TCBA

California LifeLine Program Compliance Audit

For the year ended June 30, 2010

MCImetro Access Transmission Services

February 10, 2013

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Independent Accountant's Report

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MCImetro Access Transmission Services LLC
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Basking Ridge, New Jersey 07920

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102-3298
Attn: Division of Water and Audits, Communications Division

We have examined MCImetro Access Transmission Services' (MCImetro) 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 MCImetro's participation in the California LifeLine Program. MCImetro's management is responsible for compliance with the CPUC's requirements. Our responsibility is to express an opinion on MCImetro'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 MCImetro'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 MCImetro's compliance with specified requirements.

Our examination disclosed the following material deviations from the requirements of CPUC Procedures for Administration of the Moore Universal Telephone Service Act, General Order 153 [California Public Utilities Code §871 et seq.] applicable to MCImetro for the year ended June 30, 2010.

- MCImetro incorrectly calculated its allowable recovery for flat rate service by using its California LifeLine flat rate rather than the difference between its regular tariff flat rate and the California LifeLine flat rate. Consequently, MCImetro under-claimed $316,710 for recovery of lost revenue associated with flat rate services for California LifeLine subscribers.

- MCImetro incorrectly claimed unapproved California LifeLine subscribers. Consequently, MCImetro over-claimed and was overpaid $157,066.

In our opinion, because of the effect of the noncompliance described above, MCImetro did not comply with the aforementioned requirements relative to the California LifeLine Program reimbursements claimed and received for the year ended June 30, 2010.

The results of our examination procedures also disclosed two 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 MCImetro 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.

February 10, 2013

Executive Summary

During our examination of MCImetro's compliance with the applicable requirements of California Public Utilities Commission's (CPUC) Procedures for Administration of the Moore Universal Telephone Service Act, General Order (GO) 153 [California Public Utilities Code § 871 et seq.] for the California LifeLine Program during the year ended June 30, 2010, we identified the following two material instances of MCImetro failing to demonstrate compliance with the aforementioned requirements.

- MCImetro under claimed its allowable recovery for flat rate service during the period examined by $316,710. This occurred because MCImetro did not follow GO 153 instructions for calculating the flat rate service amounts permitted for reimbursement to utilities from the LifeLine Fund. Because MCImetro did not identify nor attempt to correct this error within the two-year time frame allowed by GO 153, it may not be eligible to reapply for reimbursement of the under-claimed amount.

- MCImetro claimed customers that lacked the required approval from the California LifeLine Administrator. The amount of compensation MCImetro claimed for those subscribers for the year ended June 30, 2010, was $157,066.

We also noted the following immaterial instances of MCImetro failing to demonstrate compliance with the California LifeLine Program requirements.

- MCImetro did not submit California LifeLine claim forms to the CPUC in a timely fashion as required by GO 153 for 11 of the 12 months during the year. MCImetro submitted the claims 1 to 220 days after the due date.

- MCImetro billed new California LifeLine subscribers for surcharges on connection fees, which is prohibited under GO 153 section 8.1.9. MCImetro advised TCBA that they had corrected the billing system and credited subscribers for the overcharges.

The total amount that MCImetro owes to the LifeLine Fund is $157,975.96, comprised of interest of $909.75 and the aforementioned over-claimed amount of $157,066. MCImetro should reimburse $157,975.96 to the California LifeLine Fund. In addition, MCImetro should take steps to:

- correct the calculation for flat rate service charges claimed;
- review the accuracy of its calculation procedures for flat rate service charges claimed for reimbursement for the FYs subsequent to FY 2009-2010 and determine the extent of the under-claimed amounts for these years;
- review its controls to ensure that only approved subscribers are provided service and included on the California LifeLine claims; and
- ensure that it submits it California LifeLine claims on time consistent with CPUC requirements.

