PUBLIC PURPOSE PROGRAM SURCHARGES PERFORMANCE AUDIT

Verizon Communications, Inc. Subsidiary MCI Communications Services, LLC (U-5378-C)

April 1, 2023, through June 30, 2024

Utility Audits, Risk and Compliance Division
Utility Audits Branch
July 21, 2026

MEMBERS OF THE TEAM

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A digital copy of this report can be found at:
Audit Reports by Industry (ca.gov)

You can contact our office at:
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STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Transmitted via e-mail

July 21, 2026

Radhika Poduri, Vice President - Taxes
Verizon Communications, Inc.
One Verizon Way
Basking Ridge, NJ 07920

Dear Radhika Poduri:

Final Report Transmittal Letter—Audit of Verizon Communications, Inc. Subsidiary MCI Communications Services, LLC's Public Purpose Program Surcharges for the for the Period of April 1, 2023, Through June 30, 2024

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of Verizon Communications, Inc. (Verizon) Subsidiary MCI Communications Services, LLC's Public Purpose Program surcharges for the period of April 1, 2023, through June 30, 2024. The final audit report is enclosed.

We issued the draft audit report on June 17, 2026. Verizon's response to the draft report findings and our evaluation of the response are incorporated into this final report. In addition, as outlined in General Order (G.O.) 66-D and the California Public Records Act (Government Code [GC] Sections 6250-6276.48.), Verizon requested confidential treatment of specific information of its response letter and tables summarizing Verizon's access line counts contained in this report. As a result, the confidential information contained in the final public report is redacted. We will post the final redacted audit report on our website at Audit Reports by Industry (ca.gov).

A Corrective Action Plan (CAP) addressing the findings and recommendations is required to be submitted within 45 days from the issuance of this final audit report. Please provide the CAP by September 3, 2026. The CAP should include specific steps and target dates for implementing each specific corrective action to correct the findings identified. Please submit the CAP to Utility Audits Branch at: UtilityAudits@cpuc.ca.gov.

If you have any questions regarding this report, please contact Sharmin Wellington, Supervisor, at (916) 928-9838.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page

cc: Jane Whang, Attorney, Regulatory and State Government Affairs, Verizon
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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of Verizon Communications, Inc. (Verizon) subsidiary MCI Communications Services, LLC (MCICS) Public Purpose Program (PPP) surcharges for the audit period April 1, 2023, through June 30, 2024.

Our audit objectives were to determine whether Verizon's subsidiary MCICS:

- accurately assessed, classified, and reported to CPUC the number of access lines,
- accurately assessed, collected, and reported to CPUC the PPP surcharges, and
- timely reported and remitted the PPP surcharges collected to CPUC,

in accordance with Public Utilities (PU) Code section 879, CPUC's Decisions (D.) 22-10-021 and D.98-01-023, and other applicable rules, regulations, and requirements.

Based on the procedures performed, samples tested, and evidence gathered, we found instances of noncompliance with requirements for the audit period April 1, 2023, through June 30, 2024. The instances are described in the Findings and Recommendations section of this audit report. The audit findings are summarized as follows:

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- **Finding 1: Failure to Implement the New Access Line Flat Rate Mechanism**
  Verizon failed to comply with CPUC D.22-10-021 by not implementing the new access line reporting mechanism as required by CPUC.

- **Finding 2: Potentially Under Remitted Surcharges of at Least $18,619**
  Verizon potentially under remitted at least $18,619 for PPP surcharges due to incorporating various internal adjustments when computing its total access line counts.

- **Finding 3: Potentially Under Remitted Surcharges Due to Incorrectly Exempting Customers**
  Verizon improperly exempted four customers and failed to provide five exemption certificates for customers that were exempted from the PPP surcharges.

- **Finding 4: Failure to Comply with Subpoena and Data Requests**
  Verizon failed to comply with the subpoena CPUC issued on May 2, 2025, and UAB's data requests.

We issued a draft report on June 17, 2026. Verizon responded by letter dated July 1, 2026, disagreeing with the audit results. Verizon's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report and our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

AUDIT REPORT

Background

Public Purpose Program Surcharges

Several surcharges and taxes are assessed on communications services by the State of California, city and county governments, and federal agencies to support various public programs and public safety. Communications carriers collect these taxes and surcharges from their customers and remit these funds to the appropriate agencies or authorities that administer these public programs.

The California Public Utilities Commission (CPUC) is responsible for administering the state's six Public Purpose Programs (PPPs). The PPPs, set forth in Public Utilities (PU) Code sections 270–281, include Universal LifeLine Telephone Service, Deaf and Disabled Telecommunications Program, California High-Cost Funds A and B, the California Teleconnect Fund, and California Advanced Services Fund. These PPPs provide support for the cost of communications services to approved participants, with a focus on supporting low-income households, schools, and underserved communities. The PPPs are funded by a surcharge assessed on telecommunications services. Communication carriers collect the surcharges from their customers and remit them to CPUC to fund these programs, including the user fees, which support the CPUC's operational costs.

Flat Rate Surcharge Mechanism

Previously the PPP surcharges and the user fees were assessed as a portion of the revenue from intrastate telecommunications services sold in California. However, CPUC adopted the new surcharge mechanism utilizing a flat rate to fund California's PPPs effective April 1, 2023. CPUC's Decision (D.) 22-10-021 adopted the new mechanism that assesses surcharges as a flat rate based on the number of active access lines that a telephone corporation operates in California. The Decision also consolidated the individual surcharge line items for each of the six PPPs on a customer's bill into a single flat-rate surcharge amount. The flat rate during the audit period was $1.11 per active access line. The Decision did not change the mechanism of collecting and reporting the surcharges and user fees through utilizing CPUC's Telecommunications and User Fees Filing System (TUFFS). Communication carriers are required to log into TUFFS and report the number of active access lines monthly for the system to compute the amount of surcharges to be remitted based on the number of access lines reported. CPUC's D.22-10-021 defines an access line as a wire or wireless connection that provides a real time two-way voice telecommunications service or VoIP service to or from any device utilized by an end user, regardless of technology, which is associated with a 10-digit NPA-NXX number or other unique identifier and a service address or Place of Primary Use in California.

Verizon Communications, Inc. (Verizon)[1]

Verizon was formed in 1983 as Bell Atlantic and changed its name to Verizon Communications, Inc. Verizon is incorporated in Delaware with headquarters in New York (corporate) and New Jersey (operations). Verizon provides cable, internet, and telecommunications services to business and residential customers nationwide. Verizon operates 17 brands offering wireless and wireline telecommunications in California, including, but not limited to:

[1]Verizon's website provides historical background of its company at https://www.verizon.com/about/our-company/history-and-timeline

- Los Angeles SMSA Limited Partnership (LASMSA) -wireless
- GTE Mobilnet of California Limited Partnership -wireless
- Cellco Partnership -wireless
- MCI Communications Services LLC -wireline

Verizon Subsidiary MCI Communications Services, LLC (MCICS)

MCICS is incorporated in Delaware, with its headquarters in Ashburn, Virginia. MCICS was acquired by Verizon in 2005 and established as a subsidiary. It provides enterprise-level data networking, cloud services, and voice solutions aimed at businesses, government agencies, and other large organizations that need reliable telecommunications services.

Verizon subsidiary MCICS reported access lines ranging between approximately [redacted] access lines per month in TUFFS and remitted a total of [redacted] in PPP surcharges during the audit period of April 1, 2023, through June 30, 2024, as outlined in the table below.

[redacted]

* June 2023 reflects zero because MCICS submitted an adjustment request after the due date, so the system automatically denied it. MCICS submitted an adjustment request for June 2023 to correct the number of access lines reported; however, MCICS did not obtain CPUC's prior approval.

