



CALIFORNIA LIFELINE PROGRAM PERFORMANCE AUDIT

Blue Casa Telephone, LLC
(U-7222-C)

July 1, 2020, through June 30, 2021

Utility Audits, Risk and Compliance Division
Utility Audits Branch
February 23, 2024



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PUBLIC UTILITIES COMMISSION

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Transmitted via e-mail

February 23, 2024

Jeff Compton, President
Blue Casa Telephone, LLC
114 E Haley Street, Suite I
Santa Barbara, CA 93101

Dear Jeff Compton:

Final Report Transmittal Letter—Audit of Blue Casa Telephone, LLC’s California LifeLine program for the period of July 1, 2020, through June 30, 2021

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 Blue Casa Telephone, LLC’s (Blue Casa) for the period of July 1, 2020, through June 30, 2021. The final audit report is enclosed.

Our audit disclosed no findings requiring a response; 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 Blue Casa’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: Stefanie Edwards, Vice President of Operations, Blue Casa
Rachel Peterson, Executive Director, CPUC
Kristin Stauffacher, Deputy Executive Director, Office of the Commission, 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 Blue Casa Telephone, LLC (Blue Casa) for the audit period of July 1, 2020, through June 30, 2021.

Our audit objectives were to determine whether Blue Casa's claims from the California LifeLine Fund were accurate, properly supported, for eligible consumers, and for allowable costs and activities; and to determine whether Blue Casa applied the applicable California LifeLine discount, in accordance with applicable Public Utilities (PU) Code sections, the 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 Blue Casa's California LifeLine program claims for reimbursement totaling \$1,001,542 were accurate, properly supported, for eligible consumers, and for allowable costs and activities; and Blue Casa applied the applicable California LifeLine discount in compliance with applicable criteria as outlined above for the audit period of July 1, 2020, through June 30, 2021.

AUDIT REPORT

Background

California LifeLine Program

In 1987, 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 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 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.² 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

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.

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.

Blue Casa Telephone, LLC (Blue Casa)

Blue Casa Telephone, LLC is a California limited liability company. Blue Casa's wholly owned subsidiary, Pacific Centrex Datavo, LLC provides VoIP services and is also based in Santa Barbara. On February 1, 2012, Blue Casa was granted a certificate of public convenience and necessity (CPCN) authorizing it to provide resold and limited facilities-based local exchange service within the territories of AT&T California, Frontier (then Verizon California Inc.), Citizens Telecommunications Company of California, Inc. d/b/a Frontier Communications of California (Citizens), and Consolidated Telephone of California Company (then Surewest Telephone) (Consolidated), and resold and limited facilities-based interexchange service on a statewide basis. December 20, 2012, Blue Casa was granted designation as a Lifeline-only Eligible Telecommunications Carrier (ETC) within the service territories of those four Incumbent Local Exchange Carriers (ILECs), authorizing Blue Casa to participate in the federal Lifeline program supporting service to low-income customers. Blue Casa later requested to relinquish its ETC designation for the territories served by Citizens and Consolidated November 30, 2017. Pursuant to its CPCN, Blue Casa currently operates on a landline-only basis and provides local exchange service to residential and business customers.

Blue Casa claimed and was reimbursed a total of \$1,001,542 in subsidy from the California LifeLine Fund during the audit period of July 1, 2020, through June 30, 2021, for subscribers ranging approximately between 4,000 to 4,700, per month. Expenses claimed for reimbursement are based on specific recovery cost categories as shown in the table below:

Service Recovery Cost Categories	Amounts Claimed
Allowable SSA Federal and CA	\$ 775,220
Allowable SSA CA-only eligibility	119,659
Connection Charges Federal and CA	4,560
Connection Charges CA-only eligibility	380
Conversion Charges Federal and CA	4,218
Conversion Charges CA-only eligibility	418
Surcharges and Taxes	70,561
Incremental Administrative Expenses	<u>26,526</u>
Total Claimed and Reimbursed	<u><u>\$ 1,001,542</u></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 Blue Casa's claims from the California LifeLine Fund were accurate, properly supported, for eligible consumers, and for allowable costs, and activities; and to determine whether Blue Casa 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.

The scope of our audit covered Blue Casa's claims from the California LifeLine Fund totaling \$1,001,542 for the audit period of July 1, 2020, through June 30, 2021. The scope did not include the TPA Maximus.

Methodology

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

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

Additionally, we assessed the reliability of the data extracted from Blue Casa'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.

