



PUBLIC PURPOSE PROGRAM SURCHARGES PERFORMANCE AUDIT

Verizon Communications, Inc. Subsidiary Los Angeles
SMSA Limited Partnership
(U-3003-C)

April 1, 2023, through June 30, 2024

Utility Audits, Risk and Compliance Division
Utility Audits Branch
January 26, 2026



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PUBLIC UTILITIES COMMISSION

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Transmitted via e-mail

January 26, 2026
Tony Skiadas, Executive Vice President
Chief Financial Officer
Verizon Communications, Inc.
One Verizon Way
Basking Ridge, NJ 07920

Dear Tony Skiadas:

**Final Report Transmittal Letter— Audit of Verizon Communications, Inc.
Subsidiary Los Angeles SMSA Limited Partnership Public Purpose Program
Surcharges for the Period of April 1, 2023, Through June 30, 2024**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of Verizon Communications, Inc. subsidiary Los Angeles SMSA Limited Partnership (LASMSA) Public Purpose Program surcharges for the period of April 1, 2023, through June 30, 2024. The final audit report is enclosed.

We issued the draft audit report on November 12, 2025. Verizon's response to the draft report findings and our evaluation of the response are incorporated into this final report. In addition, as outlined in General Order (G.O.) 66-D and the California Public Records Act (Government Code [GC] Sections 6250-6276.48.), Verizon requested confidential treatment of specific sections of its response letter and tables summarizing Verizon's access line counts contained in this report. As a result, the confidential information contained in the final public report is redacted. We will post the final redacted audit report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/AuditReportsbyIndustry).

A Corrective Action Plan (CAP) addressing the findings and recommendations is required to be submitted within 45 days from the issuance of this final audit report. Please provide a CAP by March 12, 2026. The CAP should include specific steps and target dates for implementing each specific corrective action to correct the findings identified. Please submit the CAP to Utility Audits Branch at UtilityAudits@cpuc.ca.gov.

If you have any questions regarding this report, please contact Sharmin Wellington, Supervisor, (916) 928-9838.

Sincerely,

Masha Vorobyeva for Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division
cc: See next page

Tony Skiadas, Executive Vice President
Chief Financial Officer
Verizon Communications, Inc.
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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the Verizon Communications, Inc. (Verizon) subsidiary Los Angeles SMSA Limited Partnership (LASMSA) Public Purpose Program (PPP) surcharges for the audit period of April 1, 2023, through June 30, 2024.

Our audit objectives were to determine whether Verizon's subsidiary LASMSA:

- accurately assessed, classified, and reported to CPUC the number of access lines,
- accurately assessed, collected, and reported to CPUC the PPP surcharges, and
- timely reported and remitted the PPP surcharges collected to CPUC,

in accordance with Public Utilities (PU) Code section 879, CPUC's Decisions (D.) 22-10-021 and D.98-01-023, and other applicable rules, regulations, and requirements.

Based on the procedures performed, samples tested, and evidence gathered, we found instances of noncompliance with requirements for the audit period April 1, 2023, through June 30, 2024. These instances are described in the Findings and Recommendations section of this audit report. The audit findings are summarized as follows:

- **Finding 1: Failure to Implement the New Access Line Flat Rate Mechanism**
Verizon failed to comply with CPUC D.22-10-021 by not implementing the new access line reporting mechanism as required by CPUC.
- **Finding 2: Potentially Under Remitted Surcharges of at Least \$100,848**
Verizon potentially under remitted at least \$100,848 for PPP surcharges due to incorporating various internal adjustments when computing its total access line counts.
- **Finding 3: Failure to Comply with Subpoena and Data Requests**
Verizon failed to comply with the subpoena CPUC issued on May 2, 2025, and UAB's data requests.

We issued a draft report on November 12, 2025. Verizon responded by letter dated November 25, 2025, disagreeing with the audit results and providing additional documentation for our review. Verizon'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.

As a result of our evaluation of additional documentation provided by Verizon with its response letter, we revised Finding 2 of this audit report as outlined in Appendix B—UAB's Evaluation of Utility's Response.

AUDIT REPORT

Background

Public Purpose Program Surcharges

Several surcharges and taxes are assessed on communications services by the State of California, city and county governments, and federal agencies to support various public programs and public safety. Communications carriers collect these taxes and surcharges from their customers and remit these funds to the appropriate agencies or authorities that administer these public programs.