Audit Authority

UAB conducted this audit under the general authority outlined in the PU Code sections 270-274, 314.5, 314.6, 581, 582, and 584. Furthermore, pursuant to CPUC's D.22-10-021, UAB is authorized to verify the PPP surcharges for the purposes of ensuring communication carriers' compliance program.

Objective and Scope

Our audit objectives were to determine whether Verizon's subsidiary MCICS:

- accurately assessed, classified, and reported to CPUC the number of access lines,
- accurately assessed, collected, and reported to CPUC the PPP surcharges, and
- timely reported and remitted the PPP surcharges collected to the CPUC,

in accordance with PU Code section 879, D.22-10-021 and D.98-01-023, and other applicable rules, regulations, and requirements.

The scope of our audit covered MCICS access lines reported and corresponding surcharges remitted in the amount of [redacted] for the audit period of April 1, 2023, through June 30, 2024.

Methodology

In planning our audit, we gained an understanding of the PPP surcharges and Verizon's operations and identified relevant criteria, by reviewing Verizon's policies and procedures, relevant PU Code sections, rules, regulations, CPUC decisions, resolutions, orders, directives, and interviewing Verizon's personnel.

We conducted a risk assessment, including evaluating whether Verizon's key internal controls relevant to our audit objectives were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, and testing transactions. Deficiencies in internal control identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

Additionally, we assessed the reliability of the data extracted from Verizon's billing and compliance systems. Our assessment included examining extracted reports Verizon sends to its third-party contractor and reconciling the extracted reports to the tax liability report, and tracing data between differing report formats to verify completeness. We determined the data to be sufficiently reliable to address the audit objectives.

We developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. To achieve our audit objectives, we did the following:

- Reviewed applicable PU Code sections, CPUC decisions, resolutions, orders, and advice letters to gain an understanding of the surcharge requirements, including the assessing and reporting criteria and remittance process.

- Reviewed Verizon's background information including its policies and procedures to gain an understanding of the nature of the utility and its responsibility to report access lines and remit surcharges.

- Requested internal and external prior audit reports from Verizon and determined there were no prior audit reports significant to our audit objectives.

- Assessed significance by performing an analysis of MCICS access lines reported and surcharge remittances.

- Obtained an understanding of Verizon's key internal controls relevant to surcharge requirements for assessing, reporting, collecting, and remitting surcharges, and assessed the design, implementation, and operating effectiveness of selected controls that are significant to the audit objectives by:

    - interviewing key personnel and completing an internal control questionnaire,

    - reviewing Verizon's policies and procedures, and assessing their implementation pertaining to recording and reporting of surcharge requirement data, and

    - requesting on at least two occasions to conduct a walk-through of the billing system without successful resolution.

- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.

- Selected April 2023, December 2023, January 2024, and May 2024 to perform testing procedures, as outlined in the table below.

[redacted]

*For the selected testing, errors found, if any, were not projected to the intended (total) population.

- For the selected months identified above, performed substantive testing procedures including the following:

    - Verifying that Verizon accurately assessed, classified, and reported the number of access lines to CPUC's TUFFS by:

        - inquiring with Verizon regarding its methodology to maintain and report the number of active access lines to CPUC,

        - obtaining confirmation from Verizon that it remits surcharges based on tax collected and not based on a list of active access line counts, and

        - performing data analytics of Verizon's monthly billing system reports to count the number of records in the reports and to reconcile with amounts reported in TUFFS.

    - Verifying that Verizon accurately assessed, collected, and reported surcharges by:

        - selecting 40 MCICS business customers' bills from the Billing Detail reports and reviewing the 34 customers' bills provided (six bills were not provided due to the customers being federal entities) to ensure the accurate surcharge amount appeared on the bills,

        - obtaining and analyzing Verizon's Compliance Data File Detail and Billing Detail report for April 2023, December 2023, January 2024, and May 2024 to identify any variances that deviated from the CPUC surcharge required flat rate of $1.11,

        - analyzing the Billing Detail report, Tax Liability Analysis Report, and Compliance Data File Detail report and comparing the amounts to the surcharge amounts reported in TUFFS,

        - recalculating and tracing the recalculated amounts to the total surcharges on the Billing Detail report to ensure the reported amount traced to the collected amount, and

        - selecting 15 of 150 MCICS exempted customers to validate their exemption status.

    - Verifying that MCICS timely reported and remitted surcharges to CPUC TUFFS by:

        - confirming that MCICS paid the surcharges in TUFFS timely, and

        - verifying that MCICS timely reported access lines to CPUC by reviewing the reported and remitted dates in TUFFS to determine compliance with CPUC regulation which require carriers to report access line counts no later than 40 days following the close of the reporting period.

We did not audit Verizon's financial statements. Our audit scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance in determining whether Verizon subsidiary MCICS accurately assessed, classified, and reported to CPUC the number of access lines, whether it accurately assessed, collected, and reported to CPUC the PPP surcharges, and whether it timely reported and remitted the PPP surcharges collected to CPUC, in accordance with PU Code section 879, D.22-10-021 and D.98-01-023. We considered Verizon's internal controls only to the extent necessary to plan the audit and achieve our audit objectives.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). GAGAS standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

Based on the procedures performed, samples tested, and evidence gathered, we found instances of noncompliance with requirements for the audit period of April 1, 2023, through June 30, 2024. These instances are described in the Findings and Recommendations section of this audit report.

We also identified deficiencies in internal control that are significant to the audit objectives and warrant the attention of Verizon's management. These deficiencies are also described in the Findings and Recommendations section of this audit report.

Follow-up on Prior Audit Findings

We have not previously conducted an audit of MCICS' PPP surcharges within the last ten years. Furthermore, Verizon did not identify any prior engagements that are significant within the context of our audit objectives that would require us to determine if appropriate corrective actions have been taken to address potential findings and recommendations.

Views of Responsible Officials

We issued a draft report on June 17, 2026. Verizon responded by email dated July 1, 2026, disagreeing with the audit results. Verizon's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report and our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

Restricted Use

This audit report is intended solely for the information and use of Verizon and 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 this audit report , which is a matter of public record and will be available on the CPUC website at Audit Reports by Industry (ca.gov).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

FINDINGS AND RECOMMENDATIONS

Finding 1: Failure to Implement the New Access Line Flat Rate Mechanism

Condition:
Verizon failed to comply with CPUC D.22-10-021 by not implementing the new access line reporting mechanism as required by CPUC. Specifically, Verizon subsidiary MCICS is reporting the access line count based on the total amount of PPP surcharges billed to its customers and not based on the number of active access lines. Verizon takes the total amount of PPP surcharges billed each month for its subsidiary MCICS and divides the total amount collected by the flat rate of $1.11 to back into the number of active access lines its subsidiary MCICS reports to CPUC. Therefore, the number of active access lines reported in TUFFS is not accurate. In addition, MCICS uses a weighted average method to determine the number of access lines to report to CPUC for its VoIP enterprise customers that operate in multiple states based on concurrent calls usage. Verizon does not follow CPUC's requirement to maintain and report the number of active access line counts and rather reports its access line counts to CPUC based on its tax engine amount collected and a weighted average method allocation.

Our review of Verizon's Compliance Data File Detail report revealed that Verizon did not consistently impose a flat rate of $1.11 surcharge on each active access line during the audit period and that some access lines were billed at rates less than $1.11 due to various internal adjustments. Therefore, Verizon's methodology of backing into the number of active access lines it reports to CPUC by dividing its total collected surcharges by $1.11 resulted in an inaccurate number of access lines reported in TUFFS during the audit period. In other words, backing into the number of access lines based on Verizon's tax engine total collection amounts yielded an incorrect result because total collection amounts revealed deviations when less than $1.11 was assessed per access line. According to Verizon, these noted deviations represented various internal adjustments to account for bad debt, billing adjustments, and other miscellaneous internal adjustments.

