TCBA

California LifeLine Program Compliance Audit

For the year ended June 30, 2010

CuraTel, LLC

July 19, 2012

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Independent Accountant's Report

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California Public Utilities Commission
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(Attn: Division of Water and Audits, Communications Division)

We have examined CuraTel, LLC's (CuraTel) compliance with the applicable requirements of California Public Utilities Commission (CPUC) Procedures for Administration of the Moore Universal Telephone Service Act, General Order 153 [California Public Utilities Code § 871 et seq.], identified in Appendix A of this report, with respect to the accuracy of the California LifeLine Program reimbursements claimed and received from the California LifeLine Fund during the year ended June 30, 2010; the accuracy of discounts provided to subscribers; and other aspects of CuraTel's participation in the California LifeLine Program. CuraTel's management is responsible for compliance with the CPUC requirements. Our responsibility is to express an opinion on CuraTel's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence about CuraTel's compliance with the requirements discussed above and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of CuraTel's compliance with specified requirements.

In our opinion, CuraTel complied in all material respects with the CPUC requirements referred to above that could have a direct and material effect on California LifeLine Program reimbursements claimed and received during the year ended June 30, 2010, and other aspects of CuraTel's participation in the California LifeLine Program.

The results of our procedures disclosed instances of noncompliance with those requirements that were considered to be immaterial. Detailed information relative to these instances of immaterial noncompliance is described in the Findings section of the attached report

This report is intended solely for the information and use of CuraTel and the California Public Utilities Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

Thompson, Cobb, Bazilio & Associates, P.C.

July 19, 2012

Executive Summary

During our examination of CuraTel, LLC's (CuraTel) compliance with the applicable requirements of California Public Utilities Commission (CPUC) Procedures for Administration of the Moore Universal Telephone Service Act, General Order 153 [California Public Utilities Code § 871 et seq.] for the California LifeLine Program during the year ended June 30, 2010, we identified no material instances of noncompliance; however, we noted the following instances of immaterial noncompliance with the CPUC California LifeLine requirements:

1. CuraTel did not timely submit all of its monthly California LifeLine claims for the year ended June 30, 2010.
2. CuraTel incorrectly calculated reimbursement for the Public Utilities Commission (PUC) user fee on its monthly claim forms for the year ended June 30, 2010. Consequently, CuraTel was overpaid $1,581 for the year ended June 30, 2010, for PUC User Fee reimbursement.
3. CuraTel did not use the weighted-average number of California LifeLine customers when calculating reimbursement for operating expenses. Instead, CuraTel used the total number of California LifeLine customers that were eligible during the month. Consequently, Curatel was overpaid $15,462 for operating expenses during fiscal year ended June 30, 2010.
4. CuraTel claimed, and was reimbursed, $25,050 from the California LifeLine fund for bad debt incurred during the year ended June 30, 2010. However, CuraTel did not calculate the bad debts correctly, which resulted in an overpayment of $4,597.
5. In testing 90 LifeLine subscriber telephone bills in 2 sample months, we found that Curatel did not provide one subscriber with a LifeLine discount of $7.39 in August 2009. In addition, we noted four LifeLine subscribers that were undercharged amounts ranging from $.45 to $.73 on their telephone bills in February 2010.

In total, CuraTel was reimbursed, $21,640 for excess claims for the year ended June 30, 2010. The total amount that CuraTel owes to the LifeLine Fund is $21,722, comprised of interest of $82 and the over-claimed amount of $21,640.

Further, we noted that CuraTel filed an amended California LifeLine claim for January 2010 in the amount of $32,560, but as of August 8, 2012, this amended claim had not been paid or disallowed by the CPUC.

CuraTel should reimburse $21,722 to the LifeLine Fund, the total amount that CuraTel was overpaid for the California LifeLine Program during the year ended June 30, 2010, plus accrued interest. In addition, CuraTel should take steps to

- ensure that it submits it California LifeLine claims on time consistent with CPUC requirements;
- ensure that it uses the correct base when calculating the expense and fee reimbursements;
- review its internal policies and procedures and make certain that controls are in place to ensure that each LifeLine subscriber receives a proper LifeLine discount and that the telephone bills are correctly calculated; and
- ensure that any rate adjustments are applied on a timely basis.

Background

The California LifeLine Program is a class of subsidized local telephone service designed to meet the minimum communication needs of low-income residential customers, which is funded by a surcharge on all end users of intrastate telecommunications services except for the following:

- California LifeLine Program billings;
- Coin-sent paid and debit card calling;
- Reselling services;
- Customer-specific contracts effective before September 15, 1994;
- Usage charges for coin-operated pay telephones;
- Directory advertising; and
- One-way radio paging

Utilities may recover from the California LifeLine Program Fund the reasonable costs and lost revenues that it incurs to provide the California LifeLine Program to the extent that such costs and lost revenues meet all of the following criteria:

- Directly attributable to the California LifeLine Program;
- Would not otherwise be incurred in the absence of the California LifeLine Program;
- Not recovered from other sources such as the rates and charges paid by California Lifeline Program customers, the utility's general rates, or subsidies from the federal California LifeLine and Link Up programs; and
- Are specified in GO 153 §§ 9.3 and 9.4.

