TCBA

California LifeLine Program Compliance Audit

For the year ended June 30, 2010

TGEC Communications Co., LLC

July 30, 2012

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Independent Accountant's Report

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California Public Utilities Commission
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(Attn: Division of Water and Audits, Communications Division)

We have examined TGEC Communications Co., LLC's (TGEC) compliance with the applicable requirements of California Public Utilities Commission (CPUC) Procedures for Administration of the Moore Universal Telephone Service Act, General Order 153 [California Public Utilities Code § 871 et seq.], identified in Appendix A of this report, with respect to the accuracy of the California LifeLine Program reimbursements claimed and received from the LifeLine Fund during the year ended June 30, 2010, the accuracy of discounts provided to subscribers, and other aspects of TGEC's participation in the California LifeLine Program. TGEC's management is responsible for compliance with those requirements. Our responsibility is to express an opinion on TGEC's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence about TGEC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of TGEC's compliance with specified requirements.

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

- TGEC incorrectly reported the number of new subscribers on its monthly claim forms during the year ended June 30, 2010. Consequently, TGEC was overpaid a total of $27,225 for recovery of lost revenue associated with the connection and conversion charges for LifeLine subscribers.
- TGEC overstated the weighted-average number of LifeLine subscribers associated with its reimbursement claim for flat-rate service charges on its monthly claim forms during the year ended June 30, 2010. In addition, for the February 2010 through June 2010 claims, TGEC did not use the correct tariff when calculating its claim for reimbursement for these months. As a result, TGEC was overpaid a total of $56,240 for LifeLine flat-rate service for the year ended June 30, 2010.
- TGEC used the incorrect End User Common Line (EUCL) tariff charge in calculating its EUCL reimbursement on its monthly claim forms during the year ended June 30, 2010. In addition,

TGEC overstated the weighted-average number of LifeLine subscribers associated with its claims for EUCL charge reimbursement for each of the 12 months. Consequently, TGEC was overpaid a total of $69,572 for EUCL reimbursement for the year ended June 30, 2010.

- TGEC could not provide documentation supporting the number of disabled subscribers reported on its monthly claim forms for the year ended June 30, 2010, resulting in an overpayment of $1,181 for flat rate service and EUCL charges for the provision of two LifeLine lines to qualified low-income households with a disabled member.
- TGEC did not have documentation to support that it paid appropriate taxing authorities the $11,437 that it claimed and was reimbursed for taxes, fees, and surcharges on its monthly claim forms for the year ended June 30, 2010.
- TGEC used an incorrect weighted-average number of subscribers to calculate the operating cost reimbursement on its monthly claim forms for the year ended June 30, 2010, and was overpaid a total of $17,957.
- TGEC claimed and was reimbursed $4,000 for implementation of new reporting requirements on its July 2009 claim form for which it has no supporting documentation.
- As noted above, TGEC did not have documentation supporting various items on its monthly LifeLine claim forms for the sample months of July 2009 and January 2010. Therefore, TGEC did not comply with Section 13.9 of General Order 153, which requires that utilities shall retain all records related to a LifeLine claim, including a true-up claim, for a period of five calendar years following the year in which the LifeLine claim or true-up claim is submitted.
- As noted above, TGEC did not correctly calculate the weighted-average number of subscribers and the number of new subscribers. Therefore, TGEC did not comply with Section 9.5.1 of General Order 153, which requires that utilities shall report and claim their LifeLine-related costs and lost revenues by filing the LifeLine Report and Claim Form appended to GO 153, including supporting workpapers for all claimed costs in a format described in Appendix D to GO 153. The LifeLine Report and Claim Form and supporting workpapers call for utilities to report the weighted average-number of LifeLine subscribers served by the utility and the number of new LifeLine service connections during the period covered by the claim form.
- TGEC lacked adequate internal controls to ensure its compliance with the requirements of the California LifeLine Program as outlined in General Order 153. TGEC did not have written policies and procedures to ensure (1) correct subscriber counts, (2) accuracy of claim forms, and (3) maintenance of adequate records and supporting documentation.

The total overpayments described above, totaling $187,612, represent approximately 56 percent of TGEC's claims and reimbursements of $332,195 from the California LifeLine fund for the year ended June 30, 2010. Detailed information relative to the above instances of material noncompliance is described in Findings 001 through 010 in the Findings section of the attached report.

In our opinion, because of the effect of the noncompliance described above, TGEC has not complied with the aforementioned requirements relative to the California LifeLine Program reimbursements claimed and received for the year ended June 30, 2010, and other aspects of TGEC's participation in the California LifeLine Program.

This report is intended solely for the information and use of TGEC and the California Public Utilities Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

Thompson, Cobb, Bazilio & Associates, P.C.

July 30, 2012

Executive Summary

During our examination of TGEC Communications Co., LLC's (TGEC) compliance with the applicable requirements of California Public Utilities Commission (CPUC or Commission) Procedures for Administration of the Moore Universal Telephone Service Act, General Order 153 [California Public Utilities Code § 871 et seq.] for the California LifeLine Program during the year ended June 30, 2010, we identified instances of material noncompliance with LifeLine Program requirements. We determined that TGEC was overpaid a total of $187,612 during that year:

- $27,225 because connection and conversion charges for new subscribers were incorrectly calculated;
- $56,240 due to using an inaccurate weighted-average number of subscribers each month during the year and incorrect tariff charges for 5 of the 12 months in calculating flat-rate service reimbursements;
- $69,572 because of using an incorrect End-User Common Line (EUCL) tariff charge and overstating the weighted-average number of subscribers in calculating EUCL reimbursements each month;
- $17,957 due to using an inaccurate weighted-average number of subscribers in calculating operating expense reimbursements each month; and
- $16,618 because TGEC did not have supporting documentation for its reimbursement claims for the recovery of lost revenue for flat rate service and EUCL charges for disabled subscribers; taxes, fees and surcharges paid to taxing authorities; and implementation costs of new reporting requirements.

The total amount that TGEC owes to the Lifeline Fund is $188,540, comprised of interest of $928 and the aforementioned over-claimed amount of $187,612.

TGEC lacked adequate and effective internal controls to ensure compliance with CPUC LifeLine Program requirements. TGEC did not have written policies and procedures to ensure (1) correct subscriber counts, (2) accuracy of claim forms, and (3) maintenance of adequate records and supporting documentation. We consider the deficiencies in internal control to be a material weakness.

TGEC should reimburse $188,540 to the LifeLine Fund, the total amount that TGEC was overpaid for the California LifeLine Program during the year ended June 30, 2010, plus accrued interest. In addition, TGEC should take steps to:

1. Ensure that the weighted-average number of subscribers and the number of new subscribers (connections and conversions) are correctly calculated in conformance with General Order 153;
2. Ensure that all records, including documentation supporting California LifeLine Report and Claim Forms and workpapers, are maintained for a period of five calendar years following the year in which the California LifeLine claim or true up claim is submitted, unless all or part of such records are required to be kept for a longer period of time; and
3. Develop adequate and effective internal controls to ensure compliance with all California LifeLine Program requirements contained in General Order 153.

Background

The California LifeLine Program is a class of subsidized local telephone service designed to meet the minimum communication needs of low-income residential customers, which is funded by a surcharge on all end users of intrastate telecommunications services except for the following:

- California LifeLine Program billings
- Coin-sent paid and debit card calling
- Reselling services
- Customer-specific contracts effective before September 15, 1994
- Usage charges for coin-operated pay telephones
- Directory advertising
- One-way radio paging

Utilities may recover from the California LifeLine Program Fund the reasonable costs and lost revenues that it incurs to provide the California LifeLine Program to the extent that such costs and lost revenues meet all of the following criteria:

- Directly attributable to the California LifeLine Program;
- Would not otherwise be incurred in the absence of the California LifeLine Program;
- Not recovered from other sources such as the rates and charges paid by California LifeLine Program customers, the utility's general rates, or subsidies from the federal Lifeline and Link Up programs; and
- Are specified in GO 153 § 9.3 and 9.4.