Pursuant to D.22-10-021, effective April 1, 2023, all telephone corporations (carriers) operating in California are required to assess, collect, and remit PPP surcharges pursuant to the access line flat rate surcharge mechanism. The new surcharge mechanism requires carriers to report *the number of active access lines* (emphasis added) for telephone services in California. CPUC then calculates PPP surcharges to be remitted based on the number of access lines reported by the utilities in TUFFS. As Verizon has not implemented a methodology to record and maintain a running log of active access lines, as prescribed by D.22-10-022, our review of the audit evidence determined that the active access line counts Verizon's subsidiary MCICS reported to CPUC were inaccurate. Furthermore, we were unable to determine the correct number of access lines that should have been reported to the CPUC since Verizon did not or would not provide that information even after several data requests, as explained in Finding 4.

Criteria:
CPUC D.22-10-021 states, in part, that:

> **Order 1**
> All telephone corporations, including traditional wireline, wireless and Voice over Internet Protocol (VoIP) carriers or providers, operating in California shall assess, collect, and remit California's PPP surcharges pursuant to the access line flat rate surcharge mechanism adopted in this decision.

Summary
The new mechanism assesses surcharges based on the number of active access lines for telephone corporations operating in California.

Section 4.1.2
All carriers would be required to count and report access lines in the same manner.

Section 4.2.2
A single flat rate end user surcharge mechanism will allow each carrier, regardless of the technology mode (e.g., VoIP or wireless) or business model (e.g., prepaid or postpaid), to collect and remit PPP surcharges based on one standard – the number of access lines each provider operates.

Section 5.2.2
Access Line means a wire or wireless connection that provides a real time two-way voice telecommunications service or VoIP service to or from any device utilized by an end user, regardless of technology, which is associated with a 10-digit NPA-NXX number or other unique identifier and a service address or Place of Primary Use in California.

Section 6
The shift to an access line based PPP surcharge mechanism will require carriers to report access line counts on the same monthly schedule as they currently report their intrastate telecommunications revenue, which is no later than 40 days following the close of a reporting period.

Section 6.2
The new surcharge mechanism will apply to all customer classes and will be based on the number of telecommunications access lines in the state.

Cause:
Verizon chose to follow a different methodology than the one required in D.22-10-021 by backing into the number of reported access lines utilizing its tax engine collections and weighted average method allocation. Verizon stated that it reported data to CPUC based on "tax collected."

Effect:
Lack of compliance with CPUC regulations may lead to material errors, such as:

- PPP surcharges collected from customers may be inaccurate resulting in misrepresented active access line counts reported,
- Inaccurate active access line counts reported may result in an incorrect (over/under) surcharge remittance to CPUC,
- Stakeholders may not be able to properly evaluate the effectiveness of the new surcharge mechanism, and

- Decision makers may not have reliable information to make appropriate adjustments to the surcharge flat rate.

The PPPs are funded by ratepayers; therefore, Verizon has a fiduciary duty to ensure surcharges are accurately assessed, collected, and remitted, pursuant to the access line flat rate surcharge mechanism adopted in D.22-10-021. When the surcharges are not assessed, collected and remitted as required, the errors adversely affect the availability of funds allocated to support the PPPs.

Recommendations:
Verizon should:

- Implement a system of recording, counting, and maintaining the number of active access lines to ensure compliance with CPUC's regulations, if it does not already,

- Assess, bill, and collect the required flat rate amount per each active access line as required by D.22-10-021 and CPUC requirements, and

- Report access lines to CPUC based on accurate number of active access line counts and not based on the amounts billed or collected from its customers or a weighted average method allocation.

Finding 2: Potentially Under Remitted Surcharges of at Least $18,619

Condition:
In the four months that were selected for testing, UAB determined that Verizon subsidiary MCICS potentially under remitted at least $18,619 for PPP surcharges due to incorporating various internal adjustments when computing its total access lines. Specifically, our audit revealed that Verizon applied less than $1.11 to some of the access lines during the audit period, evident from Verizon's Compliance Data File Detail report. We utilized the Compliance Data File to conduct our testing because out of all reports that were provided during the audit, the Compliance Data File was *the only* (emphases added) report that reconciled the amounts remitted to CPUC's TUFFS.

UAB reviewed the report for the four out of 15 months selected during the audit: April 2023, December 2023, January 2024, and May 2024. Our review revealed approximately 4,600 instances for the four months selected, in which Verizon deviated from the required flat rate of $1.11 and recorded collections of less than $1.11 for some access lines, including recording $0 or showing negative adjustments in some instances. Each instance represented deviations ranging between a few cents and thousands of dollars that were adjusted from the sum of the total surcharges collected. For example, one of the instances included an amount totaling a negative value of $3,472 that was adjusted from the total surcharges during December 2023. Due to the high rate of these deviations, UAB requested a list of all instances and explanations of these deviations for the audit period.

Verizon submitted additional information for the four months tested on May 22, 2026. Verizon indicated that these were internal adjustments in its system related to bad debt, billing adjustments, and other miscellaneous adjustments. We reviewed Verizon's additional information and concluded that some of Verizon's internal adjustments were either unallowable (adjustments for bad debt) or unsupported (billing and miscellaneous adjustments).

Due to various unallowable and unsupported internal adjustments, we determined that the surcharges reported were inaccurate for the four months tested during the audit. As Verizon did not provide the double-entry general ledger (GL) to support the adjustments for the audit period (see Finding 4); therefore, we could not expand our testing to determine the full extent of MCICS's under-remittance for the entire audit period. Table below summarizes total under remitted surcharges due to internal adjustments noted for the four months tested:

[redacted]

Criteria:
D. 22-10-021 states, in part, that:

> **Order Paragraphs 1**
> 1. All telephone corporations, including traditional wireline, wireless and Voice over Internet Protocol (VoIP) carriers or providers, operating in California shall assess, collect, and remit California's Public Purpose Program surcharges pursuant to the access line flat rate surcharge mechanism adopted in this decision.
>
> **Order Paragraphs 2**
> 2. All telephone corporations, including traditional wireline, wireless and Voice over Internet Protocol carriers or providers, shall report their access lines used to provide two-way communication, as defined in this decision. This reporting may be subject to Commission review and audit. Reporting and remittance dates can be found at CPUC Telephone Surcharges Reporting and Payment Filing Directions (ca.gov)
>
> **Order Paragraphs 6**
> 6. All telephone corporations, including traditional wireline, wireless and Voice over Internet Protocol carriers or providers, shall implement the new access line flat rate surcharge collection and remittance mechanism adopted in this decision, beginning April 1, 2023.
>
> **Order Paragraphs 8**
> 8. The $1.11 access line based surcharge rate effective April 1, 2023 is intended to fund all of California's universal service programs until the Commission updates the rate using its resolution process.

> **Order Paragraphs 9**
> 9. Beginning June 9, 2023, all telephone corporations, including traditional wireline, wireless and Voice over Internet Protocol carriers or providers, shall report their access line data, as required by this decision, in CPUC's new Telecommunications and User Fee Filing System portal.

D.12-02-032 section 9.6 states, in part, that:

> …regardless of how the surcharge is calculated, collected, and remitted, the carrier, not the customer, is ultimately responsible for payment of the surcharge…the utility is ultimately responsible for ensuring payment of the proper surcharge amount. It is the utility, not customers, over whom the Commission exerts jurisdiction.

Cause:
Verizon indicated that the deviations noted during testing were attributed to various internal adjustments in its system.

Effect:
Verizon has a fiduciary duty to ensure the surcharges assessed, collected, and remitted are accurate. Errors can adversely affect the availability of funds allocated to support the eligible participants, including low-income and underserved communities, who depend on the PPP funding. In addition, decision makers may not have reliable information to make certain assessments.