The California Public Utilities Commission (CPUC) is responsible for administering the state's six Public Purpose Programs (PPPs). The PPPs, set forth in Public Utilities (PU) Code sections 270–281, include Universal LifeLine Telephone Service, Deaf and Disabled Telecommunications Program, California High-Cost Funds A and B, the California Teleconnect Fund, and California Advanced Services Fund. These PPPs provide support for the cost of communications services to approved participants, with a focus on supporting low-income households, schools, and underserved communities. The PPPs are funded by a surcharge assessed on telecommunications services. Communication carriers collect the surcharges from their customers and remit them to CPUC to fund these programs, including the user fees, which support the CPUC's operational costs.

Flat Rate Surcharge Mechanism

Previously the PPP surcharges and the user fees were assessed as a portion of the revenue from intrastate telecommunications services sold in California. However, CPUC adopted the new surcharge mechanism utilizing a flat rate to fund California's PPPs effective April 1, 2023. CPUC's Decision (D.) 22-10-021 adopted the new mechanism that assesses surcharges as a flat rate based on the number of active access lines that a telephone corporation operates in California. The Decision also consolidated the individual surcharge line items for each of the six PPPs on a customer's bill into a single flat-rate surcharge amount. The flat rate during the audit period was \$1.11 per active access line. The Decision did not change the mechanism of collecting and reporting the surcharges and user fees through utilizing CPUC's Telecommunications and User Fees Filing System (TUFFS). Communication carriers are required to log into TUFFS and report the number of active access lines monthly for the system to compute the amount of surcharges to be remitted based on the number of access lines reported. CPUC's D.22-10-021 defines an access line as a wire or wireless connection that provides a real time two-way voice telecommunications service or VoIP service to or from any device utilized by an end user, regardless of technology, which is associated with a 10-digit NPA-NXX number or other unique identifier and a service address or Place of Primary Use in California.

Verizon Communications, Inc. (Verizon)¹

Verizon was formed in 1983 as Bell Atlantic and changed its name to Verizon Communications, Inc. in June 2000, when it merged with GTE Corporation. Verizon is incorporated in Delaware with headquarters in New York (corporate) and New Jersey (operations). Verizon provides cable, internet, and telecommunications services to business and residential customers nationwide. Verizon operates 17 brands offering wireless and wireline telecommunications in California, including, but not limited to:

- Los Angeles SMSA Limited Partnership (LASMSA) -wireless

¹Verizon's website provides historical background of its company at <https://www.verizon.com/about/our-company/history-and-timeline>

- GTE Mobilnet of California Limited Partnership -wireless
- Cellco Partnership -wireless
- MCI Communications Services LLC -wireline

Verizon Subsidiary Los Angeles SMSA Limited Partnership (LASMSA)

Verizon subsidiary LASMSA was formed in California in 1984 and partnered with Verizon in 1999. LASMSA provides cellular service in the Los Angeles standard metropolitan statistical area (SMSA).

Verizon subsidiary LASMSA reported access lines ranging between approximately [REDACTED] [REDACTED] in TUFFS and remitted [REDACTED] in PPP surcharges during the audit period of April 1, 2023, through June 30, 2024, as outlined in the table below:

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.22-10-021, UAB is authorized to verify the PPP surcharges for the purposes of ensuring communication carriers' regulatory compliance.

Objective and Scope

Our audit objectives were to determine whether Verizon's subsidiary LASMSA:

- accurately assessed, classified, and reported to CPUC the number of access lines,
- accurately assessed, collected, and reported to CPUC the PPP surcharges, and
- timely reported and remitted the PPP surcharges collected to the CPUC,

in accordance with PU Code section 879, D.22-10-021 and D.98-01-023, and other applicable rules, regulations, and requirements.

The scope of our audit covered LASMSA access lines reported and corresponding surcharges remitted in the amount of [REDACTED] for the audit period of April 1, 2023, through June 30, 2024.