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
- 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 MCImetro, a subsidiary of Verizon Communications Inc. In providing California LifeLine Program customers with local telephone service at discounted rates, MCImetro 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, MCImetro claimed reimbursement for a steadily declining subscriber base ranging from 14,241 in July of 2009 to 9,460 during June of 2010. Monthly claims during the year ranged from a high of $185,275 in July 2009 to a low of $123,075 in June 2010. During the year ended June 30, 2010, MCImetro submitted claims totaling $1,722,927.31, and received the same amount in reimbursements from the California LifeLine Program Fund.

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[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.

Purpose and Scope

The purpose of the examination was to provide reasonable assurance as to whether MCImetro'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, GO 153 [California Public Utilities Code §871 et seq.]. The examination focused on the accuracy of the claims and reimbursements received by MCImetro, whether only approved subscribers were included in claims for reimbursement, the accuracy of discounts provided to subscribers, and other aspects of MCImetro's California LifeLine Program such as enrollment and recordkeeping. We reviewed the overall operations, claims, and reimbursements for MCImetro'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 MCImetro and to determine whether any additional examination work was needed to mitigate the risk. This risk assessment was initially carried out using MCImetro 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 MCImetro, CPUC, or the Universal Service Administrative Company (USAC) for the Federal Lifeline Program.

- Any significant deficiencies noted in the Internal Control Questionnaire completed by MCImetro prior to our on-site field work.

- Any significant variances noted in our initial review of the monthly California LifeLine claim forms provided by MCImetro and those provided by CPUC.

- Any other considerations based on information provided by MCImetro that could indicate other high risk areas or the potential for fraud.

Audit Reports. CPUC officials informed us that there have been no CPUC audits of MCImetro. There also have been no Universal Service Administration Company audits of MCImetro's Lifeline Program. MCImetro officials told us that to their knowledge, no audits had ever been conducted. which could have an impact on the carrier's compliance with the CPUC's rules related to the California LifeLine Program.

Review of Internal Control Questionnaire. MCImetro completed our Internal Control Questionnaire prior to our on-site field work. MCImetro's response indicated that the completed California LifeLine Report and Claim forms are reviewed and approved by designated MCImetro officials. Our on-site work revealed that while these officials prepared these forms, no review was performed to ensure the procedures used were correct and/or consistent with the relevant guidance provided for this by GO 153. No other significant differences were noted between what was contained in the questionnaire and what our work disclosed.

Initial Review of the Monthly California LifeLine Claim Forms. Our initial review of the monthly California LifeLine claim forms provided by MCImetro and the CPUC showed no variances in the forms. However, our on-site work revealed that MCImetro had not accurately calculated its allowable recovery for flat-rate service on these forms, resulting in MCImetro under claiming the amounts allowed for reimbursement for all months during the audited period.

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 MCImetro staff, reviews of documentation provided by MCImetro staff, and observations made on-site. During our on-site work regarding subscriber billing, we noted an additional high risk area regarding a failure by MCImetro to maintain records sufficient to ensure customer eligibility for participation in the California LifeLine Program.

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 December 2009 and June 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 50 subscriber bills for December 2009 and 50 subscriber bills for June 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 a tolerable exception rate of less than 10 percent with an expectation of zero exceptions.

The sample of 50 subscribers for each month consisted of 40 existing flat rate subscribers 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 charges, and (2) whether MCImetro 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 measured-rate local service or extended area service because MCImetro 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, 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, 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 MCImetro officials as well as with the 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 review, TCBA utilized Solix data obtained from the Commission, as described in Appendix B.

Compliance with Enrollment and Related Requirements

To determine whether MCImetro 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 MCImetro's California LifeLine enrollment process and procedures, including documents such as MCImetro's Neighborhood Participant Guide to California LifeLine Certification, California LifeLine Program Description, Enrollment/Eligibility Requirements, Information Letter, Discounts Notification, tariff requirements, and other documents as well as MCImetro's responses to our internal control questionnaire.

