TCBA

California LifeLine Program Compliance Audit

For the year ended June 30, 2010

Kerman Telephone Company

July 30, 2012

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Independent Accountant's Report

Kerman Telephone Company
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California Public Utilities Commission
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Attn: Division of Water and Audits, Communications Division

We have examined Kerman Telephone Company's (Kerman Telephone) 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 Kerman Telephone's participation in the California LifeLine Program. Kerman Telephone's management is responsible for compliance with those requirements. Our responsibility is to express an opinion on Kerman Telephone'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 Kerman Telephone's compliance with those requirements 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 Kerman Telephone's compliance with specified requirements.

In our opinion, Kerman Telephone 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 Kerman Telephone's participation in the California LifeLine Program.

The results of our examination procedures disclosed one instance of noncompliance with those requirements that was considered to be immaterial. Detailed information relative to this instance of immaterial noncompliance is described in the Findings section of this report.

This report is intended solely for the information and use of Kerman Telephone 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 30, 2012

Executive Summary

During our examination of Kerman Telephone's 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 did not find any material instances of noncompliance.

We noted one instance of immaterial noncompliance with the CPUC California LifeLine Program requirements. Kerman Telephone overclaimed and received $2,049 from the LifeLine Fund for bad debt costs during the year ended June 30, 2010, because Kerman Telephone did not offset bad debt cost claims with late payments subsequently received from California LifeLine customers. The total amount that Kerman owes to the Lifeline Fund is $2,059, consisting of interest of $10 and the aforementioned over-claimed amount of $2,049.

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 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; and

[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.

- 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 Kerman Telephone, a wholly-owned subsidiary of Sebastian Enterprises, Inc. Kerman Telephone was purchased by the current owners in June of 1946 and serves the community of Kerman, California.

In providing California LifeLine Program customers with local telephone service at discounted rates, Kerman Telephone offers its 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, Kerman Telephone claimed reimbursement for approximately 2,600 - 2,800 LifeLine subscribers each month. Monthly claims during the year ranged from a high of $36,000 in September 2009 to a low of $28,300 in April 2010. During the year ended June 30, 2010, Kerman Telephone submitted claims totaling $396,317, for which Kerman Telephone ultimately received $396,317 from the California LifeLine Program Fund.

Purpose and Scope

The purpose of the examination was to provide reasonable assurance as to whether Kerman Telephone'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 and reimbursements received by Kerman Telephone, whether only approved subscribers were included in claims for reimbursement, the accuracy of discounts provided to subscribers, and other aspects of Kerman telephone's California LifeLine Program such as enrollment and recordkeeping. We reviewed the overall operations, claims, and reimbursements for Kerman Telephone'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 Kerman Telephone and to determine whether any additional examination work was needed to mitigate the risk. This risk assessment was initially carried out using Kerman Telephone 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 posed a high risk.

- Any material weaknesses or other areas of concern noted in audit reports provided by Kerman Telephone, 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 Kerman Telephone prior to our on-site field work.
- Any significant variances noted in our initial review of the monthly LifeLine claim forms provided by Kerman Telephone and those provided by CPUC.
- Any other considerations based on information provided by Kerman Telephone that could indicate other high risk areas or the potential for fraud.

Audit Reports. CPUC officials informed us there were no CPUC audits of Kerman Telephone. There were also no USAC audits of Kerman Telephone's Lifeline Program. Kerman Telephone provided us with a Report of Independent Auditors Report and Financial Statements for December 31, 2010 and 2009, and another for December 31, 2009 and 2008. The audited financial statements showed unqualified opinions, and there were no significant findings in the audited financial statements which could have an impact on Kerman Telephone's compliance with CPUC rules related to the California LifeLine Program.

Review of Internal Control Questionnaire. Kerman Telephone completed our Internal Control Questionnaire prior to our on-site field work. Our review of the questionnaire disclosed no significant deficiencies. During our on-site work we noted no significant difference between what was contained in the questionnaire and what our work disclosed.

Initial Review of the Monthly LifeLine Claim Forms. Our initial review of the monthly California LifeLine claim forms provided by Kerman Telephone and CPUC showed no variances in the forms. There were no significant issues regarding the claim forms based on our on-site work.

Other Considerations. The TCBA team remained alert and watchful for any indications of high risk in other areas while carrying out on-site field work. This included discussions with Kerman Telephone staff, reviews of documentation provided by Kerman Telephone 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 the California LifeLine Program operations, claims, and reimbursements, we used a combination of judgmental and random sampling. We selected September 2009 and March 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 the same months, September 2009 and March 2010. Using IDEA data analysis software, we selected a random attribute representative sample of 40 subscriber bills for September 2009 and 40 subscriber bills for March 2010. According to American Institute of Certified Public Accountants (AICPA) guidance on sampling, a sample size of 40 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 40 subscribers for each month consisted of 33 existing flat rate subscribers and 7 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 Kerman Telephone improperly charged subscribers for the federal End User Common Line (EUCL) charge, toll blocking or toll-limitation service, and Universal Lifeline Telephone Service (ULTS) billing for various surcharges.

Our sample of subscriber bills did not include charges for conversions, measured-rate local service, or extended area service because Kerman Telephone did not claim reimbursement for 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, or
- 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.
- 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 Kerman 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 examination, TCBA utilized the Commission's Solix data, as described in Appendix B.