The following are examples of the costs and lost revenue that utilities can recover from the California LifeLine Program Fund:

- Lost revenue caused by providing discounts to California LifeLine Program customers, such as California LifeLine Program connection charges, conversion charges, discounted monthly rates for local services, and untimed local calls;
- The federal End-User Common Line (EUCL)[1] charge that the utility pays on behalf of its California LifeLine Program customers;
- The taxes, fees, and surcharges that a utility pays on behalf of its California LifeLine Program customers, including, but not limited to, PUC User Fees; and
- Bad debt costs.

The CPUC maintains an independent administrator contractor to provide clearinghouse services for the California LifeLine program. The administrator receives and processes customer applications for California LifeLine program services and determines eligibility. The administrator also performs recertification services and randomly audits eligible customers. The administrator performing this service during the audit period was Solix, Inc. (Solix).

One of the utilities in California that provides the California LifeLine program is CuraTel, a wholly-owned subsidiary of Adir International, LLC, doing business as La Curacao. Established in 2002, La Curacao operates a chain of retail department stores that sell electronics, home furnishings, and entertainment products in California and Arizona. In addition to selling retail products, La Curacao provides a number of services, including communication services through CuraTel.

[1] EUCL charge is a federally mandated monthly charge assessed directly on end-users of telecommunications services to recover portion of a utility's interstate-allocated cost of the access line between the utility's central office and the end-user's premises.

CuraTel provides California LifeLine customers with local telephone service at discounted rates. CuraTel offers its California LifeLine customers a variety of services, including flat-rate local telephone service, service connection for the initiation of telephone service, service conversion for a change of class/type/grade of service, free access to toll-blocking service to prevent long distance calling, free unlimited access to 911, access to 800 or 800-like toll-free services, access to local directory assistance, access to operator service, free touch-tone dialing, free white pages telephone directory, free provision of one directory listing per year, toll-free access to customer service representatives, and access to two residential telephone lines if a disabled person in a low-income household requires a teletypewriter (TTY) when using the phone.

During the year ended June 30, 2010, CuraTel claimed reimbursement for approximately 13,400 - 15,800 California LifeLine subscribers each month. Monthly claims during the year ranged from a high of $344,500 in January 2010 to a low of $245,600 in July 2009. During the year ended June 30, 2010, CuraTel submitted claims totaling $3,736,750, for which CuraTel ultimately received $3,698,322 from the California LifeLine Fund.

Purpose and Scope

The purpose of the examination was to provide reasonable assurance as to whether CuraTel's California LifeLine Program related costs and activities were in compliance with the applicable requirements of the CPUC's Procedures for the Administration of the Moore Universal Telephone Service Act, General Order 153 [California Public Utilities Code § 871 et seq.]. The examination focused on the accuracy of the claims submitted, and reimbursements received, by CuraTel, whether only approved subscribers were included in claims for reimbursement, the accuracy of discounts provided to subscribers, and other aspects of CuraTel's California LifeLine Program such as enrollment and recordkeeping. We reviewed the overall operations, claims, and reimbursements for CuraTel's California LifeLine Program for the year ended June 30, 2010, and performed a detailed review of two sample months for that year.

Risk Assessment

We conducted a risk assessment to identify and discuss any areas of potentially high risk regarding the California LifeLine Program at CuraTel and to determine whether any additional examination work was needed to mitigate the risk. This risk assessment was initially carried out using CuraTel documentation provided prior to our on-site field work, and it was updated during the on-site work as warranted. The risk assessment was based on analysis and data in the following areas that potentially pose a high risk.

- Any material weaknesses or other areas of concern noted in audit reports provided by CuraTel, CPUC, or the Universal Service Administrative Company (USAC) for the Federal Lifeline Program.
- Any significant deficiencies noted in the Internal Control Questionnaire completed by the CuraTel prior to our on-site field work.
- Any significant variances noted in our initial review of the monthly LifeLine claim forms provided by CuraTel and those provided by CPUC.
- Any other considerations based on information provided by CuraTel that could indicate other high risk areas or the potential for fraud.

Audit Reports. CPUC officials informed us that there were no CPUC audits of CuraTel. There were also no Universal Service Administrate Company (USAC) audits of CuraTel. CuraTel provided us with a Report of Independent Auditor's Report and Audited Financial Statements for the fiscal years ended January 31, 2010 and January 31, 2011. The Audited Financial Statements contained unqualified opinions, and there were no significant findings in the audited financial statements which could have an impact on the carrier's compliance with the CPUC rules related to the California LifeLine Program.