We interviewed cognizant MCImetro officials to obtain additional information and clarification regarding the subscriber enrollment process and notifications to subscribers and the California LifeLine Administrator. In addition, we obtained computerized records and processes related to subscriber enrollment and monitoring the information provided by MCImetro employees to prospective subscribers.

Compliance with Claim Form Requirements

To determine whether MCImetro'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 the December 2009 and June 2010 claim forms in detail. We requested and reviewed supporting documentation for all of the amounts claimed and reimbursed for these two months. These reimbursements were for:

- Flat rate service charges,
- EUCL 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 MCImetro to the number of eligible subscribers calculated using Solix data provided by the CPUC. We made certain assumptions and modified the subscriber eligibility data provided by Solix, Inc. (the 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 MCImetro's monthly California LifeLine Report and Claim Forms, and (3) calculate the amount of any material overpayments or underpayments related to MCImetro'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 reviewed the applicable tariff rates, supporting documentation for claims, claims approval processes, and interviewed MCImetro officials to determine how all of the costs claimed and reimbursed for the audited period 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 MCImetro 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 100 subscriber bills, 50 subscriber bills for each of December 2009 and June 2010 as described above. We compared what the subscribers were actually charged with the approved tariff amounts and noted any differences. In addition, for each month, 10 of the sample bills were taken from new subscriber accounts and 40 were taken from existing subscriber accounts. TCBA determined whether the subscribers who were billed in December 2009 and June 2010 had the required CPUC administrator's approval to obtain and/or continue participation in the California LifeLine program. Lastly, as part of the review of MCImetro's California LifeLine service, TCBA tested the sample of 20 of MCImetro's new subscribers' bills for compliance with various aspects of the California LifeLine program. TCBA determined whether the sample of the 20 new subscribers' bills improperly included certain surcharges on their California LifeLine accounts. We discussed the differences with cognizant MCImetro officials to obtain explanations and clarifications.

Compliance with Recordkeeping Requirements

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

Adequacy of Internal Controls

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

- compiling and submitting California LifeLine subscriber information to Solix;
- compiling, calculating, reviewing, and recording California LifeLine claim form information; and
- receiving and recording California LifeLine claim payments.

In addition, while performing work in other areas, such as reviewing MCImetro'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.

[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.

Examination Process

After requesting and reviewing MCImetro California LifeLine Program data, we conducted work on-site from July 9 through July 13, 2012. We conducted an exit conference with MCImetro officials on December 13, 2012, at which time we discussed four preliminary issues that we had identified: (1) MCImetro under claiming of reimbursable expenses related to flat rate service charges, (2) amounts claimed by and reimbursed to MCImetro for subscribers apparently not approved for participation in the California LifeLine Program as well as related interest charges, (3) MCImetro's non-compliance with GO 153 requirements regarding the timely submission of California LifeLine claim forms to the CPUC, and (4) improper MCImetro charges to subscribers for minimal amounts associated with California LifeLine connection fees.

Because certain of the findings for the two sample months would be systemic for the year, the CPUC requested that MCImetro recast the claims filed for the remaining 10 months of the review period in order to calculate the total over-claimed amount for the year.

