

Performance Audit of Citizen Telecommunications
Company of California Inc. (U-1024-C)

California LifeLine Program

August 8, 2024





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August 8, 2024

Christine Burke, Manager, Regulatory Reporting, Legal & Regulatory
Spencerport, New York

Dear Ms. Burke:

**Final Report Transmittal Letter - Audit of Citizen Telecommunications Company of California Inc.'
California LifeLine Program for the period of July 1, 2022, through June 30, 2023**

Crowe LLP (Crowe) was contracted by the California Public Utilities Commission (CPUC) to conduct a performance audit of Citizen Telecommunications (Citizen), in accordance with General Order (GO) 153 Sections 5 and 9, Public Utilities Code Section 878, Decision (D.) 14-01-036 and D.10-11-033, and other applicable California LifeLine Program rules, regulations, and requirements for the period of July 1, 2022 through June 30, 2023.

The results of our tests indicated that Citizen did not meet Objectives 1 and 5 in all significant respects for the period of July 1, 2022 through June 30, 2023. Citizen met Objectives 2, 3, 4, 6 and 7 in all significant respects. We identified one (1) finding with details provided in the Performance Audit Results section of this report. The final audit report is available on the CPUC website¹.

Sincerely,

A handwritten signature in blue ink that reads "Bert Nuehring".

Bert Nuehring, Partner
Crowe LLP

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

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Independent Auditor's Report

Crowe LLP (Crowe) conducted a performance audit of Citizen Telecommunications (Citizen), in accordance with General Order (GO) 153 Sections 5 and 9, Public Utilities Code Section 878, Decision (D.) 14-01-036 and D.10-11-033, and other applicable California LifeLine Program rules, regulations, and requirements for the period of July 1, 2022 through June 30, 2023. The objectives of the audit are described in the Performance Audit Approach section of this report and evaluate whether Citizen's claims from the California LifeLine Fund for fiscal year 2022-23 are accurate, properly supported, for eligible customers, and for allowable costs and activities.

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

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

The results of our tests indicated that Citizen did not meet Objectives 1 and 5 in all significant respects for the period of July 1, 2022 through June 30, 2023. Citizen met Objectives 2, 3, 4, 6 and 7 in all significant respects.

Executive Summary

Crowe LLP (Crowe) conducted a performance audit of Citizen in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the U.S. General Accountability Office (GAO). The goal of the audit was to determine whether Citizen’s claims from the California LifeLine Fund for the period of July 1, 2022 through June 30, 2023 are accurate, properly supported, for eligible customers, and for allowable costs and activities, in accordance with General Order (GO) 153 Sections 5 and 9, Public Utilities Code Section 878, Decision (D.) 14-01-036 and D.10-11-033, and other applicable California LifeLine Program’s rules, regulations, and requirements.

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

Crowe identified one (1) finding, which are presented in **Exhibit 1**. Significant findings are defined as those items that are significant to the audit objectives and important enough to merit attention by those in charge of governance and should be prioritized for remediation. Further details of the findings are presented in the Performance Audit Results section this report.

In performance audits, a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct (1) impairments of effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) noncompliance with provisions of laws, regulations, contracts, or grant agreements on a timely basis.

Exhibit 1 Finding and Control Evaluation

Finding	Control Evaluation ²	Audit Objective Impacted
1. Overstatement of LifeLine discount	<i>Significant Deficiency and Noncompliance</i>	1, 5

Project Background

California LifeLine Program

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

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

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

² Where “significant deficiency” is a control deficiency that is significant to the audit objectives and “deficiency” in control is not considered significant to the audit objectives, but auditors otherwise wish to communicate to those in charge of governance.

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

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

Service Providers apply discounts on LifeLine services to qualified customers on a monthly basis. Service Providers then submit reimbursement claims to the CPUC. Providers file reimbursement claims monthly to CPUC's Communications Division for review and approval. Service Providers may recover from the California LifeLine Fund up to the Specific Support Amount (SSA)³ per each eligible subscriber claimed, LifeLine non-recurring charges, applicable taxes/surcharges, interest, and administrative costs as set forth in GO 153.

Citizen

Citizen claimed and was reimbursed a total of \$517,068 in subsidy from the California LifeLine Fund during the audit period of July 1, 2022 through June 30, 2023. Monthly subscribers averaged 2,759 per month. **Exhibit 2** provides service recovery expense categories and amounts claimed for reimbursement for the audit period.

³ The rate that Service Providers use to compute and file claims for reimbursement.

