TELSCAPE COMMUNICATIONS, INC.
DBA TRUCONNECT

Independent Accountant's Report

CALIFORNIA LIFELINE PROGRAM

July 1, 2015, through June 30, 2016

BETTY T. YEE

California State Controller

December 2019

BETTY T. YEE
California State Controller

December 16, 2019

Nathan Johnson, Co-Chief Executive Officer
Telscape Communications, Inc. dba TruConnect
1149 South Hill Street
Los Angeles, CA 95202

Dear Mr. Johnson:

The State Controller's Office has completed an examination of Telscape Communications, Inc. dba TruConnect's (TruConnect) compliance with the rules, regulations, and requirements of the California LifeLine Program (California LifeLine) solely related to California LifeLine costs and activities for the period of July 1, 2015, through June 30, 2016. Our examination included reviewing the reimbursement claims that TruConnect filed with the California Public Utilities Commission (CPUC) to verify that it complied with all applicable CPUC and federal laws and regulations, including, but not limited to, General Order (GO) 153.

We identified material noncompliance with the rules, regulations, and requirements of California LifeLine, including GO 153, applicable to TruConnect during the period of July 1, 2015, through June 30, 2016. TruConnect did not comply with GO 153 and other applicable requirements to support and justify costs recovered from the California LifeLine Fund (Fund) during the examination period, and did not retain all records related to California LifeLine claims for a period of five years after submitting its claims. Such noncompliance occurred because TruConnect did not provide all requested subscriber data supporting costs it claimed from the Fund during the examination period. In addition, we found errors with the weighted average number of subscribers in the reimbursement claims that the carrier filed with the CPUC during the examination period. Therefore, TruConnect's reimbursement claims contained misstatements that are material, but not pervasive. We also identified three internal control deficiencies that we considered to be significant deficiencies in internal control.

Our report also includes additional information requested by the CPUC.

If you have any questions, please contact Jim Venneman, Audit Manager, Compliance Audits Bureau, by telephone at (916) 322-9887.

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/ls

cc: Jonathan Lakritz, Program Manager
California Public Utilities Commission

Contents

BETTY T. YEE
California State Controller

INDEPENDENT ACCOUNTANT'S REPORT

Nathan Johnson, Co-Chief Executive Officer
Telscape Communications, Inc. dba TruConnect
1149 South Hill Street
Los Angeles, CA 95202

The State Controller's Office has examined Telscape Communications, Inc. dba TruConnect's (TruConnect) compliance with the rules, regulations, and requirements of the California LifeLine Program (California LifeLine) solely related to California LifeLine costs and activities for the period of July 1, 2015, through June 30, 2016. Our examination included reviewing the reimbursement claims that TruConnect filed with the California Public Utilities Commission (CPUC) to verify that it complied with all applicable CPUC and federal laws and regulations, including, but not limited to, General Order (GO) 153. Management of TruConnect is responsible for TruConnect's compliance with the specified requirements. Our responsibility is to express an opinion on TruConnect'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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether TruConnect complied with the rules, regulations, and requirements of California LifeLine. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that our examination provides a reasonable basis for our opinion.

Our examination does not provide a legal determination on TruConnect's compliance with specified requirements.

Our examination disclosed material noncompliance with the rules, regulations, and requirements of California LifeLine, including, but not limited to, GO 153, applicable to TruConnect during the period of July 1, 2015, through June 30, 2016. TruConnect did not comply with GO 153 and other applicable requirements to support and justify costs recovered from the California LifeLine Fund (Fund) during the examination period, and did not retain all records related to California LifeLine claims for a period of five years after submitting its claims. Such noncompliance occurred because TruConnect did not provide all requested subscriber data supporting costs it claimed from the Fund during the examination period. In addition, we found errors with the weighted average number of subscribers in the reimbursement claims that the carrier filed with the CPUC during the examination period. Therefore, TruConnect's reimbursement claims contained misstatements that are material, but not pervasive. These issues are described more fully in Findings 1 and 2.

In our opinion, except for the material noncompliance described in the preceding paragraph, TruConnect complied in all material respects with the aforementioned requirements for the period of July 1, 2015, through June 30, 2016.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on TruConnect's compliance with the rules, regulations, and requirements of California LifeLine; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements; and abuse that has a material effect on the subject matter. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether TruConnect complied with the rules, regulations, and requirements of California LifeLine related to California LifeLine costs and activities for the period of July 1, 2015, through June 30, 2016, and not for the purpose of expressing an opinion on the internal control over compliance with the rules, regulations, and requirements of California LifeLine or on compliance and other matters; accordingly, we express no such opinion. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards*; those findings are described in Findings 3, 4, and 5.

This report is intended solely for the information and use of TruConnect, the CPUC, and the SCO, and 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 report, which is a matter of public record.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

Sacramento, California

December 16, 2019

Executive Summary

The California Public Utilities Commission (CPUC) contracted with the State Controller's Office (SCO) to conduct an examination of Telscape Communications, Inc., dba TruConnect's, (TruConnect) compliance with the rules, regulations, and requirements of the California LifeLine Program (California LifeLine) solely related to California LifeLine costs and activities for the period of July 1, 2015, through June 30, 2016. Our examination included reviewing the reimbursement claims that TruConnect filed with the CPUC to verify that it complied with all applicable CPUC and federal laws and regulations, including, but not limited to, General Order (GO) 153. We based our examination on 17 specific objectives identified by the CPUC, which we describe in the Examination Purpose, Scope, and Objectives section of this report.

During our examination, we identified four instances in which TruConnect did not comply with GO 153 and other applicable requirements to support and justify costs recovered from the California LifeLine Fund (Fund) during the engagement period. We also identified three internal control deficiencies that we considered to be significant deficiencies in internal control.

The following is a summary of our findings:

- TruConnect did not provide requested first call date information to support that certain subscribers actually made a first call to activate their California LifeLine service. As a result, we found that TruConnect's claims improperly included monthly Specific Support Amounts (SSA), totaling $11,637 for 504 subscribers, without a documented first call date. TruConnect overstated subscriber activity in the California Lifeline Administrator's (CLA) Weighted Average Reports (WAR) system during the entire examination period (Objectives 6 and 7).

- TruConnect improperly claimed reimbursements totaling $233,830 during the examination period for the monthly SSA applicable to pre-paid telephone service provided to California LifeLine subscribers. The reimbursements are unallowable because TruConnect:

  - Claimed reimbursements totaling $137,695 for costs incurred before the later of a subscriber's approval notification date or the date on which the subscriber activated service by making a first call. We found subscribers included in the WAR system based on their final approval date for service, although their first call occurred on a later date. These subscribers were ineligible to receive the California LifeLine discount during this period (Objective 6);

  - Claimed reimbursements totaling $14,523 for subscribers who remained in the WAR system after 90 consecutive days of service inactivity. These subscribers were no longer eligible to receive the California LifeLine discount (Objective 16); and

  - Claimed reimbursements totaling $81,612 for subscribers with last call dates after their disconnection dates. These subscribers became ineligible to receive the California LifeLine discount on the date that TruConnect disconnected them from service. However, these subscribers improperly remained in the WAR system. Reimbursements are unallowable for subscribers no longer eligible to receive the California LifeLine discount (Objective 7).

- Due to the instances of over-claimed California LifeLine support identified during our examination, accumulated interest of $14,705 is also due to the Fund from the date that payments were made to the examination report date (Objective 4).

- TruConnect did not consistently follow through with the CLA to ensure compliance with GO 153 sections 5.17 through 5.19 to detect and prevent multiple California LifeLine subscribers in the same economic unit (household) (Objective 2). Having multiple subscribers in the same economic unit (household) caused an overstatement of weighted averages and reimbursements received by TruConnect from the Fund during the examination period.

- TruConnect did not consistently follow through with the CLA to ensure compliance with Title 47, U.S. Code of Federal Regulations (CFR) section 54.405(e)(3). This regulation requires wireless carriers to notify subscribers after detecting 60 consecutive days of non-usage. If the subscribers fail to use California LifeLine services during the 30-day notification period, the carrier is required to remove the inactive subscriber from California LifeLine (Objective 3). TruConnect's failure to remove inactive subscribers from California LifeLine allowed them to remain in the CLA's WAR system. This may have caused an overstatement of weighted averages and reimbursements received by TruConnect from the Fund during the examination period.

