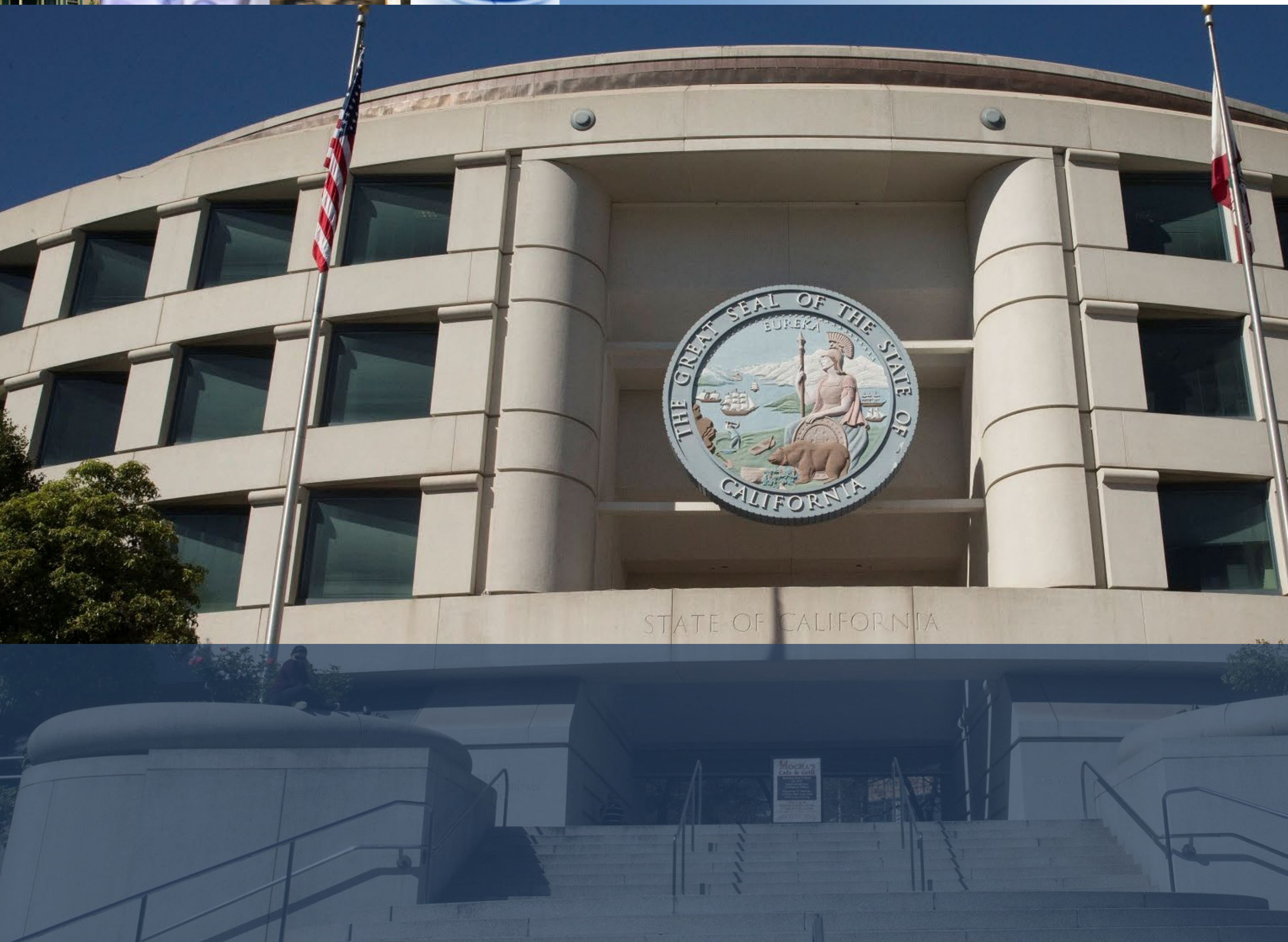

CALIFORNIA LIFELINE PROGRAM PERFORMANCE AUDIT

TracFone Wireless, Inc., dba SafeLink Wireless (U-4231-C)