Review of Internal Control Questionnaire. CuraTel completed our Internal Control Questionnaire prior to our on-site visit. Our review of the Internal Control Questionnaire disclosed that overall written policies and procedures did not appear to be in place to ensure compliance with the California LifeLine program requirements, including accurate completion of the California LifeLine Report and Claim forms. CuraTel responded to questions related to ensuring compliance by reporting that their systems identify customers who have been approved by the California LifeLine certifying agent, including their dates of service, thereby providing data for the recovery of lost revenue and the number of customers. CuraTel noted that California LifeLine operating expenses are claimed based on CPUC's cost factor, and implementation costs, when applicable, are manually determined. CuraTel also reported that there are no other internal controls. Our on-site work identified issues with accurately calculating and claiming reimbursement from the California LifeLine fund for the PUC user fee, operating expenses, and bad debts, as discussed in the Findings section of this report.

Initial Review of Monthly California LifeLine Claim Forms. Our initial review of the monthly California LifeLine claim forms provided by CuraTel and CPUC showed no variances.

Other Considerations. The TCBA team remained watchful for any indications of high risk areas while carrying out on-site field work. This included discussions with CuraTel staff, reviews of documentation provided by CuraTel staff, and observations made on-site. During our on-site work, we noted no additional high risk areas.

Sampling Methodology

For our detailed review of California LifeLine Program operations, claims, and reimbursements, we used a combination of judgmental and random sampling. We selected August 2009 and February 2010 as sample months. We selected one month from each calendar year so that we would have visibility of program operations and reimbursements for both calendar years. To determine the accuracy of the California LifeLine discounts provided to subscribers, including new subscriber charges, we sampled subscribers' bills from those months. Using IDEA data analysis software, we selected a random attribute representative sample of 45 subscriber bills for August 2009 and 45 subscriber bills for February 2010. According to American Institute of Certified Public Accountants (AICPA) guidance on sampling, a sample size of 45 has a confidence level of 90 percent and tolerable exception rate of less than 10 percent with an expectation of zero exceptions.

The sample of 45 subscribers for each month consisted of 30 existing flat rate subscribers, 5 existing true-up flat rate subscribers (flat rate for the previous month), and 10 new subscribers with connection charges. The selection of this sample allowed us to determine the accuracy of the discounted California LifeLine charges for existing California LifeLine subscribers, as well as new California LifeLine subscribers with connection services in the months sampled. From this sample, we determined (1) the accuracy of the discounted California LifeLine charges that new and existing subscribers paid for flat rate local service and connection services and (2) whether CuraTel improperly charged subscribers for the federal End User Common Line (EUCL) charge, toll blocking or toll-limitation service, and Universal California LifeLine Telephone Service (ULTS) billing for various surcharges. Our sample of subscriber bills did not include measured-rate local service or extended area service because CuraTel did not provide these services.

Sampling Risk

Sampling risk occurs whenever a subset of a population is evaluated instead of the entire population. Sampling risk represents the possibility that an auditor's conclusion based on the testing of a sample would be different if the auditor had evaluated the entire population such that the auditor:

- Concludes that there were significant errors when in fact there were none; and
- Concludes that there were no significant errors when in fact there were.

The sampling risk was mitigated by:

- Adhering to attestation standards established by the AICPA and the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States.
- Adhering to AICPA and U.S. Government Accountability Office (GAO) sampling guidelines.
- Using a random sampling approach in selecting the sample. This ensured that all items within the population had an equal probability of being selected, thus lowering the risks involved in performing a judgmental sample.
- Ensuring that our examination procedures were adequate and accounted for the potential of misinterpreted results from sample testing. These procedures included, but were not limited to, adequate communication with CuraTel Telephone officials as well as with CPUC officials.

Procedures Applied and Records Examined

We assessed compliance with all of the California LifeLine Program processes included in Appendix A. In conducting its audit, TCBA utilized the Commission's Solix data, as described in Appendix B.

Compliance with Enrollment and Related Requirements

To determine whether CuraTel was in compliance with subscriber enrollment requirements, including service elements offered and various notifications to subscribers, *e.g.,* regular tariff rates charged until California LifeLine approval, refunds/credits after approval, no service deposits required, etc., we reviewed CuraTel's California LifeLine enrollment process and procedures, including documents such as CuraTel's California LifeLine Procedures for Sales, Certification Form Example, Customer Notice—Attempt to Discuss California LifeLine Application, customer brochures, examples of delinquency letters sent to subscribers, applicable tariff pages related to enrollment and discontinuation and restoration of service, and CuraTel's responses to our internal control questionnaire.

We interviewed cognizant CuraTel officials to obtain additional information and clarification regarding the subscriber enrollment process and notifications to subscribers and the California LifeLine Administrator. In addition, we viewed computer screens for California LifeLine customer accounts and automated messages sent to the California LifeLine Administrator regarding new California LifeLine applicants.

Compliance with Claim Form Requirements

To determine whether CuraTel's California LifeLine claim forms were filed in a timely manner, contained all of the necessary elements, and were mathematically accurate, we reviewed all of the monthly claims for the year ended June 30, 2010.