The following are examples of the costs and lost revenue that utilities can recover from the California LifeLine Program Fund:

- Lost revenue caused by providing discounts to California LifeLine Program customers, such as California LifeLine Program connection charges, conversion charges, discounted monthly rates for local services, and untimed local calls;
- The federal End-User Common Line (EUCL)[1] charge that the utility pays on behalf of its California LifeLine Program customers;
- The taxes, fees, and surcharges that a utility pays on behalf of its California LifeLine Program customers; and
- Bad debt costs.

The CPUC maintains an independent administrator contractor to provide clearinghouse services for the California LifeLine program. The administrator receives and processes customer applications for California LifeLine program services and determines eligibility. The administrator also performs recertification services and randomly audits eligible customers. The administrator performing this service during the audit period was Solix, Inc (Solix).

One of the utilities in California that provides the California LifeLine Program is TGEC, dba Free Choice Communications. TGEC offers local and long distance phone services to residential subscribers in California. The company was founded in 1997 and is based in San Mateo, California. Free Choice Communications became a subsidiary of Pacific Centrex Services, Inc. (PCS1) as of June 3, 2005.

[1] EUCL charge is a federally mandated monthly charge assessed directly on end-users of telecommunications services to recover portion of a utility's interstate-allocated cost of the access line between the utility's central office and the end-user's premises.

In providing California LifeLine Program customers with local telephone service at discounted rates, TGEC offers its customers a variety of services, including flat-rate local telephone service, service connection for the initiation of telephone service, service conversion for a change of class/type/grade of service, free access to toll-blocking service to prevent long distance calling, free unlimited access to 911, access to 800 or 800-like toll-free services, access to local directory assistance, access to operator service, free touch-tone dialing, free white pages telephone directory, free provision of one directory listing per year, toll-free access to customer service representatives, and access to two residential telephone lines if a disabled person in a low-income household requires a teletypewriter (TTY) when using the phone.

For the year ended June 30, 2010, TGEC claimed LifeLine reimbursement for approximately 1,500 - 2,200 LifeLine subscribers each month. Monthly LifeLine claims during the year ranged from a high of $36,000 in July 2009 to a low of $21,000 in May 2010. For the year ended June 30, 2010, TGEC submitted claims totaling $332,195, for which TGEC ultimately received $332,195 from the California LifeLine Program Fund.

Purpose and Scope

The purpose of the examination was to provide reasonable assurance as to whether TGEC's California LifeLine Program related costs and activities were in compliance with the applicable requirements of the CPUC's Procedures for the Administration of the Moore Universal Telephone Service Act, General Order 153 [California Public Utilities Code § 871 et seq.]. The examination focused on the accuracy of the claims and reimbursements received by TGEC, whether only approved subscribers were included in claims for reimbursement, the accuracy of discounts provided to subscribers, and other aspects of TGEC's California LifeLine Program such as enrollment and recordkeeping. We reviewed the overall operations, claims, and reimbursements for TGEC's California LifeLine Program for the year ended June 30, 2010, and performed a detailed review of two sample months for that year.

Risk Assessment

We conducted a risk assessment to identify any areas of potentially high risk regarding the California LifeLine Program at TGEC and to determine whether any additional examination work was needed to mitigate the risk. This risk assessment was initially carried out using TGEC documentation provided prior to our on-site field work, and it was updated during the on-site work as warranted. The risk assessment was based on analysis and data in the following areas that potentially posed a high risk.

- Any material weaknesses or other areas of concern noted in audit reports provided by CPUC, the carrier, or the Universal Service Administrative Company (USAC) for the Federal Lifeline Program.
- Any significant deficiencies noted in the Internal Control Questionnaire completed by the TGEC prior to our on-site field work.
- Any significant variances noted in our initial review of the monthly LifeLine claim forms provided by TGEC and those provided by CPUC.
- Any other considerations based on information provided by TGEC that could indicate other high risk areas or the potential for fraud.

Audit Reports. CPUC officials informed us there were no CPUC audits of TGEC. There were also no USAC audits of TGEC. TGEC does not participate in the Federal Lifeline program. We requested the audited financial statements; however, nothing was provided by TGEC. After completion of the examination, TGEC officials informed us that they did not have any audited financial statements.

Review of Internal Control Questionnaire. TGEC completed the Internal Control Questionnaire prior to our on-site visit. Our review of the Internal Control Questionnaire disclosed that TGEC's overall written policies and procedures did not appear to be in place to ensure compliance with the California LifeLine program requirements, including accurate completion of the California LifeLine Report and Claim forms. TGEC responded to questions related to ensuring compliance by reporting that verification methods and formulas were in place to assure accurate information, no response, or a response that needed further clarification. On-site work identified several issues with internal controls. TGEC has no policies and procedures for the California Lifeline program; no controls to ensure accurate completion of monthly California Lifeline Report and Claim forms; and no controls for compiling and remitting surcharges, taxes, and fees to appropriate taxing authorities. On-site work also identified inaccurate completion of claim forms, including calculations for taxes paid, as well as no documentation that taxes had actually been paid. There was formal review and approval of the claim forms; however, we found issues with the accuracy of the forms, as discussed in the findings section below.

Initial Review of the Monthly California LifeLine Claim Forms. Our initial review of the monthly LifeLine Claim forms provided by TGEC and those provided by CPUC showed no variances.

Other Considerations. On-site discussions with TGEC staff, review of documentation, and on-site observations demonstrated that there were significant risks regarding the California LifeLine program, particularly ensuring accurate claim reimbursements, as noted above. TGEC officials stated that little attention was given to the program as they believe that it is not financially beneficial for TGEC. They also informed us that the staff member who managed the program and knew its requirements left TGEC, and the program has not been managed since.

Sampling Methodology

For our detailed review of the California LifeLine Program operations, claims, and reimbursements, we used a combination of judgmental and random sampling. We selected July 2009 and January 2010 as sample months. We selected one month from each calendar year so that we would have visibility of program operations and reimbursements for both calendar years. To determine the accuracy of the California LifeLine discounts provided to subscribers, including new subscriber charges, we sampled subscribers' bills from the same months, July 2009 and January 2010. Using IDEA data analysis software, we selected a random attribute representative sample of 40 subscriber bills for July 2009 and 40 subscriber bills for January 2010. According to American Institute of Certified Public Accountants (AICPA) guidance on sampling, a sample size of 40 has a confidence level of 90 percent and tolerable exception rate of less than 10 percent with an expectation of zero exceptions.

The sample of 40 subscribers for each month consisted of 30 existing subscribers and 10 new subscribers (5 of the new subscribers had connection charges and 5 had conversion charges). The selection of this sample allowed us to determine the accuracy of the discounted California LifeLine charges for existing California LifeLine subscribers, as well as new California LifeLine subscribers with connection and conversion services in the months sampled. From this sample, we determined (1) the accuracy of the discounted California LifeLine charges that new and existing subscribers paid for flat rate local service, connection service, and conversion service, and (2) whether TGEC improperly charged subscribers for the federal End User Common Line (EUCL) charge, toll blocking or toll-limitation service, and Universal Lifeline Telephone Service (ULTS) billing for various surcharges. Our sample of subscriber bills did not include measured-rate local service or extended areas service because TGEC did not provide these services.

