

Performance Audit of Sierra Telephone Company, Inc.
California LifeLine Program

June 6, 2024





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June 6, 2024

Erin Miller
Sierra Telephone Company, Inc
P.O. Box 219
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Dear Ms. Miller:

Final Report Transmittal Letter—Audit of Sierra Telephone Company, Inc’s California LifeLine Program for the period of July 1, 2021, through June 30, 2022

Crowe LLP (Crowe) was contracted by the California Public Utilities Commission (CPUC) to conduct a performance audit of Sierra Telephone Company, Inc. (Sierra Tel), in accordance with General Order (GO) 153 Sections 5 and 9, Public Utilities Code Section 878, Decision (D.) 14-01-036 and D.10-11-033, and other applicable California LifeLine Program rules, regulations, and requirements for the period of July 1, 2021 through June 30, 2022.

The results of our audit disclosed no findings requiring a response and therefore, we are issuing the report as final. The final audit report will be available on the CPUC website¹.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bert Nuehring".

Bert Nuehring, Partner
Crowe LLP

¹ <https://www.cpuc.ca.gov/about-cpuc/divisions/utility-audits-risk-and-compliance-division/utility-audits-branch/audit-reports-by-industry>

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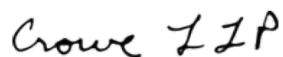
Independent Auditor's Report

Crowe LLP (Crowe) conducted a performance audit of Sierra Telephone Company, Inc. (Sierra Tel) in accordance with General Order (GO) 153 Sections 5 and 9, Public Utilities Code Section 878, Decision (D.) 14-01-036 and D.10-11-033, and other applicable California LifeLine Program rules, regulations, and requirements for the period of July 1, 2021 through June 30, 2022. The objectives of the audit are described on pages seven (7) through nine (9) of this report and evaluate whether Sierra Tel's claims from the California LifeLine Fund for fiscal year 2021-22 are accurate, properly supported, for eligible customers, and for allowable costs and activities.

We conducted our performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on our audit objectives. Our audit was limited to the objectives listed on pages 7 through 9 of this report.

Solely to assist us in planning and performing our performance audit, we obtained an understanding of the internal controls of Sierra Tel to determine the audit procedures that were appropriate for the purpose of providing a conclusion on the audit objectives, as specified, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express any assurance on the internal control.

The results of our tests indicated that Sierra Tel met Objectives 1 through 7 in all significant respects for the period of July 1, 2021 through June 30, 2022.



Crowe LLP

Sacramento, CA
June 6, 2024

Executive Summary

Crowe LLP (Crowe) conducted a performance audit of Sierra Tel in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the U.S. General Accountability Office (GAO). The goal of the audit was to determine whether Sierra Tel's claims from the California LifeLine Fund for the period of July 1, 2021 through June 30, 2022 are accurate, properly supported, for eligible customers, and for allowable costs and activities, in accordance with General Order (GO) 153 Sections 5 and 9, Public Utilities Code Section 878, Decision (D.) 14-01-036 and D.10-11-033, and other applicable California LifeLine Program's rules, regulations, and requirements.

The audit objectives, shown on pages seven (7) through nine (9) of this report, were developed based on the requirements set forth in General Order (GO) 153 Sections 5 and 9, Public Utilities Code Section 878, Decision (D.) 14-01-036 and D.10-11-033.

The results of our tests indicated that Sierra Tel met Objectives 1 through 7 in all significant respects.

Project Background

California LifeLine Program

The California Public Utilities Commission (CPUC) created the Universal LifeLine Telephone Service program (now known as the California LifeLine program) pursuant to the Moore Universal Service Telephone Act. The California LifeLine Program (LifeLine) is a state program that provides discounted home phone and cell phone services to eligible households. General Order 153 (GO 153) implements the LifeLine program and provides guidance on the procedures for administration of the LifeLine program for telecommunications carriers operating in California.

