

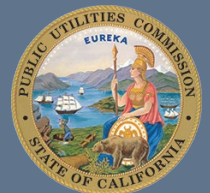


CALIFORNIA LIFELINE PROGRAM PERFORMANCE AUDIT

Pacific Bell Telephone Company dba AT&T California
and AT&T Corporation (U-1001-C and U-5002-C)

July 1, 2017, through June 30, 2021

Utility Audits, Risk and Compliance Division
Utility Audits Branch
December 20, 2023



MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

Sharmin Wellington, Program and Project Supervisor

Thong Thao, Lead

Cheryl Livingston, Staff

Tristesse Gaian, Staff

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You can contact our office at:

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

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

December 20, 2023

Marc Blakeman, President – AT&T California
Pacific Bell Telephone Company and AT&T Corporation
430 Bush Street, Suite 500
San Francisco, CA 94108

Dear Marc Blakeman:

Final Report Transmittal Letter—Audit of Pacific Bell Telephone Company dba AT&T California and AT&T Corporation’s California LifeLine Program for the period of July 1, 2017, through June 30, 2021.

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of Pacific Bell Telephone Company (Pacific Bell) and AT&T Corporation’s (AT&T Corp) California LifeLine program claims for the period of July 1, 2017, through June 30, 2021. The final audit report is enclosed.

Pacific Bell and AT&T Corp’s response to the draft report findings and our evaluation of the response are incorporated into this final report. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/AuditReportsbyIndustry).

Please provide a Corrective Action Plan (CAP) addressing the finding(s) and recommendation(s) by February 3, 2024, which is 45 days from the issuance of this final audit report. The CAP should include specific steps and target dates to correct the findings identified. Please submit the CAP to the Utility Audits Branch at UtilityAudits@cpuc.ca.gov.

We appreciate Pacific Bell and AT&T Corp’s assistance and cooperation during the engagement. If you have any questions regarding this report, please contact Sharmin Wellington, Supervisor, at (916) 928-9838.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page

Marc Blakeman, President – AT&T California
Pacific Bell Telephone Company and AT&T Corporation
December 20, 2023
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cc: Mark Berry, Director – AT&T Regulatory, Pacific Bell and AT&T Corporation
Rachel Peterson, Executive Director, CPUC
Kristin Stauffacher, Deputy Executive Director, Office of the Commission, CPUC
Robert Osborn, Director, Communication Division, CPUC
Brent Jolley, Program and Project Supervisor, Communication Division, CPUC
Chari Worster, Program and Project Supervisor, Communication Division, CPUC
Masha Vorobyova, Assistant Director, UAB, CPUC
Sharmin Wellington, Program and Project Supervisor, UAB, CPUC
Thong Thao, Senior Management Auditor, UAB, CPUC
Cheryl Livingston, Senior Management Auditor, UAB, CPUC
Tristesse Gaian, Associate Management Auditor, UAB, CPUC

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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the California LifeLine program's claims reported by Pacific Bell Telephone Company (Pacific Bell) and AT&T Corporation (AT&T Corp) for the audit period of July 1, 2017, through June 30, 2021.

Our audit objectives were to determine whether:

- A) Pacific Bell and AT&T Corp's claims from the California LifeLine Fund were accurate, properly supported, for eligible consumers, and for allowable costs and activities; and
- B) Pacific Bell and AT&T Corp applied the applicable California LifeLine discount, in accordance with General Order (GO) 153 sections 5 and 9, applicable Public Utilities (PU) Code sections, CPUC's Decisions (D.)14-01-036 and D.10-11-033, and other applicable California LifeLine program's rules, regulations, and requirements.

For audit objective A, based on the procedures performed, samples tested, and evidence gathered, we found instances of noncompliance with requirements. These instances are described in the Findings and Recommendations section of this audit report. The audit findings are summarized as follows:

- Finding 1: Pacific Bell and AT&T Corp overclaimed and was reimbursed \$1,169,368 (\$1,155,308 and \$14,060 for Pacific Bell and AT&T Corp respectively) from the California LifeLine Fund for approximately 21,089 subscribers for whom services were no longer being provided but were not timely disenrolled from the LifeLine program. In addition, the associated penalty interest incurred is approximately \$56,922 as of November 30, 2023.
- Finding 2: Pacific Bell and AT&T Corp have been exhibiting significant on-going data integrity issues, which continue to cause fundamental errors with subscriber enrollment, disenrollment, and reimbursements from the LifeLine Fund.
- Finding 3: Pacific Bell and AT&T Corp did not provide all supporting documentation requested. Therefore, we were unable to verify whether the claimed information was accurate.

For audit objective B, based on the procedures performed, samples tested, and evidence gathered, we determined that Pacific Bell and AT&T Corp applied the applicable California LifeLine discount in accordance with GO 153 sections 5 and 9, applicable PU Code sections, CPUC D.14-01-036 and D.10-11-033, and other applicable California LifeLine program's rules, regulations, and requirements for the audit period July 1, 2017, through June 30, 2021.

We issued a draft report on October 31, 2023. Pacific Bell and AT&T Corp responded by letter dated November 14, 2023, providing comments on each of the findings. Pacific Bell and AT&T Corp's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report and our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

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 services¹, 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 applies 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 CPUC's 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

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. CPUC contracted with Conduent as the TPA during the first year of our audit period. CPUC then contracted with Maximus as the TPA as of July 2018 for the remainder of 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.² In addition to qualifying and verifying continued eligibility of California LifeLine subscribers, Maximus collected, maintained,

¹ CPUC's D.22-10-021 amended the surcharge methodology effective April 1, 2023, to assess, collect, and remit California's Public Purpose Program surcharges pursuant to the access line flat rate surcharge mechanism.