July 1, 2019, through June 30, 2020

Utility Audits, Risk and Compliance Division
Utility Audits Branch
July 18, 2022

MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

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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:
California Public Utilities Commission
Utility Audits, Risk and Compliance Division
400 R Street, Suite 221
Sacramento, CA 95811

STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

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

Transmitted via e-mail

July 18, 2022

Mr. Hans Vestberg,
Chairman and Chief Executive Officer
Verizon Communications Inc. dba TracFone Wireless, Inc.
9700 NW 112th Avenue
Miami, FL 33178

Dear Mr. Vestberg:

Final Report Transmittal Letter—Audit of TracFone's California LifeLine Program for the period of July 1, 2019, through June 30, 2020

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of TracFone Wireless Inc., (TracFone)'s California LifeLine program claims for the period of July 1, 2019, through June 30, 2020. The final audit report is enclosed.

We issued the draft audit report on June 13, 2022. TracFone notified us via email on June 27, 2022, that it will not be providing comments to the draft audit report. Therefore, we are issuing the report as final. Additionally, TracFone provided the management representation letter on June 30, 2022, which required further analysis. As a result of our analysis, we added clarification language in the objective and scope section and finding and recommendations section of the report. We will post the final audit report on our website at Audit Reports by Industry (ca.gov).

Please provide a Corrective Action Plan (CAP) addressing the finding and recommendations within 45 days from the issuance of this final audit report, by September 1, 2022. The CAP should include specific steps and target dates to correct the issues identified. Please submit the CAP to the UAB at UtilityAudits@cpuc.ca.gov.

We appreciate TracFone's assistance and cooperation during the engagement. If you have any questions regarding this report, please contact Sharmin Wellington, Supervisor, at (916) 928-9838 or Sharmin.Wellington@cpuc.ca.gov.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page

cc: Alexander Pis-Dudot, Accounting Executive Director, TracFone
Janet Morejon, Director, LifeLine Compliance & Accounting, TracFone
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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the California LifeLine program's claims, reported by TracFone Wireless Inc., dba SafeLink Wireless (TracFone) for the audit period of July 1, 2019, through June 30, 2020.

Our audit objective was to determine whether TracFone's claims from the California LifeLine Fund were accurate, properly supported, for eligible consumers, and for allowable costs and activities, in accordance with General Order (GO) 153 sections 5 and 9, applicable Public Utilities (PU) Code sections, CPUC Decisions (D.) 14-01-036 and D. 10-11-033, and other applicable California LifeLine program's rules, regulations, and requirements.

Based on the procedures performed, samples tested, and evidence gathered, we found an instance of noncompliance with requirements during the audit period of July 1, 2019, through June 30, 2020. This instance is described in the Finding and Recommendations section of this audit report. The audit finding is summarized as follows:

Finding: TracFone did not provide documentation to substantiate 16 subscribers that TracFone claimed for reimbursement, totaling $2,851. In addition, TracFone failed to provide call usage records for 11 percent of the subscribers sampled during our audit that de-enrolled from the program during the audit period.

We issued a draft report on June 13, 2022. TracFone responded by email dated June 27, 2022, that it will not be providing comments to the draft audit report. We are issuing the report as final with the inclusion of additional clarifying language in the objective and scope section and the finding and recommendations section of this report.

AUDIT REPORT

Background

California LifeLine Program
In 1987, the CPUC created the Universal LifeLine Telephone Service program (now known as the California LifeLine program) pursuant to the Moore Universal Service Telephone Act, which was intended to offer high quality basic telephone service at affordable rates to California residents. The goal of the California LifeLine program (LifeLine) is to make high-quality, telephone service affordable to all qualified California households through discounts on eligible telecommunications services. Only one California LifeLine discounted phone is allowed per household (except for teletypewriter (TTY) users and for Deaf and Disabled Telecommunications program participants). The program is funded by a surcharge on all end-user customer billings for intrastate telecommunication services, except for those enrolled in the LifeLine program. The Universal LifeLine Telephone Service Trust Administrative Committee Fund in part is a repository of California LifeLine surcharge monies used to reimburse Service Providers for the costs associated with the provision and administration of the California LifeLine program.