- TruConnect did not follow its internal control procedures to ensure that it complied with CPUC Rulemaking Decision (D.) 14-01-036 Ordering Paragraph (OP) 24. This regulation requires the CPUC to approve all wireless plans before offering them to California LifeLine subscribers. However, TruConnect offered two wireless plans to California LifeLine subscribers during the examination period that the CPUC did not approve (Objective 12). This may have caused an overstatement of reimbursements received by TruConnect from the Fund during the examination period.

We determined that TruConnect complied with engagement Objectives 1, 8, and 11. We also determined that engagement Objectives 9, 10, 13, 14, 15, and 17 were not applicable to TruConnect during the engagement period.

Background

California LifeLine Program

California LifeLine is a state program, established by the CPUC, that provides discounted home telephone and cellular telephone services to eligible households. The discounted services help consumers reduce the costs associated with their telephones. Only one discount per household is allowable (except for teletypewriter users, and for Deaf and Disabled

Telecommunications Program subscribers). Each household must choose whether to receive the discount on a traditional landline telephone or a cellular telephone; households may not receive discounts on both. The CPUC contracts the CLA (a third-party administrator) to determine eligibility of potential beneficiaries of wireless free-telephone services.

GO 153 provides rules and procedures for the administration and implementation of California LifeLine, which is intended to provide low-income households with access to affordable basic telephone service. The order applies to both landline and wireless telephone service providers. A contractual agreement between the CPUC and the SCO authorizes the SCO to conduct engagements of wireless carriers selected by the CPUC for their participation in California LifeLine.

Service providers apply the discount to eligible customers and submit reimbursement claims to the CPUC. Service providers are responsible for supporting and justifying all costs and lost revenues that they seek to recover from the Fund. A wireless carrier may recover from the Fund the reasonable costs that it incurs to provide California LifeLine to the extent that such costs are:

- Directly attributable to California LifeLine;
- Not otherwise incurred in the absence of California LifeLine;
- Not recovered from other sources, such as the rates and charges paid by California LifeLine subscribers, the utility's general rates, or subsidies from the Federal LifeLine Program (Federal LifeLine); and
- Specified in GO 153 sections 9.3 and 9.4.

The CLA receives and processes customer applications for California LifeLine services and determines applicants' eligibility. The CLA also performs recertification services. Conduent is the CLA contracted by the CPUC, and was also contracted during the examination period.

TruConnect

TruConnect's main office is located in Los Angeles, California. When our examination began, the company provided LifeLine services in eight states, using the underlying networks of Sprint and T-Mobile, with plans to offer the service in additional states. The CPUC approved TruConnect as a reseller of commercial mobile radio telephone service in California in June 2008 and approved the company's entry into California LifeLine in October 2011. The CPUC subsequently approved 10 wireless plans that the company offered to its customers under California LifeLine.

We conducted our entrance conference with TruConnect on November 13, 2017, at the company headquarters in Los Angeles with its Co-Chief Executive Officer (CEO), Chief Financial Officer, Vice-President of Reporting, General Manager of Global Operations, Director of Operations, Director of Legal and Government Affairs, Accounting Manager, Project Manager, and Senior Business Analyst.

During the period of July 1, 2015, through June 30, 2016, TruConnect claimed reimbursement for a subscriber base ranging from 309,800 subscribers during July 2015 to 230,614 during January 2016. TruConnect ended the period with 174,246 subscribers in June 2016. TruConnect submitted claims totaling $43,963,604 and received the same amount in reimbursements from the Fund.

Examination Purpose, Scope, and Objectives

Purpose and Scope

The purpose of our examination was to provide reasonable assurance that TruConnect complied with the rules, regulations, and requirements of California LifeLine solely related to California LifeLine costs and activities for the period of July 1, 2015, through June 30, 2016. Our examination included reviewing the reimbursement claims that TruConnect filed with the CPUC, to verify that it complied with all applicable CPUC and federal laws and regulations, including GO 153.

Objectives

Our examination engagement included the following 17 objectives:

1. Determine whether TruConnect included in its claims only those subscribers who were approved by the CLA as meeting the eligibility criteria for obtaining and retaining California LifeLine benefits.

2. Determine whether TruConnect had effective monitoring controls in place to identify obvious instances of incorrectly claiming reimbursement for costs of providing the California LifeLine discount to more than one economic household at the same address.

3. Identify and document the internal control processes used by TruConnect to ensure timely compliance with California LifeLine requirements for disconnecting inactive accounts and subscribers.

4. If the engagement reveals overclaimed amounts of California LifeLine support from the Fund, then describe each occurrence, state the overclaimed amount, and calculate interest from the date of payment to the issuance date of the final engagement report.

5. Determine the fiscal effect of TruConnect incorrectly claiming reimbursement of $39 from the Fund for connection or conversion charges of California LifeLine subscribers who failed to qualify for, or were removed from, California LifeLine.

6. Determine the fiscal effect of TruConnect incorrectly claiming reimbursement for the pre-paid telephone service discount before the later of the date of approval notification or the date that California LifeLine service was activated.

7. Determine whether TruConnect correctly claimed reimbursement for providing the California LifeLine discount on recurring charges.

8. Determine whether TruConnect correctly claimed reimbursement of $39 per subscriber for providing the California LifeLine discount on connection and activation charges.

9. Determine whether TruConnect correctly claimed reimbursement for the public-purpose California LifeLine surcharges, CPUC user fee, federal excise tax, local franchise taxes, and State 911 tax on subscribers' intrastate California LifeLine billing, which California LifeLine subscribers were exempt from paying.

10. Determine whether TruConnect paid the appropriate taxing authorities the applicable taxes, fees, and surcharges reimbursed from the Fund if it received reimbursement from the Fund for federal excise tax, local taxes, fees, and surcharges pertaining to the California LifeLine discount; and if TruConnect claimed that it had paid these taxes, fees, and surcharges on behalf of its California LifeLine subscribers.

11. Determine whether TruConnect claimed reimbursement for administrative expenses that were clearly not incremental expenses.

12. Determine whether TruConnect offered plans approved by the CPUC.

13. Determine whether TruConnect correctly provided a discount on its nonrecurring service connection charge for the initial activation of a single wireless telephone connection for approved California LifeLine subscribers.

14. Determine whether, before providing the California LifeLine discount, TruConnect charged the same nonrecurring and recurring service rates for both California LifeLine subscribers and other retail customers.

15. Determine whether TruConnect correctly provided discounts on its qualifying wireless telephone service plans for California LifeLine subscribers for recurring charges.

16. Determine the fiscal effect if TruConnect did not disconnect subscribers with inactivity (no service used) during a consecutive 60-day period, who were notified of such non-usage, and who failed to use California LifeLine services during the 30-day notice period.

17. Determine whether TruConnect correctly charged California LifeLine subscribers for the public-purpose California LifeLine surcharges, CPUC user fee, federal excise tax, local franchise taxes, and State 911 tax on subscribers' intrastate California LifeLine billing, which California LifeLine subscribers were exempt from paying.

Objectives 9, 10, 13, 14, 15, and 17 did not apply to TruConnect because its reimbursement claims did not include the items identified.

To achieve our examination objectives, we:

- Reviewed the California LifeLine reimbursement claims that TruConnect filed during the examination period to determine whether it complied with all applicable CPUC and federal laws and regulations, including GO 153;

- Completed an internal control questionnaire by interviewing key TruConnect staff members. Discussed the claim preparation process with key staff members to determine what information was obtained, who obtained it, and how it was used;

- Reviewed the eligibility of claimed costs;
- Reviewed TruConnect's existing internal controls and tested them to determine whether they adequately ensured compliance with California LifeLine rules and regulations;
- Reviewed the eligibility of TruConnect's California LifeLine subscribers; and
- Performed a detailed review of all California LifeLine claims submitted by TruConnect to determine whether the claims were properly prepared and mathematically correct.

To address the examination objectives, we used various reports and records obtained from TruConnect, the CPUC, and the CLA, as detailed in Appendix A—List of Records Examined (by Objective).

Engagement Approach, Including Detail Risk Assessment

<u>Risk Assessment</u>

We conducted a risk assessment to identify and discuss risks of material misstatement, and to determine whether we needed to perform additional examination work to mitigate such risk. We based our initial risk assessment on the provided documentation, as well as interviews and inquiries with the CLA, the CPUC, TruConnect's Co-CEO, and its Director of Legal and Government Affairs. We reviewed our risk assessment and updated it as we gained more knowledge. We based our risk assessment on analysis and data in the following areas that potentially posed a high risk for this examination:

- Lack of a reliable eligibility process, which may allow creation of fraudulent applications and manipulation of qualifying data;
- Overstatement of the weighted average number of subscriptions;
- Duplicate subscriptions and unqualified subscribers included in reimbursement calculations;
- Unsubstantiated incremental administrative expenses;
- Unapproved service plans;
- Lack of previous audits of TruConnect's compliance with California LifeLine requirements; and
- Other considerations based on information provided by TruConnect that could indicate other potential high-risk areas or the potential for fraud.