² 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.

and provided important information such as the California LifeLine subscriber weighted average counts, new connection counts, and disconnection and disenrollment counts for eligible telecommunication carriers to prepare and submit their monthly California LifeLine reimbursement claims to CPUC for the costs of providing discounted services to LifeLine subscribers. We reviewed the information provided by the TPA; however, we did not audit the TPA.

Pacific Bell Telephone Company (Pacific Bell)

Pacific Bell Telephone Company was founded as the Bell Telephone Company in 1876. In 1997 it was acquired by Southwestern Bell Corporation (SBC Communications Inc.) and rebranded in 2001 as SBC Pacific Bell. In 2005 SBC Pacific Bell acquired AT&T Corporation from AT&T Inc. Pacific Bell is now known as Pacific Bell Telephone Company, dba AT&T California. Throughout these mergers and acquisitions Pacific Bell has continued to provide local, intrastate, and long-distance telephone service.

Pacific Bell Telephone Company is a subsidiary of AT&T Teleholdings, Inc., which in turn operates under AT&T Inc. AT&T Inc. currently provides telephone services (landline and wireless) for residential and business customers in 21 states, including California, as well as SBC Long Distance dba AT&T Long Distance, and two interstate telephone companies.

Pacific Bell claimed and was reimbursed a total of \$174,673,457 in subsidy from the California LifeLine Fund in the audit period of July 1, 2017, through June 30, 2021, for subscribers ranging approximately between 160,000 and 310,000 per month. Expenses claimed for reimbursement are based on specific service recovery cost categories as shown in the table below:

Service Recovery Cost Categories	Pacific Bell Amounts Claimed				Total
	Fiscal Year 2017-2018	Fiscal Year 2018-2019	Fiscal Year 2019-2020	Fiscal Year 2020-2021	
Allowable SSA Federal and CA	\$ 48,537,406	\$ 37,481,661	\$ 28,744,219	\$ 25,370,083	\$ 140,133,369
Allowable SSA CA-only eligibility	-	6,068,558	8,282,555	7,545,346	21,896,459
Connection Charges Federal and CA	228,267	148,902	120,666	66,807	564,642
Connection Charges CA-only eligibility	-	9,399	16,302	7,566	33,267
Conversion Charges Federal	97,640	68,183	83,253	22,385	271,461
Conversion Charges CA-only	-	8,589	13,205	4,424	26,218
Allowable Recovery - Untimed Calls	138,065	96,456	72,241	23,822	330,584
FCC End User Surcharges	45	-	-	-	45
Surcharges and Taxes	3,341,200	2,773,909	2,209,757	2,045,269	10,370,135
Incremental Administrative Expenses	308,479	206,159	296,018	236,621	1,047,277
Total Claimed and Reimbursed	<u>\$ 52,651,102</u>	<u>\$ 46,861,816</u>	<u>\$ 39,838,216</u>	<u>\$ 35,322,323</u>	<u>\$ 174,673,457</u>

AT&T Corporation (AT&T Corp)

AT&T Corp is another subsidiary of AT&T Inc. In 2005 SBC Communications acquired AT&T Corp and subsequently SBC changed its name to AT&T. AT&T Corp continues as the long-distance subsidiary of AT&T Inc., and provides voice, video, data, and internet telecommunications and professional services to businesses, consumers, and government agencies.

On May 14, 2021, AT&T Corp filed Application 21-05-007 requesting that the CPUC approve its requests to discontinue providing residential service in the territory of Frontier California (U1002C) (Frontier) and to relinquish its Eligible Telecommunications Carrier designation. AT&T Corp sought to complete the migration of its approximately 2,700 residential customers (of which LifeLine was approximately 1,300) to Frontier by September 27, 2021. CPUC approved the request in Decision 22-08-006 on August 4, 2022. AT&T Corp's claims included approximately 1,300 LifeLine subscribers for the audit period.

AT&T Corp claimed and was reimbursed a total of \$685,739 in subsidy from the California LifeLine Fund in the audit period of July 1, 2017, through June 30, 2021, for subscribers ranging approximately between 600 and 1,300 per month. Expenses claimed for reimbursement are based on specific service recovery cost categories as shown in the table below:

Service Recovery Cost Categories	AT&T Corp Amounts Claimed				Total
	Fiscal Year 2017-2018	Fiscal Year 2018-2019	Fiscal Year 2019-2020	Fiscal Year 2020-2021	
Allowable SSA Federal and CA	\$ 167,596	\$ 134,709	\$ 100,070	\$ 90,777	\$ 493,152
Allowable SSA CA-only eligibility	25,729	40,812	50,304	45,667	162,512
Surcharges and Taxes	10,652	7,709	5,498	4,950	28,809
Incremental Administrative Expenses	416	332	269	249	1,266
Total Claimed and Reimbursed	<u>\$ 204,393</u>	<u>\$ 183,562</u>	<u>\$ 156,141</u>	<u>\$ 141,643</u>	<u>\$ 685,739</u>

Audit Authority

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, UAB is authorized to verify the California LifeLine program claims for the purposes of ensuring regulatory compliance of the LifeLine program.

Objective and Scope

Our audit objectives were to determine whether:

A) Pacific Bell and AT&T Corp's claims from the California LifeLine Fund were accurate, properly supported, for eligible consumers, and for allowable costs and activities; and

B) Pacific Bell and AT&T Corp applied the applicable California LifeLine discount,

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 Pacific Bell and AT&T Corp's LifeLine program claims from the California LifeLine Fund totaling \$174,673,457 and \$685,739, respectively, for the audit period of July 1, 2017, through June 30, 2021. The scope did not include the TPA Conduent or Maximus.