Sampling Risk

Sampling risk occurs whenever a subset of a population is evaluated instead of the entire population. Sampling risk represents the possibility that an auditor's conclusion based on the testing of a sample would be different if the auditor had evaluated the entire population such that the auditor:

- Concludes that there were significant errors when in fact there were none, or
- Concludes that there were no significant errors when in fact there were.

The sampling risk was mitigated by:

- Adhering to attestation standards established by the AICPA and the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States.
- Adhering to AICPA and U.S. Government Accountability Office (GAO) sampling guidelines.
- Using a random sampling approach in selecting the sample. This ensured that all items within the population had an equal probability of being selected.
- Ensuring that our examination procedures were adequate and accounted for the potential of misinterpreted results from sample testing. These procedures included, but were not limited to, adequate communication with TGEC officials as well as with CPUC officials.

Procedures Applied and Records Examined

We assessed compliance with all of the California LifeLine Program processes included in Appendix A. In conducting its audit, TCBA utilized the Commission's Solix, as described in Appendix B.

Compliance with Enrollment and Related Requirements

To determine whether TGEC was in compliance with subscriber enrollment requirements, including service elements offered and various notifications to subscribers, *e.g.,* regular tariff rates charged until California LifeLine approval, refunds/credits after approval, no service deposits required, etc.), we reviewed TGEC's California LifeLine enrollment process and procedures, including documents such as a customer service representative script and other instructions, Life-Line Order Processing Flowchart, LifeLine Qualification Form, Letter of Agency, and applicable tariff pages related to enrollment and discontinuation and restoration of service.

We interviewed cognizant TGEC officials to obtain additional information and clarification regarding the subscriber enrollment process and notifications to subscribers and the California LifeLine Administrator. In addition, we viewed computer screens for California LifeLine customer accounts and automated messages sent to the California LifeLine Administrator regarding new California LifeLine applicants.

Compliance with Claim Form Requirements

To determine whether TGEC's California LifeLine claim forms were filed in a timely manner, contained all of the necessary elements, and were mathematically accurate, we reviewed all of the monthly claims for the year ended June 30, 2010.

To determine the validity of the monthly claims for year ended June 30, 2010, we reviewed in detail the July 2009 and January 2010 claim forms. We requested and reviewed supporting documentation for all of the amounts claimed and reimbursed for these two months. These reimbursements were for:

- Connection and conversion charges
- Flat rate service charges
- EUCL charges
- Disabled customer charges
- Surcharges, taxes, and fees
- Operating expenses
- Implementation of new CPUC reporting requirements

To determine the accuracy of the connection, conversion, flat rate service charges, and EUCL charges, we compared the number of subscribers claimed by TGEC to the number of eligible subscribers calculated using Solix data provided by CPUC. We made certain assumptions and modified the subscriber eligibility data provided by Solix, Inc. (CPUC's Certifying Agent during the audit period) to: (1) calculate the number of subscribers (weighted average and number of new subscribers) for each of two sample months, (2) review the accuracy of TGEC's monthly California LifeLine Report and Claim Forms, and (3) calculate the amount of any material overpayments or underpayments of TGEC's claims.

The Solix data categorized some eligible subscribers as approved and other eligible subscribers as pending or denied because they were previously approved for one year and were going through the annual renewal process, and we made certain adjustments to the data to count all eligible subscribers.[2] In addition, we eliminated some subscribers from the Solix data in instances when the same telephone number was listed twice; for example, we counted an approved subscriber and not a denied, disconnected, or pending subscriber with the same telephone number.

We also reviewed the applicable tariff rates. We requested supporting documentation for disabled customer charges, surcharges, taxes and fees, and costs for the implementation of new CPUC reporting requirements, but TGEC did not provide these documents. To determine the accuracy of the operating expense charges, we determined the amount due to TGEC based on the number of eligible subscribers calculated using Solix data and compared this to what TGEC claimed and was reimbursed. We also interviewed TGEC officials to determine how all of the costs claimed and reimbursed for July 2009 and January 2010 were calculated.

Based on the number and significance of the overpayments on the July 2009 and January 2010 California LifeLine claim forms, we believe the errors were systemic and it is highly probable that the claims for the remaining 10 months claims for the year ended June 30, 2010, had similar errors and overpayments. Consequently, we performed additional work as described in the Audit Process section below.

Compliance with Requirements for Discounted Subscriber Charges

To determine (1) the accuracy of the discounted charges that new and existing subscribers paid for flat rate local service, connection services, and conversion services, and (2) whether TGEC improperly charged subscribers for the federal EUCL charge, toll blocking or toll-limitation service, and ULTS billing for various surcharges, we reviewed a sample of 40 subscriber bills for July 2009 and 40 subscriber bills for January 2010 as described above. We compared what the subscribers were actually charged with the approved tariff amounts and noted any differences. We discussed the differences with cognizant TGEC officials to obtain explanations and clarifications.

Compliance with Recordkeeping Requirements

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

Adequacy of Internal Controls

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

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

- compiling and submitting California LifeLine subscriber information to Solix;
- compiling and recording California LifeLine claim form information;
- receiving and recording California LifeLine claim payments; and
- compiling and remitting surcharges, taxes, and fees to the appropriate taxing authorities.

In addition, while performing work in other areas, such as reviewing TGEC's compliance with claim form requirements, we were observant of potential internal control vulnerabilities.

Calculation of Interest

To determine the amount of interest due on claim overpayments that we indentified during our examination, we calculated interest based on the 3-month commercial paper rate. We also interviewed TGEC officials to determine whether there were any late claim reimbursements and, if so, whether the California LifeLine Fund paid TGEC the proper amount of interest due.

Examination Process

After requesting and reviewing TGEC California LifeLine Program data, we conducted work on-site from January 26 through January 31, 2012. We met with TGEC officials on June 22, 2012, to conduct an exit conference and obtain their responses to our preliminary findings. However, the TGEC officials declined to provide us with responses. CPUC subsequently asked TGEC to comment on our draft findings but they did not respond.

As mentioned above (Compliance with Claim Form Requirements in Procedures Applied and Records Examined), based on the number and significance of the overpayments on the July 2009 and January 2010 California LifeLine claim forms, we believe the errors were systemic, and it is highly probable that the claims for the remaining 10 months during the year ended June 30, 2010, had similar errors and overpayments. Consequently, we requested that TGEC recast and recertify the claims for the remaining 10 months, and TGEC provided us with these recast and recertified claims.

After performing a high-level review of the recast claims, we determined that TGEC did not adequately address the errors that we previously identified. TGEC did not (1) properly correct the weighted-average number of subscribers that was used to calculate CPUC reimbursement, (2) use correct tariff rates, nor (3) provide supporting documentation for charges such as payments to taxing authorities and nonrecurring charges. Therefore, to calculate overpayments for the 10 months, we averaged the error percentages from the two sample months (July 2009 and January 2010) and applied the percentages to TGEC's original claims for the remaining 10 months. Regarding new subscribers, CPUC informed us that the number of new subscribers in TGEC's recast claims for the 10 months appeared reasonable; therefore, we accepted the connection charge portion of the recast claims. These amounts, however, were less than the amounts in the original claims, and, consequently, we calculated connection charge overpayments for the 10 recast months. In addition, in its recast of claims for the 10 months, TGEC did not claim reimbursement for disabled customers as it did not have documentation to support these claims. Consequently, we calculated overpayments for disabled customers because TGEC included reimbursement for disabled customers in its original claims.