The CPUC's GO 153 provides rules and procedures for the administration and implementation of the California LifeLine program that apply to all LifeLine Service Providers operating in California. Service Providers apply the eligible discounts on LifeLine services to eligible customers and subsequently submit reimbursement claims to the CPUC. Discounts offered include, but are not limited to, monthly cell phone service discount, service connection discount, and discount from paying the public purpose program surcharges, CPUC's user fees, and certain taxes associated with phone service. Each program participant receives up to a set amount of discount from the California LifeLine program in addition to a set amount from the federal LifeLine program. The CPUC's Communications Division (CD) resets the Specific Support Amount (SSA) annually, effective January 1 of each year, which is the rate that Service Providers use to compute and file claims for reimbursement. The Service Providers file reimbursement claims monthly to CD for review and determination of whether claims should be paid. A California LifeLine Service Provider may recover from the California LifeLine Fund up to the SSA per each eligible subscriber claimed, LifeLine non-recurring charges, applicable taxes/surcharges, interest, and administrative costs as set forth in the GO.

Third-Party Administrator
The CPUC is responsible for the oversight of the California LifeLine program and maintaining an independent third-party administrator (TPA) to provide clearinghouse services for the LifeLine program. The CPUC contracted with Maximus as the TPA during the audit period. The role of the TPA is to qualify new applicants and to verify the continued eligibility of existing LifeLine subscribers. To remain eligible to participate in the LifeLine program, each calendar year, all subscribers must verify that they are still eligible for the program.[1] In addition to qualifying and verifying continued eligibility of California LifeLine subscribers, Maximus collected, maintained, and provided important information such as the California LifeLine subscriber weighted average counts, new connection counts, and disconnection and de-enrollment counts for eligible telecommunication carriers to prepare and submit their monthly California LifeLine reimbursement claims to the CPUC for the costs of providing

[1] In May 2020, during our audit period, the CPUC approved D.20-05-043, which temporarily suspended the LifeLine renewal process and other actions to address the COVID-19 emergency and to ensure continued access to affordable communications services during the COVID-19 emergency.

discounted services to LifeLine subscribers. We reviewed the information provided by the TPA; however, we did not audit the TPA.

TracFone Wireless, Inc. dba SafeLink Wireless (TracFone)

During our audit period, TracFone was a subsidiary of América Móvil, a no-contract wireless service phone provider. TracFone is incorporated in Delaware, however, its headquarters are in Miami, Florida. It operates as a mobile virtual network operator that provides service to its customers using the Verizon Wireless, AT&T Mobility, and T-Mobile networks. Besides offering phone plans directly, the TracFone brand owns several other prepaid brands in the USA, including SafeLink Wireless, which provides eligible customers connectivity through one of their LifeLine plans. In 2020, América Móvil announced an agreement with Verizon Communications, Inc., to sell 100% interest in TracFone. In November 2021, Verizon completed its acquisition of TracFone.

TracFone claimed and was reimbursed a total of $49,622,236 in subsidy from the California LifeLine Fund during the audit period of July 1, 2019, through June 30, 2020, for subscribers ranging approximately between 213,000 and 288,000 per month. Expenses claimed for reimbursement are based on specific recovery cost categories as shown in the table below:

Service Recovery Cost Categories	**Amounts Claimed**	
Allowable SSA Federal and CA	$	39,278,216
Allowable SSA Federal and CA-Tribal		18,777
Allowable SSA CA-only eligibility		1,451,922
Allowable SSA CA-only eligibility-Tribal		858
Connection Charges Federal and CA		7,480,902
Connection Charges Federal and CA-Tribal		4,212
Connection Charges CA-only eligibility		113,256
Connection Charges CA-only eligibility-Tribal		39
Incremental Administrative Expenses		1,353,263
Other expenses, true-ups and credits		(79,209)
Total Claimed and Reimbursed	$	49,622,236

Audit Authority

The 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.14-01-036, the UAB is authorized to verify the California LifeLine program claims for the purposes of ensuring regulatory compliance of the LifeLine program.