Methodology

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

We conducted a risk assessment, including evaluating whether Verizon's key internal controls relevant to our audit objectives were properly designed, implemented, and operating effectively. Our assessment included conducting interviews and testing transactions. Deficiencies in internal control 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 Verizon's compliance system. Our assessment included examining extracted reports Verizon sends to its third-party contractor and reconciling the extracted reports to the tax liability report. 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 PU Code sections, CPUC decisions, resolutions, orders, and advice letters to gain an understanding of the surcharge requirements, including the assessing and reporting criteria and remittance process.
- Reviewed Verizon's background information including its policies and procedures to gain an understanding of the nature of the utility and its responsibility to report and remit surcharges.
- Requested internal and external prior audit reports from Verizon and determined there were no prior audit reports significant to our audit objectives.
- Assessed significance by performing an analysis of LASMSA access lines reported and surcharge remittances.

- Obtained an understanding of Verizon’s key internal controls relevant to surcharge requirements for assessing, reporting, collecting, and remitting surcharges, and assessed the design, implementation, and operating effectiveness of selected controls that are significant to the audit objectives by:
 - interviewing key personnel and completing an internal control questionnaire,
 - reviewing Verizon’s policies and procedures, and assessing their implementation pertaining to recording and reporting of surcharge requirement data, and
 - requesting on at least two occasions to conduct a walk-through of the billing system without successful resolution.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Selected April 2023, December 2023, January 2024, and May 2024 to perform testing procedures, as outlined in the table below.

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

- For the selected months identified above, performed substantive testing procedures including the following:
 - Verifying that Verizon accurately assessed, classified, and reported the number of access lines to CPUC’s TUFFS by:
 - inquiring with Verizon regarding its methodology to maintain and report the number of active access lines to CPUC,
 - obtaining confirmation from Verizon that it remits surcharges based on tax collected and not based on a list of active access line counts, and

- performing data analytics of Verizon's monthly billing system reports to count the number of records in the reports and to reconcile with amounts reported in TUFFS.
- Verifying that Verizon accurately assessed, collected, and reported surcharges by:
 - selecting 200 LASMSA customers' bills from the billing data file and reviewing the seven customers' bills provided (only seven bills were provided) to ensure the accurate surcharge amount appeared on the bills,
 - obtaining and analyzing Verizon's Compliance Data File Detail report for April 2023, December 2023, January 2024, and May 2024 to identify any variances that deviated from the CPUC surcharge required flat rate of \$1.11,
 - calculating the variance between the surcharge amounts computed using the CPUC required flat-rate of \$1.11 and the surcharge amounts shown in Verizon's Compliance Data File Detail report computed using a different flat-rate,
 - analyzing the Tax Liability Analysis Report and Compliance Data File Detail report and comparing the amounts to the surcharge amounts reported in TUFFS, and
 - recalculating and tracing the recalculated amounts to the total surcharges on the billing data report to ensure the reported amount traced to the collected amount.
- Verifying that LASMSA timely reported and remitted surcharges to CPUC TUFFS by:
 - confirming that LASMSA paid the surcharges in TUFFS timely, and
 - verifying that LASMSA timely reported access lines to CPUC by reviewing the reported and remitted dates in TUFFS to determine compliance with CPUC regulation which require carriers to report access line counts no later than 40 days following the close of the reporting period.

We did not audit Verizon's financial statements. Our audit scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance in determining whether Verizon subsidiary LASMSA accurately assessed, classified, and reported to CPUC the number of access lines, whether it accurately assessed, collected, and reported to CPUC the PPP surcharges, and whether it timely reported and remitted the PPP surcharges collected to CPUC, in accordance with PU Code section 879, D.22-10-021 and D.98-01-023. We considered Verizon'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 instances of noncompliance with requirements for the audit period of April 1, 2023, through June 30, 2024. These instances are described in the Findings and Recommendations section of this audit report.

We also identified deficiencies in internal control that are significant to the audit objectives and warrant the attention of Verizon's management. These deficiencies are also described in the Findings and Recommendations section of this audit report.

Follow-up on Prior Audit Findings

We have not previously conducted an audit of Verizon's PPP surcharges within the last ten years. Furthermore, Verizon 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 issued a draft report on November 12, 2025. Verizon responded by letter dated November 25, 2025, disagreeing with the audit results and providing additional documentation for our review. Verizon'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. As a result of our evaluation of additional documentation provided by Verizon with its response letter, we revised Finding 2 of this audit report as outlined in Appendix B—UAB's Evaluation of Utility's Response.