Recommendations:
Verizon should:

- Moving forward, comply with CPUC D.22-10-021 and assess the required flat rate amount on all active access lines,
- Moving forward, comply with CPUC D.12-02-032, section 9.6, and report and remit flat rate surcharge amounts for all active access lines regardless of any adjustments for bad debt or prorated services, and
- Work with CPUC's CD to remit at least $18,619 for under remitted PPP surcharges for the selected four months to CPUC and determine any additional surcharge amount from April 1, 2023, to present.

Finding 3: Potentially Under Remitted Surcharges Due to Incorrectly Exempting Customers

Condition:
In the four months that were selected for testing, UAB identified that Verizon subsidiary MCICS exempted 150 business customers from PPP surcharges. We selected 15 of the 150 exempted customers for testing and found that 9 of the 15 exemptions were improperly granted. In addition, we noted during testing that supporting documentation was missing or insufficient, eligibility requirements were not met, information was not provided or exempt status was erroneously applied. MCICS improperly exempted 9 of the 15 customers selected for review from PPP surcharges as follows:

- MCICS could not or did not provide records to support the reason for exemption for 5 of 15 customers selected such as exemption certifications. In addition, MCICS acknowledged that one of five exemptions was erroneously applied during the audit period and it has been subsequently corrected in its system.

- MCICS provided exemption certificates for 2 of 15 exempted customers; however, our review of these certificates determined that these customers did not meet the eligibility requirements for exemption from PPP surcharges under CPUC D.96-10-066 and D.22-10-021. Additionally, our review also determined that these exemptions applied to taxes and not surcharges.

- MCICS provided documentation indicating that 1 of 15 exempt customers qualified as a reseller; however, neither MCICS nor the reseller remitted applicable surcharges. We requested access line count information to determine whether surcharges should have been assessed, but MCICS did not provide the requested data.

- MCICS provided documentation indicating that 1 of 15 exempt customers qualified as a wholesaler; however, neither MCICS nor the wholesaler remitted applicable surcharges. We requested access line count information to determine whether surcharges should have been assessed, but MCICS did not provide the requested data.

CPUC exempts carriers from collecting the PPP surcharge in limited situations. Pursuant to CPUC D.96-10-066 and D.22-10-021, the following services are exempt from PPP surcharges: coin-sent paid calling, debit card messages, one-way radio paging, LifeLine, and calls to/from incarcerated individuals, and others. In addition, MCICS is ultimately responsible for ensuring that the PPP surcharges are collected and remitted from its end-user customers or otherwise paid to CPUC. Its customers are not responsible for remitting the surcharges unless its customer is a reseller and holds a valid Certificate of Public Convenience and Necessity (CPCN) per CPUC D.12-02-032 and PU Code section 1013(a).

Based on the results of our testing, MCICS did not collect surcharges from business customers exempted, did not consistently maintain adequate support for business customers exempted from PPP surcharges, and did not ensure that exemptions were granted only to eligible customers in accordance with D.96-10-066, D.22-10-021, and applicable PU Code requirements. The exceptions identified indicate weaknesses in MCICS's processes and controls related to verifying customer eligibility, obtaining and retaining exemption certifications, and ensuring compliance with CPUC registration and CPCN requirements. In addition, based on CPUC records, seven customers MCICS exempted did not hold valid CPCNs during the audit period. Therefore, MCICS potentially granted exemptions to ineligible customers by failing to comply with applicable laws, rules, and regulations. As a result, Verizon likely under remitted surcharges due to erroneously exempting customers that should not have received an exempt status.

Criteria:
D.96-10-066 states, in part, that:

> **Conclusion of Law Paragraph 125**
> In addition to ULTS billing, the following should also be exempted from the CHCF – B surcharge: coin-sent paid calling; debit card messages; one-way radio paging; usage charges to COPTs; customers receiving services under existing contracts that were executed on or before September 15, 1994; and directory advertising.

D.22-10- 021 states, in part, that:

> **Order paragraph 4**
> Incarcerated individuals are exempted from the PPP surcharges and the user fee.
>
> **Order Paragraph 5**
> LifeLine subscribers shall continue to be exempt from the PPP surcharges and user fee.

D.12-02-032 section 9.6 states, in part, that:

> …regardless of how the surcharge is calculated, collected, and remitted, the carrier, not the customer, is ultimately responsible for payment of the surcharge…the utility is ultimately responsible for ensuring payment of the proper surcharge amount. It is the utility, not customers, over whom the Commission exerts jurisdiction.

PU Code section 1013 states, in part, that:

> (a) The commission may by rule or order, partially or completely exempt certain telecommunications services offered by telephone and telegraph corporations from the certification requirements of Section 1001 and instead subject them to registration as the commission may determine… A telephone corporation operating in this state shall either have a certificate of public convenience and necessity or be registered under this section or be a telephone corporation authorized to operate in California without a certificate of public convenience and necessity.

Cause:
Verizon stated that exempt customers were resellers or government entities; therefore, Verizon believed they should be exempt from PPP surcharges. Verizon indicated that Federal government agencies are exempt from surcharges according to California Code of Regulations, Title 18, section 2413. Verizon's reliance on this regulation is misplaced; it does not establish an exemption from CPUC PPP surcharges. That regulation governs exemptions under the Emergency Telephone Users Surcharge Law, which was repealed in 2025.

CPUC PPP surcharge requirements arise from separate statutory and Commission authority and, under D.22-10-021, apply broadly to telephone corporations, including interconnected VoIP providers. CPUC has expressly recognized exemptions for LifeLine subscribers and incarcerated individuals, but section 2413 does not create a wholesale exemption from CPUC surcharge reporting or remittance obligations for all voice services provided to federal government entities. Verizon bears the burden of substantiating all of its claimed exemptions, which it has failed to meet in this audit.

Verizon thus lacks adequate processes and controls related to verifying customer eligibility, obtaining and retaining exemption certifications, and ensuring compliance with CPUC registration and CPCN requirements.

Effect:
The lack of adequate controls over exemption eligibility increases the risk of continued noncompliance, inaccurate surcharge reporting, and future under-remittances. Consequently, errors with granting customer exemptions can adversely affect the availability of collected funds allocated to support the eligible participants, including low-income and underserved communities, who depend on the PPP

funding. In addition, Verizon's inability to provide some key supporting documentation requested diminishes Verizon's apparent transparency to the public, CPUC, and various stakeholders.

Recommendations:
Verizon should:

- Strengthen its processes and controls related to verifying customer eligibility, obtaining and retaining PPP surcharges exemption certification documents, and ensuring compliance with CPUC registration and CPCN requirements to ensure compliance with applicable laws, rules, and regulations,

- Work with CPUC's CD to remit PPP surcharges for unqualified exempted customers from April 1, 2023, to present, and determine appropriate actions to ensure corrective actions are implemented.

Finding 4: Failure to Comply with Subpoena and Data Requests

Condition:
Verizon failed to comply with data requests during the audit and CPUC issued Subpoena dated May 2, 2025, for Records Related to Audit of Verizon Communications, Inc for the period of April 1, 2023, through June 30, 2024 (Subpoena). Consistent with CPUC's audit authority and standard audit practices, we submitted various data requests to Verizon during this audit. However, Verizon continued to delay providing the requested documents even after multiple extension due dates and follow-up discussions. In addition, Verizon failed to comply with the Subpoena that was issued as a result of Verizon's non-compliance with the audit requests.

For example, UAB's initial data request sent October 1, 2024, requested Verizon provide specific supporting documentation before October 10, 2024. However, Verizon provided the requested documents months after the initial due date. Verizon has stated that due to the nature and size of its business, the turnaround time for document requests takes longer. Therefore, we provided Verizon with multiple due date extensions for all documents requested. Nonetheless, Verizon still failed to provide the requested documents within the extended due dates.

