

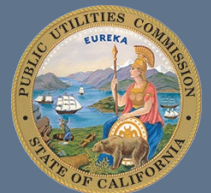


CALIFORNIA LIFELINE PROGRAM PERFORMANCE AUDIT

AmeriMex Communications Corp., dba SafetyNet
Wireless (U-4458-C)

July 1, 2019, through June 30, 2020

Utility Audits, Risk and Compliance Division
Utility Audits Branch
June 10, 2022



MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

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**You can contact our office at:
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PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
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Transmitted via e-mail

June 10, 2022

Mr. Stephen Klein, CEO
AmeriMex Communications Corp, dba SafetyNet Wireless
100 Main Street Suite 304
Safety Harbor, FL 34695

Dear Mr. Klein:

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

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

Our audit disclosed no findings requiring a response and therefore, we are issuing the report as final. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

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

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: Ken King, Operations Manager, SafetyNet Wireless
Jeff Matthews, IT Manager, SafetyNet Wireless
Rachel Peterson, Executive Director, CPUC
Alice Reynolds, President, Office of the Commission, CPUC
Robert Osborn, Director, Communication Division, CPUC
Masha Vorobyova, Assistant Director, UAB, CPUC
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TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
AUDIT REPORT	2
Background.....	2
Audit Authority.....	3
Objective and Scope.....	3
Methodology.....	4
Conclusion.....	7
Follow-up on Prior Audit Findings.....	7
Views of Responsible Officials	7
Restricted Use.....	7

EXECUTIVE SUMMARY

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

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

Based on the procedures performed, samples tested, and evidence gathered, we found that AmeriMex's California LifeLine program claims for reimbursement totaling \$40,613,227 were accurate, properly supported, for eligible consumers, and for allowable costs and activities, in compliance with applicable criteria as outlined above for the audit period of July 1, 2019, through June 30, 2020.

AUDIT REPORT

Background

California LifeLine Program

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

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

Third-Party Administrator

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

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

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

AmeriMex Communications Corp. dba SafetyNet Wireless (AmeriMex)

AmeriMex was founded in 1998 in Atlanta, Georgia. AmeriMex started out as a distributor of long-distance calling cards. The company then became what is known as a Competitive Local Exchange Carrier and started to provide residential telephone service. The residential telephone service became the company's primary product and AmeriMex steadily expanded over the course of several years. AmeriMex does business as SafetyNet Wireless. SafetyNet operates in several states, including California, to offer prepaid wireless services as well as wireless service subsidized by the federal Lifeline program and state programs where applicable. When an AmeriMex consumer qualifies for LifeLine, they will receive a free phone, plus free talk, text, and data every month, depending on the state and qualifying plan.

AmeriMex claimed and was reimbursed a total of \$40,613,227 in subsidy from the California LifeLine Fund in the audit period of July 1, 2019, through June 30, 2020, for subscribers ranging approximately between 170,000 and 205,000 per month. Expenses claimed for reimbursement are based on specific service recovery cost categories as shown in the table below:

Service Recovery Cost Categories	Amounts Claimed
Allowable SSA Federal and CA	\$ 30,163,734
Allowable SSA CA-only eligibility	873,566
Connection Charges Federal and CA	8,380,437
Connection Charges CA-only eligibility	124,449
Incremental Administrative Expenses	1,033,738
Implementation Costs	37,303
Total Claimed and Reimbursed	\$ 40,613,227

Audit Authority

The UAB conducted this audit under the general authority outlined in the PU Code sections 270–274, 314.5, 314.6, 581, 582, and 584. Furthermore, pursuant to CPUC's D.14-01-036, the CPUC directed the UAB to verify the California LifeLine program claims for the purposes of ensuring regulatory compliance of the LifeLine program.

Objective and Scope

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

The scope of our audit covered AmeriMex's LifeLine program claims from the California LifeLine Fund totaling \$40,613,227 for the audit period of July 1, 2019, through June 30, 2020. The scope did not include the TPA Maximus.

Methodology

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

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

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

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

- Reviewed applicable CPUC decisions, resolutions, orders, and advice letters to gain an understanding of the LifeLine program, including the eligibility criteria and claim filing process.
- Reviewed AmeriMex's background information including its policies and procedures to gain an understanding of the nature of the utility and its responsibility over the LifeLine program.
- Obtained an understanding of the TPA's weighted average reports (WAR) and connections reports which are provided to and used by Service Providers when submitting claims for reimbursement.
- Assessed significance by performing analyses of reimbursement claims data and evaluating program requirements.
- Obtained an understanding of AmeriMex's key internal controls relevant to the LifeLine program, such as reviewing the subscriber enrollment and eligibility processes, administrative expenses, and reimbursement claims, and assessed the design, implementation, and operating effectiveness of selected controls that are significant to the audit objective by:
 - interviewing key personnel and completing an internal control questionnaire;
 - reviewing AmeriMex's policies and procedures, and assessing their implementation pertaining to recording and reporting of LifeLine claims data;
 - performing walkthroughs of the subscriber enrollment system; and
 - tracing selected transactions to source documents.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.