Communications with TGEC

TGEC was given numerous opportunities to review and respond to audit findings. First, the draft audit findings were sent to TGEC on June 1, 2012, for its review before an exit conference took place. Second, an exit conference was conducted on June 22, 2012, to discuss the audit findings with TGEC. As the exit conference was progressing, TGEC officials stated that they had no comments or questions and unexpectedly terminated the meeting discussion without completing the exit conference agenda. On the same day of the exit conference, the CPUC sent out a follow-up e-mail to TGEC requiring the carrier to respond to the audit findings within ten working days from the date of the exit conference. The CPUC also sent out several follow-up and reminder e-mails to TGEC when TGEC missed the ten-working-day timeframe.

On July 30, 2012, TGEC provided its blank response to audit findings. On July 30, 2012, and August 1, 2012, respectively, TCBA and the CPUC made efforts to inform TGEC about TGEC's blank response and requested TGEC clarify such blank response. Nevertheless, TGEC never provided its clarification on the blank response to fulfill TCBA's and the CPUC's requests.

Lastly, a draft report was sent out to TGEC on January 17, 2013. TGEC was again given ten business days to respond to the audit findings. Although this was the final opportunity for TGEC officials to respond to the audit findings, they did not take this opportunity to provide a response.

Findings

001 **Recovery of Connection and Conversion Charges – Did Not Demonstrate Compliance With GO 153, Section 9.3.1**

Condition TGEC incorrectly reported the number of new subscribers on its July 2009 and January 2010 claim forms. TGEC reported 144 new subscribers in July 2009 and 153 new subscribers in January 2010. Our analysis, however, showed that TGEC should have claimed 16 new subscribers in July 2009 and 57 new subscribers in January 2010. This resulted in an overpayment of $3,200 for connection charges for July 2009 and an overpayment of $2,400 for connection and conversion charges for January 2010, a total overpayment of $5,600 for these two months. In addition, TGEC's recast of California LifeLine claim forms for the remaining 10 months during the year ended June 30, 2010, identified an additional overpayment of $21,625 for connection and conversion charges for new subscribers[3].

Thus, the total overpayment for connection and conversion charges during the year ended June 30, 2010, was $27,225 ($3,200 for July 2009, $2,400 for January 2010, and $21,625 for the other 10 months).

Criteria Section 9.3.1, General Order 153 allows carriers to recover lost revenues caused by providing California LifeLine customers with discounts for California LifeLine connection and conversion charges.

Section 2.1.36, General Order 153 defines prequalification as the process by which customers apply for the California LifeLine Program but do not obtain the discounted service until their application has been received and approved by the certifying agent.

Section 2.1.48, General Order 153 defines Service Start Date as the date a new customer begins receiving phone service. The customer is billed by the carrier from this date. For the purposes of California LifeLine prequalification, once a new customer's application is approved, the customer receives LifeLine discounts back to the Service Start Date.

[3] CPUC informed us that the number of new subscribers in TGEC's recast claims appeared reasonable. Therefore, we accepted the connection charge portion of the recast claims for the 10 months.

Cause TGEC did not correctly calculate the number of new customers for July 2009 and January 2010, as well as for each of the remaining 10 months during the year ended June 30, 2010. TGEC officials stated that little attention was given to the program as they believe that it is not financially beneficial for TGEC. They also informed us that the staff member who managed the program and knew its requirements left TGEC, and the program has not been managed since.

Effect TGEC was overpaid a total of $27,225 for connection and conversion charges for California LifeLine subscribers during the year ended June 30, 2010.

Recommendation TGEC should reimburse CPUC $27,225, the total overpayment for the recovery of lost revenue associated with connection and conversion charges for California LifeLine subscribers during the year ended June 30, 2010.

002 **Recovery of Flat-Rate Service Charges – Did Not Demonstrate Compliance with GO 153, Section 9.3.1**

Condition TGEC overstated the weighted-average number of California LifeLine subscribers associated with its reimbursement claim for flat-rate service charges for the months of July 2009 and January 2010. Based on our estimation for the remaining 10 months of the year ended June 30, 2010, TGEC also overstated the weighted-average number of subscribers for these months. In addition, for February 2010 through June 2010, TGEC did not use the correct tariff rate for flat-rate services when calculating its claims for reimbursement for these months. As a result, TGEC overstated all its monthly claims for flat-rate service charges during the year ended June 30, 2010.

For July 2009, TGEC based its calculation for flat-rate service on a weighted-average of 2,101 subscribers and claimed reimbursement for $11,219. Our analysis showed a weighted-average of 987.71 subscribers, resulting in a correct reimbursement of $5,274 and an overpayment of $5,945 for flat-rate service.

For January 2010, TGEC based its calculation for flat-rate service on a weighted-average of 1,739 subscribers and claimed reimbursement for $9,286. Our analysis showed a weighted-average of 1,045.42 subscribers, resulting in a correct reimbursement of $5,583 and an overpayment of $3,704 for flat-rate service.

We applied the average of the error percentages from the examination of July 2009 and January 2010 to the remaining ten months of program year 2009 - 2010 to derive estimated weighted-average numbers for those months. We then used these estimated weighted-average numbers and the correct tariff for flat-rate services for February through June 2010 to determine an additional overpayment of $46,591.

Thus, the total overpayment for recovery of flat-rate service charges during the year ended June 30, 2010, was $56,240 ($5,945 for July 2009, $3,704 for January 2010, and $46,591 for the remaining 10 months).

Criteria Section 9.3.1, General Order 153 allows carriers to recover lost revenue caused by providing California LifeLine customers with discounted monthly rates for local services. CPUC instructions for the California LifeLine Report and Claim form provide direction for calculating the weighted average as follows: … "In calculating the weighted average, the 'weight' of each LifeLine customer shall be based on the number of days the customer was billed for LifeLine during the period covered by the LifeLine Claim Form." The instructions further state the weighted-average should be used when calculating the amount to be billed to the LifeLine Fund.

Cause

TGEC did not correctly calculate and apply the weighted-average number of subscribers for July 2009 and January 2010, as well as for the remaining 10 months of the year ended June 30, 2010. In addition, TGEC did not use the correct tariff when calculating flat rate service reimbursement for February through June 2010. For these months, TGEC used $5.34 instead of $6.11 as the tariff rate for California LifeLine subscribers when claiming reimbursement. The new rate of $6.11 was effective February 1, 2010. TGEC officials stated that little attention was given to the program as they believe that it is not financially beneficial for TGEC. They also informed us that the staff member who managed the program and knew its requirements left TGEC, and the program has not been managed since.

Effect

TGEC was overpaid a total of $56,240 for California LifeLine flat-rate service during the year ended June 30, 2010.

Recommendation

TGEC should reimburse CPUC $56,240, the total overpayment for the recovery of lost revenue for flat-rate service provided to California LifeLine subscribers during the year ended June 30, 2010.

003 Recovery of End-User Common Line (EUCL) Charge – Did Not Demonstrate Compliance with GO 153, Section 9.3.3

Condition

TGEC used the incorrect EUCL tariff charge when calculating its EUCL reimbursement for the July 2009 and January 2010 claims. In addition, it overstated the weighted-average number of California LifeLine subscribers associated with its claim for EUCL charge reimbursement for both months. For both of these reasons, TGEC's claims for EUCL reimbursement for July 2009 and January 2010 are overstated. Based on our estimation for the remaining 10 months of the year ended June 30, 2010, TGEC made the same errors as it did in the two sample months and, consequently, overstated the EUCL reimbursement for those months as well.