Restricted Use

This audit report is intended solely for the information and use of Verizon 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 \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Alaska Vorobyeva for Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

FINDINGS AND RECOMMENDATIONS

Finding 1: Failure to Implement the New Access Line Flat Rate Mechanism

Condition:

Verizon failed to comply with CPUC D.22-10-021 by not implementing the new access line reporting mechanism as required by CPUC. Specifically, Verizon subsidiary LASMSA is reporting the access line count based on the total amount of PPP surcharges billed to its customers and not based on the number of active access lines. Verizon takes the total amount of PPP surcharges billed each month for its subsidiary LASMSA and divides the total amount collected by the flat rate of \$1.11 to back into the number of active access lines its subsidiary LASMSA reports to CPUC. Therefore, the number of active access lines reported in TUFFS is not accurate. Verizon does not follow CPUC's requirement to maintain and report the number of active access line counts and rather reports its access line counts to CPUC based on its tax engine amount collected.

Our review of Verizon's Compliance Data File Detail report revealed that Verizon did not consistently impose a flat rate of \$1.11 surcharge on each active access line during the audit period and that some access lines were billed at rates less than \$1.11. Therefore, Verizon's methodology of backing into the number of active access lines it reports to CPUC by dividing its total collected surcharges by \$1.11 resulted in an inaccurate number of access lines reported in TUFFS during the audit period. In other words, backing into the number of access lines based on Verizon's tax engine total collection amounts yielded an incorrect result because total collection amounts revealed deviations when less than \$1.11 was assessed per access line. According to Verizon, these noted deviations represented various internal adjustments to account for bad debt, billings cycle timing, prorations for prepaid services, and other miscellaneous internal adjustments.

Pursuant to D.22-10-021, effective April 1, 2023, all telephone corporations (carriers) operating in California are required to assess, collect, and remit PPP surcharges pursuant to the access line flat rate surcharge mechanism. The new surcharge mechanism requires carriers to report *the number of active access lines* (emphasis added) for telephone services in California. CPUC then calculates PPP surcharges to be remitted based on the number of access lines reported by the utilities in TUFFS. As Verizon has not implemented a methodology to record and maintain a running log of active access lines, as prescribed by D.22-10-022, our review of the audit evidence determined that the active access line counts Verizon's subsidiary LASMSA reported to CPUC were inaccurate. Furthermore, we were unable to determine the correct number of access lines that should have been reported to the CPUC since Verizon did not or would not provide that information even after several data requests, as explained in Finding 3.

Criteria:

CPUC D.22-10-021 states, in part, that:

Order 1

All telephone corporations, including traditional wireline, wireless and Voice over Internet Protocol (VoIP) carriers or providers, operating in California shall assess, collect, and remit California's PPP surcharges pursuant to the access line flat rate surcharge mechanism adopted in this decision.

Summary

The new mechanism assesses surcharges based on the number of active access lines for telephone corporations operating in California.

Section 4.1.2

All carriers would be required to count and report access lines in the same manner.

Section 4.2.2

A single flat rate end user surcharge mechanism will allow each carrier, regardless of the technology mode (e.g., VoIP or wireless) or business model (e.g., prepaid or postpaid), to collect and remit PPP surcharges based on one standard – the number of access lines each provider operates.

Section 5.2.2

Access Line means a wire or wireless connection that provides a real time two-way voice telecommunications service or VoIP service to or from any device utilized by an end user, regardless of technology, which is associated with a 10-digit NPA-NXX number or other unique identifier and a service address or Place of Primary Use in California.

Section 6

The shift to an access line based PPP surcharge mechanism will require carriers to report access line counts on the same monthly schedule as they currently report their intrastate telecommunications revenue, which is no later than 40 days following the close of a reporting period.

Section 6.2

The new surcharge mechanism will apply to all customer classes and will be based on the number of telecommunications access lines in the state.

Cause:

Verizon chose to follow a different methodology than the one required in D.22-10-021 by backing into the number of reported access lines utilizing its tax engine collections. Verizon stated that it reported data to CPUC based on “tax collected.” Verizon did not maintain or would not provide a list of its active access lines.