Findings

001	**Recovery of Flat Rate Service Charges – Did Not Demonstrate Compliance with GO 153, Section 9.3.2**
Condition	MCImetro incorrectly calculated its allowable recovery for flat rate service by multiplying its California LifeLine flat rate by its weighted average number of California LifeLine subscribers rather than the difference between its regular tariff flat rate and the California LifeLine flat rate.
Criteria	GO 153, Section 9.3.2 states each utility may recover from the LifeLine fund an amount equal to the difference between the California LifeLine rates and charges (which includes flat rate service) and the lessor of (1) the utility's regular rates and charges, or (2) the regular tariffed rates and charges of the customer's incumbent local exchange carrier. GO 153, Section 9.10.2 requires that utilities may submit a true-up claim within two years of their original claim.
Cause	MCImetro did not follow GO 153, Section 9.3.2 for calculating the flat rate service amounts permitted for reimbursement to utilities by the LifeLine Fund. Instead, according to MCImetro, its staff responsible for preparing the California LifeLine claims followed the incorrect procedures and formulas that had been given them by their predecessors without validation. As a result, MCImetro claimed $6.11 per month per subscriber rather than the difference between the regular tariffed flat rates and the California LifeLine flat rates, $7.39 for the period July 2009 through December 2009 and $10.34 for the period January 2010 through June 2010.
Effect	MCImetro under-claimed $316,710 in total for the amount allowed for reimbursement from the LifeLine Fund.
Recommendation	MCImetro should review the accuracy of its calculation procedures for flat rate service charges claimed for reimbursement for the FYs subsequent to FY 2009-2010 and determine the extent of the under-claimed amounts for these years. MCImetro may file true-up claims for the under-claimed amounts for

reimbursement from the LifeLine Fund if it is eligible to do so pursuant to GO 153 Section 9.10.2.

MCImetro Response

MCI is entitled to a refund of the above-mentioned under-claimed amount pursuant to G.O. 153, Rule 13.3.

CPUC's reading that Rule 13.3 only applies to underpayments less than what a utility claimed is wrong. The Commission in Decision No. 00-10-028 clearly ordered the fund to reimburse the utility "for ***any*** underpayment" found by a "Commission audit." Nothing in this directive allows the Commission to parse out a reason to avoid reimbursing the utility. Nor is this directive subject to the two-year time frame of Section 9.10.2. Ordering Paragraph 50 of D.00-10-028 would be meaningless otherwise, as staff could simply wait two years to perform an audit to then deny carriers their right to a reimbursement. The relevant conclusion of law and ordering paragraph of D.00-10-028 are:

> COL 64. The ULTSAC should authorize the ULTS Fund to promptly reimburse a utility for any underpayment of ULTS claims found by a Commission audit. Any underpayment of ULTS claims found by an audit should accrue interest based on the 3-month commercial paper rate.
>
> OP 50. The ULTSAC shall authorize the ULTS Fund to promptly reimburse a utility for the underpayment of ULTS claims found by a Commission audit. Any underpayment of ULTS claims found by an audit shall accrue interest based on the 3-month commercial paper rate.

MCI is therefore entitled to reimbursement in the amount of $316,710 plus interest at the 3-month commercial paper rate.

Rebuttal

TCBA was advised by CPUC officials that GO 153 Section 13.3 does not apply in this case because GO 153 Section 13.3 is only applied when the CPUC makes an underpayment to the utility less than what the utility claimed. According to CPUC, this regulation is not meant to be applied when a utility under-claims its California LifeLine reimbursement. The CPUC Legal Division concurred with the staff's interpretation that, under GO 153, Sections 9.10.2 and 13.3 and Commission Decision 00-10-028, MCImetro is not eligible to seek a reimbursement of $316,710 now because: 1) it is beyond the two-year true-up period; 2) the CPUC properly and fully paid all of MCImetro's claims that were timely submitted; and 3) MCImetro failed to under-claim its reimbursements due to its own error.

002

Ensuring Customer Eligibility For Participation In California LifeLine Program – Did Not Demonstrate Compliance with GO 153, Section 5.3

Condition

Eight (10%) of the 80 bills sampled for existing MCImetro subscribers were billed to subscribers who did not have the CPUC administrator's approval required annually to continue to receive California LifeLine benefits. According to MCImetro, six of the sampled subscribers had been rejected by the California LifeLine administrator. Furthermore, MCImetro could find no records for the other two beyond the date in 2006 when they were manually sent to the CPUC administrator. Also, none of the eight subscribers had approval dates included in MCImetro's subscriber files. When the CPUC administrator approves a subscriber for the program, it notifies MCImetro electronically and MCImetro enters the approval date in its subscriber files. Our review of MCImetro's subscriber files found that 870, or 8.05%, of December 2009 and 692, or 7.40%, of June 2010 existing subscribers lacked CPUC administrator approval dates, an indication that they appeared to lack the required approval to participate in the program.