In addition to Verizon's failure to provide the requested documents and information by the prescribed due dates, it also did not provide some of the requested data to date. In addition, in some instances, Verizon also provided different information that was not requested. For example, in the initial data request sent October 1, 2024, UAB requested a complete list of access lines that originate in California. Instead, Verizon provided reports from its billing system six months later, stating that Verizon does not have a mechanism to count access lines. Access line reports are critical to performing this audit and to date, Verizon has not provided a list of its active access lines in California. Furthermore, during UAB's onsite visit, we requested walkthrough interviews be scheduled with subject matter experts (SMEs) that were responsible for key functions of assessing surcharges and reporting the number of access lines. However, during UAB's onsite visit, none of the SMEs involved with these key processes were made available.

Table below outlines some examples of delays Verizon exhibited in providing requested documentation, as well as documentation that is still outstanding or was not provided.

Table 4. Examples of Document Request Delays

Examples of Documents Requested	**Request Date**	**Status**
List of access lines in California for the audit period	October 1, 2024 October 17, 2024: added Cellco, GTE and MCI	**Outstanding** Provided Billing Report for one month instead of report containing a list of access lines May 21, 2025
Inquiry regarding prior audit reports	October 1, 2024	Provided response March 4, 2025
Organization Chart	October 1, 2024	Provided June 10, 2025
General Ledger	May 2, 2025	**Outstanding**
Chart of Accounts	May 2, 2025	Provided September 16, 2025
FCC Form 477 Report	May 2, 2025	**Outstanding** Did not provide detail report
List of all instances when customers were assessed less than $1.11 for the audit period	September 4, 2025	**Outstanding***

*Provided for the sampled months but not for the audit period.

Although UAB sent repeated follow-up emails requesting the data be provided, Verizon remained uncooperative and failed to provide the requested data in a timely manner. Pursuant to PU Code sections 314, 314.6 and 581 and D.22-10-021, and CPUC's Subpoena, Verizon is required to comply with UAB's audit. Due to Verizon's failure to cooperate fully with the audit requests by not providing the requested documentation timely or completely, UAB was unable to efficiently perform testing to determine the accurate number of active access lines during the audit period.

Criteria:
PU Code section 274 states, in part, that:

> The commission shall conduct a financial and compliance audit of program-related costs and activities at least once every three years.

PU Code section 314 (a) states, in part, that:

> The commission, each commissioner, and each officer and person employed by the commission may, at any time, inspect the accounts, books, papers, and documents of any public utility. The commission, each commissioner, and any officer of the commission or any

employee authorized to administer oaths may examine under oath any officer, agent, or employee of a public utility in relation to its business and affairs.

PU Code section 314.6 (a) – (c) states, in part, that:

> (a) The commission may conduct financial and performance reviews or audits of any entity or program created by any order, decision, motion, settlement, or other action of the commission. (b) The commission shall complete any review or audit in a timely manner consistent with applicable auditing standards. (c) After performing a review or audit pursuant to this section, the commission may conduct additional follow-up work that is related to any findings and recommendations related to the review or audit.

PU Code section 581 states, in part, that:

> Every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure.

PU Code section 582 (a) states, in part, that:

> Whenever required by the commission, every public utility shall deliver to the commission copies of any or all maps, profiles, contracts, agreements, franchises, reports, books, accounts, papers, and records in its possession or in any way relating to its property or affecting its business, and also a complete inventory of all its property in such form as the commission may direct.

PU Code section 584 states, in part, that:

> Every public utility shall furnish such reports to the commission at such time and in such form as the commission may require in which the utility shall specifically answer all questions propounded by the commission.

PU Code section 2107 and Resolution T-17601 states, in part, that:

> Any public utility that violates or fails to comply with any provision of the Constitution of this state or of this part, or that fails or neglects to comply with any part or provision of any order, decision, decree, rule, direction, demand, or requirement of the commission, in a case in which a penalty has not otherwise been provided, is subject to a penalty of not less than five hundred dollars ($500), nor more than fifty thousand dollars ($50,000) for each offense.

PU Code section 2113 states, in part, that:

> Every public utility, corporation, or person which fails to comply with any part of any order, decision, rule, regulation, direction, demand, or requirement of the commission or any commissioner is in contempt of the commission, and is punishable by the commission for contempt in the same manner and to the same extent as contempt is punished by courts of record. The remedy prescribed in this section does not bar or affect any other remedy prescribed in this part, but is cumulative and in addition thereto.

Subpoena for Records Related to Audit of Verizon Communications, Inc for the period of April 1, 2023, through June 30, 2024, dated May 2, 2025, required Verizon to provide specific supporting documentation by a designated due date.

Cause:
Verizon stated it is time consuming to collect requested documents because Verizon is a very large company, and providing requested documents requires working with other groups that are in different locations, and some requests require additional time to gather. Verizon lacks protocols to effectively coordinate data request responses with its subsidiaries and work groups and lacks adequate processes to ensure documentation is readily retrievable and made available upon request. In addition, Verizon lacks adequate policies and procedures to ensure compliance with CPUC directives including adhering to subpoenas, and the timely submittal of document requests.

Effect:
Lack of timely responses from Verizon and Verizon's inability to provide some key supporting documentation requested diminishes Verizon's apparent transparency to the public, CPUC, and various stakeholders. Lack of transparency can lead to adverse effects such as:

- CPUC's and stakeholders' inability to verify the accuracy of reported information,
- CPUC's and stakeholders' inability to detect and prevent potential material errors and funding allocation issues for the PPPs,
- Diminished public trust,
- Stakeholders' inability to properly evaluate the effectiveness of the new surcharge mechanism, and
- Lack of reliable information for decision makers to make appropriate adjustments to the surcharge flat rate.

Recommendations:
Verizon should:

- Develop protocols to coordinate its efforts effectively with its subsidiaries and various internal work groups in providing requested information by the requested due dates,
- Implement policies and procedures to ensure compliance with CPUC directives including adhering to subpoenas and the timely submittal of document requests, and
- Work with CPUC's CD to determine appropriate actions to ensure corrective actions are implemented.

APPENDIX A—UTILITY'S RESPONSE TO DRAFT AUDIT REPORT

verizon

July 1, 2026

Via Email – Confidential

Angie Williams, Director
Utility Audits, Risk and Compliance Division
California Public Utilities Commission
505 Van Ness Ave.
San Francisco, CA 94105

Re: Letter—Audit of Verizon Communications, Inc. Subsidiary MCI Communications Services, LLC's Public Purpose Program Surcharges for the Period of April 1, 2023, Through June 30, 2024

Dear Ms. Williams:

Thank you for the opportunity to respond to the findings in the Audit Report. As explained below, Verizon respectfully disagrees with the Audit Report's findings, and particularly with Finding 2's conclusion that Verizon must remit $18,619 to the California Public Utilities Commission ("Commission" or "CPUC").

In addition, Verizon requests that Finding 1 and Finding 3 be revised as well. Verizon respectfully submits that (i) its method for counting active access lines is reasonable and consistent with the CPUC's Decision D.22-10-021, and (ii) Verizon responded diligently and timely to the staff's requests.

Verizon requests confidential treatment of marked sections of this response and one attachment submitted today. Verizon also requests that Tables 1, 2 and 3 of the Audit Report and related text in the Audit Report be redacted in their entirety as they contain Verizon's access line counts and surcharge remittances (which can reflect access line count) for several months. Please see attached Declaration for Confidential Treatment.