Other Risk Considerations

We remained alert and watchful for any indications of high risk in other areas while carrying out fieldwork. Our fieldwork included discussions with TruConnect staff and reviews of documentation provided by TruConnect staff.

Audit Reports

CPUC officials informed us that no CPUC audits of TruConnect had been conducted for the wireless portion of its business relating to the examination period. There have also been no external audits of TruConnect's administration of California LifeLine relating to the examination period. TruConnect officials informed us that, to their knowledge, no audits had ever been conducted that could have affected the carrier's compliance with CPUC and federal rules related to California LifeLine for the examination period.

However, we did note an Agreed-upon Procedures engagement conducted pursuant to the Federal Communications Commission (FCC) *Biennial Audit Plan* for the year ended December 31, 2015, by CPA firm Moss Adams LLP. The objectives of the engagement concerned Tru Connect's compliance with the FCC's Lifeline rules. Testing conducted by the CPA firm for this engagement included the carrier's landline (wireline) and wireless subscribers in Texas, Kansas, and Wisconsin; it did not include any California LifeLine subscribers. The engagement results indicated that TruConnect materially complied with FCC Lifeline Rules for the engagement period.

Review of Internal Control Questionnaire

To determine the adequacy of TruConnect's internal controls over compliance with California LifeLine requirements, we requested that TruConnect complete our internal control questionnaire. We inquired about TruConnect's processes for the activities of:

- Compiling and submitting California LifeLine subscriber information to the CPUC;
- Compiling, calculating, reviewing, and recording the California LifeLine claim form; and
- Receiving and recording California LifeLine claim payments.

TruConnect's Director of Legal and Governmental Affairs completed our Internal Control Questionnaire. The Director of Legal and Governmental Affairs' responses indicated that TruConnect relied on CGM, a consulting firm, to draft the monthly California LifeLine claims. CGM's Accounting Manager compiled the claim forms and forwarded them to TruConnect's Co-CEO for review and signature. The CGM's Accounting Manager also identified key controls by asserting that TruConnect:

- Maintained supporting records for reimbursement claims filed with the CPUC;
- Maintained written enrollment procedures for new applicants;
- Provided training to inform company representatives involved with applicants and the enrollment process about California LifeLine eligibility rules;
- Monitored company representatives to ensure that they complied with California LifeLine enrollment guidelines;

- Required valid unexpired identification and proof of specific government services or income from California LifeLine applicants to submit to the CLA for consideration for California LifeLine;
- Worked with the CLA to provide subscriber information, including names, addresses, dates of birth, and last four digits of social security numbers;
- Maintained call logs for each subscriber;
- Maintained written procedures for identifying inactive subscribers;
- Maintained written procedures to ensure that, after identification, inactive subscribers were reported to the CLA and disconnected;
- Measured the turnaround time between identification of inactive subscribers and service disconnection;
- Required someone other than the preparer to review the reimbursement claim forms for accuracy;
- Reviewed the data included in the monthly "Subscriber Statistics" report obtained from the CLA for reasonableness;
- Maintained a process for handling any discrepancies between the carrier's records and the CLA's records;
- Maintained supporting documentation for all administrative expenses included on the reimbursement claim forms;
- Maintained a customer service department to handle any subscriber inquires and complaints; and
- Maintained a process to report instances of fraud and/or abuse to the CPUC.

<u>Initial Review of the Monthly California LifeLine Claim Forms</u>

We reviewed all of the monthly California LifeLine claims submitted by TruConnect for the period of July 1, 2015, through June 30, 2016, to determine whether TruConnect filed its California LifeLine claim forms in a timely manner, and whether the claim forms contained all of the necessary elements and were mathematically accurate.

We also reviewed the applicable supplemental documentation related to the claims, and interviewed TruConnect officials to determine how the company calculated the costs claimed during the examination period.

Our initial review of the monthly California LifeLine claim forms provided by TruConnect and the CPUC showed no variances in the forms.

<u>Review of Compliance with Enrollment and Related Requirements</u>

We reviewed TruConnect's California LifeLine enrollment processes and procedures to determine whether they complied with subscriber enrollment requirements, including service elements offered and various notifications to subscribers. We interviewed TruConnect officials to obtain additional information and clarification regarding the subscriber enrollment process and notifications to subscribers and the CLA. We also obtained computerized records, processes and procedures related to subscriber enrollment, and monitoring information provided by TruConnect employees to prospective subscribers.

Sampling and Methodology

To complete our procedures for the stated examination objectives, we used non-statistical judgmental sampling. We started by examining all of TruConnect's reimbursement claims for the examination period to determine whether they were filed in a timely manner, contained all of the necessary elements, and were mathematically accurate. We judgmentally selected applicable reports from various months and judgmentally selected subscriber information sufficient to complete our examination procedures. The populations of records used for these tests are described in Appendix A—List of Records Examined.

Sampling Risk

Sampling risk occurs whenever an evaluation involves a population subset 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 errors.

We mitigated the sampling risk by:

- Adhering to 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
- 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 TruConnect, the CLA, and CPUC officials.

Views of Responsible Officials

We issued a draft report on May 28, 2019. Lance J. M. Steinhart, Esq., managing attorney for the law firm representing TruConnect, responded by letter dated June 27, 2019, disagreeing with the examination results.

Restricted Use

This report is solely for the information and use of TruConnect, the CPUC, and the SCO; 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 report, which is a matter of public record and will be available on the SCO website at www.sco.ca.gov.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

Sacramento, California

December 16, 2019

Findings and Recommendations

FINDING 1—Subscriber data not provided (Objectives 6 and 7)

Condition

TruConnect did not comply with GO 153 and Public Utilities Code (PUC) sections 581 through 582 requirements to support and justify costs recovered from the Fund during the engagement period, and to retain all records related to California LifeLine claims for a period of five years after submitting its claims.

The CLA tracks subscriber date in its WAR system. We used monthly WAR system reports for the examination period to verify new subscribers. We also received New Connection Reports from the CLA for the examination period to determine the propriety of weighted averages reported in the WAR system and support for new connection charges. However, TruConnect did not provide certain records that we requested documenting subscriber first call dates to support that these were eligible subscribers. As a result, we found that the carrier claimed $11,637 for discounted phone service during the engagement period without providing adequate supporting documentation.

First Call Date

TruConnect did not provide requested first call date information to support that certain subscribers actually made a first call to activate their California LifeLine service. The carrier's claims included the monthly SSA for 504 subscribers that did not have a first call date. As a result, the carrier overstated subscriber activity in the WAR system during the entire examination period (Objectives 6 and 7).

During the examination period, the CLA provided WAR system data for TruConnect's subscribers. These reports showed that TruConnect had between 164,585 and 309,800 active subscribers in its customer database. We requested California LifeLine usage information from TruConnect for all active subscribers listed in its system, and found that usage information for 504 subscribers did not include a first call date. In the absence of first call date information, all reimbursements claimed for these subscribers are unallowable.

Effect

The weighted average number of active subscribers each month provides the basis for California LifeLine reimbursement claims and supports a material amount of the costs claimed from the Fund during the examination period. To the extent that TruConnect cannot support first call dates for its subscribers, it overstated Fund reimbursements by $11,637 because these subscribers did not qualify for California LifeLine.

Cause

TruConnect did not provide subscriber usage data for 504 of its subscribers. Company representatives explained that the company migrated to a new billing system and that the affected subscribers were not included in the new system because they had already been disenrolled by that time.

Criteria

PUC section 581 states, in part:

> Every public utility shall furnish to the commission in such form and detail as the commission prescribes all tabulations, computations, and all other information required by it to carry into effect any of the provisions of this part, and shall make specific answers to all questions submitted by the commission.

In addition, PUC section 582 states:

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

GO 153 section 9.11.1 states that California LifeLine Service Providers are responsible for supporting and justifying all costs and lost revenues that they seek to recover from the Fund.

GO 153 section 13.9 states:

> California LifeLine Service Providers 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 California LifeLine Service Providers (or the California LifeLine Administrator) must retain for five calendar years include (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.

