distribute.

The GAO has recommended that USAC and the FCC conduct

robust risk assessments in the Schools and Libraries Program and the Low Income Program. We are working with the FCC to identify independent contractors to carry out these risk assessments and we expect to use these results as a basis for efforts to strengthen further the internal controls already in place.

Thank you for the opportunity to appear before you today. I would be happy to respond to any questions.

[The prepared statement of Mr. Barash follows:]

********** INSERT 3 **********

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Mr. {Walden.} Thank you for your testimony. I appreciate your testimony and the work you that you are doing to try and continue to improve and reduce fraud and deal with all that.

I was made aware a year or two ago about a situation in my district, and I won’t get into the specifics of it, but they had overlapping people that were on sort of both sides of some of the USAC funding. I think it was in the E-Rate program. And the problem, I think they may not have followed all the rules, I don’t know. That is something for all of you to figure out, but we got these really isolated, remote communities. I am talking one person for every 8 miles of power line. Counties with fewer than 2,000 people and thousands of miles, and there is very, very few people, like the main town, the county hub is 399 people, I think. And so when they go to try and take advantage of these programs, there isn’t a giant pool of people who can be--you know, you are on the school board, you are also the guy running the--now having said that, I have also served on the Oversight Committee where we did a lot of looking at the waste, fraud, abuse and all of that. We can’t tolerate that.

But I hope there is some way to find a balance here for these really remote communities where there are only--they

are very--there is only a handful of people that do everything, and not because of collusion or anything else, there just ain't anybody else around, you know? And so I hope maybe we can have some general discussion about somewhere down the road, because I think it is a problem that is unique to sort of the rural West, perhaps, where literally you have a hospital in three of these counties. I mean, it is just remote. No stop light for probably 3 hours, you know what I mean? This is high desert remote, and so I--and yet, they are trying to figure out how to serve their communities, and so I just throw that out for your consideration.

Mr. {Barash.} Well, we are very sensitive to the needs of our customers, and--

Mr. {Walden.} Is your mic on?

Mr. {Barash.} Yes, I will get closer.

Mr. {Walden.} There you go.

Mr. {Barash.} We are very sensitive to the needs of our customers, particularly the small rural customers, both in--for schools and libraries and rural health care, as well as high cost, and what we have tried to do in recent years is to really expand our outreach and that includes training sessions around the country, that includes our webinar presence, that includes going out to stakeholder groups, whether it is schools, whether it is health care providers or

telecom groups. So we have really tried to focus on that, because you are correct that one of the problems is that you might have the same person who is doing everything.

Mr. {Walden.} And they are, and they do that in everything in these small towns.

Mr. {Barash.} And then in addition, there is often turnover, so the person who knows everything and who had the files leaves, and then someone else inherits this and they may not understand what the--

Mr. {Walden.} Or they may also be on the school board and at the phone company, and by the way, the county judge who drives the snow plow truck. I mean, it literally happens that way.

Mr. {Barash.} I think you are absolutely right.

Mr. {Walden.} And they are just trying to figure out how to get broadband or whatever out to their schools and their communities and connect them, and then lo and behold, they realize they have stumbled across some line that said oh, you can’t be on both of these. And then they get penalized--the community gets penalized because it is like well, you don’t get any more money and by the way, we are going to take back what you have, et cetera, and they are just going oh, all I was trying to do here--and yet I have seen the other side of this coin where people manipulated the

system and had warehouses full of computers they never intended to deploy and ripped off the fund. And so--

Mr. {Barash.} It is a balance that we try to strike every day in administering the program. We try to do as much up front review as possible, and to prevent having to go back. That is the worst of all worlds. So we are very focused on the average piece and also on the up front review piece.

Mr. {Walden.} Yeah, so anyway, this group is in the middle of that and trying to dig its way out, and it is not good.

Mr. Hunt, in your written testimony you highlighted single company that was able to defraud the FCC’s telecommunications relay service of $55 million, and you also suggest that the work of the IG ultimately led to 26 indictments in that case. What happened there?