Criteria

GO 153, Section 5.3 states that no utility will knowingly enroll a customer in the California LifeLine program nor allow a customer to remain in the program who does not meet California LifeLine eligibility criteria. Section 5.5 states that after initial approval to enter the program, customers are required to receive annual verification of eligibility in order to continue participation.

Cause

MCImetro failed to ensure that all of its active program subscribers were meeting GO 153 eligibility requirements for initiating and continuing California LifeLine program participation.

Effect

Existing MCImetro subscribers who were not approved by the CPUC administrator for participation in the California LifeLine program (8 of the 80 sampled) received program benefits during December 2009 and June 2010. Additionally, MCImetro received compensation from the California Lifeline program for those unapproved subscribers. Based on the percentages of existing subscribers lacking CPUC administrator approval dates (8.05% for December 2009 and 7.40% for June 2010), the California LifeLine Fund compensated MCImetro $11,318 for December 2009 and $9,005 for June 2010 for providing California LifeLine service to subscribers who do not appear to have been approved to continue receiving the service.

We reviewed the recast prepared by MCImetro for the remaining 10 months and found the amounts reflected to be consistent with the findings in the sample months and the calculations to be accurate. The recast reflects a total over claim, including the two months discussed above, of $157,066.

Recommendation

MCImetro should reimburse the Lifeline Fund $ 157,975.96, which includes the over claim of $157,066 plus interest of $ 909.75. MCImetro should also review its controls to ensure that only approved subscribers are provided service and included on the California LifeLine claims.

MCImetro Response

The over-claimed amount should not be considered an overpayment for two reasons. First, the amounts claimed were flowed as discounted service to customers and not retained by the company. The majority of subscribers, in fact all eight of the sampled accounts, received the Lifeline rate prior to the July 1, 2009, change from receipt of the Lifeline rate upon self-certification to receipt of the Lifeline rate upon third party certification. Second, a significant portion of the $157,066 estimate should be excluded. Based on a further analysis of the April 2010 records that are missing a Solix approval date, many of these records -- approximately 65% -- had no denial date from Solix. Furthermore, many of these records with "no denial date" also did not have a Solix reject code. In sum, 29%

of the sample records with no approval date ALSO have no denial date and no reject code and, accordingly, the $157,066 estimate should be adjusted downward by 29% (or $45,549) to exclude those records with no denial date and no Solix reject code.

Even where records with no denial date had a reject code, MCI records indicated numerous instances in which the record included Solix reject code 40079, but the record also indicated customer ULTS telephone number is on the database, however, subscriber name does not match, therefore, record not treated as a transfer. In other words, the customer was a pre-existing California LifeLine customer with another carrier and simply moving to MCI but didn't use the exact same full name while making the transfer to MCI and therefore the record didn't match the corresponding record in the California LifeLine database nor was it likely transferred to MCI in the database.

Because the customer was an existing California Lifeline customer and transferred service to MCI, the claim should not have been rejected simply because the customer failed to initiate service under the exact same spelling of their name. Indeed, if MCI had denied California Lifeline status to these pre-existing customers who transferred to MCI that would have been inappropriate and would have caused the customer to incur hardship.

From the sample of eight pre-existing California Lifeline customers who did not appear to have received CPUC administrator approval for program participation, five had reject code 40079, or about 50%. Thus, it is likely that about 50% of the records without an approval and with reject code 40079 were for existing California Lifeline customers who ported their number from a prior California Lifeline provider to MCI. Accordingly, the $111,516.80 estimate should be further adjusted downward by 50% (or $55,758) to exclude those instances in which the customer was already on California Lifeline and simply transferred to MCI.

