

BCA

Addendum to:
“California LifeLine Program
Compliance Audit”

For the year ended June 30, 2010

Kerman Telephone Company

Dated July 30, 2012

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

December 6, 2013



December 6, 2013

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

**Re: Kerman Telephone – California LifeLine Program Compliance Audit -
Report on Optional Services**

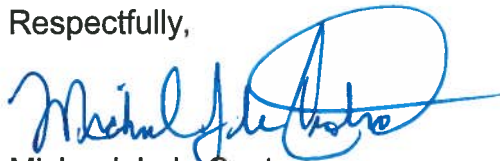
Dear Ms. Fok,

Attached is our report on the California LifeLine Program Compliance Audit optional services performed for Kerman Telephone for fiscal years 2008-2009 and 2010-2011.

As detailed in the attached report, we determined that Kerman Telephone over claimed bad debt costs by \$3,415.97. We also calculated interest due of \$28.87 on the over claimed amount. We recommend that Kerman Telephone refund \$3,444.84 (\$3,415.97+\$28.87) to the California Public Utilities Commission.

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

Respectfully,



Michael J. de Castro
Principal

California LifeLine Program Compliance Audit Addendum Kerman Telephone Company Funding Years 2008-2009 and 2010-2011

Kerman Telephone Company (Kerman) was reimbursed for over-claiming bad debt costs of \$3,415.97 in its California LifeLine claims for fiscal years ending June 30, 2009 and 2011. Kerman should refund \$3,444.84 (\$3,415.97 in over-claimed costs plus \$28.87 in interest due) to the LifeLine Fund.

BACKGROUND

BCA executed an agreement with the California Public Utilities Commission (CPUC) to perform compliance audits of six carriers' California LifeLine Program claims and reimbursements for July 1, 2009 through June 30, 2010.¹ BCA examined Kerman's compliance with the applicable requirements of the CPUC's Procedures for Administration of the Moore Universal Telephone Service Act and General Order 153. On July 30, 2012, BCA issued its audit report regarding Kerman's compliance.² In addition, BCA was tasked to perform optional services to expand any monetary findings to additional fiscal years.

SCOPE

The scope of work for the optional services was to apply **Finding 001** from the audit report issued on July 30, 2012 to Kerman for FY 2008-2009 and 2010-2011. **Finding 001** was the only finding with monetary impact:

Audit Finding 001 – California Lifeline Program Compliance Audit for FY 2009-2010

Kerman Telephone did not offset bad debt expenses claimed against later recoveries.

OBJECTIVE

The objective of the optional services was to determine whether Kerman properly offset its bad debt expenses claimed during fiscal years 2008-2009 and 2010-2011 against later recoveries and if not, determine the monetary impact in the expanded time period.

METHODOLOGY

BCA confirmed that Kerman did not reduce its claims for its bad debt expense during the expanded timeframe. BCA obtained re-casted monthly claim forms from Kerman for fiscal years 2008-2009 and 2010-2011. BCA listed the bad debt claimed for each month of the two fiscal years and multiplied the amounts claimed by 48% to determine the amount over claimed by Kerman and due to the CPUC. The 48% used for the calculation was proposed by Kerman and determined to be reasonable by BCA and the CPUC's project manager. Attachment I to this addendum shows the calculation.

¹ Kerman was one of the six carriers that was included in the audit.

² See BCA's report entitled "California LifeLine Program Compliance Audit" for the year ended June 30, 2010, Kerman Telephone Company," dated July 30, 2012.

**California LifeLine Program Compliance Audit
Addendum – Optional Services
Kerman Telephone Company
For Funding Years 2008-2009 and 2010-2011**

CONCLUSION

Kerman asserts that it no longer claims its bad debt for reimbursement against the LifeLine Fund.

ATTACHMENT I

Schedule of Over Claimed Bad Debt Costs

Month/Year	Bad Debts Claimed	Percentage To be Claimed	Over Claimed Bad Debt Costs
July 2008	\$ 102.33	48%	\$ 49.12
August 2008	500.56	48%	240.27
September 2008	473.76	48%	227.40
October 2008	334.35	48%	160.49
November 2008	501.59	48%	240.76
December 2008	799.58	48%	383.80
January 2009	604.78	48%	290.29
February 2009	309.87	48%	148.74
Mar 2009	242.92	48%	116.60
Apr 2009	226.71	48%	108.82
May 2009	481.32	48%	231.03
Jun 2009	53.98	48%	25.91
Subtotals (FY 2008-09)	\$ 4,631.75		\$ 2,223.23
July 2010	\$ 105.61	48%	\$ 50.69
August 2010	311.62	48%	149.58
September 2010	420.13	48%	201.66
October 2010	579.50	48%	278.16
November 2010	444.03	48%	213.13
December 2010	0	48%	0
January 2011	0	48%	0
February 2011	0	48%	0
March 2011	0	48%	0
April 2011	624.00	48%	299.52
May 2011	0	48%	0
June 2011	0	48%	0
Subtotals (FY 2010-11)	\$ 2,484.89		\$ 1,192.74
Totals	\$ 7,116.64		\$ 3,415.97
Interest Due			\$ 28.87 ³
Total Due to CPUC			\$ 3,444.84

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