Mr. {Hunt.} Mr. Chairman, thank you. It was a program that we have been aware of for a while. It is something where you don’t know how bad it is until you get into it, and we were surprised, too. I mean, the entire FCC Inspector General Office hasn’t had 26 indictments and non-USF cases ever in the over a decade it has operated. The more we dug, the worse it got, and again, not to be crying or bemoan my staffing situation, two people sitting behind you who pretty

much did it was apart from the rest of our staff, but when we did the--that one raid, we had 40 FBI agents going with us. We had to go in nine different States. You are looking at a program that just wasn't looked at that much, and 26 indictments was amazing for us. We had no idea, but it is so easy on that program to defraud the government. I could go in my home, get a computer, light it up and I could defraud the government, frankly.

Mr. {Walden.} I appreciate that, and maybe you can help us identify more areas we need to spend more time digging into as well, and be helpful in that respect.

Mr. {Hunt.} Yes, Mr. Chairman, we have been working with Congress as much as we can. We have been working with the chairman's office, we have made many recommendations, as had DOJ, on how to stop this fraud and stop it from occurring. We are working both ends, stop it on the front end with the chairman's help, and get it from the back.

Mr. {Walden.} And then maybe your people won't have to pull out their IVs to go stop if we can get it stopped first.

So--and those recommendations, I am sure you have made those available to us in past reports and all, but if there are some specifics you think we should dig down into more and kind of look at the policy and help shine the light on, we would be happy to do that.

Mr. {Hunt.} Absolutely.

Mr. {Walden.} I thank you.

I turn to my friend from California, Ms. Eshoo.

Ms. {Eshoo.} Thank you, Mr. Chairman, and I want to concur with you that--on this last item that how we can help support and advance the work that you are doing. We are eager to do that.

I want to thank you, not only for doing what you do, but with the--really a high level of integrity and commitment and dedication. We are going through an era, I think, where because of all the challenges in the country, so many people are angry. They feel let down. You could go on and on. I was at a telephone town hall meeting last night where 9,000 people participated. Obviously I didn’t get to answer 9,000 questions, but if there was a common thread that went through it, it was how people--how concerned they are about our country. I wish every TV station in the country could have carried your opening statement today, because it is a reflection of really professional, good, solid people working to make the country better and the government more accountable, so I really salute you. I don’t know if--I don’t think my words are adequate to describe all that I am sensing, but bravo to you and to your team, and thank you.

Mr. {Hunt.} Thank you very much.

Ms. {Eshoo.} You have really restored a great deal of faith in all of us, and as I said in my opening statement, I think the IGs are just--if you want to know what is going on in the government and you want a clear, unbiased, nonpartisan, hard look at what is going on in every agency, just go to the IG inspectors and the work and the reports that they issue. So thank you again.

Your most recent semi-annual report indicated that the proposed reforms of the Universal Service Fund ``will have a significant impact on OIG planning and conduct and oversight activities.'' Can you explain exactly what that means? What will be the change under the reforms? Is that what you are referring to, what you are going to have to do to track the new program?

Mr. {Hunt.} Yes, Congresswoman. Whenever any change is made, we sometimes have to tack to left or tack to the right. We study everything. You know, I have a separate person who studies--he is dedicated to working on Hill matters. He studies everything that comes out, looks at everything from USAC. We work with USAC quite a bit. But every time a rule or regulation changes, it may change one of our cases, even civilly or criminally. And so it is something we have to track pretty much constantly.

A large part of what we do is--

Ms. {Eshoo.} Do you have the resources to do this, what you are describing?

Mr. {Hunt.} Well, let me just say--

Ms. {Eshoo.} Well is not a good answer. I don’t mean that in a personal way. You sound skeptical.

Mr. {Hunt.} No, Congresswoman, I am not skeptical. We don’t, but I just want to let the Congresswoman know, we have been working very closely with the chairman’s office to try to get additional staff, and Congress was kind enough to give us additional monies for 2012, fiscal year 2012. We spend those monies, if not on personnel, on contracts to do further auditing work. But I thought about it several times, where is the cap? I mean, how many people would you have to add to the IG shop before it is not worth adding people, and a number could be--I mean, you could give me 50 people tomorrow and I could put them all to work, so I don’t know how else to explain it.

Ms. {Eshoo.} What my sense is is that you don’t think you have enough to do what needs to be done, but do you think you are going to be able to fulfill your oversight responsibilities?