For July 2009, TGEC used an EUCL tariff of $5.49 rather than the correct tariff of $4.39. In addition, for July 2009 subscribers, TGEC based its EUCL reimbursement on a weighted-average of 2,198 subscribers. However, our analysis showed a weighted-average of 987.71 subscribers. TGEC claimed a EUCL reimbursement of $12,067 for July 2009. Correcting for the EUCL tariff and weighted- average number of subscribers as explained above, our analysis showed a correct EUCL reimbursement of $4,336 for July 2009, a difference of $7,731.

For January 2010, TGEC used a EUCL tariff of $5.49 rather than the correct charge of $4.39. In addition, for January 2010, TGEC based its EUCL charge reimbursement on a weighted-average customer number of 1,771. However, our analysis showed a weighted-average number of 1,045.42. TGEC claimed a

EUCL reimbursement of $9,722 for January 2010. Correcting for the EUCL charge and weighted-average number of subscribers as explained above, our analysis showed a correct EUCL reimbursement of $4,589, a difference of $5,133.

For the remaining 10 months of the year ended June 30, 2010, TGEC made the same errors as it did in the two sample months. Therefore, we used the aforementioned estimated weighted-average numbers of subscribers (See Finding 2) and the correct EUCL tariff to determine the amount of over-reimbursement to TGEC for EUCL for the remaining 10 months, a total of $56,707.50.

Thus, the total overpayment for recovery of EUCL charges for the year ended June 30, 2010, was $69,572 ($7,731 for July 2009, $5,133 for January 2010, and $56,708 for the remaining 10 months).

Criteria Section 9.3.3, General Order 153 limits carriers' recovery of the EUCL tariff charge to the Incumbent Local Exchange Carrier's (ILEC) EUCL rate. Per CPUC claim form instructions, the EUCL rate is then applied to the weighted-average number of customers to calculate the correct EUCL reimbursement amount.

Cause TGEC did not use the correct EUCL tariff amount to claim reimbursement for July 2009 and January 2010. In addition, TGEC incorrectly calculated the weighted-average to determine reimbursement for July 2009 and January 2010. These same errors were made in each of the remaining 10 months during the year ended June 30, 2010. TGEC officials stated that little attention was given to the program as they believe that it is not financially beneficial for TGEC. They also informed us that the staff member who managed the program and knew its requirements left TGEC, and the program has not been managed since.

Effect TGEC was overpaid a total of $69,572 for EUCL reimbursement during the year ended June 30, 2010.

Recommendation TGEC should reimburse CPUC $69,572, the overpayment for California LifeLine EUCL reimbursement during the year ended June 30, 2010.

004 **Recovery of Second Line Charge Provided to Disabled Customers - Did Not Demonstrate Compliance with GO 153, Sections 9.3.11 & 9.3.12**

Condition In its July 2009 claim, TGEC reported two disabled customers and associated lost revenue for flat rate service and EUCL charges totaling $22. However, TGEC could not provide documentation supporting these disabled customers and associated charges, resulting in an overpayment of $22 for July 2009.

In its January 2010 claim, TGEC reported six disabled customers and associated lost revenue for flat rate service of $32. In this same claim, TGEC reported eight disabled customers and associated lost revenue for EUCL charges totaling $44. However, TGEC could not provide documentation supporting these disabled customers and associated charges resulting in an overpayment of $76 for January 2010.

In addition, for the remaining 10 months of the year ended June 30, 2010, TGEC claimed reimbursement for disabled customers for flat rate service and EUCL charges totaling $1,083 for which it did not provide documentation. Thus, the total overpayment for disabled customers for flat rate service and EUCL charges during the year ended June 30, 2010, was $1,181 ($22 for July 2009, $76 for January 2010, and $1,083 for the remaining 10 months).

Criteria Sections 9.3.11 and 9.3.12 provide for the recovery of lost revenue associated with the provision of two Lifelines to qualified low-income households with a disabled member.

Cause TGEC did not have documentation supporting its claim for the recovery of lost revenue associated with the provision of two Lifelines to qualified low-income households with a disabled member.

Effect TGEC was overpaid a total of $1,181 for claims associated with the provision of two Lifelines to qualified low-income households with a disabled member during for the year ended June 30, 2010.

Recommendation TGEC should reimburse CPUC $1,181, the overpayment for claims associated with the provision of two Lifelines to qualified low-income households with a disabled member during for the year ended June 30, 2010.

005 Recovery of Taxes, Fees, and Surcharges – Did Not Demonstrate Compliance with GO 153, Sections 8.1.9.1 and 9.3.5

Condition TGEC did not have documentation to support that it paid the appropriate taxing authorities the amounts it claimed for taxes, fees, and surcharges on each of its monthly California LifeLine claim forms during the year ended June 30, 2010. The total claimed during that year was $11,437. Thus, the total overpayment for taxes paid for the year ended June 30, 2010 was $11,437.

Criteria Section 8.1.9.1, General Order 153 instructs carriers to pay to the appropriate taxing authorities the applicable taxes, fees and surcharges billed to California LifeLine customers and the LifeLine Fund.

Section 9.3.5, General Order 153 allows the carriers to claim reimbursement for taxes, fees and surcharges it pays on behalf of its California LifeLine customers.

Section 9.11.1, General Order 153 requires carriers to support and justify any costs and lost revenues that they seek to recover from the LifeLine Fund.

Cause According to TGEC officials, there is no documentation supporting its payments to taxing authorities for the amounts claimed for taxes, fees, and surcharges on its monthly California LifeLine claim forms during the year ended June 30, 2010.

Effect TGEC improperly claimed and was reimbursed a total of $11,437 for taxes, fees and surcharges during the year ended June 30, 2010.

Recommendation TGEC should reimburse CPUC $11,437 for taxes, fees, and surcharges claimed and reimbursed during the year ended June 30, 2010.

006 **Recovery of Incremental Operating Expenses – Did Not Demonstrate Compliance with GO 153, Section 9.13**

Condition As In its July 2009 and January 2010 claims for operating expense reimbursement, TGEC reported $3,764 and $3,124, respectively, for a total of $6,888. This was based on an average cost factor of $1.79 per weighted customer rather than the $2.51 cost factor that was in effect for year ended June 30, 2010. The cost factor of $1.79 was in effect for the previous year. In addition, TGEC did not opt in to use the cost factor for the year ended June 30, 2010; thus, it was not permitted to use the cost factor methodology to claim reimbursement for operating expenses.

TGEC also used an incorrect weighted-average number of subscribers to calculate the operating expense reimbursement for both months. TGEC used a weighted average of 2,103 subscribers for July 2009 which resulted in its claim of $3,764. Our analysis showed a weighted-average of 987.71 subscribers for July 2009, which would have resulted in a reimbursement of $1,768 using the $1.79 cost factor. Consequently, TGEC was overpaid $1,996 for operating expenses for July 2009. TGEC used a weighted-average of 1,745 subscribers for January 2010, which resulted in its claim of $3,124. Our analysis showed a weighted-average of 1,045.42 subscribers for January 2010, which would have resulted in a reimbursement of $1,871. Consequently, TGEC was overpaid $1,252 in operating costs for January 2010.

Further, based on our estimation of the remaining 10 months of the year ended June 30, 2010, TGEC used an incorrect weighted-average number of subscribers for each those 10 months. Again, we used the aforementioned estimated weighted-average numbers of subscribers (See Finding 2) to calculate the over-reimbursement for incremental operating expenses for the remaining ten months of FY 2009 – 2010 resulting in a total of $14,708.