Objective 6 – CPUC Rulemaking D. 14-01-036, section 4.19 [Prequalification Exemption for Pre-Paid Wireless Telephone Services] and Conclusion of Law No. 41 in that rulemaking state that all pre-paid and post-paid providers, regardless of the type of telephone service provided, must work with the CLA to enroll and determine consumers' California LifeLine or Federal Lifeline eligibility. Carriers must transmit the necessary information for the CLA to perform its functions, such as eliminating duplicates, determining the duration of discounts, and enrolling and dis-enrolling subscribers. After receiving approval for a subscriber from the CLA, a pre-paid provider may begin providing discounted service to the subscriber. The discount for the pre-paid telephone service must begin with the date of approval notification or the date California LifeLine or Federal Lifeline service is activated, whichever is later.

Objective 7 – CPUC Rulemaking D. 14-01-036, OP No. 8 states that "The Specific Support Amount (SSA) for California LifeLine wireless providers that offer wireless telephone service for 1,000 or more voice minutes must be $12.65 per month for each eligible participant through June 30, 2015." The CPUC subsequently issued a notice dated October 26, 2015, titled "Notice of Specific Support Calculation for 2016" that updated the SSA from $12.65 to $13.20 effective January 1, 2016.

Recommendation

We recommend that TruConnect reimburse the CPUC $11,637 for unallowable subscriber charges applicable to the examination period. We also recommend that the carrier improve its internal control procedures to ensure that it retains all records relating to California LifeLine reimbursement claims for a period of at least five calendar years following the year in which the California LifeLine claim is submitted.

TruConnect's Response

> During the July 2015 – June 2016 audit period, TruConnect filed benefit claims for 665,826 subscribers, and *did* provide supporting documentation for 99.92% of customers making a first call. TruConnect was unable to account for first call data for 504 subscribers, or just 0.08% of what was claimed. TruConnect believes these subscribers *did* make a first call, based on (1) TruConnect's track record of virtually all of our subscriber base having made a first call, and (2) the TPA [Third-Party Administrator] does not populate consumers in the WAR [system] unless they have been approved *and* made a first call. Unfortunately, TruConnect was unable to account for the first call date and can attribute this to the data being lost during two separate billing migrations and/or potentially other system issues; the TPA system was less than reliable and was prone to errors as well.
>
> TruConnect has already improved its internal control procedures for data retention. In 2016, TruConnect underwent an extensive initiative to collect all of our subscriber call detail records (voice, data, text) from underlying carriers and into our business intelligence (BI) platform, as part of a system overhaul to allow for comprehensive, instant visibility into all customer data. TruConnect is constantly evaluating and building out its now robust system, which TruConnect utilizes monthly to validate that its claims are 100% correct.

SCO Comment

Our finding and recommendation remain unchanged.

Our initial finding for this issue revealed missing first call date information for 94,558 subscribers. During the course of the examination, we worked with TruConnect representatives, who ultimately recovered data for 94,054 of those subscribers from TruConnect's former billing system. While we agree the evidence suggests that the additional 504 subscribers made a first call to activate their wireless service, we are unable to verify this assertion due to the absence of subscriber data. As noted in the finding, GO sections 9.11.1 and 13.9 require California LifeLine Service Providers to support and justify all costs claimed from the Fund for a period of five calendar years following the year in which the carrier submits its reimbursement claim with the CPUC.

FINDING 2— Unallowable amounts for pre-paid telephone service (Objectives 6, 7, and 16)

Condition

TruConnect improperly claimed reimbursements during the examination period totaling $233,830 for the monthly SSA applicable to pre-paid telephone service provided to California LifeLine subscribers. The reimbursements are unallowable because the carrier:

- Claimed reimbursements totaling $137,695 for costs incurred before the later of a subscriber's approval notification date or the date they activated their service by making a first call. Subscriber database information revealed that these subscribers incorrectly became eligible for California LifeLine based on their final approval notification date, but did not make a first call to become eligible for California LifeLine until a later date. These subscribers were ineligible to receive the California LifeLine discount during this period (Objective 6);
- Claimed reimbursements totaling $14,523 for costs incurred for subscribers who remained in the CLA's WAR system because the carrier did not disconnect them after 90 continuous days of service inactivity. These subscribers were no longer eligible to receive the California LifeLine discount after such inactivity (Objective 16); and
- Claimed reimbursements totaling $81,612 for subscribers with last call dates after their disconnection dates. These subscribers became ineligible to receive the California LifeLine discount after their disconnection date and should not have appeared in the WAR system after that date. Reimbursements are unallowable for subscribers no longer eligible to receive the California LifeLine discount (Objective 7).

Effect

The weighted average number of subscribers each month provides the basis for California LifeLine reimbursement claims and supports a material amount of the costs claimed from the Fund during the examination period. By overstating the weighted average number of eligible subscribers in its claims, TruConnect overstated its reimbursement claims, totaling $233,830 during the examination period.

Cause

Internal controls established by TruConnect failed to prevent ineligible subscribers from appearing in the monthly WAR reports, which serve as the basis for SSA reimbursements in California LifeLine claims.

Criteria

GO 153 section 9.11.1 states that California LifeLine Service Providers have the burden of supporting and justifying any costs and lost revenues that they seek to recover from the Fund.

Objective 6 – CPUC Rulemaking D. 14-01-036, section 4.19 [Prequalification Exemption for Pre-Paid Wireless Telephone Services] and Conclusions of Law No. 41 in that rulemaking state, in part, that "The discount for the pre-paid telephone service shall begin with the date of approval notification or the date California LifeLine or Federal LifeLine service is activated, whichever is later."

Objective 7 – CPUC Rulemaking D. 14-01-036, OP No. 8 states that "The Specific Support Amount (SSA) for California LifeLine wireless providers that offer wireless telephone service for 1,000 or more voice minutes shall be $12.65 per month for each eligible participant through June 30, 2015." The CPUC subsequently issued a notice dated October 26, 2015, titled "Notice of Specific Support Calculation for 2016" that updated the SSA from $12.65 to $13.20 effective January 1, 2016.

Objective 16 – 47 CFR 54.405(e)(3) [Carrier Obligation to Offer Lifeline – De-enrollment for non-usage] states:

> Notwithstanding paragraph (e)(1) of this section, if a Lifeline subscriber fails to use, as "usage" is defined in § 54.407(c)(2), for 60 consecutive days a Lifeline service that does not require the eligible telecommunications carrier to assess or collect a monthly fee from its subscribers, an eligible telecommunications carrier must provide the subscriber 30 days' notice, using clear, easily understood language, that the subscriber's failure to use the Lifeline service within the 30-day notice period will result in service termination for non-usage under this paragraph. If the subscriber uses the Lifeline service within 30 days of the carrier providing such notice, the eligible telecommunications carrier shall not terminate the subscriber's Lifeline service. Eligible telecommunications carriers shall report to the Commission annually the number of subscribers de-enrolled for non-usage under this paragraph. This de-enrollment information must be reported by month and must be submitted to the Commission at the time an eligible telecommunications carrier submits its annual certification report pursuant to § 54.416.

47 CFR 54.405(e)(3) has been amended four times, beginning on June 22, 2015, to change the non-usage requirement from 60 days to 30 days and to change the customer notice period from 30 days to 15 days.

<u>Recommendation</u>

We recommend that TruConnect:

- Reimburse the CPUC $233,830 for unallowable SSA reimbursements applicable to the examination period; and
- Improve its internal control procedures to ensure that it claims reimbursement of the SSA only for subscribers who qualified for the California LifeLine discount.

<u>TruConnect's Response</u>

> TruConnect respectfully objects to the recommendation that…TruConnect reimburse the CPUC $251,568. As discussed in response to Finding 1, TruConnect has already implemented internal system controls to ensure [that] it claims reimbursement only for eligible subscribers. The former chief architect that built the Conduent TPA system is now TruConnect's Chief Technology Officer [(CTO)].

With regard to point 1 (First Call Date after Approval Date), the TPA was responsible for failing to establish the subscriber eligibility approval dates correctly due to a TPA system problem known by the CPUC, Conduent and ETCs [Eligible Telecommunications Carriers] during the audit period. It is important to note the role that TruConnect vs. the TPA plays in determination of the approval date. During the audit period, as well as currently, the TPA generates the final approval date and determines when a customer is included in the WAR [system]. The WAR [system] does not list first call or eligibility approval dates. TruConnect submits first call data to the TPA, and it is the TPA's role to establish the final approval date based on the latter of the first call vs. TPA approval dates. It is well-known by carriers and CPUC alike that the TPA had system issues during the audit period such that the default approval date was the TPA approval date, despite first call information provided by the carriers.

