BCA

Addendum to: "California LifeLine Program Compliance Audit

For the year ended June 30, 2010

MCImetro Access Transmission

Dated February 10, 2013

For the Years Ended
June 30, 2009 and June 30, 2011

January 30, 2014

Bazilio Cobb Associates, PC
21250 Hawthorne Blvd., Suite 150, Torrance, CA 90503

BCA
Bazilio Cobb Associates

Certified Public Accountants and Consultants
21250 Hawthorne Blvd. Suite 150 Torrance,
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January 30, 2014

Ms. Tracy Fok
Utility Audit, Finance, and Compliance Branch
California Public Utility Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: MCImetro Access Transmission – California LifeLine Program Compliance Audit - Report on Optional Services

Dear Ms. Fok,

Attached is our report on the California LifeLine Program Compliance Audit optional services performed for MCImetro Access Transmission (MCI) for fiscal years 2008-2009 and 2010-2011.

As detailed in the attached report, we determined that MCI claimed unapproved California LifeLine subscribers for reimbursement and thus was over-reimbursed for its flat rate service; FCC end user charges; and other expenses, true-ups, and credits totaling $582,389.00, as summarized on Attachment I.

We also calculated interest due of $3,657.75 on the over-claimed amount. We recommend that MCI refund $586,046.75 ($582,389.00 + $3,657.75) to the California Public Utilities Commission.

If you should have any questions or comments regarding this report or our results, please contact me anytime at (310) 792-4640 x110 or via email at mdecastro@baziliocobb.com.

Respectfully,

Michael J. de Castro

Michael J. de Castro
Principal

MCImetro Access Transmission (MCI) was reimbursed for over-claimed flat rate service; FCC end user charges; and other expenses, true-ups, and credits by $582,389 for its California LifeLine claims for fiscal years ending June 30, 2009 and 2011. The over-claimed reimbursement was caused by MCI's claiming unapproved California LifeLine subscribers. MCI should refund $586,046.75 ($582,389 in over-claimed amounts plus $3,657.75 of interest due) to the LifeLine Fund.

BACKGROUND

BCA executed an agreement with the California Public Utilities Commission (CPUC) to perform compliance audits of six carriers' California LifeLine Program claims and reimbursements for July 1 2009 through June 30, 2010.[1] BCA examined MCI's compliance with the applicable requirements of the CPUC's Procedures for Administration of the Moore Universal Telephone Service Act and General Order (GO) 153. On February 10, 2013, BCA issued its audit report regarding MCI's compliance.[2] In addition, BCA was tasked to perform optional services to expand any monetary findings to additional fiscal years.

SCOPE

The scope of work for the optional services was to apply **Finding 002** from the 2009-2010 MCI audit report issued on February 10, 2013 to fiscal years 2008-2009 and 2010-2011. **Finding 002** was the only finding with monetary impact:

> **<u>Finding 002</u>**
> Claims included subscribers who did not have the CPUC administrator's approval required annually to continue to receive California LifeLine benefits.

Finding 001 from the audit report was not applied to fiscal years 2008-2009 and 2010-2011. The monetary impact of this finding was denied in the audit report in accordance with GO 153 §9.10.2.

> **<u>Finding 001</u>**
> MCI under-claimed reimbursement for flat rate service because it incorrectly multiplied its weighted average number of California LifeLine subscribers by the California LifeLine flat rate rather than the difference between its regular tariff flat rate and the California LifeLine flat rate.

MCI is not eligible to seek reimbursement for the under-claimed amount from Finding 001 because:

1. It under-claimed reimbursement for flat rate service due to its own error.
2. It failed to file amended claims for reimbursement of the under-claimed amount within the two-year true-up period specified under GO 153 §9.10.2.
3. GO 153 §13.3 does not apply in this case because it is applicable only when the CPUC makes an underpayment to the utility less than what the utility claimed. In MCI's case, the CPUC reimbursed MCI exactly what MCI originally claimed.

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[1] MCI was one of the six carriers included in the audit.
[2] See BCA's report entitled "California LifeLine Program Compliance Audit for the year ended June 30, 2010, MCI," dated February 10, 2013.