Finding 1: Failure to Implement the New Access Line Flat Rate Mechanism

Verizon respectfully disagrees with the Audit Report's Finding 1 that it did not comply with the assessment, billing, collecting, or reporting requirements of the new flat-rate mechanism in D.22-10-021 ("Decision"). The Decision requires providers to "assess, collect, and remit" the flat rate surcharge per each active access line. See D.22-10-021, Ordering Para. ("OP") 1. Verizon *assessed, collected,* and *remitted* the amount of the $1.11 surcharge on each of its active access lines, consistent with OP 1.

This finding essentially takes issue with Verizon's method for determining its monthly access line count. The Decision, however, did not specify a method for recording, counting, or reporting access lines. Verizon complied with OP 2, which requires that providers "report their access lines used to provide two-way communication, as defined in this decision."[1] The Audit Report's Finding 1 suggests that Verizon's method – when it "backed into" its access line count based on "tax collected" - was incorrect.[2] First, this conclusion does not accurately or completely describe Verizon's method for determining and reporting its access lines. Verizon's current process for reporting access lines to the Commission requires data to be pulled from the billing system, as it is the most accurate source for identifying surcharges imposed on active access lines. In determining its [redacted] The Decision does not prohibit this method of counting access lines. Second, as explained below, Verizon's methodology for reporting monthly access line count is more accurate than counting monthly individual access lines, because it is tied to billed surcharge amounts and thus reflects the amount billed for that month.[4]

The Audit Report contends that providers should report "the *number of active access lines* (emphasis added) for telephone services in California,"[5] which the Commission's TUFFS would use to calculate the amount to be remitted. Verizon *did* [redacted] In this scenario, if Verizon were to report only active access lines in May (as opposed to counting the number of surcharges billed to access lines), TUFFS would calculate an underpayment of Verizon's *billed* surcharges for the month of May.

For the foregoing reasons, a requirement that Verizon report only its active access lines would result in a discrepancy between the reported line count and the number of surcharges billed to access lines, and fail to account for certain adjustments. Verizon respectfully requests that the final Audit Report be revised to conclude that Verizon's

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[1] D.22-03-021, OP 2.

[2] The Audit Report also incorrectly alleged that "Verizon did not maintain or would not provide a list of its active access lines." Audit Report at 9. As discussed in response to Finding 4, Verizon noted that a comprehensive list of all access lines with the details requested by the staff was not readily available, Verizon provided files of all the account numbers that had been billed the surcharge, which effectively constituted a list of the *number* of active access lines assessed the surcharge. These files were multiple and titled: [redacted]

[3] Adjustments may include write-offs of bad debt.

[4] The Audit Report recommends that Verizon "implement a system of recording, counting, and maintaining the number of active access lines to ensure compliance with CPUC's regulations." Verizon's methodology is that system.

[5] Audit Report at 8.

method of determining the number of access lines (based on billed surcharges, with certain adjustments for bad debts or late payments) related to prior revenues-based periods is reasonable and consistent with the Decision's requirement that Verizon *assess,* and *collect and remit* surcharges to the Commission.

Finding 2: Potentially Under Remitted Surcharges of at Least $18,619

Verizon disagrees with the Audit Report's Finding 2 that it under-remitted at least $18,619 of PPP surcharges due to incorporating various internal adjustments when computing its total access lines.

As an initial matter, the Audit Report mistakenly relies on the Verizon Compliance Data File Detail report (the "Compliance Data File") as representing a summary of surcharge amounts for aggregate collections on a customer level. The Compliance Data File is not the correct file to review in order to determine whether the flat rate surcharge was accurately imposed. Verizon's Compliance Data File is specifically the data file that Verizon sends to its third-party vendor that completes the compliance reporting on their behalf. This distinction is important because the Compliance Data File contains various internal adjustments necessary for reporting in addition to the surcharge amount collected.

The adjustments identified in the draft audit report based on the Compliance Data File are explained in detail below and are related to Bad Debt, Miscellaneous Adjustments, and Additional Bad Debt Recoveries. Please note that for April 2023, the bad debt and other adjustments were related to the previous Revenue-Based surcharge methodology and therefore, the amounts would not be divisible by $1.11. (Verizon adjusted its access line count for bad debt write-offs and recovery[6] as these will affect the surcharges that Verizon collects and remits.[7]) The column related to Additional Bad Debt Recovery reflects amounts that customers would have paid if the surcharge had been $1.11; however, the surcharge was not $1.11 in the prior periods and therefore, these amounts do not reflect an underpayment.

Furthermore, for the May 2024 alleged underpayment amount, Verizon believes that CPUC Staff used a different methodology from the other months. For that reason, the auditors derived an amount for May 2024 that was significantly greater than the amounts Verizon identified as related to Bad Debt, Miscellaneous Adjustments, and Additional Bad Debt Recoveries amounts. Verizon believes that this methodology is incorrect and would be glad to discuss with Staff how its methodology for May 2024 was inconsistent with prior periods.

[redacted]

[redacted]

[redacted]

[redacted]

Finding 3: Potentially Under Remitted Surcharges Due to Incorrectly Exempting Customers

Verizon respectfully disagrees with the Audit Report's assertion under Finding 3 that Verizon failed to provide exemption certificates and lines counts for certain exempted customers. Certain exemptions were previously applied based on historical interpretations of broader tax and government entity exemptions, but Verizon now recognizes the CPUC's clarification that these do not constitute blanket exemptions from CPUC PPP surcharges. Verizon accepts its ultimate responsibility as a carrier to validate, document, and maintain accurate records for all customer exemptions.

Verizon obtained and provided formal exemption certificates for the sample exempted business customers identified in the sample to support the billing profiles established at the time. There are three categories of customers that Verizon maintains should not be subject to the PPP surcharges:

1). Enterprise VoIP customers: Verizon noted in the response provided to the auditors regarding exempted customers that some accounts were not formally coded or "identified as exempt" from surcharges within our billing system; these customers were not assessed surcharges because no active access lines were specifically allocated to these three California customer to trigger and remit the corresponding PPP charges during the audited months. Verizon provided the available line counts for the exempted customers utilizing line-based charges during the audit.

2). For customers utilizing metered services, there are no associated lines to count due to the nature of the billing structure which was stated in responses provided to the auditor. This is a two-way metered service that is based on usage and is not line-based.

3). Regarding the wholesale and reseller customers mentioned, Verizon maintains that it is not responsible nor legally required to pay or remit PPP surcharges for legitimate reseller customers who bear the downstream obligation to report and remit on their end-user lines. Verizon provided the reseller certificates for these customers. The Commission requires providers to impose the PPP surcharges on their end-user customers, and resellers are not end-users. D.22-10-021, at 52 ("Access lines" is defined as wire or wireless connection that provides a real time two way voice telecommunications service or VoIP service to or from any device utilized by an *end user*…").(emphasis added).

Finding 4: Failure to Comply with Subpoena and Data Requests

Verizon respectfully disagrees with the Audit Report's Finding 4 that Verizon failed to timely or completely respond to the staff's data requests including the Subpoena. Verizon worked in good faith to provide timely and complete responses to the auditors throughout the audit. The breadth and scope of the Subpoena and subsequent data requests, however, required greater time than the provided deadlines, which ranged from ten (10) business days to sometimes as little as three (3) business days. Verizon appreciates that Commission staff had a schedule for conducting audits, but in its experience with other Commission audits (*e.g.,* General Order 95, General Order 156) the staff has provided much more time to respond to data requests and allowed for extensions of several weeks or longer as necessary.

The Commission staff sought a significant volume of data and documents within a short period of time. For example, the initial data request issued on October 1, 2024, sought within seven business days (October 10, 2024), among other things, a "complete list of access lines that originate/use in California via CSV or Excel or another database format ([which] should include the 10-digit NPA number or another unique identifier, service address, and start and/or end date."). Staff requested this file for the entire audit period of 15 months, which would have required not only an extraordinary volume of data requiring at least a couple of months to extract, but in a format that Verizon's billing department does not maintain.[8] However, in a good-faith effort to be responsive, Verizon did provide a complete list of all customer account numbers that were assessed surcharges and accounts with multiple access lines were repeated on the list to represent each access line in the account.[9] This list would enable staff to identify how many access lines were assessed surcharges.