TruConnect should not be held responsible for TPA system errors or Conduent not providing the WAR [system] information correctly based on the first call data provided by TruConnect. During this audit period, of the subscribers that are included in the $155,433 costs incurred before the final approval date, many subscribers had a difference of only 1 day to a few days:

1 Day – 11,022
2 Days – 6,065
3 Days – 5,345
4 Days – 5,374
5 Days – 5,192
+ 6 Days – 17,139

[Furthermore], SCO did not include the call detail records (CDR) that show…first call and last call dates that are different [from] what appears in the BeQuick billing system. On July 10, 2018, TruConnect was informed that the SCO analysis was almost complete and provided an additional subscriber list to provide billing information. On [Tuesday], July 17, 2018 we received a new data request, and then on August 15, 2018 TruConnect was requested to provide all billing information and WAR [system] data for all wireless subscribers during the Audit period. SCO originally requested billing data, and without knowing the purpose of the data, TruConnect simply provided information from its billing system. Knowing now that the purpose was to identify customer usage information and first/last call dates, TruConnect would have provided (and did, as a supplement) CDR information from underlying carriers rather than data from the billing system, as TruConnect knew that for the audit time period, CDRs were more accurate (hence the overhaul of the billing system, [as discussed in our response to Finding 1])….

We worked directly with our underlying carriers, T-Mobile and Sprint, to collect and reconcile this data. TruConnect made a significant investment over the last two years so that its now fully-built BI platform in the cloud allows us to take full control over subscriber information and to process all call activity in real time. TruConnect believes that the subscriber logs received from our carriers are more accurate than what was captured (or potentially missed) from our billing system at the time.

- 41,003 first voice call records were provided
- 1,544 last voice call records were provided

> With regard to Points 2 and 3 ([subscribers] remain in WAR [system] after non-use or disconnection), SCO used the wrong subscriber telephone number (TN) for half of the [subscribers] impacted by Last Call Date analysis for disconnects between 61-90 Days. TruConnect performed our own investigation on the subscribers the SCO identified as “Last Call Date – Disconnect Date < 60 days,” and identified that TruConnect sent a disconnect request to the TPA for over 75% of instances, within 60 days after the subscriber’s last call.
>
> This indicates that the TPA did not process the updates sent by TruConnect and as a result, the TPA kept these subscribers on the WAR [system]. Given this track record, it is quite possible (and more likely) that TruConnect sent timely disconnect requests in all cases, which the TPA failed to process. To reiterate, Conduent generates the WAR [system], not the ETC, and if the ETC does not agree completely with the WAR [system], it cannot process the claim to receive reimbursement. TruConnect should not be held accountable for the TPA’s failure to process disconnect requests.

SCO Comment

We revised the finding amount related to Objective 6 from $155,433 to $137,695, a reduction of $17,738. Subsequent to issuance of the draft report, TruConnect provided additional information showing that some of the subscribers listed in the WAR system reports were actually wireline customers. TruConnect also provided revised first call dates for some subscribers based on data obtained from its underlying wireless carriers.

In its response, TruConnect expressed its belief that the TPA is primarily responsible for the departures from regulations that we identified during the engagement. However, we are unable to verify this assertion, as we do not have data from the TPA or access to its records. We discussed this issue with TruConnect representatives after issuing the draft report. They agreed that TruConnect will need to work with the CPUC to resolve these findings after we issue the final report.

FINDING 3— Shared internal control deficiency – Identifying multiple subscribers at the same service address (Objective 2)

Condition

During our examination of TruConnect’s internal controls, we found instances of duplicate subscribers at the same service address receiving California LifeLine benefits.

Although TruConnect had formal internal control procedures in place to ensure that it allowed only one California LifeLine benefit for each economic unit (household), our testing indicated that the carrier did not consistently follow through with the CLA to ensure compliance with California LifeLine requirements. In its response to the draft audit report, TruConnect asserted that only the CLA bears responsibility for the issues surrounding this finding.

Effect

TruConnect and the CLA may have allowed unqualified applicants to become California LifeLine subscribers. This may have caused an overstatement of weighted averages and reimbursements received by TruConnect from the Fund during the examination period.

Cause

TruConnect used the CGM Platform (Data Processing Services) to enroll potential subscribers. The system has built-in edit checks to identify applicants currently receiving a California LifeLine benefit at an address that already exists in the subscriber database. The system then communicates this information to the CLA.

The CLA's responsibility is to review all applications, determine California LifeLine eligibility, and block possible duplicate accounts from receiving California LifeLine discounts. The CLA generates a Head of Household Worksheet (HHWS) when its system identifies an address that is already in use by another subscriber. However, the CLA stated that it does not review completed forms for content or qualifications, but only verifies that they have signatures. The CLA does not rely on subscribers' answers to the questions on the HHWS when verifying addresses to prevent carriers from providing the California LifeLine discount to more than one economic household at the same service address. We discussed this issue with the CPUC, and noted that the CPUC should consider adopting more robust policies and procedures for the CLA to use in preventing one economic household from receiving more than one California LifeLine benefit.

We reviewed a report provided by the CLA for January 2016 containing the names and addresses of TruConnect's 250,693 subscribers for that month. Our review identified 96 groups of subscribers receiving at least five California LifeLine discounts at the same service address, ranging in size from five to 215 subscribers. We selected 16 of the 96 groups for testing, consisting of 98 individual subscribers. We requested copies of the HHWS from the CLA to determine whether each subscriber correctly filed an HHWS. We found that 21 of these subscribers (21%) did not correctly complete an HHWS.

Our review also identified 26 residential addresses with 10 or more subscribers. We reviewed these instances to determine whether there was a reasonable explanation for multiple subscribers at the same service address, such as an office or business assisting low-income individuals, a homeless shelter, or retirement center. However, we noted one instance of 14 subscribers at the same three-bedroom, two-bath home in a residential neighborhood.

Criteria

CPUC GO 153 sections 5.1.7 through 5.1.9, state that no member of a subscriber's family, residence, or household who resides with the subscriber is eligible for California LifeLine benefits. A subscriber is only eligible to receive two California LifeLine lines if:

- The subscriber meets all California LifeLine eligibility criteria;
- A member of the subscriber's household is disabled, and has immediate and continuous access within the household to a Telecommunications Device for the Deaf (TTD); and

- The Deaf and Disabled Telecommunications Program issues the TTD or submits a medical certificate indicating the household member's need for a TTD.

All California LifeLine rules and regulations that apply to the one California LifeLine line must apply equally to the second California LifeLine line provided to a subscriber.

Recommendation

We recommend that TruConnect adopt additional procedures, as appropriate, to prevent multiple subscribers from receiving the California LifeLine discount at the same service address, unless they meet the requirements for receiving two California LifeLine lines.

In addition, we recommend that the CPUC consider strengthening existing procedures for the CLA's role of preventing multiple subscribers at the same service address, and reviewing HHWS forms for proper completion.

TruConnect's Response

> TruConnect cannot be held responsible for functions performed by the California Third Party Administer. For California…Conduent (formerly part of Xerox, State and Local Solutions, Inc.) performs eligibility and verification determinations for all prospective Lifeline subscribers. Per the FCC's approval of the CPUC waiver request as [a National Lifeline Accountability Database] Opt-Out state, it is the responsibility of the TPA to verify not only the eligibility of all California LifeLine subscribers, but also to check for duplicates using the same address and, if necessary, generate a One-Per-Household Form to the extent [that] applicants are part of a different household (or economic unit) at the same address. As an ETC, and in accordance with California LifeLine requirements, TruConnect, via the CGM [extended capability port], passes the prospective subscriber's information via API to Conduent, which verifies whether the subscriber resides at an address already receiving California Lifeline service. If Conduent identifies the address provided as already receiving a California LifeLine subsidy, it generates a One-Per-Household worksheet, provided via [application programming interface/digital analytics program], which the prospective subscriber must complete to determine whether or not [he or she comprises a different economic unit]. The prospective subscriber must complete the One-Per-Household form to complete the California LifeLine enrollment process. It is Conduent's [responsibility] to review all application documents, including the One-Per-Household form, and to determine…California LifeLine eligibility [for all subscribers].
>
> TruConnect must rely on the TPA for duplicate detection, as TruConnect only has [access to] its internal database (which the CGM process does check for duplicates), and no [ability] otherwise to know if the applicant's household is receiving service from another ETC. TruConnect is required to provide service to applicants which the TPA [deem] eligible for Lifeline support.
>
> TruConnect was in compliance with CPUC and FCC rules during the audit period and remains in compliance. CPUC rules permit only 2 discounts per household (the 2nd in the case of TTD user), however, "household" is determined by persons as part of the same economic unit,

> and thus there can be multiple households at the same address, each [eligible for] up to 2 discounts. This is exactly what the TPA is condoning by approving applicants at the same address that provide a One-Per-Household form.
>
> TruConnect agrees that the TPA should strengthen its processes to prevent duplicates, including more thorough review of the One-Per-Household form.