Thus, the total overpayment for operating expense reimbursement for the year ended June 30, 2010, was $17,957 ($1,996 for July 2009, $1,252 for January 2010, and $14,708 for the remaining 10 months).

Criteria Section 9.13, General Order 153 allows a Competitive Local Exchange Carrier (CLEC) the option of receiving its incremental operating expense reimbursement based on a cost factor developed by the CPUC. The CLEC must notify the CPUC before the year begins if it chooses to receive its incremental operating expenses based on this cost factor. The cost factor for the year ended June 30, 2010 was $2.51 per customer. According to CPUC's instructions for the claim form, these costs should be claimed based on the weighted-average number of California LifeLine subscribers reported for the month.

Cause TGEC did not opt-in to use the cost factor method to claim operating expense reimbursement during the year ended June 30, 2010. In addition, TGEC incorrectly calculated the weighted-average number of customers for each month during the year ended June 30, 2010.

Effect Although TGEC did not opt- in, as required, to use the operating cost factor methodology, CPUC told us it would allow TGEC to use the $1.79 cost factor (rather than the $2.51 per customer cost factor that was in effect for year ending June 30, 2010). However, because TGEC applied the cost factor to incorrect weighted-average customer numbers in calculating operating expenses, TGEC claimed and was overpaid a total of $17,957 during the year ended June 30, 2010.

Recommendation TGEC should reimburse CPUC $17,957, the total overpayment for operating expense reimbursement during the year ended June 30, 2010.

007 **Implementation of New Reporting Requirements – Did Not Demonstrate Compliance with Section 9.3.13**

Condition In its July 2009 claim for reimbursement, TGEC reported $4,000 of non-recurring implementation costs for new reporting requirements ordered by the CPUC. However, TGEC could not provide documentation supporting these costs.

Criteria Section 9.3.13, General Order 153 allows carriers to claim reimbursement for incremental costs incurred to implement new reporting requirements ordered by the CPUC. General Order 153 was revised by the Commission per resolution T-17202 effective July 1, 2009.

Section 9.11.1, General Order 153 requires carriers to support and justify any costs and lost revenues that they seek to recover from the LifeLine Fund.

Cause According to TGEC representatives, there is no documentation supporting these costs. These costs were developed by estimating the number of hours required to perform the tasks necessary to comply with the new reporting requirements.

Effect TGEC claimed reimbursement of $4,000 for implementation of new reporting requirements for which it has no supporting documentation.

Recommendation TGEC should reimburse CPUC $4,000 for the implementation of new reporting requirements for which it has no supporting documentation.

008 **Recordkeeping – Did Not Demonstrate Compliance with GO 153, Section 13.9**

Condition For this audit, TGEC did not have documentation supporting various items on its California LifeLine Report and Claim Forms for the sample months of July 2009 and January 2010. Specifically, TGEC did not provide documentation supporting (1) the number of disabled customers on the July 2009 and January 2010 claims, (2) reimbursement claimed for Surcharges, Taxes, & Fees for July 2009 and January 2010, and (3) reimbursement claimed for Implementation Costs of New Reporting Requirements for July 2009. In addition, TGEC did not provide documentation of its approved tariff rates for the July 2009 through January 2010 period, and the approved tariff rates of its Incumbent Local Exchange Carrier (ILEC).

Criteria Section 13.9, General Order 153 requires that utilities shall retain all records related to a California LifeLine claim, including a true-up claim, for a period of five calendar years following the year in which the California LifeLine claim or true up claim is submitted, unless all or part of such records must be kept for a longer period of time pursuant to requirements promulgated elsewhere (e.g., record-retention requirements set forth in the uniform system of accounts). The records that utilities must retain for five calendar years include (i) customer certification and verification forms, (ii) LifeLine Claim Forms and workpapers supporting the claim forms, and (iii) other documents and information on which the LifeLine Claim Forms and workpapers are based.

Cause According to TGEC officials, documentations supporting (1) the number of disabled customers on the July 2009 and January 2010 claims, (2) reimbursement claimed for Surcharges, Taxes, & Fees for July 2009 and January 2010, and (3) reimbursement claimed for Implementation Costs of New Reporting Requirements for July 2009 were not available. Also, officials told us that documentations of the approved tariff rates for TGEC and its Incumbent Local Exchange Carrier (ILEC) for the July 2009 through January 2010 period were not available.

Effect We could not determine whether lost revenue claimed, and California LifeLine reimbursement received, by TGEC for (1) flat rate service for disabled customers, (2) EUCL charges for disabled customers, and (3) Surcharges, Taxes, and Fees for the sample months of July 2009 and January 2010 was accurate. In addition, we could not determine whether lost revenue claimed, and California LifeLine reimbursement received, by TGEC for Implementation Costs of New Reporting Requirements for July 2009 was accurate.

Recommendation We recommend that TGEC take steps to ensure that all records, including documentation supporting its California LifeLine Report and Claim Forms and workpapers, are maintained for a period of five calendar years following the year in which the California LifeLine claim or true up claim is submitted, unless all or part of such records must be kept for a longer period of time pursuant to requirements promulgated elsewhere (e.g., record-retention requirements set forth in the uniform system of accounts).

009 **Subscriber Count & Eligibility – Did Not Demonstrate Compliance with GO 153, Section 9.3**

Condition Our comparison of TGEC's California LifeLine Report and Claim Forms and supporting workpapers for the sample months of July 2009 and January 2010 to California LifeLine subscriber data provided by Solix, Inc. for those months shows that TGEC claimed reimbursement for more subscribers than were eligible. TGEC reported 144 new subscribers and a weighted average of 2,103 flat rate subscribers (2,101 regular and 2 disabled) for July 2009, and 153 new subscribers (152 regular and 1 disabled) and a weighted average of 1,745 flat rate subscribers (1,739 regular and 6 disabled) for January 2010. The Solix data, however, shows 16 new subscribers and a weighted average of 987.71 subscribers for July 2009, and 57 new subscribers and a weighted average of 1,045.419 subscribers for January 2010.[4] The difference in reimbursement claimed is cited in Findings 1 and 2. In addition to July 2009 and January 2010, our estimation for the remaining 10 months of the year ended June 30, 2010 shows that TGEC also overstated the weighted-average number of subscribers for these months.

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

Criteria Section 9.3.1, General Order 153 states that utilities may recover from the LifeLine Fund lost revenues caused by providing California LifeLine customers with connection charges, conversion charges, discounted monthly rates for local service, and untimed local calls. Section 9.5.1 requires that utilities shall report and claim their LifeLine-related costs and lost revenues by filing the California LifeLine Report and Claim Form appended to GO 153, including supporting workpapers for all claimed costs in a format described in Appendix D to GO 153. The California LifeLine Report and Claim Form and supporting workpapers call for utilities to report the weighted average-number of LifeLine subscribers served by the utility, and the number of new LifeLine service connections, during the period covered by the claim form.

Cause TGEC did not correctly calculate the weighted average number of subscribers and the number of new subscribers for the sample months of July 2009 and January 2010. TGEC officials told us the staff member who developed the methodology for making the calculations had left TGEC, and the current staff simply followed his methodology when preparing the California LifeLine Report and Claim Forms each month.

Effect For the sample months of July 2009 and January 2010, as well as for the remaining 10 months during the year ended June 30, 2010, TGEC claimed, and received reimbursement for, more California LifeLine subscribers than were eligible. The differences in reimbursement claimed are cited in Findings 1 and 2.

Recommendation We recommend that TGEC take steps to ensure that the weighted average number of subscribers and the number of new subscribers (connections and conversions) are correctly calculated in conformance with GO 153.