Staff also issued the Subpoena that contained some requests with a deadline of "TBD." Given that no date had been set for those specific requests, Verizon believed that after our initial timely response on the due date of May 19, 2025, we would work with the Commission staff in good faith to complete the open requests as soon as possible. It should also be noted that when CPUC staff were on site at Verizon locations the following day on May 20, 2025, Verizon worked with the CPUC staff for two full days to provide as much information as possible.

Notwithstanding Verizon's diligent efforts to respond to the CPUC staff's questions and data requests, there were some misunderstandings between the CPUC staff and Verizon's team as to the scope of some requests, which also contributed to perceived delays. Part of this confusion resulted from the CPUC introducing a new audit team in March 2025 after the audit had already begun in October 2024. At this point, the agreed upon scope for the audit changed (*i.e.,* one sample month was increased to four) with the introduction of the new audit team. Despite the continual revised scope and expanded requests for information, Verizon worked diligently to respond to all the auditors' questions, some of which were sent before Verizon could respond to prior, outstanding requests.

Attached for reference is a spreadsheet detailing the dates of Verizon's responses to the auditors' data requests and the Subpoena. See **Confidential** Attachment 1 entitled "CA PUC Audit Request Tracker MCICS." As you will observe, some requests only provided three business days to respond. On the second page of Attachment 2, Verizon also responds to the Audit Report's chart on page 13. This tab shows that Verizon responded to all the questions with responsive data, with the exception of the last request sent on September 4, 2025, that did not provide a due date, and to which Verizon was working to respond when the draft Audit Report was issued.

[8] Staff ultimately agreed to narrow the data request to a narrower sample period.

[9] See [redacted]

CONCLUSION

In conclusion, the Audit Report should be revised to eliminate Finding 2's conclusion that Verizon must remit $18,619 to the Commission. Verizon would be happy to work with the CPUC staff to explain why it did not under-remit any amounts to the CPUC.

Moreover, Findings 1 and 3 should be revised to acknowledge that (i) Verizon's method for counting active access lines is reasonable and consistent with the CPUC's Decision D.22-10-021, and (ii) Verizon responded as diligently and as timely as possible to the staff's requests.

We welcome the opportunity to address any further questions or to clarify issues.

Sincerely,

Verizon Regulatory Compliance Group

APPENDIX B—UAB'S EVALUATION OF UTILITY'S RESPONSE

We appreciate Verizon's comments submitted on July 1, 2026. We reviewed Verizon's response to the draft audit report. In its response letter, Verizon disagreed with the draft report findings and requested that audit findings be revised. The response letter is included in this final report as Attachment A. UAB reviewed Verizon's responses and additional information noted in its response letter and evaluated its content to make our final determination. We are providing our assessment of key areas of Verizon's response in the same order listed in Verizon's response letter.

In addition, Verizon also requested that "Tables 1, 2, and 3 of the Audit Report and related text in the Audit Report be redacted in their entirety as they contain Verizon's access line counts and surcharge remittances (which can reflect access line count) for several months," and provided a Declaration for Confidential Treatment attachment. This final report reflects redacted confidential information consistent with Verizon's comments.

Finding 1: Failure to Implement the New Access Line Flat Rate Mechanism

Verizon disagreed with Finding 1, which stated Verizon did not comply with the assessment, billing, collecting, or reporting requirements of the new flat-rate mechanism in D. 22-10-021. Verizon clarified that its current process for reporting access lines to CPUC requires pulling data from its billing system, emphasizing this system being the most accurate source for identifying surcharges imposed on access lines. Therefore, to determine the monthly count of access lines, Verizon divides the monthly amount of billed surcharges by the flat rate ($1.11). Verizon asserted that its methodology for reporting monthly access lines is more accurate than counting monthly individual access lines because it is tied to billed surcharge amounts, net of internal adjustments; thus, reflecting the amount billed for that month.

We appreciate Verizon's detailed explanation for how it determined access line counts. Verizon explained its process of utilizing its billing system to arrive at the number of reported access lines and asserted its methodology is a reasonable method consistent with D.22-10-021 requirements. We disagree. Verizon's method does not provide an accurate count of access lines as explained in the finding and corroborated by Verizon's own response, as the number of access lines reported was derived net of various adjustments. Factoring the adjustments into the computation of access lines inherently leads to a misstated number of access lines that deviates from the actual number of active access lines operable in California.

Verizon asserted its belief that utilizing the monthly billing information yielded accurate results for backing into the number of access lines as Verizon's methodology accounted for subscriber's activation dates and billing cycles, thus potentially avoiding duplicative or underpaid charges for the same months. We disagree. Service providers are required to remit surcharges on all active access lines regardless of the billing cycles or whether they collected the amounts from the customers.

We acknowledge Verizon's explanation. However, we disagree that this method is consistent with D.22-10-021 and D.12-02-032. Surcharges must still be remitted on every line the carrier services regardless of whether any bad debt is related to uncollectable surcharges from the end-user consumer. CPUC D.12-02-032 states, in part, that "regardless of how surcharges are calculated, collected, and remitted, the carrier, not the customer, is ultimately responsible for payment of the surcharges."

Verizon also stated that a requirement to report only the number of active access lines would result in a discrepancy between the reported line count and the number of surcharges billed to access lines and would fail to account for certain adjustments (bad debt or late payments). We disagree with Verizon's assertions that debt write-offs and late payments are relevant to the process of reporting its active access lines as required by D.22-10-021. Verizon's methodology to back into the number of reported access lines based on its billing information with account for various adjustments and billing cycles yields an inaccurate number of active access lines operable in California. Therefore, as outlined in Finding 1 of this audit report, Verizon has failed to implement the new access line reporting mechanism as required by CPUC. The utility is responsible for remitting the surcharges to CPUC even if the utility is unable to collect the surcharges from the customer. CPUC D.12-02-032 clarifies that while the surcharge is assessed on the end-user customer, the utility is still responsible for remitting the surcharges even when it may not be able to collect them from the customer.

The finding and recommendations remain unchanged.

Finding 2: Potentially Under Remitted Surcharges of at Least $18,619

Verizon disagreed with the draft report's Finding 2 and stated the report mistakenly relied on the Verizon Compliance Data File Detail report (Compliance Data File). Verizon stated the Compliance Data File was not the correct report to review to determine whether the flat rate surcharges were accurately imposed. Verizon further stated that this report is specifically sent to its third-party vendor who completes the compliance reporting on Verizon's behalf and that the file contains various internal adjustments necessary for reporting in addition to the surcharge amount collected. We concur that we utilized the Compliance Data File during our testing because out of all reports that were provided during the audit, the Compliance Data File was the only report that reconciled the amounts remitted to CPUC's TUFFS.

In Verizon's response letter, Verizon explained that the adjustment amounts identified in the draft report based on the Compliance Data File were related to bad debt, miscellaneous adjustments, and additional bad debt recoveries. Verizon further explained that for April 2023, the bad debt and other adjustments were related to the previous revenue-based surcharge methodology and would therefore not be divisible by $1.11. Verizon provided a summary chart with its response to illustrate amounts allocated to these adjustments and emphasized that amounts in the Additional Bad Debt Recoveries column reflected amounts customers would have paid if the surcharge would have been $1.11. However, since the surcharge was not $1.11 in prior periods, Verizon asserted that these amounts do not reflect an underpayment.