Confirming that these existing customers should have been validated by Solix is not possible as Solix data is unavailable due to the change in administrator. Without such confirmation, any records without a denial date from Solix or those with reject code 40079 should be presumed to be valid claims. MCI erred in favor of the customer by continuing to provide the Lifeline rate whereas an alternative would have been to cease providing the Lifeline benefit to the existing customer in spite of the lack of a denial from Solix. The estimated $157,065.80 overpayment should be adjusted downward to no more than $55,758.80.

Rebuttal

The lack of a denial date from Solix cannot be assumed to be the equivalent of approval; the same is true for the lack of a reject code. As for the customers who were possibly pre-existing and transferred using a different name, MCImetro's response states that "confirming that these existing customers should have been validated by Solix is not possible". Without the ability to confirm that any of the customers in questions were definitely approved, as evidenced by an approval date, we are unable to adjust the amount of the finding.

003	**Submitting California LifeLine Claim Forms In a Timely Fashion—Did Not Demonstrate Compliance with GO 153, Section 9.5.5**
Condition	MCImetro did not submit California LifeLine claim forms to the Communications Division of the CPUC in a timely fashion for 11 of the 12 months during the period audited (July 2009 to June 2010). The 11 forms submitted late were an average of 82 days late and ranged from 1 to 220 days late.
Criteria	GO 153, Section 9.5.5 requires that utilities submit their California LifeLine Claim Forms to the CPUC Communications Division no later than 30 days after the close of the monthly period for which a claim is made.
Cause	According to MCImetro officials, pressing work requirements during the period reviewed prevented timely submission of these forms.
Effect	MCImetro claims forms were usually not submitted to the CPUC Communications Division in the timely fashion, as required, during the period reviewed. The utility may lose interest payments from the CPUC for claims that were not submitted by the due date.
Recommendation	MCImetro should take steps to ensure that it submits it California LifeLine claims on time consistent with CPUC requirements.
MCImetro Response	MCImetro interpreted Section 9.10.1 to allow utilities to file Lifeline claims up to two years after the claims are due.
Rebuttal	Section 9.10.1 states that "utilities shall not be reimbursed for claims that are filed more than two years after the claims are due", which indicates a due date. Section 9.5.5 established the due date as no later than 30 days after the close of the monthly period for which a claim is made. The primary purpose of Section 9.10.1 is to establish a deadline for true-up claims.
004	**Billing New California LifeLine Subscribers For Surcharges—Did Not Demonstrate Compliance with GO 153, Section 8.1.9**
Condition	MCImetro improperly billed surcharges on the California LifeLine connection fee for fifteen of the 20 bills sampled from new subscribers. Since MCImetro charged the allowable California LifeLine connection fee of \$10.00, which could be billed over a three month period, the improper surcharges identified ranged from \$0.07 to \$0.24 per bill during 2009 and \$0.06 to \$0.21 in 2010 after the California Advanced Service Fund (CASF) surcharge was removed effective January 1, 2010. Also, because some surcharge rates were very low and installments were as low as \$3.33 certain surcharges rounded to less than \$0.01 and did not apply.
Criteria	GO 153, Section 8.1.9 states: "No charge [to LifeLine customers' LifeLine billings] 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 LifeLine surcharge."

Cause	MCImetro's billing system failed to ensure that new subscribers were not billed surcharges on California LifeLine connection fees as required by GO 153, Section 8.1.9.
Effect	New MCImetro subscribers were improperly charged small amounts on the California LifeLine connection fees. Overall the amounts charged were minimal.
Recommendation	MCImetro representatives stated that the billing system has been corrected for this error. They should monitor the system to ensure that similar errors do not occur.
MCImetro Response	MCImetro identified the billing problem in the spring of 2012 and fixed our billing system in July 2012 to exclude billing new subscribers for surcharges on California LifeLine connection fees. Credits were issued as appropriate to subscribers who were affected by the error.
Rebuttal	None

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 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.