Methodology

In planning our audit, we gained an understanding of the California LifeLine program and Pacific Bell and AT&T Corp's operations and identified relevant criteria, by reviewing Pacific Bell and AT&T Corp's policies and procedures, relevant PU Code sections, rules, regulations, CPUC decisions, resolutions, orders, directives, and interviewing Pacific Bell and AT&T Corp's personnel.

We conducted a risk assessment, including evaluating whether Pacific Bell and AT&T Corp's key internal controls relevant to our audit objectives were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, observing processes, 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 objectives are included in this report.

Additionally, we assessed the reliability of the data extracted from Pacific Bell and AT&T Corp'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 objectives, except as described in the Findings and Recommendations section of this audit report.

We developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. To achieve our audit objectives, 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 Pacific Bell and AT&T Corp's background information including their policies and procedures to gain an understanding of the nature of both subsidiary utilities and their responsibility over the LifeLine program.
- Obtained an understanding of the TPA's weighted average reports (WAR) 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 Pacific Bell and AT&T Corp'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 objectives by:
 - interviewing key personnel and administering an internal control questionnaire;
 - reviewing Pacific Bell and AT&T Corp's policies and procedures, and assessing their recording and reporting of LifeLine claims data;
 - performing walkthroughs of the enrollment system; and
 - tracing selected transactions to source documents.

- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Used data analytics tools and performed analytical procedures on Pacific Bell and AT&T Corp’s subscriber data retrieved from Pacific Bell and AT&T Corp’s subscribers’ data reports and the TPA’s Event File. In analyzing the subscriber data, we:
 - searched for duplicative information;
 - verified whether a single subscriber was associated with a duplicate address; and
 - determined whether the household worksheets were maintained in Pacific Bell and AT&T Corp’s database to support the multiline consumer household eligibility criteria.
- Analyzed and evaluated the allowable SSA discount information for 4 out of the 48 months for each utility. In analyzing the allowable SSA discount, we:
 - obtained the master tariff resolutions, CPUC’s SSA administrative letters, and reimbursement claims to identify any variances;
 - selected 100 Pacific Bell and 100 AT&T Corp subscriber bills to verify the approved SSA discount was applied; and
 - compared the retail rate to the LifeLine rate to identify any disparity in price.
- Verified whether 60 Pacific Bell and 1 AT&T Corp new subscribers were enrolled in an eligible rate plan after December 1, 2020, in accordance to GO 153 Appendix D.
- Traced Pacific Bell and AT&T Corp’s claims for reimbursement for September 2017, February 2018, May 2019, and April 2021 to reconcile the TPA’s WAR count.
- Reconciled Pacific Bell and AT&T Corp’s claims weighted average count to the TPA’s WAR by judgmentally selecting a non-statistical sample of subscriber data included in TPA’s WAR to the monthly claims weighted average count for September 2017, February 2018, May 2019, and April 2021, as listed in the tables below:

Months Tested	Pacific Bell		Total
	Allowable SSA Federal and CA	Allowable SSA CA Only	
September 2017	\$ 4,193,428	\$ -	
February 2018	4,017,870	-	
May 2019	2,747,338	776,795	
April 2021	2,045,692	533,693	
Total Evaluated	13,004,328	1,310,488	14,314,816
Total Claimed	\$ 133,811,902	\$ 28,400,026	\$ 162,211,928
Percent Evaluated*	9.72%	5.38%	8.82%

Months Tested	AT&T Corp		Total
	Allowable SSA Federal and CA	Allowable SSA CA Only	
September 2017	\$ 16,829	\$ -	
February 2018	15,821	-	
May 2019	9,508	4,872	
April 2021	7,622	3,866	
Total Evaluated	49,780	8,738	58,518
Total Claimed	\$ 493,152	\$ 162,512	\$ 655,664
Percent Evaluated*	10.09%	5.38%	8.92%

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

- Selected subscriber LifeLine applications from September 2017, February 2018, October 2018, May 2019, January 2020, and April 2021, to confirm the LifeLine program eligibility for 294 Pacific Bell subscribers and 200 AT&T Corp subscribers by reviewing and verifying that each subscriber's LifeLine application and supporting documents, such as benefits identification card, met the eligibility criteria.
- Selected a non-statistical sample of subscriber data for the months of July 2017 through September 2017, February 2018, October 2018 through December 2018, April 2019 through June 2019, January 2020 through March 2020, and April 2021 through June 2021 (with an approximate average population of 219,000 monthly subscribers). In analyzing subscriber data for the sampled sixteen months, we:
 - performed data analytics procedures to compare Pacific Bell and AT&T Corp's subscriber list to the TPA's WAR for the months selected above to identify any variances between the subscribers list and the WAR, which represented the number of disenrolled subscribers for whom services were no longer provided but included in the population of LifeLine subscribers claimed for reimbursement. The variance totaled 21,301 (21,035 for Pacific Bell and 266 for AT&T Corp) subscribers. (For the selected samples, errors found, if any, were not projected to the intended (total) population).
- Performed testing of the claimed Incremental Administrative Expenses for Pacific Bell by judgmentally selecting a non-statistical sample of significant transactions for September 2017, February 2018, May 2019, March 2021, April 2021, and May 2021 as shown in the table below:

Months Tested	Incremental Administrative Expenses
September 2017	\$ 25,558
February 2018	18,033
May 2019	15,092
March 2021	12,782
April 2021	10,486
May 2021	16,072
Total Tested	\$ 98,023
Total Claimed	\$ 1,009,973
Percent Tested*	9.71%

*For the selected samples, errors found, if any, were not projected to the intended (total) population. We did not test AT&T Corp's Incremental Administrative Expense because AT&T Corp claimed the minimum of \$0.03 per subscriber.