Exhibit 2
Citizen Telecommunications
Subsidy Amounts Claimed via Monthly Claim Forms
California LifeLine Program Reimbursement, by Expense Category
(July 1, 2022 to June 30, 2023)

Expense Category	Expense Amount Claimed
1. Allowable SSA for Flat Rate Service	\$369,872
2. Allowable SSA for Flat Rate Service, California-only Eligibility	\$107,127
3. Surcharges and Taxes	\$24,685
4. Incremental Administrative Expenses	\$2,810
5. Total Administrative Expense Cost	\$524
6. Other expenses, true-ups and credits	\$12,050
Total	\$517,068

Performance Audit Approach

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

Objectives, Procedures and Conclusion

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

The audit included seven (7) objectives, which we list below with detailed procedures. The objectives of the audit were developed based on CPUC's request for Crowe to determine whether Citizen's claims from the California LifeLine Fund for fiscal year 2022-23 are accurate, properly supported, for eligible customers, and for allowable costs and activities, in accordance with General Order (GO) 153 Sections 5 and 9, Public Utilities Code Section 878, Decision (D.) 14-01-036 and D.10-11-033, and other applicable California LifeLine Program's rules, regulations, and requirements.

Objectives:

1. Determine if Citizen's internal controls over operations related to its administration of the California LifeLine Program were operating effectively.

Procedures

- Requested and obtained copies of documented policies and procedures related to governance of California LifeLine Program operations.
- Documented controls relevant to the California LifeLine Program.
- Tested that controls were operating effectively through our sampling and detailed procedures in Objectives 2 through 7. The sample selection was comprised of a random selection of 60 customer accounts such that 20 accounts were randomly selected from within each of three months of the audit period (September, December, and March). The monthly population averaged 2,759 subscribers.

Conclusion: Objective not met in all significant respects. See Finding 1.

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

Procedures

- Requested and obtained all third-party administrator (TPA) Weighted Average Reports (WAR) for each month of the audit period of July 1, 2022 through June 30, 2023.
- For each data source, calculated the weighted average subscriber count by the attribute profile related to each reimbursement amount. Subscriber attributes include: service description, funding type, rate group, service type, tribal indicator, teletypewriter (TTY) indicator, and federal broadband standard indicator.
- Extracted the weighted average subscriber count from each Claim Form.
- Compared the weighted average subscriber counts, attribute profile, per the 1) WAR and 2) Claim Forms.

Conclusion: Objective met in all significant respects.

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

Procedures

- Requested and obtained a schedule of administrative expenses and rationale for calculations.
- Determined that Citizen claimed reimbursement for incremental administrative expenses for the period of July 2022 through November 2022, which, per the California LifeLine Program policy, allows carriers to claim reimbursement for eligible expenses in the amount of \$0.50 per weighted average subscriber.
- Analyzed counts of monthly weighted average subscribers to verify that the requested reimbursement per subscriber did not exceed \$0.50.
- Determined that Citizen claimed reimbursement for an administrative expense cost factor for the period of December 2022 to June 2023, which, per the California LifeLine Program policy, allows carriers to claim reimbursement for expenses in the amount of \$0.03 per weighted average subscriber.
- Analyzed counts of monthly weighted average subscribers to verify that the requested reimbursement per subscriber did not exceed \$0.03.

Conclusion: Objective met in all significant respects.

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

Procedures

- Randomly selected a non-statistical sample of sixty (60) accounts. The population averaged 2,759 monthly subscribers during the 12-month audit period.
- Requested and obtained proof of California LifeLine Program eligibility.
- Reviewed proof of eligibility for each sampled account. If the subscriber was a first-time applicant, determined if proof exhibited participation in a qualifying public assistance program (e.g., Medi-Cal, Social Security Income, Women, Infants, and Children Program, etc.). If the subscriber was not a first-time applicant, determined if the Renewal Form included a self-certification of participation in a qualifying public assistance program.
- Reviewed and calculated the federal poverty threshold by household size, per the 2022 Federal Poverty Guidelines.
- For those first-time applicants using annual income to qualify for the program, determined that the customer's total annual gross income did not exceed 150% of the federal poverty threshold. If the subscriber was not a first-time applicant, determined that self-reported annual gross income did not exceed 150% of the federal poverty threshold.

Conclusion: Objective met in all significant respects.

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

Procedures

- Randomly selected a non-statistical sample of sixty (60) accounts from the subscriber data. The monthly population averaged 2,759 subscribers.
- Requested invoices for the sampled accounts during the audit period to verify that benefit amounts claimed for reimbursement were related to active accounts and correctly applied to outstanding balances.

Conclusion: Objective not met in all significant respects. See Finding 1.

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

Procedures

- Selected a non-statistical sample of 12 accounts from the subscriber data that de-enrolled from the California LifeLine Program. Accounts in this sample were randomly selected such that no more than one selection was derived from any particular month. There was a total of 967 accounts de-enrolled in the audit period. De-enrolled accounts are a subset of the overall population that averaged 2,759 monthly subscribers during the 12-month audit period.
- Obtained and reviewed 1) the date of de-enrollment, 2) the reason for de-enrollment, and 3) the date in which program ineligibility was determined for the sampled accounts.
- For the purpose of this audit, Crowe defines timely as within 30 calendar days or by the end of the calendar month such that the customer was not included in the following month's claims form.

Conclusion: Objective met in all significant respects.

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

Procedures

- Randomly selected a non-statistical sample of sixty (60) accounts from the subscriber data. The monthly population averaged 2,759 subscribers.
- Requested Household worksheets to verify that subscribers with duplicate addresses met the eligibility requirements to constitute separate households.
- Requested screenshots of the auditee's internal billing system to verify that sampled subscribers did not have duplicate physical addresses.