We acknowledge Verizon's explanation; however, we disagree. The providers are still required to remit the surcharges to CPUC even when the carriers are unable or do not attempt to collect surcharges from the consumer. CPUC's D.12-02-032 states, in part, that "regardless of how surcharges are calculated, collected, and remitted, the carrier, not the customer, is ultimately responsible for payment of the surcharges." This is because the regulated party is the utility not the customer.

Verizon further asserted that UAB auditors must have used a different methodology to determine our adjustments for the month of May 2024 from the other months tested. Verizon concluded in its response letter that a different methodology had to be the reason for the adjustment amount stated in the draft report for May 2024 being significantly greater than the adjustment amounts Verizon provided in its response letter. Verizon's response letter included a comparison chart for the adjustments noted in the draft report for May 2024 and Verizon's newly revised adjustment amounts for the same month.

We disagree with Verizon's assertions. We used the same methodology to arrive at the underpayment amount for May 2024 and the other months tested. UAB evaluated the Compliance Data File to arrive at the underpayment amounts for the adjustment categories. Specifically, we filtered the adjustment categories for the under-remitted surcharges. In its response letter, Verizon provided only a summary chart to compare adjustment amounts between the draft report and Verizon's revisions but did not include any supporting documentation to substantiate the amounts Verizon asserted were accurate. Verizon did not dispute UAB amounts for the tested months of April 2023, December 2023, and January 2024. However, for the month of May 2024, Verizon's asserted amounts for bad debt, miscellaneous adjustments, and additional bad debt recoveries totaled $167 while UAB's adjustments noted in the draft report totaled $170.

We reevaluated the Compliance Data File against the amounts Verizon provided in its response letter in the summary chart. However, we were unable to arrive at the same amounts that Verizon is asserting in its response letter. The amounts derived from the Compliance Data File, after applying the appropriate filters by adjustment categories, do not reconcile with the amounts Verizon included in its response. As these amounts cannot be corroborated, we concluded that Verizon's revised proposed adjustments are unsupported.

The finding and recommendations remain unchanged.

Finding 3: Potentially Under Remitted Surcharges Due to Incorrectly Exempting Customers

Verizon disagreed with Finding 3 and asserted that it properly exempted certain customers from PPP surcharges or was not required to remit surcharges on those customers based on historical interpretations of broader tax and government entity exemptions. Verizon now recognizes the CPUC's clarification that these do not constitute blanket exemptions from PPP surcharges. Verizon further stated that it obtained and provided exemption certificates for the sample selected and reiterated its position that enterprise VoIP customers without allocated access lines, customers utilizing two-way metered services, and wholesale/reseller customers should not be subject to PPP surcharges.

We acknowledge Verizon's explanations and recognition of the misclassifications. However, we disagree with Verizon's explanation. Providers are required to assess access lines per CPUC D.22-10-021 on two-way communication services provided by VoIP customers. System coding deficiencies and the absence of supporting records do not eliminate a carrier's surcharge obligation or documentation responsibility.

Verizon asserted that two-way metered services should not be subject to PPP surcharges because these services are usage-based and do not have associated "lines to count." We disagree with Verizon's explanation. CPUC D.22-10-021 explicitly defines an "access line" as "a wire or wireless connection that provides a real time two-way voice telecommunications service or VoIP service to or from any device utilized by an end user, regardless of technology…" Therefore, two-way communication services should be assessed PPP surcharges.

Verizon asserted that wholesale and reseller customers are not subject to PPP surcharges because downstream resellers are responsible for assessing and remitting surcharges on their end users, and Verizon provided reseller certificates for these customers. While resellers generally bear the surcharge obligation, CPUC D.12-02-032 clearly states that:

> …regardless of how the surcharge is calculated, collected, and remitted, the carrier, not the customer, is ultimately responsible for payment of the surcharge…the utility is ultimately responsible for ensuring payment of the proper surcharge amount. It is the utility, not customers, over whom the Commission exerts jurisdiction.

Therefore, Verizon remains responsible for ensuring that exemptions are valid, documented, and compliant even where reseller arrangements exist.

The finding and recommendations remain unchanged.

Finding 4: Failure to Comply with Subpoena and Data Requests

Verizon disagreed with Finding 4 that Verizon failed to timely or completely respond to CPUC data requests including the Subpoena. Verizon believed it acted in good faith to provide timely and complete responses throughout the audit. Verizon also asserted that the breadth and scope of the subpoena required greater time than the deadlines provided. In addition, Verizon stated that prior CPUC audits have provided more time to respond to data requests.

We disagree with Verizon's assertions. Data request due dates during the audit are standard turnaround times typically provided for any UAB audit. We requested data be provided as it becomes available, but not later than the set due dates. The data request process and typical due dates were thoroughly discussed during the entrance conference held on October 4, 2024. Verizon has requested multiple extensions to data requests, which UAB granted. However, even after providing multiple extensions in response to Verizon's requests throughout the audit, Verizon continuously did not provide requested data in a timely manner.

Verizon noted in its response that UAB's initial data request asked for a complete list of access lines for the entire 15-month audit period to be provided in a specific format within seven business days. Verizon stated the volume of data requested on October 1, 2024, would require "at least a couple of months to extract," and that the format requested was not one that Verizon's billing department maintained. We would like to point out that the data requested relevant to the subject matter of this audit should have been readily available to substantiate the information reported to CPUC for the audit period. We did not request any new information that should not have been easily retrievable from Verizon's systems. In addition, if the format requested did not align with Verizon's databases, Verizon should have communicated its concerns during the audit and proposed alternative formats to query its systems to produce the requested information. In fact, UAB team repeatedly asked Verizon to provide a walkthrough of its system and showcase its methods of retrieving the requested access line counts so that the audit team can adapt its requests to Verizon's data tracking mechanisms. However, Verizon never provided such walkthroughs with the subject matter experts responsible for these functions.

Furthermore, on October 31, 2024, per Verizon's request, we revised the initial data request from 15 months to just one month of access line data to ensure Verizon could accurately query its system for UAB auditors to evaluate. On December 20, 2024, UAB granted Verizon's request for additional time with an extension of the due date to January 17, 2025. Verizon provided the requested data on May 19, 2025, seven months after the original due date and four months after the extended due date.

In its response letter, Verizon also commented that some of the requested Subpoena items showed "TBD" deadlines and Verizon worked with CPUC staff to provide as much information as possible.

We would like to point out that the Subpoena dated May 2, 2025, was issued as a direct result of Verizon's continued requests for extensions and subsequent failure to provide documents as requested. We acknowledge that two Subpoena items with listed TBD due dates were for Customer Usage Reports and Customer Bills, both of which indicated that items were for a specific sample of customers selected for testing at a later time. UAB's evaluation of Verizon's responses for Subpoena TBD items used the due date stated in subsequent data requests for specific samples selected. Verizon provided the data for the subsequent requests two to six weeks after the due dates.

In its response letter, Verizon also asserted that there were misunderstandings between audit staff and Verizon's team as to the scope of some requests, which contributed to perceived delays. Verizon indicated that part of the confusion resulted from UAB introducing a new audit team after the audit had begun, and the audit scope changed. We disagree with Verizon's assertions. The audit scope was not revised at any time during the audit. The audit scope, as stated in the audit report, of April 1, 2023, through June 30, 2024, remained the same throughout the audit process and as stated in our engagement letter to Verizon dated October 1, 2024. The initial data request covered all 15 months and was revised to one month at Verizon's request, with the understanding that UAB would request data for additional months at a later time. In addition, UAB's audit team members did not change throughout the audit. On March 13, 2025, UAB introduced existing members of the audit team that were assigned to work on different components of this audit, as a courtesy to Verizon, to provide clarity, and to help facilitate timely responses from Verizon. Furthermore, the tasks and audit team members have no effect on or relevance to Verizon's duty to respond to data requests timely.

The finding and recommendations remain unchanged.