- 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 Pacific Bell and AT&T Corp's financial statements. Our audit scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance that Pacific Bell and AT&T Corp's claims from the California LifeLine Fund were accurate, properly supported, for eligible consumers, and for allowable costs and activities, and whether Pacific Bell and AT&T Corp applied the applicable California LifeLine discount in accordance with the applicable criteria. We considered Pacific Bell and AT&T Corp's internal controls only to the extent necessary to plan the audit and achieve our audit objectives.

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

Conclusion

For audit objective A, based on the procedures performed, samples tested, and evidence gathered, we found instances of noncompliance with requirements for the audit period of July 1, 2017, through June 30, 2021. These instances are described in the Findings and Recommendations section of this audit report.

For audit objective B, based on the procedures performed, samples tested, and evidence gathered, we determined Pacific Bell and AT&T Corp applied the applicable California LifeLine discount in accordance with GO 153 sections 5 and 9, applicable PU Code sections, CPUC D.14-01-036 and D.10-11-033, and other applicable California LifeLine program's rules, regulations, and requirements for the audit period July 1, 2017, through June 30, 2021.

Follow-up on Prior Audit Findings

We have not previously conducted an audit of Pacific Bell and AT&T Corp's California LifeLine program claims. However, we found that AT&T Inc. (the parent company) had several prior audits conducted by Universal Service Administrative Company (USAC) of the Federal Communications Commission (FCC) that disclosed findings, which were significant within the context of our audit objectives. Specifically, FCC found in 2014 that AT&T Inc. and its affiliates had not been timely de-enrolling subscribers following the annual Lifeline Program recertification process for 2012 and 2013. FCC and AT&T Inc. and its affiliates entered into a Consent Decree DA 15-485, in which AT&T Inc. agreed to pay civil penalties of \$6.9 million and develop and implement a compliance plan. In addition, FCC found in July 2022 that AT&T Inc. overclaimed \$1,503 for subscribers who were no longer active in the month tested for 2017. Some of the issues identified in these prior reports relate to Findings 1 and 2 of this audit report.

Views of Responsible Officials

We issued a draft report on October 31, 2023. Pacific Bell and AT&T Corp responded by letter dated November 14, 2023, providing comments on each of the findings. Pacific Bell and AT&T Corp's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report and our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

Restricted Use

This audit report is intended solely for the information and use of Pacific Bell and AT&T Corp 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 will be 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

FINDINGS AND RECOMMENDATIONS

Finding 1: Overclaimed LifeLine Funds Totaling \$1,169,368

Condition:

Pacific Bell and AT&T Corp overclaimed and was reimbursed \$1,169,368 (\$1,155,308 and \$14,060 for Pacific Bell and AT&T Corp respectively) from the California LifeLine Fund for approximately 21,089 subscribers for whom services were no longer being provided but were not timely disenrolled from the LifeLine program. Pacific Bell and AT&T Corp failed to provide accurate and timely information for disenrolled subscribers to the TPA to facilitate timely disenrollment from the program.

We obtained and performed testing of Pacific Bell and AT&T Corp's subscriber data. We initially selected a sample of one month per each fiscal year claimed and found significant discrepancies in our sample initially tested. As a result, we expanded testing to include the subscriber data in the following periods:

- July 2017 through September 2017,
- February 2018,
- October 2018 through December 2018,
- April 2019 through June 2019,
- January 2020 through March 2020, and
- April 2021 through June 2021.

We used data analytics tools to review, sort, and analyze subscriber data provided by Pacific Bell and AT&T Corp and the TPA. Through data analytics procedures, we determined that out of an approximate monthly average population of 219,000 subscribers 21,301 (21,035 for Pacific Bell and 266 for AT&T Corp) subscribers were no longer receiving services but were claimed for reimbursement for the sixteen sampled months. We provided a detailed listing of all identified variances in our sample for the 21,301 subscribers to Pacific Bell and AT&T Corp requesting documentation to support the service end dates. Pacific Bell and AT&T Corp indicated they could not provide documents for the entire variance of 21,301 subscribers. However, Pacific Bell provided documentation that showed 212 of the 21,301 were disenrolled within 30 days of not receiving services; resulting in 21,089 that were not timely disenrolled. We provided further opportunities to Pacific Bell and AT&T Corp to provide documentation to clear any additional subscribers within the total variance of 21,301 identified in our sampled months. However, Pacific Bell and AT&T Corp did not provide support to show any additional subscribers were disenrolled timely.

Our testing results are summarized in the table below:

Disenrolled Subscribers	Pacific Bell	AT&T Corp	Total
Disenrolled Subscribers Identified Within Sample	21,035	266	21,301
Timely Disenrolled and not Claimed Within Sample	(212)	-	(212)
Total Disenrolled but Claimed	<u>20,823</u>	<u>266</u>	<u>21,089</u>

Pacific Bell and AT&T Corp failed to provide accurate information to the TPA for 21,089 disenrolled subscribers in the sixteen months selected for testing. As a result, Pacific Bell and AT&T Corp claimed and were reimbursed \$1,169,368 for subscribers that were no longer receiving services, as outlined in the table below:

Disenrolled Subscribers Claimed	No. of Subscribers	No. of Months	Amount Overclaimed
Pacific Bell	20,823	75,975	\$ 1,155,308
AT&T Corp	266	952	14,060
Total Services Not Provided	<u>21,089</u>	<u>76,927</u>	<u>\$ 1,169,368</u>

Based on the total overclaimed LifeLine funds of \$1,169,368 the associated penalty interest incurred is \$56,922 as of November 30, 2023. CPUC's CD will update the penalty interest amount as of the date of the remittance of the overclaimed LifeLine funds.

Criteria:

GO 153 sections 6.2 and 6.3.2 state, in part, that:

All California LifeLine Service Providers must notify the California LifeLine Administrator before their initial offering of California LifeLine and arrange the two-way exchange of its California LifeLine Subscriber data.