Conclusion: Objective met in all significant respects.

Performance Audit Results

Our performance audit resulted in one (1) finding as presented. Findings include a recommendation to correct the issue, and are organized into the following six (6) components:

- *Condition* – includes the error observed based on facts revealed from the audit.
- *Criteria* – the basis for our evaluation; in this case a specific policy, procedure, or leading practice.
- *Cause* – the underlying reason for why the non-compliance or error occurred.
- *Effect* – the impact on the organization, program, or customer from the error.
- *Recommendation* – a suggested action to correct the deficiency; or what can be done to address both the cause and condition.
- *Management Response* – an opportunity for the company to provide its response to the finding and/or recommendation.

Findings and recommendations from this performance audit are provided beginning on the next page. In **Exhibit 3** below we summarize each finding and related costs for prudence review.

Exhibit 3 Summary of Findings

Description of Finding	Questioned Costs
1. Overstatement of LifeLine discount	\$81.42
Total	\$81.42

Views of Responsible Officials

We discussed the audit results with Citizen representatives at an exit conference held on August 7, 2024. At the exit conference, we stated that the final report will include the views of responsible officials.

Restricted Use

This audit report is intended solely for the information and use of Citizen and the CPUC; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of the final audit report, which is a matter of public record and will be available on the CPUC website⁴.

⁴ <https://www.cpuc.ca.gov/about-cpuc/divisions/utility-audits-risk-and-compliance-division/utility-audits-branch/audit-reports-by-industry>

Finding #1 – Overstatement of LifeLine Discount

Significant Deficiency and Noncompliance

Condition

Crowe randomly selected a non-statistical sample of 60 accounts that were active during the audit period. The monthly population averaged 2,759 subscribers. Crowe requested customer invoices or other documentation for the sampled accounts to determine that subscribers were active and received LifeLine discounts that accurately reduced their outstanding balances for services received.

Crowe identified one instance in which the amount requested for reimbursement exceeded the Lifeline discount issued to the customer. The customer invoice for the service period of July 2022 showed the issuance of a discount in the amount of \$7.25. For this same period, Citizen requested reimbursement in the amount of \$19.53. The variance between the amount of reimbursement requested and the discount provided to the subscriber is \$12.28.

Across the audit period, this account generated an aggregate weighted average subscriber count of \$6.63. Applying the variance of \$12.28 to the aggregate weighted average subscriber counts produces a total questioned cost of \$81.42.

Based on the total questioned costs of \$81.42, the associated interest penalty incurred is \$4.35 as of April 30, 2024. CPUC's Communication Division (CD) will update the interest penalty amount as of the date of the remittance of the overclaimed LifeLine Funds.

Criteria

General Order (GO) 153 section 9.2.1 includes the following regarding the recovery of reasonable costs that carriers incur to provide ULTS. The questioned cost related to Finding #1 is in excess of reasonable costs:

"A utility, regardless of whether or not it is an ETC, may recover from the ULTS Fund the reasonable costs and lost revenues that it incurs to provide ULTS to the extent that such costs and lost revenues meet all of the following criteria: (i) directly attributable to the ULTS program, (ii) would not otherwise be incurred in the absence of the ULTS program, (iii) not recovered from other sources, such as the rates and charges paid by ULTS customers, the utility's general rates, or subsidies from the federal Lifeline and Link Up programs, and (iv) specified in Sections 9.3 and 9.4 of this General Order.."

GO 153, section 13.4, states, in part, that:

California LifeLine Service Providers that promptly reimburse the California LifeLine Fund for an overpayment of California LifeLine claims found by a Commission audit shall pay interest on the amount of overpayment based on the Three-Month Commercial Paper Rate, unless there is malfeasance on the part of such entity, in which case the rate of interest shall depend on the law and circumstances existing at the time the malfeasance is discovered.

Cause

Citizen did not have policies and procedures related to applying LifeLine discounts to customer account balances that were functioning properly.

Effect

The CA LifeLine benefit may not be applied properly to eligible customer accounts for which reimbursement has been claimed. As LifeLine discounts may change on a monthly basis with changes to customer eligibility, Claims Forms may not be correct.

Recommendation

Citizen should develop and implement policies and procedures to comply with the requirements for accurate application of LifeLine discounts to customer balances for services rendered. Specifically, LifeLine discount amounts may change on a monthly basis with changes to customer eligibility. As such, Citizen should review discount eligibility and the accuracy of the calculation of discounts monthly to align with the frequency that the related Claims Forms are submitted for reimbursement.

Views of Responsible Officials

The customer in this finding dropped off California LifeLine after dropping their voice service. One state LifeLine code was not removed from the account in the process so the account continued to show as an active LifeLine customer and the rate for reimbursement is driven by the Weighted Average Report (WAR). The Revenue Assurance group regularly performs audits on the billing integrity to catch errors such as this.

Appendix A – List of Records Examined

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