Compliance with Enrollment and Related Requirements

To determine whether Kerman Telephone 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 Kerman Telephone's California LifeLine enrollment process and procedures, including documents such as Kerman Telephone's Policy and Process Guide, Notice for California LifeLine Customers—Enrollment/Eligibility Requirements, Tariff requirements—Discontinuation and Restoration of Service, Customer Brochure, Schedule—Timeliness of Service Order Information Provided to Solix, Customer Bill with Discontinuation Warning, Customer Disconnect Notice, and Kerman's responses to our internal control questionnaire.

We interviewed cognizant Kerman Telephone 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 Kerman Telephone'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 the year ended June 30, 2010, we reviewed in detail the September 2009 and March 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;
- surcharges, taxes and fees;
- bad debt charges; and
- operating expenses.

To determine the accuracy of the connection and flat rate service charges claimed and reimbursed, we compared the number of subscribers claimed by Kerman Telephone 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 Kerman Telephone's monthly California LifeLine Report and Claim Forms, and (3) calculate the amount of any material overpayments or underpayments of Kerman Telephone'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 for 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, payments to the appropriate taxing authorities, and bad debt charges claimed and reimbursed. To determine the accuracy of the operating expense charges claimed and reimbursed, we reviewed the supporting documentation for these charges, *e.g.,* service, representative costs and legal expenses. We also interviewed Kerman Telephone officials to determine how all of the costs claimed and reimbursed for September 2009 and March 2010 were calculated.

<u>Compliance with Requirements for Discounted Subscriber Charges</u>

To determine (1) the accuracy of the discounted charges that new and existing subscribers paid for flat rate and connection services and (2) whether Kerman Telephone improperly charged subscribers for the federal EUCL charge, toll blocking or toll-limitation service, and ULTS billing for various surcharges, we reviewed a sample of 40 subscriber bills for each of September 2009 and March 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 Kerman Telephone officials to obtain explanations and clarifications.

<u>Compliance with Recordkeeping Requirements</u>

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

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

Adequacy of Internal Controls

To determine the adequacy of Kerman Telephone's internal controls over compliance with CPUC California LifeLine requirements, we reviewed the internal control questionnaire that Kerman Telephone completed at our request. We also interviewed Kerman Telephone 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 Kerman Telephone'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 reimbursement claim overpayments that were indentified during our examination, we calculated interest based on the 3-month commercial paper rate. We also interviewed Kerman Telephone officials to determine whether there were any late claim reimbursements and, if so, whether the California LifeLine fund paid Kerman Telephone the proper amount of interest due.

Examination Process

After requesting and reviewing Kerman Telephone California LifeLine Program data, we conducted work on-site from April 9 through April 13, 2012. We conducted an exit conference with Kerman Telephone officials on July 26, 2012, at which time we discussed two preliminary issues that we had identified: Recovery of Connection Charges and Recovery of Bad Debt Expenses. As agreed at the exit conference, Kerman Telephone officials later provided us with additional information demonstrating that 1) its customer counts for new customers were accurate, 2) there was no LifeLine fund overpayment for connection charges, and 3) the net LifeLine fund overpayment for bad debt expenses was $2,049.

Findings

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

Condition

Kerman Telephone claimed, and was reimbursed, $4,259 from the LifeLine fund for bad debt costs during the year ending June 30, 2010. Kerman Telephone did not offset bad debt cost claims with subsequent customer payments. Kerman Telephone officials told us, however, that they did receive payments from some California LifeLine customers whose debts they had previously written off. The officials provided us with documentation showing that the maximum bad debt amount that should have been claimed for California LifeLine customers after adjusting for late customer payments was $2,210; thus, Kerman Telephone received a net overpayment of $2,049 during the year ending June 30, 2010.

Criteria

Section 9.3.9, 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, General Order 153 requires that carriers support and justify any costs and lost revenues that they seek to recover from the LifeLine Fund.

Cause	Kerman Telephone did not provide adequate documentation to support the late payments it received from California LifeLine customers for bad debts previously written off and did not offset California LifeLine bad debt claims with those payments received during the year ending June 30, 2010. Kerman Telephone officials said they committed an error in calculating bad debt costs and not properly offsetting payments received.
Effect	Kerman Telephone was overpaid $2,049 from the LifeLine fund for bad debt costs during the year ending June 30, 2010.
Recommendation	Kerman Telephone should reimburse CPUC $2,049 for California LifeLine bad debt overpayments during the year ending June 30, 2010, plus $10 interest for a total of $2,059.
Kerman Telephone Response	Kerman Telephone agrees that it inadvertently failed to report payments for customers that had been written off and subsequently paid their LifeLine bills. The amount identified above ($2,059), should be reimbursed to the LifeLine program. Subsequent to the audited period, the LifeLine program has changed its allowable recovery provisions. Uncollectable amounts from LifeLine customers are no longer recoverable from the program. This issue has therefore been resolved with regard to any current or future issues of this type.

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 LifeLine Fund (GO 153, Section 8.1.9.1).

5. Did not recover costs and lost revenue for services

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

   b. that Eligible Telecommunications Carriers (ETCs) are required to provide under the Federal 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 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 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 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 LifeLine connection charge as stated in its Commission-approved tariffs (GO 153, Section 8.1.1).

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

3. Charged California LifeLine subscribers the appropriate 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 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 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.