010 Adequate Internal Controls – Did Not Demonstrate Compliance

Condition TGEC did not have written policies and procedures to ensure (1) correct subscriber counts, (2) accuracy of claim forms, and (3) maintenance of adequate records and supporting documentation.

<u>Subscriber Count and Eligibility</u>

Our comparison of TGEC's California LifeLine Report and Claim Forms and supporting workpapers for the sample months of July 2009 and January 2010 to California LifeLine subscriber data provided by Solix, Inc. for those months showed that TGEC claimed reimbursement for more subscribers than were eligible according to the Solix data. In addition, our estimation for the remaining 10 months of the year ended June 30, 2010, shows that TGEC also overstated the weighted-average number of subscribers for these months. Details are described in Finding 009.

<u>Accuracy of claim forms and supporting documentation</u>

We found significant problems with the accuracy of the monthly California LifeLine claim forms and supporting documentation related to connection charges, conversion charges, flat-rate service charges, EUCL charges, disabled customer charges, operating expenses, payment to taxing authorities, and new reporting requirements during the year ended June 30, 2010, as described in detail in Findings 001 through 007.

Recordkeeping

TGEC did not have documentation supporting various items on its July 2009 and January 2010 claim forms. In addition, TGEC did not provide the appropriate tariff rates for the period of July 2009 through January 2010. These issues are described in detail in Finding 008.

Criteria

The United States Government Accountability Office (GAO), in its *Standard for Internal Control*, describes internal control as "an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Section 9.11, General Order 153 describes the carriers "obligation to support and justify claims and lost revenues." Utilities have the burden of supporting and justifying any costs and lost revenues that they seek to recover from the LifeLine Fund. Utilities shall provide to CPUC within 10 business days, upon request, documents, work papers, records and other information. Failure to provide information requested by the CPUC is reasonable grounds to deny costs and lost revenues claimed by the utility.

Section 13.9, General Order 153 requires utilities to retain all records related to California LifeLine claims for five calendar years. These records include customer certification and verifications forms, California LifeLine claim forms and work papers supporting the claim forms, and other documents and information on which the California LifeLine claim forms and work papers are based.

Section 13.4, General Order 153 requires utilities to promptly reimburse the LifeLine Fund for an overpayment found by a Commission audit shall pay interest on the amount of overpayment based on the 3-month commercial paper rate, unless there is malfeasance on the part of the utility, in which case the rate of interest shall depend on the law and circumstance existing at the time the malfeasance is discovered.

Cause

TGEC lacked adequate internal controls to ensure its compliance with the requirements of the California LifeLine Program as outlined in General Order 153.

Effect

Subscriber Count and Eligibility

TGEC claimed and received reimbursement for more California LifeLine subscribers than were eligible for each month during the year ended June 30, 2010, according to Solix California LifeLine subscriber data. Details are discussed below.

Accuracy of claim forms and supporting documentation

- Recovery of Connection and Conversion Charges. TGEC was overpaid $27,225 for connection and conversion charges of California LifeLine subscribers during the year ended June 30, 2010. This issue is described in detail in Finding 001.

- Recovery of Flat-Rate Service Charges. TGEC was overpaid a total of $56,240 for California LifeLine flat-rate service during the year ended June 30, 2010. This issue is described in detail in Finding 002.

- Recovery of EUCL Charges. TGEC was overpaid a total of $69,572 for EUCL reimbursement during the year ended June 30, 2010. This issue is described in detail in Finding 003.

- Recovery of Second Line Charge Provided to Disabled Customers. TGEC was overpaid a total of $1,181 for flat rate service and EUCL charges associated with the provision of two Lifelines to qualified low-income households with a disabled member during the year ended June 30, 2010. This issue is described in detail in Finding 004.

- Recovery of Taxes, Fees, and Surcharges. TGEC improperly claimed and was reimbursed a total of $11,437 for taxes, fees and surcharges during the year ended June 30, 2010. This issue is described in detail in Finding 005.

- Recovery of Incremental Operating Expenses. TGEC was overpaid $17,957 for operating expenses during the year ended June 30, 2010. This issue is described in detail in Finding 006.

- Recovery of Expenses to Implement New Reporting Requirements. TGEC claimed and received reimbursement of $4,000 for July 2009 for the implementation of new reporting requirements for which it has no supporting documentation. This issue is described in detail in Finding 007.

Record Keeping

TGEC did not maintain adequate records and documents to support its July 2009 and January 2010 claims.

Recommendation

TGEC should reimburse the CPUC $187,612 for the overpayment of its monthly California LifeLine claims during the year ended June 30, 2010. This reimbursement is a total of the overpayments for Findings 001 through 007.

TGEC should develop adequate internal controls to ensure its compliance with the California LifeLine Program, specifically GO 153. These should include written policies and procedures to ensure (1) correct subscriber counts, (2) accuracy of claim forms, and (3) maintenance of adequate records and supporting documentation.

Appendix A

CALIFORNIA LIFELINE PROGRAM PROCESSES EXAMINED

The following represents the California Public Utilities Commission's procedures for administration of the Moore Universal Telephone Service Act, General Order (GO) 153 [California Public Utilities Code § 871 et seq.] with which compliance was examined.

Subscriber Enrollment Requirements

1. Informed California LifeLine applicants that they would incur regular tariff rates and charges until completion of the certification process. (GO 153, Section 4.2.4).

2. Offered California LifeLine applicants a payment plan for the regular tariff non-recurring charges and deposits for basic service, and informed applicants of the existence of such plans (GO 153, Section 4.2.4).

3. Did not require customers to post a service deposit in order to initiate California LifeLine service (GO 153, Section 7.4).

4. Informed California LifeLine applicants that once certified, they will receive a refund or a credit on their bill for California LifeLine discounts as of the Application Date (GO 153, Section 4.2.5).

5. Provided the California LifeLine Administrator with the information of customers who were applying or maintaining enrollment in the California LifeLine program, for application and/or renewal purposes, in a timely manner (i.e., before the end of the next business day after application and/or renewal) (GO 153, Section 6.1 & 6.3).

6. Complied with the requirements stated under Section 7 of GO 153, as specified below:

    a. utilities shall offer to their California LifeLine customers all of the service elements set forth in Appendix A of GO 153.

    b. California LifeLine is restricted to eligible low-income residential customers who subscribe to individual, two-party, four-party and suburban residential service.

    c. California LifeLine is restricted to residential service. Foreign exchange, farmer lines, and other non-California LifeLine services are excluded from this offering.

    d. utilities shall not require customers to post a service deposit in order to initiate California LifeLine.

    e. utilities may require a California LifeLine customer to pay any overdue California LifeLine rates and charges, or make payment arrangements, before California LifeLine is reinstated at the same address or at a new address.

    f. other than previously stated, California LifeLine is subject to the conditions of "Discontinuance and Restoration of Service" as set forth in the utility's tariffs.

    g. if a customer is disconnected for nonpayment of toll charges, a utility must provide California LifeLine to the customer if the customer elects to receive toll blocking.

Reimbursement Claim Verification

1. Filed all California LifeLine Report and Claim Forms no later than 30 days after the close of the monthly or biannual period for which a claim was made (GO 153, Section 9.5.5).

2. Included lost revenue for a full month for each claim filed on a monthly basis, or showed a monthly breakdown of claims on the California LifeLine claim form for claims filed on a biannual basis (GO 153, Sections 9.5.1, 9.5.3, and 9.5.4.1).

3. Accurately reported all amounts on page 1 of the California LifeLine Report and Claim Forms submitted (GO 153, Sections 9.3.1 through 9.3.3).