To determine the validity of the monthly claims for year ended June 30, 2010, we reviewed in detail the August 2009 and February 2010 claim forms. We requested and reviewed supporting documentation for all of the amounts claimed and reimbursed for these two months. These reimbursements were for:

- Connection charges
- Flat rate service charges
- EUCL Charges
- Surcharges, taxes, and fees
- Operating expenses

To determine the accuracy of the connection, flat rate service, and EUCL charges claimed and reimbursed, we compared the number of subscribers claimed by CuraTel to the number of eligible subscribers calculated using Solix data provided by CPUC. We made certain assumptions and modified the subscriber eligibility data provided by Solix, Inc. (CPUC's Certifying Agent during the audit period) to: (1) calculate the number of subscribers (weighted average and number of new subscribers) for each of two sample months, (2) review the accuracy of CuraTel's monthly California LifeLine Report and Claim Forms, and (3) calculate the amount of any material overpayments or underpayments of CuraTel's claims.

The Solix data categorized some eligible subscribers as approved and other eligible subscribers as pending or denied because they were previously approved for one year and were going through the annual renewal process, and we made certain adjustments to the data to count all eligible subscribers. [2] In addition, we eliminated some subscribers from the Solix data in instances when the same telephone number was listed twice; for example, we counted an approved subscriber and not a denied, disconnected, or pending subscriber with the same telephone number.

We also reviewed the applicable tariff rates. We reviewed supporting documentation for surcharges, taxes and fees claimed and reimbursed and payments to the appropriate taxing authorities. To determine the accuracy of the operating expense charges claimed and reimbursed, we recalculated the amount due to CuraTel based on the number of subscribers calculated using Solix data, and we compared this recalculated amount to what CuraTel claimed and was reimbursed. We also interviewed CuraTel officials to determine how all of the costs claimed and reimbursed for August 2009 and February 2010 were calculated.

Compliance with Requirements for Discounted Subscriber Charges

To determine (1) the accuracy of the discounted charges that new and existing subscribers paid for flat rate and connection services and (2) whether CuraTel improperly charged subscribers for the federal EUCL charge, toll blocking or toll-limitation service, and ULTS billing for various surcharges, we reviewed the sample of 45 subscriber bills for each of August 2009 and February 2010 as described above. We compared what the subscribers were actually charged with the approved tariff amounts and noted any differences. We discussed the differences with cognizant CuraTel officials to obtain explanations and clarifications.

[2] The methodology used to calculate the weighted averages and number of new subscribers using the Solix data, as agreed to by the CPUC, is presented in Appendix B.

Compliance with Recordkeeping Requirements

To determine whether CuraTel complied with recordkeeping requirements, we interviewed CuraTel officials regarding CuraTel's recordkeeping policy, examined original documentation provided for apparent authenticity, and noted whether CuraTel could provide us with records we requested in conducting our examination.

Adequacy of Internal Controls

To determine the adequacy of CuraTel's internal controls over compliance with CPUC California LifeLine requirements, we reviewed the internal control questionnaire that CuraTel completed at our request. We also interviewed CuraTel officials regarding the processes for:

- compiling and submitting California LifeLine subscriber information to Solix;
- compiling and recording California LifeLine claim form information;
- receiving and recording California LifeLine claim payments; and
- compiling and remitting surcharges, taxes, and fees to the appropriate taxing authorities.

In addition, while performing work in other areas, such as reviewing CuraTel's compliance with claim form requirements, we were observant of potential internal control vulnerabilities.

Calculation of Interest

To determine the amount of interest due on claim overpayments that we identified during our examination, we calculated interest based on the 3-month commercial paper rate. We also interviewed CuraTel officials to determine whether there were any late claim reimbursements and, if so, whether the California LifeLine fund paid CuraTel the proper amount of interest due.

Examination Process

Our examination revealed no material instances of noncompliance. After requesting and reviewing CuraTel's California LifeLine Program data, we conducted work on-site from February 20, 2012 through February 29, 2012. We conducted an exit conference with CuraTel officials on July 19, 2012, at which time we discussed the following seven preliminary issues determined to be immaterial.

1. Some CuraTel monthly California LifeLine claims were not submitted timely. CuraTel officials agreed with this finding.
2. Overpayment of connection charges. CuraTel officials later provided us with additional information demonstrating that their customer counts for new customers were accurate and there was no California LifeLine fund overpayment for connection charges.
3. Overpayment of Taxes, Fees, and Surcharges. CuraTel officials agreed with this finding.
4. Overpayment of operating expenses. CuraTel officials agreed with this finding.
5. Overpayment of bad debt expenses. CuraTel officials agreed with this finding. They later provided additional information showing that the net overpayment for bad debt expenses was $4,597.
6. Accuracy of customer bills. During our review of our sample of subscriber bills we identified a small number of bills that were not accurate. CuraTel officials later provided additional information regarding these bills. However, small errors still remained.
7. Non-payment of amended claim. CuraTel officials agreed with this finding.