Objective and Scope

Our audit objective was to determine whether TracFone's claims from the California LifeLine Fund were accurate, properly supported, for eligible consumers, and for allowable costs, and activities; in accordance with GO 153 sections 5 and 9, applicable PU Code sections, CPUC's D.14-01-036 and D.10-11-033, and other applicable California LifeLine program's rules, regulations, and requirements.

The scope of our audit covered TracFone's LifeLine program claims from the California LifeLine Fund totaling $49,622,236 for the audit period of July 1, 2019, through June 30, 2020. The scope did not include the TPA Maximus.

Additionally, due to the absence of call usage records for 11 percent of the subscribers selected for testing to determine the appropriate non-usage and subscribers' timely de-enrollment from the LifeLine program, we were unable to determine the appropriate pro-rated computation for these subscribers and the potential effect on TracFone's claims from the LifeLine Fund. Therefore, our scope relating to these call usage records was limited to identification of the non-usage issue. TracFone stated that it is aware of the issue and is currently working with the Federal Communications Commission on determining the full fiscal impact on TracFone's LifeLine claims. This issue is further discussed in the Finding and Recommendations section of this report.

Methodology

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

We conducted a risk assessment, including evaluating whether TracFone's key internal controls relevant to our audit objective were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, observing processes, or performing walkthroughs, and testing transactions. Deficiencies in internal controls that were identified during our audit and determined to be significant within the context of our audit objective are included is this report.

Additionally, we assessed the reliability of the data extracted from TracFone's subscriber database. Our assessment included examining extracted reports, tracing data between differing report formats to verify completeness, and tracing report data to source documents. We determined the data to be sufficiently reliable to address the audit objective.

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

- Reviewed applicable CPUC decisions, resolutions, orders, and advice letters to gain an understanding of the LifeLine program, including the eligibility criteria and claim filing process.

- Reviewed TracFone's background information including its policies and procedures to gain an understanding of the nature of the utility and its responsibility over the LifeLine program.

- Obtained an understanding of the TPA's weighted average reports (WAR) and connections reports which are provided to and used by Service Providers when submitting claims for reimbursement.

- Assessed significance by performing analyses of reimbursement claims data and evaluating program requirements.

- Obtained an understanding of TracFone's key internal controls relevant to the LifeLine program, such as reviewing the subscriber enrollment and eligibility processes, administrative expenses, and reimbursement claims, and assessed the design, implementation, and operating effectiveness of selected controls that are significant to the audit objective by:

    - interviewing key personnel and completing an internal control questionnaire;

    - reviewing TracFone's policies and procedures, and assessing their implementation pertaining to recording and reporting of LifeLine claims data;

    - performing walkthroughs of the subscriber enrollment system; and

    - tracing selected transactions to source documents.

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

- Analyzed and evaluated subscriber data information for four out of the twelve months by using data analytics tools to compare subscriber data for the audit period retrieved from the TPA's WAR and connections reports, and TracFone's customer data reports. In analyzing the subscriber data, we:

    - sorted subscriber information for the months of July 2019, August 2019, March 2020, and June 2020 to identify any variances;

    - searched for duplicative information; and

    - used data analysis to assist in sample selection.

- Traced TracFone's claims for reimbursement for July 2019, August 2019, March 2020, and June 2020 to the TPA's WAR and connections reports.