Effect:

Lack of compliance with CPUC regulations may lead to material errors, such as:

- PPP surcharges collected from customers may be inaccurate resulting in misrepresented active access line counts reported,
- Inaccurate active access line counts reported may result in an incorrect (over/under) surcharge remittance to CPUC,
- Stakeholders may not be able to properly evaluate the effectiveness of the new surcharge mechanism, and
- Decision makers may not have reliable information to make appropriate adjustments to the surcharge flat rate.

The PPPs are funded by ratepayers; therefore, Verizon has a fiduciary duty to ensure surcharges are accurately assessed, collected, and remitted, pursuant to the access line flat rate surcharge mechanism adopted in D.22-10-021. When the surcharges are not assessed, collected and remitted as required, the errors adversely affect the availability of funds allocated to support the PPPs.

Recommendations:

Verizon should:

- Implement a system of recording, counting, and maintaining the number of active access lines to ensure compliance with CPUC's regulations, if it does not already,
- Assess, bill, and collect the required flat rate amount per each active access line as required by D.22-10-021 and CPUC requirements, and
- Report access lines to CPUC based on accurate number of active access line counts and not based on the amounts billed or collected from its customers.

Finding 2: Potentially Under Remitted Surcharges of at Least \$100,848**Condition:**

In the four months that were selected for testing, UAB determined that Verizon subsidiary LASMSA potentially under remitted at least \$100,848 for PPP surcharges due to incorporating various internal adjustments when computing its total access lines. Specifically, our audit revealed that Verizon applied less than \$1.11 to some of the access lines during the audit period, evident from Verizon's Compliance Data File Detail report. Per Verizon's explanation, the report represents Verizon's summary of surcharge amounts² for aggregate collections of multiple access lines per each transaction recorded in the report. For example, one collection of \$5.55 represents surcharges collected for five access lines and another collection of \$3,449.88 represents surcharges collected for 3,108 access lines, when divided by the \$1.11 flat rate applicable during the audit period.

UAB reviewed the report for the four out of 15 months selected during the audit: April 2023, December 2023, January 2024, and May 2024. Our review revealed approximately 11,000 instances for the four months selected in which Verizon deviated from the required flat rate of \$1.11 and recorded collections of less than \$1.11 for some access lines, including recording \$0 or showing negative adjustments in some instances. Each instance represented deviations ranging between a few cents and a few million dollars that were adjusted from the sum of the total surcharges collected. For example, one of the instances included an amount totaling a negative value of \$4,939,337 that was adjusted from the total surcharges during May 2024. Due to the high rate of these deviations, UAB requested a list of all instances and explanations of these deviations for the audit period. Verizon did not provide such details prior to issuance of the draft audit report.

In Verizon's response to the draft audit report, Verizon indicated that these deviations were attributed to various internal adjustments in its system, which did not affect the total number of access lines reportable to CPUC. Verizon provided its explanations of these various adjustments for the four months tested, including the following:

² Verizon refers to surcharge collections as "return tax amount" in its Compliance Data File Detail report.

- Separation of the business/residential amounts,
- Adjustments for billing cycle timing,
- Adjustments for prepaid services proration,
- Adjustments for bad debts, and
- Miscellaneous other adjustments.

We reviewed Verizon's additional documentation submitted with its response to the draft report and provided our detailed assessment in Appendix B—UAB's Evaluation of Utility's Response. We concluded that some of Verizon's internal adjustments were either unallowable (adjustments for bad debt and prepaid services prorations) or unsupported (adjustments for billing cycle timing and miscellaneous adjustments). Due to various unallowable and unsupported internal adjustments, we determined that the surcharges reported were inaccurate for the four months tested during the audit. As Verizon did not provide the double-entry general ledger (GL) to support the adjustments for the audit period (see Finding 3); therefore, we could not expand our testing to determine the full extent of LASMSA's under-remittance for the entire audit period. Table below summarizes total under remitted surcharges due to internal adjustments noted for the four months tested:

Table 3. Summary of Potentially Under Remitted PPP Surcharges

Selected Months	Under Remitted Surcharges for Internal Adjustments Recorded at Amounts \$0-\$1.10	Under Remitted Surcharges for Internal Adjustments Recorded at Negative Amounts	Total Under Remitted Surcharges for Various Internal Adjustments
April 2023	\$ 2,326	\$ 20,489	\$ 22,815
December 2023	675	16,213	16,888
January 2024	625	16,411	17,036
May 2024	1,301	42,808	44,109
Total*	<u>\$ 4,927</u>	<u>\$ 95,921</u>	<u>\$ 100,848</u>

*Per Verizon's explanation, the adjustments included bad debt, billings cycle timing, prepaid prorations, and other miscellaneous adjustments.