All California LifeLine Service Providers must provide the California LifeLine Administrator with all California LifeLine Subscriber/Applicant activities initiated by the California LifeLine Service Providers by the end of the next business day after the service order completion date.

GO 153 section 9.11.1 states, in part, that:

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

Cause:

Pacific Bell and AT&T Corp do not effectively inform the TPA using TPA's specified document format of changes to subscriber accounts including notifications of disenrollment or subscribers no longer receiving services. Pacific Bell and AT&T Corp lack policies and procedures to ensure data communicated to the TPA are received and updated accurately and timely, in a format compatible with the TPA daily file system (see Finding 2). In addition, Pacific Bell and AT&T Corp lack adequate policies and procedures to ensure compliance with GO 153 section 6.

Effect:

Lack of appropriate controls and failure to timely update subscriber records, disenroll subscribers who no longer receive services, and/or provide timely and accurate subscriber information to the TPA result in:

- Ineligible reimbursements and significant overpayments from the LifeLine Fund,
- Diversion of valuable resources away from qualified recipients waiting to receive LifeLine services,
- Delayed processing of subscriber applications and inability to provide LifeLine services timely and efficiently,
- Increased workload for stakeholders involved in resolving public's concerns, and
- Inaccurate subscriber data that may impact decision makers and the stakeholders.

Recommendations:

Pacific Bell and AT&T Corp should:

- Remit \$1,169,368 (\$1,155,308 and \$14,060 for Pacific Bell and AT&T Corp respectively) of the overpaid LifeLine funds back to the CPUC along with the associated interest penalty, and/or work with CPUC's CD to reimburse the appropriate amount.
- Work with the TPA and CPUC's CD to determine the full extent of the issue beyond the sample months tested during the audit period and disenroll all ineligible subscribers to date and remit associated funds to CPUC.
- Develop and implement policies and procedures to ensure subscribers are disenrolled timely to prevent overstated claims from the LifeLine Fund and to ensure management complies with LifeLine program criteria.
- Work with the TPA to verify subscriber account changes are successfully communicated and processed.

Finding 2: Failure to Address Significant Data Integrity Issues**Condition:**

Pacific Bell and AT&T Corp have been exhibiting significant subscriber data integrity issues since 2018. The lack of data integrity has been causing fundamental issues over the years with subscriber enrollment, disenrollment, and ineligible reimbursements from the LifeLine Fund.

The subscriber data we tested contained significant errors and/or key data elements were incomplete, which prevented the TPA from being able to process requests such as new enrollments, disenrollments, updates to subscriber records, etc. We found approximately 2,000 rows in our sample that contained unusable data for all 10 months of Pacific Bell's subscriber data reviewed, such as:

- subscribers' name fields were populated with numbers rather than names (letters),
- address fields contained a combination of subscribers' names and addresses, and
- some fields were missing or omitted.

Service Providers use a daily file process via the Application Programming Interface to interact with the TPA to initiate the mailing of new enrollment applications to applicants, update subscribers' records, and disconnect or remove subscribers who no-longer receive services from the LifeLine program. The TPA runs the daily file processing automatically and passes the results daily to Service Providers in text files through the California LifeLine secure file transmission portal. The TPA found from February 2022 through January 2023 that Pacific Bell's data submittal error rate was over 65 percent (approximately 40,000 file processing errors), compared to the second largest carrier error rate of approximately 6.5 percent and the industry average error rate of 10.7 percent for the daily file process submitted to the TPA. The excessive file processing errors prevented the TPA from being able to process Pacific Bell and AT&T Corp's requests and file submissions, such as enrolling new subscribers or removing subscribers from the LifeLine program, which contributed to Pacific Bell and AT&T Corp's overclaiming from the LifeLine Fund for disenrolled subscribers no longer receiving services (see Finding 1).

Pacific Bell and AT&T Corp have been aware of these errors since the inception of the TPA's daily file process in 2018. The TPA has been alerting Pacific Bell and AT&T Corp of the high submittal error rates on a regular basis. In addition, the CPUC's CD has been making efforts in urging Pacific Bell and AT&T Corp to address the issues at hand. To date, Pacific Bell and AT&T Corp have not made sufficient efforts to address the format for the daily Application Programming Interface for data input and processing with the TPA to resolve the data compatibility issues. Pacific Bell and AT&T Corp have been receiving administrative cost reimbursement, as part of their monthly reimbursement claims from the LifeLine Fund, but they have yet to address the daily file process error rate problems.

In addition, Pacific Bell and AT&T Corp lack a mechanism to track multiline subscribers' applications that required or included household worksheets. As a result, we were unable to verify whether Pacific Bell and AT&T Corp complied with GO 153 section 5, which allows only one address as a principal place of residence for qualified LifeLine subscribers. Inability to track multiline subscribers' applications could cause ineligible reimbursements from the LifeLine Fund.

Criteria:

PU Code sections 581, 582, and 584 require utilities to provide complete and accurate data to CPUC.

GO 153 sections 5.1 and 13.9 state, in part, that:

5.1.1 The residence at which the service is requested is the subscriber's principal place of residence. An applicant for California LifeLine service may report only one address in this state as his/her principal place of Residence.

5.1.2 The subscriber and members of the subscriber's household collectively have one discounted service from either the California LifeLine program or the federal LifeLine low-income program (Non-Traditional Providers only), except as provided for in Section 4 of this General Order.

13.9 California LifeLine Service Providers shall retain all records related to a California LifeLine claim for a period of five calendar years. The records that must be retained includes (i) application and renewal forms, (ii) California LifeLine Claim Forms and workpapers supporting the claim forms, and (iii) other documents and information on which the California LifeLine Claim Forms and workpapers are based.