In addition, the scope of work for the optional services does not include MCI's proposed reimbursement for its recast of under-claimed amount pertained to non-Eligible Telecommunications Carriers (ETC) support (see Appendix A through D) due to the following reasons:

1. GO 153 §9.2.1 does not specifically allow such reimbursement.
2. The scope of work for the optional services is limited to only applying the finding(s) with monetary impact based on the fiscal year 2009-2010 audit. The under-claimed amount pertained to non-ETC support is not a finding from the audit.
3. MCI failed to file amended claims for reimbursement of the under-claimed amount within the two-year true-up period specified under GO 153 §9.10.2.
4. GO 153 §13.3 does not apply in this case because it is applicable only when the CPUC makes an underpayment to the utility less than what the utility claimed. In MCI's case, the CPUC reimbursed MCI exactly what MCI originally claimed.

OB JECTIVE

The objective of the optional services was to determine whether MCI accurately calculated its over-claimed flat rate service; FCC end user charges; and other expenses, true-ups, and credits for funding years 2008-2009 and 2010-2011 based on its recast of ineligible subscribers and duplicate records.

METHODOLOGY

BCA confirmed that MCI over-claimed its California Lifeline reimbursement during fiscal years 2008-2009 and 2010-2011 by obtaining re-casted monthly claim data from MCI for these two fiscal years. The re-casted claims included only approved subscribers and removed duplicates. BCA compared the re-casted approved California LifeLine subscribers to the originally-claimed approved California LifeLine subscribers and determined that the adjustment percentages for the approved California LifeLine subscribers in the re-casted data ranged from 13.61% to 29.65% for 2008-2009 (see Appendix B) and 8.26% to 9.18% for 2010-2011 (see Appendix D). BCA found that these adjustment percentages are reasonably comparable to those of the fiscal year 2009-2010 audit. As a result, BCA and the CPUC's project manager determined that MCI's re-casted approved California LifeLine subscribers are acceptable to use for calculating the 2008-2009 and 2010-2011 over-claimed amounts.

CONCLUSION:

1. Based on MCI's re-casted data, MCI over-claimed flat rate service, FCC end user charges and other expenses, true-ups and credits by $456,363 for FY 2008-2009 as detailed on Appendix B.

2. Based on MCI's re-casted data, MCI over-claimed flat rate service, FCC end user charges and other expenses, true-ups and credits by $126,026 for FY 2010-2011 as detailed on Appendix D.

3. MCI's 2008-2009 recast for its under-claimed amounts of $160,247 and $559,451 are denied in accordance with GO 153 §§9.2.1, 9.10.2.

4. MCI's 2010-2011 recast for its under-claimed amounts of $471,658 and $326,022 are denied in accordance with GO 153 §§9.2.1, 9.10.2.

ATTACHMENT I

Summary of Over Claimed Amounts for Fiscal Years 2008-2009 and 2010-2011

	Totals
Over-Claimed Amounts for FY 2008 - 2009	$ 456.363.00
Over-Claimed Amounts for FY 2010 - 2011	126,026.00
Total Over-Claimed Amounts	**$ 582,389.00**
Interest Due on Over-Claimed Amounts	3,657.75[3]
Total Over-Claimed Amounts	**$ 586,046.75**

[3] To calculate the interest due we used the AA nonfinancial 90-day commercial paper rate as published by the Board of Governors of the Federal Reserve System. We used the average annual rates for each year and calculated interest due (compounded daily) from the date each monthly claim was paid to the date of the report.

Appendices

Appendix A

MCI

November 20, 2013

Mr. Tom Kelly – Director
Bazilio Cobb Associates
21250 Hawthorne Blvd., Suite 150
Torrance, CA 90503

Dear Tom,

Please find attached the requested information regarding the monthly claim amounts for each of the months during the audit time frame of July 1, 2010 – June 30, 2011. The subscriber level detail requested has been copied to a password protected CD which will be delivered to your office via Federal Express.