LifeLine discounts help consumers lower the cost of their phone bills by offering discounts to qualified customers. Only one discount per household is allowed (except for teletypewriter users and for Deaf and Disabled Telecommunications Program participants). Each household must choose to apply the discount either on a home phone or on a cell phone, but not on both. Households must only receive the discount from one carrier and may lose eligibility for the discount if the one discount per household rule is violated.

A household includes adults and children who are living together at the same address as one economic unit. An economic unit consists of all adults (persons at least 18 years old unless emancipated) contributing to and sharing the household's income and expenses. To qualify for the LifeLine program, California consumers must have a total gross annual income that does not exceed 150 percent of the Federal Poverty Guidelines or must be a participant in one of the following public assistance programs:

- Medi-Cal
- Women, Infants, and Children Program (WIC)
- Supplemental Security Income (SSI)
- National School Lunch Program (NSLP)
- Low Income Home Energy Assistance Program (LIHEAP)
- Cal Fresh, Food Stamps, or Supplemental Nutrition Assistance Program (SNAP)
- Federal Public Housing Assistance, or Section 8
- Federal Veterans and Survivors Pension Benefit Program
- Tribal Temporary Assistance for Needy Families (TANF)
- Head State Income Eligible (Tribal Only)
- Bureau of Indian Affairs General Assistance
- Food Distribution Program on Indian Reservations (FDPIR)
- TANF, California Work Opportunity and Responsibility to Kids (CalWORKs), Stanislaus Work Opportunity and Responsibility to Kids (Stan Works), Welfare-to-Work (WTW), or Greater Avenues for Independence (GAIN)

The CPUC is responsible for the oversight of the LifeLine program and maintaining an independent third-

party administrator (TPA) to provide clearinghouse services for the LifeLine program. The role of the TPA is to qualify new applicants and to verify the continued eligibility of existing LifeLine subscribers. Subscribers must verify eligibility annually to remain qualified to participate in the LifeLine program by submitting proof of eligibility to the TPA. The TPA collects, maintains, and provides important information such as the LifeLine subscriber weighted average counts, new connection counts, and disconnection and de-enrollment counts for Service Providers to prepare and submit their monthly LifeLine reimbursement claims to the CPUC. Service Providers submit reimbursement for the costs of providing services to LifeLine subscribers. We obtained and assessed the information provided by the TPA; however, we did not audit the TPA.

Service Providers apply discounts on LifeLine services to qualified customers on a monthly basis. Service Providers then submit reimbursement claims to the CPUC. Providers file reimbursement claims monthly to CPUC’s Communications Division for review and approval. Service Providers may recover from the California LifeLine Fund up to the Specific Support Amount (SSA)² per each eligible subscriber claimed, LifeLine non-recurring charges, applicable taxes/surcharges, interest, and administrative costs as set forth in GO 153.

Sierra Tel

Sierra Tel claimed and was reimbursed a total of \$407,441 in subsidy from the California LifeLine Fund during the audit period of July 1, 2021 through June 30, 2022. Monthly subscribers averaged 1,714 per month. **Exhibit 1** provides service recovery expense categories and amounts claimed for reimbursement for the audit period.

Exhibit 1
Sierra Telephone
Subsidy Amounts Claimed via Monthly Claim Forms
California LifeLine Program Reimbursement, by Expense Category
(July 1, 2021 to June 30, 2022)

Expense Category	Expense Amount Claimed
1. Allowable SSA for Flat Rate Service, F	\$266,325
2. Allowable SSA for Flat Rate Service, California-only Eligibility	\$107,368
3. Connection Charges	\$3,981
4. Conversion Charges	\$59
5. Surcharges and Taxes	\$19,425
6. Incremental Administrative Expenses	\$10,283
Total	\$407,441

² The rate that Service Providers use to compute and file claims for reimbursement.

Performance Audit Approach

Crowe developed our audit plan and procedures to meet specific objectives identified by the CPUC. In developing this audit plan, among other factors, we primarily considered the requirements of the California LifeLine Program, as set forth by GO 153 Sections 5 and 9, Public Utilities Code Section 878, D.14-01-036 and D.10-11-033.