SCO Comment

We revised the wording of the finding and recommendation to place more emphasis on the fact that this issue involves a shared responsibility between the wireless carrier and the CLA. We also changed the finding from an internal control deficiency affecting only TruConnect to a shared internal control deficiency involving TruConnect and the CLA.

We discussed this finding during a teleconference shortly after we issued the draft report. During our discussion, we agreed that ETCs and the CLA have a joint responsibility to ensure compliance with applicable requirements regarding subscriber eligibility to receive California LifeLine benefits, especially when ETCs benefit economically from having subscribers who are ineligible to receive benefits included in the WAR system.

TruConnect states in its response that it cannot "know if the applicant's household is receiving service from another ETC." However, the issue that we identified involves multiple subscribers receiving California LifeLine benefits from the *same* ETC, which in this instance is TruConnect.

FINDING 4— Shared internal control deficiency – Identifying and removing inactive California LifeLine subscribers (Objective 3)

Condition

During our examination of TruConnect's internal controls, we found instances in which TruConnect subscribers who were no longer eligible to receive California LifeLine benefits due to inactivity remained in the WAR system. TruConnect had internal control procedures to ensure that it reported inactive subscribers to the CLA and removed them from California LifeLine after it detected 60 consecutive days of non-usage, notified the subscriber, and the subscriber continued such non-usage during a 30-day notice period. However, our testing indicated that the carrier did not consistently follow through with the CLA to ensure compliance with applicable federal requirements.

Effect

TruConnect and the CLA did not consistently identify and disconnect subscribers who no longer qualified for the California LifeLine discount. Failure to remove inactive subscribers from California LifeLine allowed them to remain in the CLA's WAR system. This may have caused an overstatement of weighted averages and reimbursements received by TruConnect from the Fund during the examination period. In addition, our testing for Objective 16, as identified in Finding 2, revealed improper reimbursements for subscribers no longer eligible for California LifeLine.

Cause

TruConnect representatives explained that its wholesale wireless providers transmit daily call detail records. These call records are then uploaded to its billing system, "BeQuick." The billing system contains various system controls and automatically notifies customers of the loss of California LifeLine benefits due to non-usage. According to TruConnect representatives, the billing systems automatically removes subscribers that do not respond by 60 days after the last usage date. However, our testing revealed that the system allowed subscribers who did not meet usage requirements to remain in California LifeLine.

We tested the billing system's process for disconnecting subscribers who did not use California LifeLine services for 90 continuous days. We selected a sample of 100 inactive subscribers from the CLA's January 2016 TrueUp Report for TruConnect subscribers and found that the carrier removed 88 of the 100 inactive subscribers from the WAR system within 90 days of their last call date.

We could not complete this test for 12 of the subscribers for the following reasons:

- Three of the subscribers did not have an account number matching the telephone number in the WAR system;
- Three of the subscribers had no last call date, or the last call date was after the disconnection date;
- Four of the subscribers appeared as "active" in the June 2016 WAR system report;
- One subscriber had a disconnection date outside of the examination period; and
- One subscriber had different account numbers and addresses associated with the same telephone number.

Criteria

47 CFR 54.405(e)(3) [Carrier Obligation to Offer Lifeline – De-enrollment for non-usage] states:

> Notwithstanding paragraph (e)(1) of this section, if a Lifeline subscriber fails to use, as "usage" is defined in §54.407(c)(2), for 60 consecutive days a Lifeline service that does not require the eligible telecommunications carrier to assess and collect a monthly fee from its subscribers, an eligible telecommunications carrier must provide the subscriber 30 days' notice, using clear, easily understood language, that the subscriber's failure to use the Lifeline service within the 30-day notice period will result in service termination for non-usage under this paragraph. If the subscriber uses the Lifeline service within 30 days of the carrier providing such notice, the eligible telecommunications carrier shall not terminate the subscriber's Lifeline service. Eligible telecommunications carriers shall report to the Commission annually the number of subscribers de-enrolled for non-usage under this paragraph. This de-enrollment information must be reported by month and must be submitted to the Commission at the time an eligible telecommunications carrier submits its annual certification report pursuant to §54.416.

As previously mentioned, 47 CFR 54.405(e)(3) has been amended to change the non-usage requirement from 60 days to 30 days and to change the customer notice period from 30 days to 15 days.

Recommendation

We recommend that TruConnect either strengthen existing procedures or adopt additional procedures to prevent claiming reimbursement for ineligible subscribers.

TruConnect's Response

> As noted in [our] response to Finding 2, TruConnect did send disconnection requests to the TPA, and the TPA did not process the updates in the WAR [system]. To reiterate, Conduent generates the WAR [system], not the ETC, and if the ETC does not agree completely with the WAR [system], it cannot process the claim to receive reimbursement. TruConnect should not be held accountable for the TPA's failure to process disconnect requests.

SCO Comment

We revised the wording of the finding and recommendation to place more emphasis on the fact that this issue involves a shared responsibility between the wireless carrier and the CLA. We also changed the finding from an internal control deficiency affecting only TruConnect to a shared internal control deficiency involving TruConnect and the CLA.

We discussed this finding during a teleconference with TruConnect representatives shortly after we issued the draft report. During our discussion, we agreed that ETCs and the CLA have a joint responsibility to ensure compliance with applicable requirements regarding subscriber eligibility to receive California LifeLine benefits, especially when ETCs benefit economically from having subscribers who are ineligible to receive benefits included in the WAR system.

FINDING 5— Internal control deficiency – Unapproved service plans (Objective 12)

Condition

TruConnect offered two service plans that the CPUC did not approve. These two plans were:

- LifeLine Unlimited Talk, Text, and 100MB data; and
- LifeLine Unlimited Talk, Text, and 500MB data.

The CPUC confirmed that TruConnect did not request approval for additional plan types during the engagement period. TruConnect acknowledged offering these plans during the engagement period and noted that it had provided the plans at no cost to subscribers. We are not aware of any formal procedures that TruConnect has in place to ensure that the CPUC has approved all plans before offering them to California LifeLine subscribers.

Effect

TruConnect violated CPUC regulations by providing two wireless plans to California LifeLine subscribers during the examination period that the CPUC did not approve.

Cause

TruConnect did not file the required Tier 2 advice letter with the CPUC before offering the two wireless plans identified above to California LifeLine subscribers.

Criteria

CPUC Rulemaking D. 14-01-036, OP 24 states, in part, that all California LifeLine providers must:

> a) Obtain Commission authorization to offer and provide California LifeLine service.
>
> b) File advice letter with tariff(s) or schedule of rates and charges with the Communications Division…

OP 24, section b.ii., also states that "Holders of a Wireless Identification Registration with an Eligible Telecommunications Carrier designation, shall file a Tier 2 advice letter."

Recommendation

We recommend that TruConnect strengthen its existing policies to ensure that the CPUC has pre-approved all plans offered to California LifeLine subscribers.

Carrier's Response

> TruConnect does have formal written procedures explaining the requirement to file a Tier 2 advice letter for CPUC approval of plan changes. TruConnect had some employee turnover during the audit period, and the failure to file plan changes must have been an oversight by the TruConnect staff members [who] were responsible for following our internal process of getting new plans approved by the CPUC before offering these plans to consumers. The staff members in question are no longer with TruConnect, and the CPUC compliance policies have been discussed with all current employees. As an added control measure, TruConnect has engaged legal services as well as a third-party compliance organization that are experts in LifeLine rules and regulations to ensure plans are approved by the CPUC before new plans are offered.

SCO Comment

Our finding remains unchanged. We revised the wording of the recommendation to state that the carrier should strengthen its existing policies, rather than maintain formal policies.