Cause:

Pacific Bell and AT&T Corp stated that data is manually inputted into the TPA system by their service representatives; and the data provided to the TPA is consistent with how the data is reflected in the billing system. However, Pacific Bell and AT&T Corp lack procedures and controls to ensure that only valid, complete, and accurate data is inputted into the applicable fields of the Application Programming Interface in the format compatible with the system. Pacific Bell and AT&T Corp also lack procedures to ensure subscriber data and file records are reviewed for accuracy and completeness prior to distribution. Pacific Bell and AT&T Corp's data lack accuracy, completeness, and compatibility with the TPA's filing system. Pacific Bell and AT&T Corp failed to utilize the TPA's daily error reports to facilitate data input into the system and make process improvements.

Effect:

The subscriber data integrity is essential in facilitating accurate, timely, and complete data transfers from Service Providers to the TPA to ensure that qualified subscribers are able to receive benefits in a timely manner and LifeLine funds reimburse for vital services for qualified subscribers. Lack of data integrity resulted in:

- Pacific Bell and AT&T Corp being reimbursed for subscribers that were no longer receiving services resulting in significant overpayments from the LifeLine Fund,
- Pacific Bell and AT&T Corp's inability to enroll new subscribers timely and to provide LifeLine services to qualified subscribers in an efficient manner,
- Pacific Bell and AT&T Corp's failure to disenroll subscribers timely and to facilitate maintaining accurate subscribers' records,
- Increased workload for stakeholders involved in resolving public's concerns, and
- Pacific Bell and AT&T Corp providing inaccurate subscriber data to the TPA, which prevented the TPA from being able to process Pacific Bell and AT&T Corp's subscriber requests.

Recommendations:

Pacific Bell and AT&T Corp should:

- Establish and implement procedures that include parameters for how service representatives input subscriber data into the Application Programming Interface to ensure data input is valid, complete, accurate, and recorded in the proper format.
- Establish and implement monitoring procedures (or build validation and edits within the system) to provide reasonable assurance that erroneous data input is prevented or detected to ensure all input data is complete and accurate.

- Establish and implement controls within Pacific Bell and AT&T Corp's system that set data input parameters such as check numerical digits parameters, invalid field lengths or characters, erroneous dates, missing data, blank fields, including data validations and edit checks.
- Adequately review subscriber data reports and file records for accuracy prior to distribution to the TPA.
- Timely review the TPA's daily error report and confirm that transactions have been processed accurately or corrected.
- Rectify the data compatibility, accuracy, and completeness issues with its file processing to ensure uploaded file records are successfully communicated to the TPA.

Finding 3: Failure to Provide Supporting Documentation

Condition:

Pacific Bell and AT&T Corp did not provide all requested documentation related to our sample of subscriber bills selected to verify whether the approved SSA discount was properly applied on the subscriber bills. We selected one month from each fiscal year claimed for the periods of February 2018, May 2019, January 2020, and April 2021. We requested to review 100 Pacific Bell and 100 AT&T Corp subscriber bills (25 from each month) to verify the SSA discounts. Pacific Bell and AT&T Corp did not provide documentation as follows:

- Pacific Bell did not provide one of 100 bills to verify whether the SSA was properly applied.
- AT&T Corp did not provide 14 of 100 bills to verify whether the SSA was properly applied.

Criteria:

GO 153 section 9.11.3 states, in part, that:

California LifeLine Service Providers shall provide to the Commission or CD within 10 business days, upon request, documents, workpapers, records (to the extent that records exist) and other information regarding costs and lost revenues claimed by the California LifeLine Service Provider.

GO 153 section 13.9 states, in part, that:

California LifeLine Service Providers shall retain all records related to a California LifeLine claim for a period of five calendar years. The records that must be retained includes (i) application and renewal forms, (ii) California LifeLine Claim Forms and workpapers supporting the claim forms, and (iii) other documents and information on which the California LifeLine Claim Forms and workpapers are based.

PU Code 582 (a) states, in part, that:

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.

Cause:

Pacific Bell stated that some of its LifeLine subscribers' last month bills were archived or were not found. Pacific Bell and AT&T Corp also stated that the bills not provided to verify the SSA discount were due to either the bills not being found, or services no longer being provided. Pacific Bell and AT&T Corp lack policies and procedures to ensure all subscriber bills are retained and retrievable.

Effect:

Lack of supporting documentation affects the ability to verify that claimed or reported information was accurate, such as whether:

- The SSA discount was properly applied to the Pacific Bell subscriber,
- The SSA discount was properly applied to 14 AT&T Corp subscribers, and

Recommendations:

Pacific Bell and AT&T Corp should:

- Establish procedures to ensure all LifeLine program documents have been accounted for or properly maintained in accordance with GO 153 section 13.
- Develop and implement policies and procedures to ensure information or documentation can be readily retrievable from archives.

APPENDIX A—UTILITY'S RESPONSE TO DRAFT AUDIT REPORT



AT&T California
Mark Berry
430 Bush Street
5th Floor
San Francisco, CA 94108
415-417-5018
mark.berry@att.com

att-regulatory-ca@att.com

Transmitted via e-mail to:
UtilityAudits@cpuc.ca.gov

November 14, 2023

Angie Williams
Director - Utility Audits, Risk & Compliance Division
Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102-3298

Re: Audit of Pacific Bell Telephone Company dba AT&T California and AT&T Corporation's California LifeLine Program for the period of July 1, 2017, through June 30, 2021

Dear Angie Williams:

AT&T appreciates the opportunity to comment on the draft audit report. AT&T takes seriously its compliance obligations. For the reasons set forth below, the draft audit report should be revised.