- Performed testing of the claimed Federal and California (CA) Allowable SSA, CA-Only Allowable SSA, and Connection Charges by judgmentally selecting a non-statistical sample of subscriber data included in the monthly claims for July 2019, August 2019, March 2020, and June 2020, totaling the claimed amounts listed in the table below:

Months Tested	Allowable SSA Federal and CA	Allowable SSA CA Only	Connection Charges Federal and CA	Total
July 2019	$ 4,163,198	$ 150,613	$ 835,692	
August 2019	3,575,660	132,221	903,786	
March 2020	2,909,671	105,628	542,256	
June 2020	3,160,305	119,587	449,826	
Total Evaluated	13,808,834	508,049	2,731,560	17,048,443
Total Claimed	$39,278,216	$ 1,451,922	$ 7,480,902	$48,211,040
% Evaluated	35.16%	34.99%	36.51%	35.36%

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

- For the sampled subscriber information, we selected subscribers from the same sampled four months referenced above to perform the following:

    - validated LifeLine program eligibility for 406 subscribers by reviewing and verifying that each subscriber's LifeLine application and supporting documentation such as benefits identification card, or medi-cal card, met the eligibility criteria;

    - validated TracFone's eligibility to receive up to a maximum SSA or a prorated amount per month based on the claimed subscribers' number of days active divided by a constant of 30 days;

    - verified the weighted average subscriber count TracFone claimed to compute the service connection/activation reimbursement rate to ensure it matched the number of subscribers included in the TPA's connections report;

    - validated completed household worksheets for 13 subscribers with duplicate addresses to ensure they met the multiline consumer household eligibility; and

    - assessed whether 103 subscribers who were de-enrolled during July 2019, August 2019, and March 2020 from the LifeLine program were removed in a timely manner based on the subscribers' call usage.

- Performed testing of the claimed Incremental Administrative Expenses by judgmentally selecting a non-statistical sample of significant transactions for July 2019 and April 2020 as shown in the table below:

Months Tested	Incremental Administrative Expenses
July 2019	$ 143,304
April 2020	100,736
Total Tested	244,040
Total Claimed	$ 1,353,263
% Tested	18.03%

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

- For the sampled Incremental Administrative Expenses, we performed the following:

  - traced sampled transactions to supporting invoices to ensure amounts were accurate and properly supported; and

  - evaluated the administrative expenses claimed to ensure they were equal to the administrative rate allowable.

We did not audit TracFone's financial statements. Our audit scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance that TracFone's claims from the California LifeLine Fund were accurate, properly supported, for eligible consumers, and for allowable costs and activities in accordance with the applicable criteria. We considered TracFone's internal controls only to the extent necessary to plan the audit and achieve our audit objective.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Conclusion

Based on the procedures performed, samples tested, and evidence gathered, we found an instance of noncompliance with the requirements outlined above for the audit period of July 1, 2019, through June 30, 2020. This instance is described in the Finding and Recommendations section of this audit report.

Follow-up on Prior Audit Findings

We have not previously conducted an audit of TracFone's California LifeLine program claims. Furthermore, TracFone did not identify any prior engagements that are significant with the context of our audit objective that would require us to determine if appropriate corrective action have been taken to address the findings and recommendations.

Views of Responsible Officials

We issued a draft report on June 13, 2022. TracFone responded by email dated June 27, 2022, that it will not be providing comments to the draft audit report. Therefore, we are issuing the report as final with the inclusion of additional clarification language in the objective and scope section and the finding and recommendations section of this report.

Restricted Use

This audit report is intended solely for the information and use of TracFone and the CPUC; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record and is available on the CPUC website at Audit Reports by Industry (ca.gov)

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

FINDING AND RECOMMENDATIONS

Finding: Unsupported Subscribers Claimed for Reimbursement

Condition:
TracFone claimed reimbursement for 16 subscribers that were unsupported totaling $2,851 during the audit period. During our testing of subscriber data, we requested to review the required supporting documentation to substantiate TracFone's claims for reimbursement. However, TracFone did not provide the following supporting documents for the 16 subscribers as follows:

- eight subscribers' applications, including the support for program eligibility;
- one proof of LifeLine program eligibility that did not match the subscriber's application; and
- seven household worksheets to support multiline per household.