Criteria:

D. 22-10-021 states, in part, that:

Order Paragraphs 1

1. All telephone corporations, including traditional wireline, wireless and Voice over Internet Protocol (VoIP) carriers or providers, operating in California shall assess, collect, and remit California's Public Purpose Program surcharges pursuant to the access line flat rate surcharge mechanism adopted in this decision.

Order Paragraphs 2

2. All telephone corporations, including traditional wireline, wireless and Voice over Internet Protocol carriers or providers, shall report their access lines used to provide two-way communication, as defined in this decision. This reporting may be subject to Commission review and audit. Reporting and remittance dates can be found at [CPUC Telephone Surcharges Reporting and Payment Filing Directions \(ca.gov\)](https://www.cpuc.ca.gov/your-work/industry/telecommunications/telephone-surcharges)

Order Paragraphs 6

6. All telephone corporations, including traditional wireline, wireless and Voice over Internet Protocol carriers or providers, shall implement the new access line flat rate surcharge collection and remittance mechanism adopted in this decision, beginning April 1, 2023.

Order Paragraphs 8

8. The \$1.11 access line based surcharge rate effective April 1, 2023 is intended to fund all of California's universal service programs until the Commission updates the rate using its resolution process.

Order Paragraphs 9

9. Beginning June 9, 2023, all telephone corporations, including traditional wireline, wireless and Voice over Internet Protocol carriers or providers, shall report their access line data, as required by this decision, in CPUC's new Telecommunications and User Fee Filing System portal.

D.12-02-032 section 9.6 states, in part, that:

...regardless of how the surcharge is calculated, collected, and remitted, the carrier, not the customer, is ultimately responsible for payment of the surcharge...the utility is ultimately responsible for ensuring payment of the proper surcharge amount. It is the utility, not customers, over whom the Commission exerts jurisdiction.

Cause:

In Verizon's response to draft audit report, Verizon indicated that the deviations noted during testing were attributed to various internal adjustments in its system.

Effect:

Verizon has a fiduciary duty to ensure the surcharges assessed, collected, and remitted are accurate. Errors can adversely affect the availability of funds allocated to support the eligible participants, including low-income and underserved communities, who depend on the PPP funding. In addition, decision makers may not have reliable information to make certain assessments.

Recommendations:

Verizon should:

- Moving forward, comply with CPUC D.22-10-021 and assess the required flat rate amount on all active access lines,
- Moving forward, comply with CPUC D.12-02-032, section 9.6, and report and remit flat rate surcharge amounts for all active access lines regardless of any adjustments for bad debt or prorated services, and

- Work with CPUC's CD to remit at least \$100,848 for under remitted PPP surcharges for the selected four months to CPUC and determine any additional surcharge amount from April 1, 2023, to present.

Finding 3: Failure to Comply with Subpoena and Data Requests

Condition:

Verizon failed to comply with data requests during the audit and CPUC issued Subpoena dated May 2, 2025, for Records Related to Audit of Verizon Communications, Inc for the period of April 1, 2023, through June 30, 2024 (Subpoena). Consistent with CPUC's audit authority and standard audit practices, we submitted various data requests to Verizon during this audit. However, Verizon continued to delay providing the requested documents even after multiple extension due dates and follow-up discussions. In addition, Verizon failed to comply with the Subpoena that was issued as a result of Verizon's non-compliance with the audit requests.

For example, UAB's initial data request sent October 1, 2024, requested Verizon provide specific supporting documentation before October 10, 2024. However, Verizon provided the requested documents months after the initial due date. Verizon has stated that due to the nature and size of its business, the turnaround time for document requests takes longer. Therefore, we provided Verizon with multiple due date extensions for all documents requested. Nonetheless, Verizon still failed to provide the requested documents within the extended due dates.