Finding 1: Overclaimed LifeLine Funds Totaling \$1,169,368

AT&T does not dispute that the auditors identified some variances in customer counts between select Third Party Administrator (TPA) Weighted Average Reports (WAR) and AT&T's subscriber lists from its billing system. However, the method used by the auditors to determine the amount overclaimed by AT&T does not conform to generally accepted government auditing standards.

The auditors state they "judgmentally selected a non-statistical sample" of 506 Pacific Bell subscribers selected from the initially identified variances of 21,035 subscribers between Pacific Bell's subscriber list and the TPA's WAR in an attempt to confirm disenrolled status.¹ From the non-statistical sampling, the auditors found AT&T timely disenrolled 212 out of the 506 subscribers, or 42% of the sample.

Rather than simply finding that AT&T overclaimed 294 subscribers (506 less 212), the auditors improperly concluded that the remaining 20,795 subscribers (21,089

¹ The auditors failed to explain how the 506 subscribers were selected. See U.S. GOV'T ACCOUNTABILITY OFF., GAO-21-388G, COMPTROLLER GENERAL OF THE UNITED STATES: GOVERNMENT AUDITING STANDARDS (hereinafter "GAGAS") Rule 9.14 (2021), <https://www.gao.gov/assets/gao-21-388g.pdf> (providing, "[i]n reporting audit methodology, auditors should explain how the completed audit work supports the audit objectives, including the evidence-gathering and evidence-analysis techniques, in sufficient detail to allow knowledgeable users of their reports to understand how the auditors addressed the audit objectives. Auditors should identify significant assumptions made in conducting the audit; describe comparative techniques applied; describe the criteria used; and, when the results of sample testing significantly support the auditors' findings, conclusions, or recommendations, describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population.").

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 Director - Utility Audits, Risk & Compliance Division
 Public Utilities Commission
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subscribers less 294 confirmed errors) were also disenrolled but claimed.² The auditors do not have sufficient evidence in the draft audit report to persuade a knowledgeable person that their findings are reasonable.³ To project their findings to the entire remaining 20,529 Pacific Bell subscribers (21,035 less 506), the auditors needed to select a statistically valid sample as prescribed by GAGAS 8.107 to determine the potential overclaimed amounts in an equitable manner.⁴

As an illustration of the effect of using a statistically valid sample, if such a sample had been used and showed that 42% had been correctly disenrolled, then it would be supportable and proper to extrapolate that to the total population:

Illustrative Extrapolation of Sample Results to Pacific Bell Findings
 $212 / 506 = 42\%$ correctly disenrolled
 $21,035 \times 42\% = 8,835$ correctly claimed
 $21,035 - 8,835 = 12,200$ remainder

AT&T urges the auditors to either (1) revise their finding to conclude that AT&T's reimbursement liability is limited to the 294 subscribers that were confirmed disenrolled but claimed, or (2) conduct the audit using a statistically valid sample under GAGAS and update their finding accordingly. AT&T also requests the ability to offset any Pacific Bell reimbursement amount against future Pacific Bell LifeLine claims.

With respect to AT&T Corp., the auditors did not perform any sample testing. AT&T has previously informed the auditors that a separate proposal has been submitted to CPUC Staff, in a separate matter, to resolve any overclaim issues related to the exit of AT&T Corp. from the residential market (including LifeLine) in 2022. AT&T requests that it be able to work with CD Staff to net the draft audit report's reimbursement amount for AT&T Corp. against the separate proposal currently under review by CD Staff to avoid duplicative reimbursement.

Finding 2: Failure to Address Significant Data Integrity Issues

Contrary to statements in the draft audit report, AT&T has been addressing identified daily file process error rate issues. AT&T was made aware of error rates on TPA transactions exceeding those of other carriers around March 2023. Since that time, AT&T has met with CD Staff and the TPA (either separately or together)

² The draft audit report describes this total as "confirmed" even though only 506 bills out of a total of 21,301 (including AT&T Corp.) were reviewed.

³ See GAGAS, Rule 8.92 (providing, "[i]n determining the sufficiency of evidence, auditors should determine whether enough appropriate evidence exists to address the audit objectives and support the findings and conclusions to the extent that would persuade a knowledgeable person that the findings are reasonable.").

⁴ See GAGAS, Rule 8.107 (providing, "[w]hen sampling is used, the appropriate selection method will depend on the audit objectives. When a representative sample is needed, the use of statistical sampling approaches generally results in stronger evidence than that obtained from nonstatistical techniques.").

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 Director - Utility Audits, Risk & Compliance Division
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at least a dozen times. AT&T has been working very cooperatively with both to address these error rates and has made progress in reducing them. AT&T will continue to work with CD Staff and the TPA to resolve any remaining issues.

The draft audit report states on p.13:

Pacific Bell and AT&T Corp lack a mechanism to track multiline subscriber applications that required or included household worksheets. As a result, we were unable to verify whether Pacific Bell and AT&T Corp complied with GO 153 section 5, which allows only one address as a principal place of residence for qualified LifeLine subscribers. Inability to track multiline subscribers' applications could cause ineligible reimbursements from the LifeLine Fund.

AT&T has responded on several occasions and continues to maintain that the TPA is solely responsible for determining California LifeLine eligibility, including which supporting documentation, such as household worksheets, an applicant is required to provide the TPA.

AT&T is unaware of any rule that requires a service provider to track California LifeLine subscribers who were either required to submit to the TPA a household worksheet or included such worksheet in their application. And no such rule is needed or appropriate because the TPA manages the entire eligibility process not the service providers. A service provider is not in any position to "track" whether two or more carriers are providing California LifeLine service to subscribers at the same address or challenge the TPA's California LifeLine eligibility determination for subscribers with service at the same address. Any such tracking should be the TPA's responsibility.⁵

Finding 3: Failure to Provide Supporting Documentation

AT&T acknowledges the cited record retention guidelines from General Order 153.