Findings

001	**Timely Submittal of California LifeLine Claims – Did Not Demonstrate Compliance With GO 153, Section 9.5.5**
Condition	CuraTel did not timely submit all of its monthly California LifeLine claims for the year ended June 30, 2010. The California LifeLine claims for July, August, and September 2009 and for March and April 2010 were not submitted on time.
Criteria	Section 9.5.5 of General Order 153 requires carriers to submit their California LifeLine claims to CPUC no later than 30 days after the close of the monthly period for which a claim is made.
Cause	According to CuraTel officials, the July, August, and September 2009 California LifeLine claims were submitted late because of other workload constraints and the March and April 2010 claims were late because the staff member who normally submits the claims was on vacation.
Effect	CuraTel was not in compliance with GO 153 requirements for timely submission of California LifeLine claims, thereby potentially delaying CPUC review, approval, and payment of California LifeLine claims.
Recommendation	CuraTel should take steps to ensure that it submits it California LifeLine claims on time consistent with CPUC requirements.
Curatel's Response	Curatel officials provided oral responses during the exit conference, which are incorporated into the Finding. They did not provide a written response to the draft report.

002	**Recovery of Taxes, Fees and Surcharges Charges – Did Not Demonstrate Compliance With GO 153, Section 9.3.5.1**
Condition	CuraTel incorrectly calculated reimbursement for the PUC user fee on its monthly claim forms for the year ended June 30, 2010. CuraTel based its reimbursement for this fee on an incorrect base. CuraTel included reimbursement for End User Common Line (EUCL) unrecovered revenue in the base. However, EUCL charges are not part of the base to be used for calculating the PUC User Fee. Consequently, CuraTel was overpaid \$1,581 for the year ended June 30, 2010, for PUC User Fee reimbursement.
Criteria	Section 9.3.5.1 of General Order 153 states that "the base for calculating the reimbursable amount of PUC user fee shall include only the lost revenue for the following items: (a) connection charges, (b) conversion charges, (c) measured and/or flat rate service, (d) surcharges claimed for the California LifeLine fund, and (e) allowable recovery of untimed calls".
Cause	CuraTel incorrectly included EUCL unrecovered revenue in the base when calculating the reimbursement for the PUC User Fee.
Effect	CuraTel was overpaid a total of \$1,581 for PUC User Fee reimbursement for the year ended June 30, 2010.

Recommendation	CuraTel should reimburse the CPUC $1,581 for the total overpayment for the PUC User Fee for the year ended June 30, 2010, and ensure that it uses the correct base when calculating the PUC User Fee reimbursement.
Curatel's Response	Curatel officials provided oral responses during the exit conference, which are incorporated into the Finding. They did not provide a written response to the draft report.

003 **Recovery of Operating Expenses – Did Not Demonstrate Compliance With GO 153, Section 9.13**

Condition

As a Competitive Local Exchange Carrier (CLEC), CuraTel used the operating cost factor method for claiming reimbursement for operating expenses on its monthly California LifeLine claims during the year ended June 30, 2010. CuraTel appropriately notified CPUC that it was opting in to use this method. In calculating the operating expense reimbursements, CuraTel used the correct cost factor of $2.51 per customer per month but did not multiply this by the correct weighted average number of California LifeLine customers. Instead, CuraTel multiplied the cost factor by the total number of eligible California LifeLine customers. Consequently, CuraTel over-claimed a total of $21,329 for operating expenses.

For October 2009, February 2010, and June 2010, the CPUC detected this error in its review of CuraTel's California LifeLine claims and disallowed a total of $5,867 of the claims for operating expenses for these months. CuraTel, therefore, was not reimbursed for this amount. For the remaining nine months of the year ended June 30, 2010, CuraTel was over-reimbursed by $15,462 for operating expense. ($21,329-$5,867 = $15,462)

Criteria

Section 9.13 of General Order 153 allows a CLEC the option of receiving its incremental operating expense reimbursement based on a cost factor developed by the CPUC. The CLEC must notify the CPUC before the year begins if it chooses to receive its incremental operating expenses based on this cost factor. The cost factor for the year ended June 30, 2010, was $2.51 per customer per month. According to CPUC's instructions for the claim form, these costs should be claimed based on the weighted-average number of California LifeLine customers reported for the month.

Cause

CuraTel did not use the weighted-average number of California LifeLine customers when calculating California LifeLine reimbursement for operating expenses. Instead, CuraTel used the total number of California LifeLine customers that were eligible during the month.

Effect

CuraTel was overpaid a total of $15,462 for operating expenses for its California LifeLine claims during the year ended June 30, 2010.

Recommendation

CuraTel should reimburse the CPUC $15,462, for the overpayment of operating expenses during the year ended June 30, 2010, and ensure that it uses the weighted average number of customers when calculating reimbursement for operating expenses.

Curatel's Response — Curatel officials provided oral responses during the exit conference, which are incorporated into the Finding. They did not provide a written response to the draft report.