Per the audit findings presented during the exit conference December 13, 2012, the attached spreadsheet reflects both the amount MCI ***under claimed*** for the allowable recovery for flat rate service and the amount allegedly over claimed for subscribers which do not appear to have received CPUC administrator approval for program participation.

Under Claimed Amounts

To calculate the under claim amount for each of the audit months, MCI multiplied the number of approved accounts by the difference between the AT&T basic local rate in effect during the audit time frame and the amount MCI claimed per subscriber.
MCI calculated an under claim amount for the audit period of $471,965. MCI is entitled to a refund of this amount pursuant to G.O. 153, Rule 13.3 (See Resolution T-17202, April 20, 2009, containing the version of G.O. 153 in effect during the audit period).

Over Claimed Amounts

In addition, MCI calculated an alleged over claim amount for the audit period of July 1, 2010 – June 30, 2011. The methodology used to calculate the alleged over claim was similar to that used for the most recent presentation of data provided for the original audit period of July 1, 2009 – June 30, 2010. More specifically, accounts which were allegedly “not approved” to participate in the program are considered the basis for the over claim amount, and therefore the number of these allegedly “not approved” accounts for the period July 1, 2010 – November 30, 2010 was multiplied by $13.01, and the number of these allegedly “not approved” accounts for the period December 1, 2010 - June 30, 2011 were multiplied by $13.74. The total of these calculations is an alleged over claim amount of $126,026.

Included in the over claim is a small number (<1% of accounts claimed) of duplicate accounts. It was discovered that in December 2010, due to change in the reporting source data, that a small number of records were duplicated and this caused this small duplication of claimed accounts.

There are also some accounts (8-10% of over claim accounts) for which there was an approval, but it does not appear in the subscriber level detail monthly files given how the data was extracted (“Approval Not Apparent Accounts”). In fact, for some of these Approval Not Apparent Accounts the subscriber level detail shows no approval or a denial, and though we believe many of these were approved, we have placed them in the “over claim” category in the interest of erring on the side of insuring the working definition of “approved” has the maximum degree of integrity.

One group of Approval Not Apparent Accounts includes certain accounts with a denial shown in the subscriber level details for the going forward period which is actually not the current period which is the subject of the audit. For the current period which is the subject of the audit, we believe the account was approved. Yet again, in the interest of insuring the working definition of “approved” has the maximum degree of integrity, we have included these accounts in the “over claim” category.

Another group of Approval Not Apparent Accounts for which we believe the account was approved subsequently received a rejection of a proposed transaction, such as an account maintenance transaction. And the rejection of this transaction overrode the appropriate approval of the account for Lifeline subscription, thereby causing a blank to appear in the subscriber level details. So again, we believe these are truly approved accounts but we are including them in the “over claim” category for the reason outlined above.

Additionally, there are records with no approval nor a denial appearing in the subscriber level detail. Up to 50% of those are existing Lifeline customers who migrated their local service to MCI but due to timing issues were never transferred to MCI in the state agent’s database. MCI records indicate receipt of a 40079 reject code *which indicated customer ULTS telephone number is on the database, however, subscriber name does not match, therefore, record not treated as a transfer.* The customer was a pre-approved Lifeline customer with another carrier but did not use the exact same name when transferring service to MCI, therefore the record didn’t match the record in the Lifeline database. Prior to the rule change in July 1, 2009, customers received the discount from the application date.

If MCI had denied the Lifeline discount to these existing Lifeline customers it would have been inappropriate and would have caused hardship for the customer. Accordingly, the over claim amount should be adjusted downward to exclude those instances in which the customer was already on Lifeline and simply transferred to MCI.