FINDING 6—Interest due for over-claimed California LifeLine support (Objective 4)

Condition

During our examination, we found instances in which TruConnect over-claimed California LifeLine support. These instances totaled $245,467, as described in Finding 1 ($11,637) and Finding 2 ($233,830) of this report. As a result of these findings, accumulated interest totaling $14,705 is also due to the Fund. We based our interest calculations on interest rate information obtained from the website of the Board of Governors of the Federal Reserve System.

Effect

To the extent that our examination revealed that the CPUC overpaid TruConnect during the examination period, interest is due to the Fund from the date(s) that payments were made to the examination report date based on the Three-Month Commercial Paper Rate. Based on the examination results, we found that such accumulated interest totals $14,705.

Cause

Our examination disclosed over-claimed California LifeLine support totaling $245,467. In accordance with applicable CPUC regulations, we calculated applicable interest due from the date of payment to the engagement report date.

Criteria

GO 153, section 13.4 states:

> 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,…

Recommendation

We recommend that TruConnect reimburse the CPUC $14,705 for interest due based on overpaid California LifeLine support during the examination period.

OTHER ISSUE—Reimbursements not received from the CPUC

In its response dated June 27, 2019, TruConnect provided additional comments primarily related to costs incurred and not reimbursed by the CPUC for new connection charges and system migration costs.

Carrier's Response

> Both TruConnect and the TPA have made significant system improvements since the 2015-2016 audit period. TruConnect's current CTO worked for Conduent during the time period in question, and has first-hand knowledge of Conduent's system shortfalls at the time; however, the TPA issues were also widely known among carriers participating in the program, and by CPUC staff. It is impossible to know whether or not the audit findings were a result of TruConnect system errors or TPA system errors, and therefore TruConnect should not be penalized.

> [Furthermore,] CPUC owes TruConnect $15 million for connection charge reimbursements unlawfully disabled by the CPUC from July 1st – December 24th, 2015 when the California LifeLine Fund ran out of money. On June 24, 2015, Communications Division staff ("CD Staff") announced during a routine conference call to discuss the California Lifeline program that the $39.00 LifeLine activation/connection fee reimbursement would be discontinued as of July 1, 2015 despite the fact that every California LifeLine wireless service plan offered in California was structured and approved by CD Staff with the additional $39 LifeLine subsidy envisioned, based on the understanding that these revenue streams would be continuing unless the Commission in a further phase of proceeding [Resolution] 11-03-013, after parties had been given notice and an opportunity to comment, determined that particular support payments should be discontinued or otherwise revised. Pursuant to Public Utilities Code § 1708, the Commission may revise a decision at any time. However, before doing so, it must provide "notice to the parties, and . . . an opportunity to be heard as provided in the case of complaints . . . ." This did not occur, and thus CD Staff's cessation of reimbursement for activation charges was not lawful. The activation/connection fee reimbursement was not reinstated until effective December 24th, 2015 by [Administrative Law Judge] Ruling, and was limited to twice annually per household (as opposed to every activation) going forward. TruConnect was never reimbursed for the activation costs incurred July 1st – December 23rd 2015.
>
> In addition, TruConnect has never been reimbursed for implementation costs for the labor hours expended by TruConnect to migrate the CPUC to the Conduent TPA, and more recently to the Maximus TPA. Any appropriate reimbursement amounts from the audit report should be overlooked, waived, or used to offset the money owed to TruConnect by [the] CPUC.

<u>SCO Comment</u>

These issues are not directly related to the findings contained in our examination report, nor do we have information available to verify the accuracy of TruConnect's statements. TruConnect will need to work with the CPUC to resolve these issues.

Appendix A— List of Records Examined July 1, 2015, through June 30, 2016

<u>Objective 1</u>

- CGM's Real-Time Review Web Portal Training Tool for TruConnect Sales Agents (obtained from TruConnect)
- Reimbursement Claims for July 1, 2015, through June 30, 2016 (obtained from the California Public Utilities Commission [CPUC])
- California Wireless LifeLine Service and CGM Order Entry Training – Tablet Version (obtained from Telscape Communications, Inc. dba TruConnect [TruConnect])
- Agent Training Log (obtained from TruConnect)
- System overview documents including daily upload and return files (obtained from TruConnect)
- January 2016 Monthly TrueUp Report (obtained from the California LifeLine Administrator [CLA])
- California LifeLine Program Renewal Forms for selected subscribers (obtained from the CLA)
- Fifteen subscriber enrollment packages (obtained from TruConnect). These packages included the subscribers':
    - Enrollment application;
    - Photo ID;
    - Proof of eligibility; and
    - Usage reports for July 1, 2015, through June 30, 2016.

<u>Objective 2</u>

- TrueUp Reports for July 1, 2015, through June 30, 2016 (obtained from the CLA)
- Head of Household Worksheets for selected subscribers (obtained from the CLA)

<u>Objective 3</u>

- TrueUp Reports for July 1, 2015, through June 30, 2016 (obtained from the CLA)
- Billing Note Codes (obtained from TruConnect)
- Screen prints from BeQuick billing system showing usage/status for selected subscribers (obtained from TruConnect)
- Usage reports, including detailed Weighted Average Reports (WAR) system information for July 1, 2015, through June 30, 2016 (obtained from TruConnect)
- Detailed WAR system report for July 1, 2015, through June 30, 2016 (obtained from the CLA)

<u>Objective 4</u> – N/A

<u>Objective 5</u>

- New Connection Reports for January 1, 2016 through June 30, 2016 (obtained from the CLA)
- First call dates for all subscribers included in the WAR system for the examination period (obtained from TruConnect)

Appendix A (continued)

Objective 6

- First call dates and detailed WAR system data for all subscribers included in the WAR system for the examination period (obtained from TruConnect)
- Detailed WAR system report for July 1, 2015, through June 30, 2016 (obtained from the CLA)

Objectives 7 and 8

- Reimbursement Claims for July 1, 2015, through June 30, 2016 (obtained from the CPUC)
- Summary WAR system report for July 1, 2015, through June 30, 2016 (obtained from the CLA)
- Detailed WAR system report for July 1, 2015, through June 30, 2016 (obtained from CLA)
- New Connection Reports for January 1, 2016, through June 30, 2016 (obtained from the CLA)

Objectives 9 and 10 – N/A

Objective 11

- Monthly Cost Study for July 2015 and January 2016 (provided by TruConnect) that included the following expense categories:
    - Data Processing
    - Customer and Subscriber Notifications
    - Accounting
    - Service Representative and Real-Time Review Costs
    - Legal/Regulatory Services
- Reimbursement Claims, specifically lines 6 and 7, for July 1, 2015, through June 30, 2016 (obtained from the CPUC)
- General Ledger (obtained from TruConnect)

Objective 12

- List of rate plans approved by the CPUC for TruConnect during the examination period of July 1, 2015, through June 30, 2016 (obtained from the CPUC)
- TruConnect Advice Letter approved by the CPUC for the examination period of July 1, 2015, through June 30, 2016 (obtained from TruConnect)

Objectives 13, 14, and 15 – N/A

Objective 16

- Last call dates, disconnection dates and detailed WAR system data for all subscribers included in the WAR system for the examination period (obtained from TruConnect)

Objective 17 – N/A

Appendix B—
Summary of Engagement Procedures
July 1, 2015, through June 30, 2016

Engagement Objectives and Criteria	Engagement Procedures	
Objective 1 – Determine whether the wireless carrier included in its claims only those subscribers who were approved by the California LifeLine Administrator (CLA) as meeting the eligibility criteria for obtaining and retaining California LifeLine benefits. (California Public Utilities Commission's [CPUC] General Order [GO] 153, section 5 [Eligibility Criteria for Obtaining and Retaining California Lifeline])	<u>Internal Control Testing</u> – Document the carrier's process to ensure subscriber eligibility and detect/prevent ineligible subscriptions. Select a sample of active subscribers and test controls.	<u>Substantive Testing</u> – Identify subscribers with renewal dates within the examination period and verify that they were appropriately renewed/recertified. Determine impact of subscribers incorrectly remaining active.
Objective 2 – Determine whether the wireless carrier had effective monitoring controls in place to identify obvious instances of incorrectly claiming reimbursement for costs of providing the California LifeLine discount to more than one economic household at the same address. (CPUC's GO 153, section 5.1.7 [Eligibility Criteria for Obtaining and Retaining California LifeLine])	<u>Internal Control Testing</u> – Document carrier's process for detecting/preventing more than one eligible subscriber at the same service address. Use third-party administrator reports to identify five or more subscribers at the same address and test for properly filed Head of Household Worksheets. Identify any egregious exceptions found.	<u>Substantive Testing</u> – None
Objective 3 – Identify and document the internal control processes used by the wireless carrier to ensure timely compliance with California LifeLine Program requirements for disconnecting inactive accounts and subscribers. (Title 47 of the U.S Code of Federal Regulations, section 54.405(e)(3) [Carrier Obligation to Offer Lifeline – De-enrollment for non-usage])	<u>Internal Control Testing</u> – Document carrier's process for ensuring that active subscribers meet usage requirements and inactive subscribers are removed from calculations of the weighted average number of subscribers. Test carrier's process for disconnecting inactive subscribers.	<u>Substantive Testing</u> – None
Objective 4 – If the engagement reveals overclaimed amounts of California LifeLine support from the California LifeLine Fund, then describe each occurrence, state the overclaimed amount, and calculate interest from the date of payment to the issuance date of the final engagement report. [CPUC's GO 153, section 13.4 [Audits and Records])	<u>Internal Control Testing</u> – None	<u>Substantive Testing</u> – Determine interest owed on any overclaimed amounts from the date(s) that payment was made by the CPUC.