004 — Recovery of Bad Debt Expenses – Did Not Demonstrate Compliance With GO 153, Section 9.3.9

Condition — CuraTel claimed, and was reimbursed, $25,050 from the LifeLine fund for bad debt expenses during the year ending June 30, 2010. However, CuraTel did not calculate the bad debt expenses correctly and, thereby, was reimbursed $4,597 too much for its bad debt expenses.

Criteria — Section 9.3.9 of General Order 153 states that bad debt expenses are limited to actual California LifeLine rates and charges that a California LifeLine customer fails to pay.

Section 9.11.1 of General Order 153 requires carriers to support and justify any costs and lost revenues that they seek to recover from the California LifeLine Fund.

Cause — CuraTel officials said that bad debt expenses for California LifeLine monthly claims during the year ended June 30, 2010, were calculated incorrectly because the tariff rate used to calculate bad debt expenses changed during the year. The officials said that they used the incorrect tariff rate when calculating the balances for delinquent customers after the rate change.

Effect — CuraTel was overpaid $4,597 from the LifeLine fund for bad debt expenses incorrectly claimed for the year ending June 30, 2010.

Recommendation — CuraTel should reimburse the CPUC $4,597 for bad debt expense overpayments during the fiscal year ending June 30, 2010.

Curatel's Response — Curatel officials provided oral responses during the exit conference, which are incorporated into the Finding. They did not provide a written response to the draft report.

005 — Subscriber Bills – Did Not Demonstrate Compliance With GO 153, Section 8.1.4

Condition — One of ninety LifeLine subscriber telephone bills that we tested (45 subscriber bills in August 2009 and 45 subscriber bills in February 2010) showed that CuraTel did not provide the subscriber with a LifeLine discount of $7.39 in August 2009. We also noted four other telephone bills in February 2010 that contained errors in the total charges—the errors ranged from $.45 to $.73.

Criteria — Section 8.1.4.1 of General Order 153 states that the LifeLine flat-rate service shall be no lower than $5.47, unless ½ of carrier's basic residential flat-rate is lower than $5.47, and in that case, the lower rate applies.

Cause	Curatel erred in preparing 5 of the 90 LifeLine subscriber telephone bills that we tested for August 2009 and February 2010. In discussing the results of our testing, a Curatel official said that Curatel failed to credit one LifeLine subscriber with the LifeLine discount and the subscriber's telephone was disconnected before an adjustment could be made on a subsequent bill. In addition, the Curatel official said charges for four of the 90 LifeLine subscriber bills were incorrectly calculated.
Effect	One Curatel LifeLine subscriber was overcharged $7.39 in August 2009. Four LifeLine subscribers were each undercharged a small amount ranging from $.45 to $.73 in February 2010.
Recommendation	Curatel should review its internal policies and procedures and make certain that controls are in place to ensure that each LifeLine subscriber receives a proper LifeLine discount and that the telephone bills are correctly calculated.
Curatel's Response	Curatel officials provided oral responses during the exit conference, which are incorporated into the Finding. They did not provide a written response to the draft report.

006 **Nonpayment of Amended Claim**

Condition	On July 16, 2010, CuraTel filed an amended California LifeLine claim for January 2010 in the amount of $32,560. CuraTel filed this amended claim because the tariff rate for flat rate residential service had increased from $13.50 to $16.45 effective January 2, 2010, and this increase had not been reflected in the original January 2010 claim. As of August 8, 2012, this amended claim had not been paid or disallowed. A CPUC official told us that the CPUC had received the claim, but it was unclear why the claim has not been paid or disallowed.
Criteria	Section 9.7.1 of General Order 153 states that utilities shall submit California LifeLine claims to the CPUC's Communications Division (CD) for review and determination of whether, and to what extent, California LifeLine claims should be paid. CD shall prepare payment letters for all approved claims. CD shall forward the payment letters to the Information and Management Services Division (IMSD). IMSD shall make payments as required by all payment letters.
Cause	We were unable to determine why the amended January 2010 claim had not paid or disallowed by the CPUC.
Effect	CuraTel's amended January 2010 California LifeLine claim of $32,560 has not been paid or disallowed.
Recommendation	CPUC should review CuraTel's amended January 2010 California LifeLine claim of $32,560 and make the appropriate reimbursement to CuraTel or disallow the claim.
Curatel's Response	Curatel officials provided oral responses during the exit conference, which are incorporated into the Finding. They did not provide a written response to the draft report.

Appendix A

CALIFORNIA LIFELINE PROGRAM PROCESSES EXAMINED

The following represents the California Public Utilities Commission's procedures for administration of the Moore Universal Telephone Service Act, General Order (GO) 153 [California Public Utilities Code § 871 et seq.] with which compliance was examined.

Subscriber Enrollment Requirements

1. Informed California LifeLine applicants that they would incur regular tariff rates and charges until completion of the certification process. (GO 153, Section 4.2.4).

2. Offered California LifeLine applicants a payment plan for the regular tariff non-recurring charges and deposits for basic service, and informed applicants of the existence of such plans (GO 153, Section 4.2.4).

3. Did not require customers to post a service deposit in order to initiate California LifeLine service (GO 153, Section 7.4).