Objectives, Procedures and Conclusion

Crowe submitted several data requests to Sierra Tel which were progressively more focused throughout the engagement as we obtained more detailed data and information on the company's administration of the LifeLine Program. We conducted an internal controls assessment to obtain an understanding of Sierra Tel's internal controls as they related to enrolling, tracking, and monitoring customer program eligibility. Finally, we developed workpapers to document results of the performance audit.

The audit included seven (7) objectives, which we list with detailed procedures. The objectives of the audit were developed based on CPUC's request for Crowe to determine whether Sierra Tel's claims from the California LifeLine Fund for fiscal year 2021-22 are accurate, properly supported, for eligible customers, and for allowable costs and activities, in accordance with General Order (GO) 153 Sections 5 and 9, Public Utilities Code Section 878, Decision (D.) 14-01-036 and D.10-11-033, and other applicable California LifeLine Program's rules, regulations, and requirements.

Objectives:

- 1. Determine if Sierra Tel internal controls over operations related to its administration of the California LifeLine Program were operating effectively.**

Procedures

- Requested and obtained copies of documented policies and procedures related to governance of California LifeLine Program operations.
- Documented controls relevant to the California LifeLine Program.
- Tested controls were operating effectively through our sampling and detailed testing in objectives 2 through 7. The sample selection was comprised of a random, non-statistical selection of sixty customer accounts. The monthly population averaged 1,714 subscribers.

Conclusion: Objective met in all significant respects.

- 2. Determine if Sierra Tel utilized accurate subscriber counts in the Claim Forms submitted to the CPUC for reimbursement during the audit period.**

Procedures

- Requested and obtained all third-party administrator (TPA) Weighted Average Reports (WAR) for each month of the audit period of July 1, 2021 through June 30, 2022.
- For each data source, calculated the weighted average subscriber count by the attribute profile related to each reimbursement amount. Subscriber attributes include: service description, funding type, rate group, service type, tribal indicator, teletypewriter (TTY) indicator, Emergency Broadband Benefit (EBB) indicator, and federal broadband standard indicator.
- Extracted the weighted average subscriber count from each Claim Form.
- Compared the weighted average subscriber counts, by attribute profile, per the 1) WAR and 2) Claim Forms.

Conclusion: Objective met in all significant respects.

3. Determine if claimed administrative expenses were allowable in accordance with General Order (GO) 153 Sections 5 and 9, Public Utilities Code Section 878, Decision (D.) 14-01-036 and D.10-11-033, and other applicable California LifeLine Program's rules, regulations, and requirements.

Procedures

- Requested and obtained a schedule of administrative expenses, supporting invoices, and rationale for calculations for September, 2021, December, 2021, March, 2022, and June, 2022. This four-month sample represented \$3,424, or 33.3%, of \$10,283 administrative expenses claimed for reimbursement.
- Determined that Sierra Tel claims reimbursement for incremental administrative expenses, which, per the California LifeLine Program policy, allows carriers to claim reimbursement for eligible expenses up to a maximum amount of \$0.50 per weighted average subscriber.
- Analyzed counts of monthly weighted average subscribers to verify that the requested reimbursement per subscriber did not exceed \$0.50.
- Reviewed GO 153, section 8.4 to establish which types of expenses are considered allowable for reimbursement.
- Confirmed all sampled expenses included in requests for reimbursement were supported by invoices and did not fit the description of any unallowable expense claims as described in GO 153, section 8.4.