Please do not hesitate to contact me at 303 305 1563 with any questions you may have.
Thank you,

Gail Garey
6415-6455 Business Center Drive
Highlands Ranch, CO 80130

APPENDIX B

Claim Summary - MCIMetro CA LL Audit July 2008 - June 2009

		Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Audit Period Total
Weighted Count Total Accts Claimed	(A)	19,377	18,071	17,955	16,667	16,341	16,752	15,715	16,412	15,131	15,238	15,721	15,290	198,670
Over Claim														
Weighted Count No Approval Accts	(B)	5,746	4,230	4,056	2,575	2,228	2,759	2,365	3,211	2,248	2,158	2,513	2,081	
Duplicate records		0	0	0	0	0	0	0	0	0	470	981	1,206	
Total	(C)	5,746	4,230	4,056	2,575	2,228	2,759	2,365	3,211	2,248	2,628	3,494	3,287	
Amount		$11.53	$11.53	$11.52	$11.52	$11.52	$11.52	$11.52	$11.52	$12.29	$12.29	$12.29	$12.29	
Total $s		$66,251	$48,772	$46,725	$29,664	$25,667	$31,784	$27,245	$36,991	$27,628	$32,298	$42,941	$40,397	**$456,363**
% Change for Total Adjustments	(C)/(A)	29.65%	23.41%	22.59%	15.45%	13.63%	16.47%	15.05%	19.56%	14.86%	17.25%	22.23%	21.50%	
% Change for Ineligible Subscribers Only	(B/(A)	29.65%	23.41%	22.59%	15.45%	13.63%	16.47%	15.05%	19.56%	14.86%	14.16%	15.98%	13.61%	
Under Claim - Basic Rate														
Weighted Count Approved Accts		13,631	13,841	13,899	14,092	14,113	13,993	13,350	13,201	12,883	12,610	12,227	12,003	
Amount		$0.26	$0.26	$0.26	$0.26	$0.26	$0.26	$2.82	$2.82	$1.28	$1.28	$1.28	$1.28	
Total $'s		$3,544	$3,599	$3,614	$3,664	$3,669	$3,638	$37,647	$37,227	$16,490	$16,141	$15,651	$15,364	**$160,247**
Weighted Count Approved Accts		13,631	13,841	13,899	14,092	14,113	13,993	13,350	13,201	12,883	12,610	12,227	12,003	
Amount		$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	
Total $'s		$47,709	$48,444	$48,647	$49,322	$49,396	$48,976	$46,725	$46,204	$45,091	$44,135	$42,795	$42,011	**$559,451**

Over Claim Rate calculation

	Jul 2008 - Aug 2008	Sep 2008 - Feb 2009	Mar 2009 - Jun 2009
Used for allowable recovery - flat rate svc	$5.34	$5.34	$6.11
FCC end user charge	$4.40	$4.39	$4.39
Other expense, true ups, credits	$1.79	$1.79	$1.79
Total reimb factor - claim forms	$11.53	$11.52	$12.29

Under Claim Basic Rate calculation:

	7/1/2008 - 12/31/2008	1/1/2009 - 2/28/2009	3/1/2009 - 6/30/2009
Under Claim calculation			
ATT Rate	$10.94	$13.50	$13.50
LL rate billed subscribers	($5.34)	($5.34)	($6.11)
Already billed to fund in audit period	($5.34)	($5.34)	($6.11)
Net - under claimed	$0.26	$2.82	$1.28
Allowable recovery calculation			
Variance Actual Rate Billed to ATT Rate	$5.60	$8.16	$7.39
Actually claimed in audit period	($5.34)	($5.34)	($6.11)
Net - under claimed	$0.26	$2.82	$1.28

Appendix C

January 14, 2014

Mr. Tom Kelly – Director
Bazilio Cobb Associates
21250 Hawthorne Blvd., Suite 150
Torrance, CA 90503

Dear Mr. Kelly,

Please find attached the requested information regarding the monthly claim amounts for each of the months during the audit time frame of July 1, 2008 – June 30, 2009. Per our conversation, you have indicated that the subscriber level detail for this audit period is not necessary and therefore need not be submitted.

The attached spreadsheet reflects both the amount MCI under claimed in allowable recovery for applicants who received CPUC administrator approval for program participation, and the amount allegedly over claimed for applicants who do not appear to have received such approval.

Under Claimed Amounts

To calculate the under claim amount for each of the audit months, MCI multiplied the number of approved accounts by the difference between the AT&T basic local rate in effect during the audit time frame and the amount MCI actually claimed per subscriber. And based upon this methodology MCI calculated an under claim amount for the audit period of $160,247.