4. Informed California LifeLine applicants that once certified, they will receive a refund or a credit on their bill for California LifeLine discounts as of the Application Date (GO 153, Section 4.2.5).

5. Provided the California LifeLine Administrator with the information of customers who were applying or maintaining enrollment in the California LifeLine program, for application and/or renewal purposes, in a timely manner (i.e., before the end of the next business day after application and/or renewal) (GO 153, Section 6.1 & 6.3).

6. Complied with the requirements stated under Section 7 of GO 153, as specified below:

    a. utilities shall offer to their California LifeLine customers all of the service elements set forth in Appendix A of GO 153.

    b. California LifeLine is restricted to eligible low-income residential customers who subscribe to individual, two-party, four-party and suburban residential service.

    c. California LifeLine is restricted to residential service. Foreign exchange, farmer lines, and other non-California LifeLine services are excluded from this offering.

    d. utilities shall not require customers to post a service deposit in order to initiate California LifeLine.

    e. utilities may require a California LifeLine customer to pay any overdue California LifeLine rates and charges, or make payment arrangements, before California LifeLine is reinstated at the same address or at a new address.

    f. other than previously stated, California LifeLine is subject to the conditions of "Discontinuance and Restoration of Service" as set forth in the utility's tariffs.

    g. if a customer is disconnected for nonpayment of toll charges, a utility must provide California LifeLine to the customer if the customer elects to receive toll blocking.

Reimbursement Claim Verification

1. Filed all California LifeLine Report and Claim Forms no later than 30 days after the close of the monthly or biannual period for which a claim was made (GO 153, Section 9.5.5).

2. Included lost revenue for a full month for each claim filed on a monthly basis, or showed a monthly breakdown of claims on the California LifeLine claim form for claims filed on a biannual basis (GO 153, Sections 9.5.1, 9.5.3, and 9.5.4.1).

3. Accurately reported all amounts on page 1 of the California LifeLine Report and Claim Forms submitted (GO 153, Sections 9.3.1 through 9.3.3).

4. Paid the appropriate taxing authorities the applicable taxes, fees, and surcharges reimbursed from the California LifeLine Fund (GO 153, Section 8.1.9.1).

5. Did not recover costs and lost revenue for services

    a. subsidized by the Federal California LifeLine and Link Up programs (GO 153, Section 9.2.1).

    b. that Eligible Telecommunications Carriers (ETCs) are required to provide under the Federal California LifeLine and Link Up programs but which the carriers are not required to provide under the California LineLine program (GO 153, Section 9.4.7).

6. Notified the CPUC before the beginning of the fiscal year that it chose to receive its reimbursement for incremental operating expenses based on the on the $2.51 cost-factor for fiscal year 2009-2010, and did not receive other reimbursement for operating expenses included in the cost-factor (i.e., data processing expense, customer notification expense, accounting expense, service representative cost, legal expenses, and administrative costs) from the California LifeLine Fund. (GO 153, Section 9.13). [Note: This assertion applies to those carriers who are Competitive Local Exchange Carriers (CLECs) and who opted to receive reimbursement for their incremental operating expenses based on the $2.51 cost-factor for fiscal year 2009-2010.]

7. Accurately claimed reimbursement for the federal EUCL charge and the incremental costs derived from providing toll limitation services [Note: The federal EUCL charge that the utility pays on behalf of its California LifeLine customers is limited to the underlying ILEC's EUCL rates.] (GO 153, Sections 9.3.3 & 9.3.8).

8. Took reasonable steps to collect bad debt costs from the California LifeLine subscribers (GO 153, Section 9.3.9.1).

9. Properly offset the total reimbursable cost reported in California LifeLine Report and Claim Forms with any bad debt costs collected during fiscal year ending June 30, 2010 (GO 153, Section 9.3.9).

Subscriber Count/Eligibility

1. Accurately reported all numbers of subscribers on page 2 of the California LifeLine Report and Claim Forms submitted (GO 153, Section 9.3).

2. Included in claims only those subscribers who were approved by the California LifeLine Administrator for meeting the eligibility criteria for obtaining and retaining California LifeLine benefits as specified in Section 5 of GO 153.

3. Did not claim any lost revenue and costs from providing California LifeLine discounts to any subscribers who had more than one California LifeLine line but were not eligible to receive more than one line in accordance with Section 5.1.7 of GO 153.

4. Did not claim reimbursement from the California LifeLine Fund for connection charges of subscribers who failed to qualify for or were removed from the California LifeLine program (GO 153, Sections 5.6 & 5.7).

5. Did not claim reimbursement from the California LifeLine Fund for conversion charges of subscribers who failed to qualify for or were removed from the California LifeLine program (GO 153, Sections 5.6 & 5.7).

Subscriber Bills

1. Charged California LifeLine subscribers the appropriate California LifeLine connection charge as stated in its Commission-approved tariffs (GO 153, Section 8.1.1).