Conclusion: Objective met in all significant respects

4. Determine if customers included in Claim Forms provided proof of eligibility.

Procedures

- Randomly selected a non-statistical sample of sixty (60) accounts. The population averaged 1,714 monthly subscribers during the 12-month audit period.
- Requested and obtained proof of California LifeLine Program eligibility.
- Reviewed proof of eligibility for each sampled account. If subscriber was a first-time applicant, determined if proof exhibited participation in a qualifying public assistance program (e.g., Medi-Cal, Social Security Income, Women, Infants, and Children Program, etc.). If the subscriber was not a first-time applicant, determined if Renewal Form included a self-certification of participation in a qualifying public assistance program.
- Reviewed and calculated the federal poverty threshold by household size, per the 2021 Federal Poverty Guidelines.
- For those first-time applicants using annual income to qualify for the program, determined that the customer's total annual gross income did not exceed 150% of the federal poverty threshold. If the subscriber was not a first-time applicant, determined that self-reported annual gross income did not exceed 150% of the federal poverty threshold.

Conclusion: Objective met in all significant respects.

5. Determine if California LifeLine discounts were accurately applied to customer accounts.

Procedures

- Randomly selected a non-statistical sample of sixty (60) accounts from the subscriber data. The monthly population averaged 1,714 subscribers.
- Requested invoices for the sampled accounts during the audit period.
- Reviewed invoices to determine that discounts related to the California LifeLine Plan were calculated accurately and properly net against eligible charges.
- Calculated the claimed reimbursement amount per sample account. Determined that LifeLine discounts displayed on customer invoices did not exceed, in total, the amounts claimed for reimbursement. Sierra Tel claimed the appropriate reimbursement amount on Claim Forms and thus did not overstate claims to be reimbursed by CPUC.

Conclusion: Objective met in all significant respects.

6. Determine if those customers who de-enrolled from the California LifeLine Program were removed from the Program in a timely manner.

Procedures

- Judgmentally selected a non-statistical sample of 10 accounts from the subscriber data that de-enrolled from the California LifeLine Program. Accounts in this sample were randomly selected such that no more than one selection was derived from any particular month. De-enrolled accounts are a subset of the overall population that averaged 1,714 monthly subscribers during the 12-month audit period.
- Requested proof of program de-enrollment for the sampled accounts.
- Compared the date of ineligibility determination to the date of de-enrollment to confirm that accounts were de-enrolled in a timely manner. For the purpose of this audit, Crowe defines timely as within 30 calendar days or by the end of the calendar month such that the customer was not included in the following month's claims form.

Conclusion: Objective met in all significant respects.

7. Determine if subscribers with duplicate addresses met the multiline consumer household eligibility.

Procedures

- Randomly selected a non-statistical sample of sixty (60) accounts from the subscriber data. The monthly population averaged 1,714 subscribers.
- Requested and obtained application or renewal forms for each sampled account.
- Determined that each first-time application form, which represented 29 of 60 sampled accounts, certified that no more than one individual per household was receiving LifeLine discounts.
- Crowe requested household worksheets for 5 additional accounts that had an address that matched at least one additional account in the population.

Conclusion: Objective met in all significant respects.

Performance Audit Results

The results of our tests indicated that Sierra Tel met Objectives 1 through 7 in all significant respects.

Views of Responsible Officials

We communicated the audit results with Sierra Tel representatives on June 5, 2024. We stated that the final report will not include the views of responsible officials because there are no audit findings. Because there were no audit findings requiring a response, we are issuing the report as final.

Restricted Use

This audit report is intended solely for the information and use of Sierra Tel and the CPUC; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of the final audit report, which is a matter of public record and will be available on the CPUC website³.

³ <https://www.cpuc.ca.gov/about-cpuc/divisions/utility-audits-risk-and-compliance-division/utility-audits-branch/audit-reports-by-industry>

Appendix A – List of Records Examined

1. Third-Party Administrator (TPA) Weighted Average Reports (WAR).
2. California LifeLine Claim Forms submitted by Sierra Tel for reimbursement.
3. Written policies and procedures related to the Sierra Tel's California LifeLine Program administration.
4. Invoices/billings/statements to customers.
5. California LifeLine Program customer applications.
6. Customer proof of eligibility documents.
7. Customer Household Worksheets.
8. General Order (GO) 153 Sections 5 and 9, Public Utilities Code Section 878, Decision (D.) 14-01-036 and D.10-11-033.