Also, the original claim forms submitted did not include non-ETC support from the state fund in the amount of $3.50 per subscriber that would have been covered by the federal USF fund if MCI had been an ETC, and to correct for this an additional under claim amount of $559,451 is due to MCI for these approved subscribers (MCI is entitled to a refund of these amounts pursuant to G.O. 153, Rule 13.3 and 9.2.1 [see G.O. 153, effective May 3, 2007 [D.07-05-030 - Adopted strategies to improve the California Lifeline certification and verification processes, and reinstated portions of General Order 153] for the period from July 1, 2008 – June 30, 2009; and Resolution T-17202, April 20, 2009, containing the version of G.O. 153 in effect during the audit period after June 30, 2009]).

Over Claimed Amounts

MCI also calculated an alleged over claim amount for the audit period of July 1, 2008 – June 30, 2009. The methodology used to calculate the alleged over claim was similar to that used for the data provided in MCI's two previous submissions to you. More specifically, accounts which were allegedly "not approved" to participate in the program are considered the basis for the over claim amount, and therefore the number of these allegedly "not approved" accounts for the period July 1, 2008 – August 31, 2008 was multiplied by $11.53. The number of these allegedly "not approved" accounts for the period September 1, 2008 – February 28, 2009 was multiplied by $11.52. And finally, the number of these allegedly "not approved" accounts for the period March 1, 2009 – June 30, 2009 was multiplied by $12.29. The total of these calculations is an alleged over claim amount of $456,363.

Included in the over claim amounts for the months of April, May and June are a small number of accounts that had already been accounted for in prior months but appear again in April, May and June. In short, these accounts were inadvertently duplicated and included in the April, May and June claims, and you will see these records appear on the attached spreadsheet on the line item entitled "duplicate records". The issue concerning duplicate records was limited to just those three months and did not continue in July 2009 or onward, and therefore this issue has been resolved and closed.

There are also some accounts in the months of July, August and September for which there are no approval records and it appears many of these accounts were impacted by the temporary suspension of the annual verification process[4] which resulted during the transition of moving and assigning the process to a third party agent. Upon the engagement of the third party agent, verifications resumed gradually on or about June 1, 2007. Only in September 2007 does it appear that the agent was able to begin to address all annual verifications as anniversary months occurred.

Consequently, during the months of July, August and September 2008 the number of accounts with no approval transaction on file is artificially higher than normal. Most of these accounts had already received their initial certification and were simply awaiting their annual verifications which were delayed because of the agent's ramp-up process.

For the purpose of this particular data production MCI searched for verifications in the ninety (90) day window following an account's inclusion in a claim month. This process assisted in locating some of the missing approval records which were delayed as the result of the ramp-up period, but it did not correct for all the missing records. And though MCI believes these accounts with missing verifications caused by the ramp-up should not be considered "not approved", we have placed these accounts in the "over claim" category in the interest of insuring that the working definition of "approved" in this audit has the maximum degree of integrity and consistency. So in effect, MCI's performance during this time frame is actually better than what is reflected in the attached spreadsheet.

Also of note for this audit period is that customers received the Lifeline discount from the date they self-certified, prior to being approved by the third party agent. Again, MCI searched for approvals in the 90 day window following an account's inclusion in a claim month. However, if the approval record was received after 90 days it appears as "not approved". While we believe some of these accounts were later retroactively approved, we have also placed them in the "over claim" category, again in the interest of erring on the side of insuring the working definition of approved has the maximum integrity.

Also, as with the two previous audit periods, there are accounts with no record of an approval or a denial. MCI believes about 50% of these were existing Lifeline customers who migrated their local service to MCI from another carrier during the audit period, but due to delays in the certifying agent's database being updated to show MCI as the new carrier the account simply has no record of an approval or a denial.