Mr. {Hunt.} Well, Congresswoman, the staff we have is very good, and any program this big always needs additional oversight, could always use it. I know USAC has added

additional people to their staff to help do audits, but like I said, you are trying to track about $10 billion with 30 people, and when the economy goes south, the crime rate, at least in our field, goes up so white collar crime is booming, and on one case alone we have a single person tracing down $110 million with no FBI support and no other support from DOJ. So they have had to cut back as well. So as they cut back, all of a sudden we find ourselves having to do depositions and interviews, when normally the FBI would do those for us. Now there are not enough FBI agents around to help us accomplish that.

Ms. {Eshoo.} Well, we want to be of all assistance to you, because your work is so important.

Mr. Barash, I am sorry, I don’t have time to ask you the great questions I was going to ask you, but I will submit them to you in writing.

Thank you, Mr. Chairman, and thank you both for your very important work, and to your entire team.

Mr. {Hunt.} Thank you, Congresswoman.

Mr. {Walden.} Thank you. Gentleman from Ohio, Mr. Latta, is now recognized.

Mr. {Latta.} Thank you, Mr. Chairman.

Mr. Hunt and Mr. Barash, thanks very much for being with us today. I appreciate your testimony.

If I could just start off with this question maybe to both of you that State commissions have also been out there detecting duplication and other waste within the Commission's Lifeline program, and what efforts have your respective offices made to reach out to the State commissions to also address these and related concerns?

Mr. {Hunt.} Thank you, Congressman, for that question. Actually, Congressman, another one of my IGs behind me is coordinating an effort within our office and has contacted, literally, all 50 States. We are actively coordinating with, I believe at last count, eight or nine, so we work very closely with the States on low income and Lifeline issues. Primarily what we do is basically ask for their support, because they can offer us the most help at the local level than we can offer from Washington, D.C. But we are very much interacting with local governments and do so frankly all the time.

Mr. {Latta.} Okay. Let me ask this. Going back to the chairman's testimony I am sure you heard a little bit earlier, and you all know that in the Lifeline program, the whole idea is in the next 3 years to be able to save up to $2 billion that is going to be out there, and also in 2011 alone saving $33 million and eliminating 270,000 duplicate subscriptions.

Could you go through the procedures of how you find these folks, and what happens when you do, and do you recoup payment or what happens?

Mr. {Barash.} Yes, I would be happy to do that. What we do is we collect data from the companies, collect subscriber data from the companies. We then bump that data up against each other in a system that we built last year to do this job. We then identify potential duplicates. We reach back out to the companies and say are these, in fact, duplicates. They get back to us. We then have a final list of duplicates. We then allocate the duplicates to one of the other companies randomly, and then instruct the other company to de-enroll the subscriber.

So it is a relatively cumbersome process at this point.

Mr. {Latta.} Pardon me for interrupting. How long does that--you know, from point A to point B, how long does that take?

Mr. {Barash.} A couple months by the time the back and forth occurs. So it is a relatively cumbersome process at the moment. It is one that we initiated in very close consultation with the FCC last year. What we are moving toward, and this is in the recent order that was approved by the Commission, is a national Lifeline accountability database that we are now working on that we hope to have up

in early 2013 that will allow companies on a real-time basis to determine whether someone is already receiving Lifeline service or not.

So right now we are in an interim phase where we are identifying duplicates and saving money, but then in the future we will be doing this up front and preventing this problem from occurring in the first place.

Mr. {Latta.} Okay, and then going back to my one question, after you do identify that individual, let us just say that they might have had three or four that might have happened. Is there recoupment or what happens at that stage?

Mr. {Barash.} At this stage there is not recoupment. They are cut off. If they have more than one they are cut off from all of them. We have seen an instance or two where there are--someone might be getting three and they would be cut off from two of those.

Mr. {Latta.} Okay. Thank you very much, and Mr. Chairman, I yield back.

Mr. {Walden.} Gentleman yields back. Mr. Guthrie has no questions.

We appreciate the incredible work you all do, and we look forward to working with you to improve transparency, efficiency, and accountability in the work that is done by the agency. So thank you for being here, and with that, we

will have the usual and customary opportunity for members to submit statements and questions. We look forward to your responses, and thanks again.

Mr. {Barash.} Thank you very much.

Mr. {Walden.} This hearing is adjourned.

[Whereupon, at 10:50 a.m., the Subcommittee was adjourned.]