- Analyzed and evaluated subscriber data information for three out of the twelve months by using data analytics tools to compare subscriber data for the audit period retrieved from the TPA's WAR and connections reports, and AmeriMex's customer data reports. In analyzing the subscriber data, we:
 - sorted subscriber information for the months of August 2019, January 2020, and April 2020 to identify any variances;
 - searched for duplicative information; and
 - used data analysis to assist in sample selection.
- Traced AmeriMex's claims for reimbursement for August 2019, January 2020, and April 2020 to the TPA's WAR and connections reports.
- Performed testing of the claimed Federal and California Allowable SSA and Connection Charges by judgmentally selecting a non-statistical sample of subscriber data included in the monthly claims for August 2019, January 2020, and April 2020, totaling the claimed amounts listed in the table below:

Months Tested	Allowable SSA Federal and CA	Connection Charges Federal and CA	Total
August 2019	\$ 2,595,227	\$ 989,586	
January 2020	2,290,923	1,179,087	
April 2020	<u>2,420,775</u>	<u>418,119</u>	
Total Evaluated	7,306,925	2,586,792	9,893,717
Total Claimed	<u>\$ 30,163,734</u>	<u>\$ 8,380,437</u>	<u>\$ 38,544,171</u>
% Evaluated	<u>24.22%</u>	<u>30.87%</u>	<u>25.67%</u>

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

- For the sampled subscriber information, we selected subscribers from the same sampled three months referenced above to perform the following:
 - validated LifeLine program eligibility for 156 subscribers by reviewing and verifying that each subscriber's LifeLine application and supporting documentation such as benefits identification card, or medi-cal card, met the eligibility criteria;

- validated AmeriMex’s eligibility to receive up to a maximum SSA or a prorated amount per month based on the claimed subscribers’ number of days active divided by a constant of 30 days;
 - verified the weighted average subscriber count AmeriMex claimed to compute the service connection/activation reimbursement rate to ensure it matched the number of subscribers included in the TPA’s connections report;
 - validated completed household worksheets for 15 subscribers with duplicate addresses to ensure they met the multiline consumer household eligibility; and
 - assessed whether 35 subscribers who were de-enrolled from the LifeLine program were removed in a timely manner based on the subscribers’ customer data reports.
- Performed testing of the claimed Incremental Administrative Expenses by judgmentally selecting a non-statistical sample of significant transactions for January 2020 and June 2020 as shown in the table below:

Months Tested	Incremental Administrative Expenses
January 2020	\$ 78,487
June 2020	93,173
Total Tested	171,660
Total Claimed	\$ 1,033,738
% Tested	<u>16.61%</u>

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

- For the sampled Incremental Administrative Expenses, we performed the following:
 - traced sampled transactions to supporting invoices to ensure amounts were accurate and properly supported; and
 - evaluated the administrative expenses claimed to ensure they were equal to the administrative rate allowable.

We did not audit AmeriMex’s financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that AmeriMex’s claims from the California LifeLine Fund were accurate, properly supported, for eligible consumers, and for allowable

costs and activities in accordance with the applicable criteria. We considered AmeriMex's internal controls only to the extent necessary to plan the audit and achieve our audit objective.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

Conclusion

Based on the procedures performed, samples tested, and evidence gathered, we found that AmeriMex's California LifeLine program claims were in compliance with applicable criteria as outlined above for the audit period of July 1, 2019, through June 30, 2020.

During the audit period, AmeriMex claimed and was reimbursed \$40,613,227 for the California LifeLine program. Our audit found that the amount was accurate, properly supported, for eligible consumers, and for allowable costs and activities.

Follow-up on Prior Audit Findings

We have not previously conducted an audit of AmeriMex's California LifeLine program claims.

Views of Responsible Officials

We discussed the audit results with AmeriMex's representatives at an exit conference held on April 21, 2022. At the exit conference, we stated that the final report will include the views of responsible officials. Because there were no audit findings requiring a response, we are issuing the report as final.

Restricted Use

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

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division