Conclusion

AT&T respectfully requests that the auditors take these comments into account when finalizing their report to reflect a reduction in the overclaim amount for Pacific Bell, to protect against duplicative reimbursement by AT&T Corp., to allow any Pacific Bell reimbursement to be offset against future claims, and to reflect the cooperative engagement of AT&T with CD Staff and the TPA to reduce processing errors.

⁵ As stated in the SB 1208 Report: Low Income Oversight Board Report to the Legislature, "[t]he Service Providers initiate the new enrollment process from their systems, and the TPA then determines eligibility and manages the completion of the application process." See LOW INCOME OVERSIGHT BD., SB 1208 REPORT: LOW INCOME OVERSIGHT BOARD REPORT TO THE LEGISLATURE at 23 (2023), <https://webproda.cpuc.ca.gov/-/media/cpuc-website/divisions/office-of-governmental-affairs-division/reports/2023/low-income-oversight-board-liob-sb-1208-final-reportjune-2023.pdf>.

Angie Williams
Director - Utility Audits, Risk & Compliance Division
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Sincerely,

A handwritten signature in black ink that reads "Mark Berry". The signature is written in a cursive style with a large initial "M" and a long, sweeping tail.

Mark Berry, Director – Regulatory
AT&T California

cc: Marc Blakeman, President, Pacific Bell and AT&T Corporation
Masha Vorobyova, Assistant Director, UAB, CPUC
Sharmin Wellington, Program and Project Supervisor, UAB, CPUC
Thong Thao, Senior Management Auditor, UAB, CPUC
Cheryl Livingston, Senior Management Auditor, UAB, CPUC
Tristesse Gaian, Associate Management Auditor, UAB, CPUC

APPENDIX B—UAB'S EVALUATION OF UTILITY'S RESPONSE

We appreciate Pacific Bell and AT&T Corp's comments submitted on November 14, 2023. Below is our assessment of Pacific Bell and AT&T Corp's responses to each of the findings.

Finding 1: Overclaimed LifeLine Funds Totaling \$1,169,368

In its response, Pacific Bell and AT&T Corp agreed that the finding identified variances in subscribers' count between Pacific Bell and AT&T Corp's data and the TPA weighted average reports (WAR). However, Pacific Bell and AT&T Corp disagreed with the sampling methodology utilized in determining the amount of overclaimed LifeLine funds. Pacific Bell and AT&T Corp asserted that the auditors projected the results of the sampling and suggested to re-do testing for this audit by using a statistical sampling methodology instead. We disagree with Pacific Bell and AT&T Corp's assertions.

As stated in Finding 1, the identified subscriber variances of 21,301 (21,035 for Pacific Bell and 266 for AT&T Corp) specifically showed those subscribers in the sampled months that were no longer receiving services but were claimed for reimbursement in every month of sixteen months analyzed. As Pacific Bell and AT&T Corp pointed out in the response letter, further review of supporting documentation of the service end dates cleared 212 subscribers from the sampled size of 21,301. However, Pacific Bell and AT&T Corp's response failed to note that auditors provided ample opportunities to provide supporting documentation to clear any additional subscribers within the total variance of 21,301 identified in our sampled months. We provided the detailed list to the utility of all subscribers identified as no longer receiving services totaling 21,301 (21,035 for Pacific Bell and 266 for AT&T Corp) and provided opportunities to clear any subscribers from this list. After analyzing extensive amounts of supporting documentation, Pacific Bell and AT&T Corp did not support any additional subscribers within the sixteen-month sampled period that could have been cleared as timely disenrolled and not claimed. Therefore, Pacific Bell and AT&T Corp's assertions about projecting the result of testing to the sampled months are incorrect. In addition, as noted on page seven of this final report, the errors found were not projected to the total population of subscribers. We concur that the draft report's mention of the 506 sub-selection of subscriber last month bills has led to some confusion. We updated the language in Finding 1 of this report for clarity.

In addition, we believe, based on the evidence obtained and the subscriber variances identified in every one of sixteen months sampled, that the total overclaimed amount from the LifeLine Fund for the audit period is actually greater than computed in this finding, as there are likely more subscribers in the entire audit period that were no longer receiving services but were claimed for reimbursement beyond the sampled months. Therefore, we reiterate one of our recommendations that Pacific Bell and AT&T Corp work with CD and the TPA to disenroll all subscribers claimed but no longer receiving services from the LifeLine program and remit all overclaimed LifeLine funds to CPUC.

During the course of the audit, we believe we have obtained sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives, as required by GAGAS.

The finding and recommendations remain unchanged.

Finding 2: Failure to Address Significant Data Integrity Issues

Pacific Bell and AT&T Corp stated that they have been working cooperatively with CD and the TPA to address the error rate issue beginning March 2023. We would like to point out, as already stated in Finding 2, that the TPA runs the daily file processing automatically and passes the results including the error report on a daily basis to Service Providers. Pacific Bell and AT&T Corp have been receiving such daily reports since the inception of the TPA's daily file process in 2018.

Pacific Bell and AT&T Corp also asserted that the TPA is responsible for determining California LifeLine eligibility, including which documentation, such as household worksheets, an applicant is required to provide the TPA.

We encourage Pacific Bell and AT&T Corp to continue working with CD and the TPA to resolve the error rate issue. We also believe that Pacific Bell and AT&T Corp's should develop procedures to request and retain subscribers' certification forms from the TPA as specified in GO 153 section 13.9, consistent with our recommendations for this finding.

The finding and recommendations remain unchanged.

Finding 3: Failure to Provide Supporting Documentation

Pacific Bell and AT&T Corp did not object to this finding.