2. Charged California LifeLine subscribers the appropriate California LifeLine conversion charge as stated in their Commission-approved tariffs (GO 153, Section 8.1.3).

3. Charged California LifeLine subscribers the appropriate California LifeLine discount rate for flat rate local service in their Commission-approved tariff (GO 153, Section 8.1.4).

4. Charged California LifeLine subscribers the appropriate California LifeLine discount rate for measured-rate local service as stated in their Commission-approved tariffs (GO 153, Section 8.1.5).

5. Charged California LifeLine subscribers the appropriate California LifeLine discount rate for Extended Area Service (EAS) as stated in their Commission-approved tariffs (GO 153, Section 8.1.6).

6. Did not charge California LifeLine subscribers for the federal EUCL charge (GO 153, Section 8.1.7).

7. Did not charge California LifeLine subscribers for toll-limitation services (GO 153, Section 8.1.8).

8. Did not charge California LifeLine subscribers for surcharges including the following: California High Cost Fund (CHCF-A) A surcharge, CHCF-B surcharge, California Teleconnect Fund surcharge, California Relay Service and Communications Device Fund surcharge, and California LifeLine surcharge. (GO 153, Section 8.1.9)

Calculation of Interest

1. Paid interest on the amount of any overpayment of California LifeLine claims and calculated interest in accordance with GO 153, Sections 13.4 and 9.9.1.

Recordkeeping

1. Maintained all required records related to California LifeLine claims, including true-up claims, and surcharge remittances for a period of five calendar years following the year in which claims were submitted and surcharges remitted (GO 153, Sections 13.8 & 13.9).

Appendix B

SOLIX DATA PLAN

TCBA used the Solix data provided by CPUC to (1) calculate the number of subscribers (weighted average and number of new subscribers) for each of two sample months, to determine the accuracy of the six carriers' monthly California LifeLine Report and Claim Forms, (2) calculate the amount of any material overpayments or underpayments of the carriers' claims, and (3) determine whether the carriers included in their claims only subscribers who were approved by Solix as eligible for California LifeLine benefits according to the Solix data provided by CPUC. The methodology used in calculating the number of California LifeLine subscribers using the Solix data is presented below, along with certain assumptions that were made.

Weighted Average, by month

- Approved subscribers
    - For subscribers with an Approval Date in the same month and the Record Type is "v" (verification), count the entire month.
    - For subscribers with an Approval Date in the same month and the Record Type is "c" (certification), count the number of days in that month starting with the Application Date. If such a subscriber has an Application Date in a preceding month, count the entire current month and also count the number of days in the preceding month(s) dating back to, and including, the Application Date, except that no days prior to July 1, 2009, will be counted as subscribers enrolled prior to July 1, 2009, began immediately receiving California LifeLine discounts and carriers claimed reimbursement).
- Pending subscribers
    - Count the entire month if the Record Type is "v" (verification) and the Anniversary Date is in a later month. If the Record Type is "v" (verification) and the Anniversary Date is in the current month, count the number of days up to, and including, the Anniversary Date. The assumption is that such subscribers were previously approved for one year and are going through the verification (re-certification) process.
    - Do not count if the Record Type is "c" (certification). The assumption is that such subscribers are waiting for approval and are not yet eligible for California LifeLine benefits.
- Disconnected subscribers
    - Count the number of days in the month up to, and including, the Disconnect Date.
- Denied subscribers
    - Do not count if the Record Type is "c" (certification).

- Count the entire month if the Record Type is "v" (verification) and the Anniversary Date is in a later month. The assumption is that such subscribers were previously approved for one year and are going through the verification (re-certification) process.

- If the Record Type is "v" (verification) and the Anniversary Date is in the current month, count the number of days up to, and including, the Anniversary Date. The assumption is that if a subscriber is Denied in the same month as the Anniversary date, it is an actual denial resulting from the verification process.

Number of New Subscribers (Connections/Conversions), by month

- Count the number of subscribers with an Approval Date in the same month and a Record Type of "c" (certification). The assumption is that such subscribers will have Approved status.

Subscriber Eligibility

- Compare the carriers' electronic subscriber listings to the Solix data for each of the two sample months and test for data anomalies in the separate data sets. Each carrier's subscriber listings will be different, and the format of the carrier's listings will affect how the comparison to Solix data will be made.

    - For the two sample months, compare the electronic subscriber listings provided by the carriers to the Solix data to determine whether the carrier included in its claims only those subscribers who were eligible for California LifeLine reimbursement according to the Solix data. Subscriber listings provided by the carrier may not entirely match the Solix data, *e.g.*, telephone numbers that changed subsequent to the FY 2009-2010 period being reviewed may not be listed in the Solix data. Also, some subscribers categorized by Solix as Denied in a particular month may have been eligible for some of that month before transferring service to another carrier.

    - Test the carrier’s subscriber listings for inconsistencies such as duplicate addresses or telephone numbers, number of telephones per household, and blank or unusual notations (questions marks, symbols, N/A, etc) in the name, address, phone number, or subscription start date fields.