Regarding these accounts, for many of them MCI's records indicate receipt of a 40079 reject *code which indicated customer ULTS number is in the database, however, the subscriber name does not match, therefore, record not treated as a transfer.* In other words, the customer was an approved Lifeline customer with another carrier but did not use the exact same name when transferring service to MCI and therefore the new record did not match the old approved record in the Lifeline database. As a result, the account has no approval or denial and really should not be counted against MCI, yet MCI has included these in the over claim category in the interest of maintaining the integrity and consistency of the definition of "approval".

We hope this letter and the attached spreadsheet meets your needs regarding the audit, and please do not hesitate to contact me at 303 305 1563 with any questions you may have.

Thank you,

Gail Garey
6415-6455 Business Center Drive
Highlands Ranch, CO 80130

[4] November 1, 2006, Commissioner Dian M. Grueneich Assigned Commissioner's Ruling in R.04-12-001

APPENDIX D

Claim Summary - MCIMetro CA LL Audit July 2010 - June 2011

		Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Audit Period Total
Weighted Count Total Accts Claimed	(A)	9,209	9,158	9,031	8,982	8,886	8,780	8,490	8,273	8,092	8,011	7,851	7,765	102,528
Over Claim														
Weighted Count No Approval Accts	(B)	783	841	779	756	734	775	736	710	718	695	676	661	
Duplicate records*		0	0	0	0	0	95	75	83	51	72	59	80	
Total	(C)	783	841	779	756	734	870	811	793	769	767	735	741	
Amount		$13.01	$13.01	$13.01	$13.01	$13.01	$13.74	$13.74	$13.74	$13.74	$13.74	$13.74	$13.74	
Total $s		$10,187	$10,941	$10,135	$9,836	$9,549	$11,954	$11,143	$10,896	$10,566	$10,539	$10,099	$10,181	**$126,026**
% Change for Total Adjustments	(C)/(A)	8.50%	9.18%	8.63%	8.42%	8.26%	9.91%	9.55%	9.59%	9.50%	9.57%	9.36%	9.54%	
% Change for Ineligible Subscribers Only	(B/(A)	8.50%	9.18%	8.63%	8.42%	8.26%	8.83%	8.67%	8.58%	8.87%	8.68%	8.61%	8.51%	
Under Claim - Basic Rate														
Weighted Count Approved Accts		8,426	8,317	8,252	8,226	8,152	7,910	7,679	7,480	7,323	7,244	7,116	7,024	
Amount		$4.23	$4.23	$4.23	$4.23	$4.23	$2.77	$6.27	$6.27	$6.27	$6.27	$6.27	$6.27	
Total $'s		$35,642	$35,181	$34,906	$34,796	$34,483	$21,911	$48,147	$46,900	$45,915	$45,420	$44,617	$44,040	**$471,958**
Addt'l Under Claim - Fed Supt Non ETCs														
Weighted Count Approved Accts		8,426	8,317	8,252	8,226	8,152	7,910	7,679	7,480	7,323	7,244	7,116	7,024	
Amount		$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	
Total $'s		$29,491	$29,110	$28,882	$28,791	$28,532	$27,685	$26,877	$26,180	$25,631	$25,354	$24,906	$24,584	**$326,022**

*Identified by NA Code = Blank

Over Claim Rate calculation

	July 2010 - Nov 2010	Dec 2010 - Jun 2011
Used for allowable recovery - flat rate svc	$6.11	$6.84
FCC end user charge	$4.39	$4.39
Other expense, true ups, credits	$2.51	$2.51
Total reimb factor - claim forms	$13.01	$13.74

Under Claim Basic Rate calculation:

Under Claim calculation	7/1/2010 - 11/30/2010	12/1/2010 - 12/31/2010	1/1/2011 - 6/30/2011
ATT Rate	$16.45	$16.45	$19.95
LL rate billed subscribers	($6.11)	($6.84)	($6.84)
Already billed to fund in audit period	-$6.11	-$6.84	-$6.84
Net - under claimed	$4.23	$2.77	$6.27
Allowable recovery calculation			
Variance Actual Rate Billed to ATT Rate	$10.34	$9.61	$13.11
Actually claimed in audit period	-$6.11	-$6.84	-$6.84
Net - under claimed	$4.23	$2.77	$6.27