In addition, TracFone failed to provide call usage records for 11 subscribers out of 103 sampled (approximately 11 percent) that de-enrolled from the program during the audit period. The requested call usage records were necessary to determine subscriber's timely de-enrollment from the program for non-usage and the appropriate pro-rated computation for these subscribers. However, the lack of supporting documentation for these subscribers prevented us from computing any potential effect on TracFone's claims. TracFone stated that it did not perform adequate monthly non-usage checks as required, and it does not have an exact count of the subscribers affected. TracFone also stated that it is currently working on determining the exact fiscal impact of the non-usage subscribers that might have been included in TracFone's claims from the LifeLine Fund. Therefore, we are unbale to determine the magnitude of this issue.

Criteria:
General Orders (GO) 153 states, in part, that:

> **Section 13.9**
> Requires California LifeLine Service Providers to retain all records related to a California LifeLine claim for a period of five calendar years. The records that must be retained includes (i) application and renewal forms, (ii) California LifeLine Claim Forms and workpapers supporting the claim forms, and (iii) other documents and information on which the California LifeLine Claim Forms and workpapers are based.
>
> **Section 5**
> States California LifeLine is available to any residential customer who meets all of the following eligibility requirements such as the customer's eligibility meets either the Income-Based Criterion or the Program-Based Criterion.

PU Code section 878 (a) states that:

> A LifeLine telephone service subscriber shall be provided with one lifeline subscription, as defined by the commission, at the subscriber's principal place of residence, and no other member of that subscriber's family or household who maintains residence at that place is eligible for lifeline telephone service.

CPUC Resolution T-17366 states, in part, that:

> The California LifeLine Program's de-enrollment rules will be modified to conform to the Federal Communications Commission (FCC), section 54.405 de-enrollment rules. Eligible telecommunications carriers must terminate any subscriber that do not use the LifeLine service for 30[i] consecutive days after providing notice and time to cure the non-usage.

Cause:
TracFone indicated that some supporting documents were not transferred during data migration when switching IT solutions providers. TracFone lacked policies and procedures to ensure successful data migration when TracFone switched vendors. TracFone stated on several occasions it would provide the call usage records in question; however, TracFone did not provide these records to date. In addition, TracFone stated it lacked controls to ensure it periodically performed monthly data usage checks as required to ensure subscribers get de-enrolled timely.

Effect:
Maintaining supporting documentation as required facilitates transparency and accuracy of LifeLine program claims reimbursed from the LifeLine Fund. Lack of documentation to support subscriber's eligibility and timely de-enrollment could cause the ratepayers to reimburse costs for ineligible subscribers. In addition, lack of controls to perform routine non-usage checks and ensure de-enrollment of subscribers occurs timely could have a material impact on reimbursements received from the LifeLine Fund.

Recommendations:
TracFone should do the following:

- remit $2,851 of ineligible LifeLine funds back to the CPUC and work with CPUC's CD to reimburse this amount;

- develop and implement policies and procedures to ensure records are retained accurately during vendor changes or process migrations;

- develop and implement policies and procedures to ensure required supporting information is maintained and can be retrieved to substantiate the claimed amounts;

- determine the fiscal effect of including de-enrolled or non-usage subscribers in its claims from the LifeLine Fund and work with CPUC's CD to reimburse this amount back to the CPUC; and

- develop and implement policies and procedures to perform routine non-usage checks and to de-enroll subscribers timely to prevent overstated claims from the LifeLine Fund.

[i] 47 CFR §54.405(e)(3), §54.407(c)(2), & FCC 16-38, shorten the non-usage period from 60 to 30 days, along with a corresponding reduction in the time allotted for service providers to notify their subscribers of possible termination from 30 to 15 days.