Appendix B (continued)

Engagement Objectives and Criteria	Engagement Procedures	
Objective 5 – Determine the fiscal effect for the examination period of incorrectly claiming reimbursement of $39 from the Fund for connection or conversion charges of California LifeLine subscribers who failed to qualify for, or were removed from, California LifeLine. (CPUC's Rulemaking Decision [D.] 14-01-036, Conclusion of Law No. 41)	<u>Internal Control Testing</u> – None	<u>Substantive Testing</u> – Review new connection reports and identify qualifying subscribers. Request the first call date for these subscribers. For those subscribers that did not make a first call, determine the impact on the claims filed.
Objective 6 – Determine the fiscal effect for the examination period of incorrectly claiming reimbursement for the discount applicable to the pre-paid telephone service before the later of the date of approval notification or the date that California LifeLine service was activated. (CPUC's Rulemaking D. 14-01-036, section 4.19 [Prequalification Exemption for Pre-Paid Wireless Telephone Services], and Conclusion of Law No. 41)	<u>Internal Control Testing</u> – None	<u>Substantive Testing</u> – Compile a list of all unique subscribers from the examination period's Weighted Average Reports (WAR) system data. Compare the first call date to the approval date and determine which is later. Calculate the correct weighted average for the month based on the later date and determine any overages. Also calculate all weighted average amounts claimed prior to the determined latest date. Calculate the overage amounts and impact on filed claims.
Objective 7 – Determine whether the wireless carrier correctly claimed reimbursement for providing the California LifeLine discount on recurring charges. (CPUC's Rulemaking D. 14-01-036, Ordering Paragraphs [OP] 7 and 8, and Specific Support Amount Administrative Letter dated October 26, 2015)	<u>Internal Control Testing</u> – Document carrier's process for preparing reimbursement claims. Review all claim forms for the examination period to verify that all required elements were properly completed.	<u>Substantive Testing</u> – Determine whether the carrier correctly claimed reimbursement for providing the California Lifeline discount for recurring charges.
Objective 8 – Determine whether the wireless carrier correctly claimed reimbursement of $39 per subscriber for providing the California LifeLine discount on connection and activation charges. (CPUC's Rulemaking D. 14-01-036, OP 10)	<u>Internal Control Testing</u> – None	<u>Substantive Testing</u> – Determine whether the carrier claimed reimbursement of $39 for connection and activation charges only for subscribers that made a first call.

Appendix B (continued)

Objective 9 – Determine whether the wireless carrier incorrectly claimed reimbursement for the public-purpose California LifeLine surcharges, CPUC user fee, federal excise tax, local franchise taxes, and State 911 tax on subscribers' intrastate California LifeLine Program billing, which California LifeLine subscribers were exempt from paying. (CPUC's Rulemaking D. 14-01-036, section 4.12 [Taxes and Surcharge Exemption, page 85], and CPUC's GO 153, section 8.1.9 [California Lifeline Rates and Charges])	Internal Control Testing – This test is N/A for TruConnect.	Substantive Testing – This test is N/A for TruConnect.
Objective 10 – Determine whether the wireless carrier paid the appropriate taxing authorities the applicable taxes, fees, and surcharges reimbursed from the Fund if it received reimbursement from the Fund for federal excise tax, local taxes, fees, and surcharges pertaining to the California Lifeline discount and if it claimed that it had paid these taxes, fees, and surcharges on behalf of its California LifeLine subscribers. (CPUC's GO 153, section 8.1.9.2 [California Lifeline Rates and Charges])	Internal Control Testing – This test is N/A for TruConnect.	Substantive Testing – This test is N/A for TruConnect.
Objective 11 – Determine whether the wireless carrier claimed reimbursement for administrative expenses that were clearly not incremental expenses. (CPUC's Rulemaking D. 14-01-036, section 4.4 [Monthly Service Rate Caps and Maximum Monthly Reimbursement Amounts for California Lifeline Wireline], Footnote 22 and the CPUC's Rulemaking D. 10-11-033, OP 18)	Internal Control Testing – If the carrier claimed incremental administrative expenses, determine the process for claiming such expenses. Ask the carrier to list what it considers to be administrative costs and compare to CPUC guidelines for qualified administrative expenses	Substantive Testing – Confirm that the carrier claimed allowable or actual incremental administrative costs. Select a sample of claims and review documentation from the carrier to determine whether administrative expenses claimed are reasonable and appropriate. If not, compare the calculated cost per subscriber to the claimed amount and determine the impact on claims filed.
Objective 12 – Determine whether the wireless carrier offered plans approved by the CPUC. (CPUC's Rulemaking D. 14-01-036, section 4.7 [Comparing the Current California LifeLine Program and the Next Stage California LifeLine Program Adopted in the Decision]; OP 18; and OP 24, subparagraph [b][iii])	Internal Control Testing – Obtain from the CPUC a list of all plans approved for the wireless carrier for the examination period and obtain from the wireless carrier a list of all plans offered to subscribers during the examination period. Compare the two lists and note any discrepancies.	Substantive Testing – None

Appendix B (continued)

Engagement Objectives and Criteria	Engagement Procedures	
Objective 13 – Determine whether the wireless carrier correctly provided a discount on its nonrecurring service connection charge for the initial activation of a single wireless telephone connection for approved California LifeLine subscribers (CPUC's Rulemaking D. 14-01-036, Conclusions of Law Nos. 29 and 41; and CPUC's GO 153, section 8.1.1 [California LifeLine Rates and Charges])	Internal Control Testing – This test is N/A for TruConnect.	Substantive Testing –This test is N/A for TruConnect.
Objective 14 – Determine whether, before providing the California LifeLine discount, the wireless carrier charged the same nonrecurring and recurring service rates for both California LifeLine subscribers and other retail customers. (CPUC's GO 153, section 8.4 [California Lifeline Rates and Charges])	Internal Control Testing – This test is N/A for TruConnect.	Substantive Testing –This test is N/A for TruConnect.
Objective 15 – Determine whether the wireless carrier correctly provided discounts for recurring charges on its qualifying wireless telephone service plans for California LifeLine subscribers. (CPUC's Rulemaking D. 14-01-036, section 4.10 [California LifeLine Wireless Reimbursement Amounts and Methodology])	Internal Control Testing – This test is N/A for TruConnect.	Substantive Testing –This test is N/A for TruConnect.
Objective 16 – Determine the fiscal effect for the examination period if the wireless carrier did not disconnect subscribers with inactivity (no service used) during a consecutive 60-day period, who were notified of such non-usage, and who failed to use California LifeLine services during the 30-day notice period. (47 CFR 54.405(e)(3) [Carrier Obligation to Offer Lifeline – De-enrollment for non-usage])	Internal Control Testing – None	Substantive Testing – Using the monthly WAR system reports, identify all subscribers with a disconnection date more than 90 days after their last call date. Recalculate the correct WAR system amount for these subscribers and determine any overages based on the amounts claimed. Calculate the total for all subscribers and determine the impact on filed claims.
Objective 17 – Determine whether the wireless carrier incorrectly charged California LifeLine subscribers for the public-purpose program surcharges, CPUC user fee, federal excise tax, local franchise taxes, and State 911 tax on subscribers' intrastate California LifeLine billing, which California LifeLine subscribers were exempt from paying. (CPUC's Rulemaking D. 14-01-036, Conclusion of Law No. 32)	Internal Control Testing – This test is N/A for TruConnect.	Substantive Testing –This test is N/A for TruConnect.

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