4. Paid the appropriate taxing authorities the applicable taxes, fees, and surcharges reimbursed from the LifeLine Fund (GO 153, Section 8.1.9.1).

5. Did not recover costs and lost revenue for services

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

    b. that Eligible Telecommunications Carriers (ETCs) are required to provide under the Federal LifeLine and Link Up programs but which the carriers are not required to provide under the California LifeLine program (GO 153, Section 9.4.7).

6. Notified the CPUC before the beginning of the year that it chose to receive its reimbursement for incremental operating expenses based on the on the $2.51 cost-factor for program year 2009-2010, and did not receive other reimbursement for operating expenses included in the cost-factor (i.e., data processing expense, customer notification expense, accounting expense, service representative cost, legal expenses, and administrative costs) from the LifeLine Fund. (GO 153, Section 9.13). [Note: This assertion applies to those carriers who are Competitive Local Exchange Carriers (CLECs) and who opted to receive reimbursement for their incremental operating expenses based on the $2.51 cost-factor for program year 2009-2010.]

7. Accurately claimed reimbursement for the federal EUCL charge and the incremental costs derived from providing toll limitation services [Note: The federal EUCL charge that the utility pays on behalf of its California LifeLine customers is limited to the underlying ILEC's EUCL rates.] (GO 153, Sections 9.3.3 & 9.3.8).

8. Took reasonable steps to collect bad debt costs from the California LifeLine subscribers (GO 153, Section 9.3.9.1).

9. Properly offset the total reimbursable cost reported in California LifeLine Report and Claim Forms with any bad debt costs collected during year ending June 30, 2010 (GO 153, Section 9.3.9).

Subscriber Count/Eligibility

1. Accurately reported all numbers of subscribers on page 2 of the California LifeLine Report and Claim Forms submitted (GO 153, Section 9.3).

2. Included in claims only those subscribers who were approved by the California LifeLine Administrator for meeting the eligibility criteria for obtaining and retaining California LifeLine benefits as specified in Section 5 of GO 153.

3. Did not claim any lost revenue and costs from providing California LifeLine discounts to any subscribers who had more than one California LifeLine line but were not eligible to receive more than one line in accordance with Section 5.1.7 of GO 153.

4. Did not claim reimbursement from the LifeLine Fund for connection charges of subscribers who failed to qualify for or were removed from the California LifeLine program (GO 153, Sections 5.6 & 5.7).

5. Did not claim reimbursement from the LifeLine Fund for conversion charges of subscribers who failed to qualify for or were removed from the California LifeLine program (GO 153, Sections 5.6 & 5.7).

Subscriber Bills

1. Charged California LifeLine subscribers the appropriate LifeLine connection charge as stated in its Commission-approved tariffs (GO 153, Section 8.1.1).

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

3. Charged California LifeLine subscribers the appropriate LifeLine discount rate for flat rate local service in their Commission-approved tariff (GO 153, Section 8.1.4).

4. Charged California LifeLine subscribers the appropriate LifeLine discount rate for measured-rate local service as stated in their Commission-approved tariffs (GO 153, Section 8.1.5).

5. Charged California LifeLine subscribers the appropriate LifeLine discount rate for Extended Area Service (EAS) as stated in their Commission-approved tariffs (GO 153, Section 8.1.6).

6. Did not charge California LifeLine subscribers for the federal EUCL charge (GO 153, Section 8.1.7).

7. Did not charge California LifeLine subscribers for toll-limitation services (GO 153, Section 8.1.8).

8. Did not charge California LifeLine subscribers for surcharges including the following: California High Cost Fund (CHCF-A) A surcharge, CHCF-B surcharge, California Teleconnect Fund surcharge, California Relay Service and Communications Device Fund surcharge, and California LifeLine surcharge. (GO 153, Section 8.1.9)

Calculation of Interest

1. Paid interest on the amount of any overpayment of California LifeLine claims and calculated interest in accordance with GO 153, Sections 13.4 and 9.9.1.

Recordkeeping

1. Maintained all required records related to LifeLine claims, including true-up claims, and surcharge remittances for a period of five calendar years following the year in which claims were submitted and surcharges remitted (GO 153, Sections 13.8 & 13.9).

Appendix B

SOLIX DATA PLAN

TCBA used the Solix data provided by CPUC to (1) calculate the number of subscribers (weighted average and number of new subscribers) for each of two sample months, to determine the accuracy of the six carriers' monthly California LifeLine Report and Claim Forms, (2) calculate the amount of any material overpayments or underpayments of the carriers' claims, and (3) determine whether the carriers included in their claims only subscribers who were approved by Solix as eligible for California LifeLine benefits according to the Solix data provided by CPUC. The methodology used in calculating the number of California LifeLine subscribers using the Solix data is presented below, along with certain assumptions that were made.

Weighted Average, by month

- Approved subscribers

  - For subscribers with an Approval Date in the same month and the Record Type is "v" (verification), count the entire month.

  - For subscribers with an Approval Date in the same month and the Record Type is "c" (certification), count the number of days in that month starting with the Application Date. If such a subscriber has an Application Date in a preceding month, count the entire current month and also count the number of days in the preceding month(s) dating back to, and including, the Application Date, except that no days prior to July 1, 2009, will be counted as subscribers enrolled prior to July 1, 2009, began immediately receiving California LifeLine discounts and carriers claimed reimbursement).

- Pending subscribers

  - Count the entire month if the Record Type is "v" (verification) and the Anniversary Date is in a later month. If the Record Type is "v" (verification) and the Anniversary Date is in the current month, count the number of days up to, and including, the Anniversary Date. The assumption is that such subscribers were previously approved for one year and are going through the verification (re-certification) process.

  - Do not count if the Record Type is "c" (certification). The assumption is that such subscribers are waiting for approval and are not yet eligible for California LifeLine benefits.

- Disconnected subscribers

  - Count the number of days in the month up to, and including, the Disconnect Date.

- Denied subscribers

  - Do not count if the Record Type is "c" (certification).

  - Count the entire month if the Record Type is "v" (verification) and the Anniversary Date is in a later month. The assumption is that such subscribers were previously approved for one year and are going through the verification (re-certification) process.

- If the Record Type is "v" (verification) and the Anniversary Date is in the current month, count the number of days up to, and including, the Anniversary Date. The assumption is that if a subscriber is Denied in the same month as the Anniversary date, it is an actual denial resulting from the verification process.

Number of New Subscribers (Connections/Conversions), by month

- Count the number of subscribers with an Approval Date in the same month and a Record Type of "c" (certification). The assumption is that such subscribers will have Approved status.

Subscriber Eligibility

- Compare the carriers' electronic subscriber listings to the Solix data for each of the two sample months and test for data anomalies in the separate data sets. Each carrier's subscriber listings will be different, and the format of the carrier's listings will affect how the comparison to Solix data will be made.

    - For the two sample months, compare the electronic subscriber listings provided by the carriers to the Solix data to determine whether the carrier included in its claims only those subscribers who were eligible for California LifeLine reimbursement according to the Solix data. Subscriber listings provided by the carrier may not entirely match the Solix data, *e.g.,* telephone numbers that changed subsequent to the 2009-2010 period being reviewed may not be listed in the Solix data. Also, some subscribers categorized by Solix as Denied in a particular month may have been eligible for some of that month before transferring service to another carrier.

    - Test the carrier’s subscriber listings for inconsistencies such as duplicate addresses or telephone numbers, number of telephones per household, and blank or unusual notations (questions marks, symbols, N/A, etc) in the name, address, phone number, or subscription start date fields.