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 Blue Casa'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 true-up reports which are provided to Service Providers when submitting claims for reimbursement.
- Assessed significance by performing analyses of reimbursement claims data and evaluating program requirements.
- Obtained an understanding of Blue Casa'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 Blue Casa's policies and procedures, and specifically assessing the recording and reporting of LifeLine claims data;
 - performing walkthroughs of the subscriber enrollment system and administrative claims; and
 - tracing selected transactions to source documents.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
 - Selected a sample of subscriber data information for one out of the twelve months and used data analytics tools to perform analytical procedures on Blue Casa's subscriber data information for the month of December 2020. In analyzing the subscriber data, we:
 - searched for duplicative information;
 - verified whether a single subscriber was associated with a duplicate address;
 - selected 12 subscribers with duplicate addresses and reviewed completed household worksheets to determine whether they met the multiline consumer household eligibility criteria and whether household worksheets were maintained in the utility's database; and
 - selected 20 subscribers and validated LifeLine program eligibility 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.
 - Analyzed and evaluated the allowable SSA discount information for one out of 12 months, February 2021. 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 10 Blue Casa subscriber bills to verify whether the approved SSA discount was applied; and
 - compared the retail rate to the LifeLine rate to identify any disparity in price.
 - Verified whether Blue Casa's new subscribers were enrolled in an eligible rate plan after December 1, 2020, in accordance to GO 153 Appendix D.
 - Traced Blue Casa's claim for reimbursement for December 2020 to reconcile the TPA's WAR count.

- Reconciled Blue Casa’s claims weighted average count to the TPA’s WAR by selecting a non-statistical sample of subscriber data included in TPA’s WAR and reconciling it to the monthly claims weighted average count for December 2020, as listed in the table below:

December 2020 Tested	Allowable SSA Federal and CA	Allowable SSA CA Only	Total
Total Evaluated	\$ 67,581	\$ 10,074	\$ 77,655
Total Claimed**	<u>775,220</u>	<u>119,659</u>	<u>894,879</u>
Percent Evaluated*	<u>8.72%</u>	<u>8.42%</u>	<u>8.68%</u>

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

**Total claimed amounts above do not include administrative cost of \$26,526, surcharges and taxes of \$70,561, and connection and conversion charges of \$9,576, which total \$1,001,542.

- Selected a sample of 86 subscribers from Blue Casa’s subscriber list and assessed whether subscribers who were disenrolled from the LifeLine program were removed from the program in a timely manner based on the subscribers’ customer data reports. In analyzing subscriber data, we:
 - Performed data analytics procedures to compare Blue Casa’s subscriber list to the TPA’s Events File for the entire population (approximately 4,800 subscribers) to identify any variances between the subscriber list and the Events File, which includes disenrolled subscribers.
- Performed testing of the claimed Incremental Administrative Expenses by selecting a non-statistical sample of significant transactions for December 2020 as shown in the table below:

December 2020 Tested	Incremental Administrative Expenses
Total Tested	\$ 2,234
Total Claimed	<u>26,526</u>
Percent Tested*	<u>8.42%</u>

*For the selected sample, 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.

- Performed testing of the claimed Surcharges and Taxes by selecting a non-statistical sample of significant transactions for December 2020 as shown in the table below:

December 2020 Tested	Amounts Remitted
Federal Excise Tax	\$ 1,403
Local Taxes	4,507
Total Tested	5,910
Total Claimed	\$ 70,561
Percent Tested*	8.4%

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

- For the sampled Surcharges and Taxes, we performed the following:
 - traced sampled transactions to supporting tax spreadsheets to ensure amounts were accurate and properly supported; and
 - recalculated the tax expenses to ensure they were equal to the amounts claimed.

We did not audit Blue Casa's financial statements. Our audit scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance that Blue Casa's claims from the California LifeLine Fund were accurate, properly supported, for eligible consumers, and for allowable costs and activities; and whether Blue Casa applied the applicable California LifeLine discount in accordance with the applicable criteria. We considered Blue Casa'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

Based on the procedures performed, samples tested, and evidence gathered, we found that Blue Casa's California LifeLine program claims for reimbursement totaling \$1,001,542 were accurate, properly supported, for eligible consumers, and for allowable costs and activities; and Blue Casa applied the applicable California LifeLine discount in compliance with applicable criteria as outlined in this report for the audit period July 1, 2020, through June 30, 2021.

Follow-up on Prior Audit Findings

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

Views of Responsible Officials

We discussed the audit results with Blue Casa representatives at an exit conference held on February 8, 2024. 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 Blue Casa and 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 \(ca.gov\)](#).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division