In addition to Verizon's failure to provide the requested documents and information by the prescribed due dates, it also did not provide some of the requested data to date. In addition, in some instances, Verizon also provided different information that was not requested. For example, in the initial data request sent October 1, 2024, UAB requested a complete list of access lines that originate in California. Instead, Verizon provided reports from its billing system six months later, stating that Verizon does not have a mechanism to count access lines. Access line reports are critical to performing this audit and to date, Verizon has not provided a list of its active access lines in California. Furthermore, during UAB's onsite visit, we requested walkthrough interviews be scheduled with subject matter experts (SMEs) that were responsible for key functions of assessing surcharges and reporting the number of access lines. However, during UAB's onsite visit, none of the SMEs involved with these key processes were made available.

Table below outlines some examples of delays Verizon exhibited in providing requested documentation, as well as documentation that is still outstanding or was not provided.

Table 4. Examples of Document Request Delays

Examples of Documents Requested	Request Date	Status
List of access lines in California for the audit period	October 1, 2024 October 17, 2024: added Cellco, GTE and MCI	Outstanding Provided Billing Report for one month instead of report containing a list of access lines May 21, 2025
Inquiry regarding prior audit reports	October 1, 2024	Provided response March 4, 2025
Organization Chart	October 1, 2024	Provided June 10, 2025
General Ledger	May 2, 2025	Outstanding
Chart of Accounts	May 2, 2025	Provided September 16, 2025
FCC Form 477 Report	May 2, 2025	Outstanding Did not provide detail report
List of all instances when customers were assessed less than \$1.11 for the audit period	September 4, 2025	Outstanding

Although UAB sent repeated follow-up emails requesting the data be provided, Verizon remained uncooperative and failed to provide the requested data in a timely manner. Pursuant to PU Code sections 314, 314.6 and 581 and D.22-10-021, and CPUC's Subpoena, Verizon is required to comply with UAB's audit. Due to Verizon's failure to cooperate fully with the audit requests by not providing the requested documentation timely or completely, UAB was unable to efficiently perform testing to determine the accurate number of active access lines during the audit period.

Criteria:

PU Code section 274 states, in part, that:

The commission shall conduct a financial and compliance audit of program-related costs and activities at least once every three years.

PU Code section 314 (a) states, in part, that:

The commission, each commissioner, and each officer and person employed by the commission may, at any time, inspect the accounts, books, papers, and documents of any public utility. The commission, each commissioner, and any officer of the commission or any employee authorized to administer oaths may examine under oath any officer, agent, or employee of a public utility in relation to its business and affairs.

PU Code section 314.6 (a) – (c) states, in part, that:

- (a) The commission may conduct financial and performance reviews or audits of any entity or program created by any order, decision, motion, settlement, or other action of the commission.
- (b) The commission shall complete any review or audit in a timely manner consistent with applicable auditing standards.
- (c) After performing a review or audit pursuant to this section, the commission may conduct additional follow-up work that is related to any findings and recommendations related to the review or audit.

PU Code section 581 states, in part, that:

Every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure.

PU Code section 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.

PU Code section 584 states, in part, that:

Every public utility shall furnish such reports to the commission at such time and in such form as the commission may require in which the utility shall specifically answer all questions propounded by the commission.

PU Code section 2107 and Resolution T-17601 states, in part, that:

Any public utility that violates or fails to comply with any provision of the Constitution of this state or of this part, or that fails or neglects to comply with any part or provision of any order, decision, decree, rule, direction, demand, or requirement of the commission, in a case in which a penalty has not otherwise been provided, is subject to a penalty of not less than five hundred dollars (\$500), nor more than fifty thousand dollars (\$50,000) for each offense.

PU Code section 2113 states, in part, that:

Every public utility, corporation, or person which fails to comply with any part of any order, decision, rule, regulation, direction, demand, or requirement of the commission or any commissioner is in contempt of the commission, and is punishable by the commission for contempt in the same manner and to the same extent as contempt is punished by courts of record. The remedy prescribed in this section does not bar or affect any other remedy prescribed in this part, but is cumulative and in addition thereto.

Subpoena for Records Related to Audit of Verizon Communications, Inc for the period of April 1, 2023, through June 30, 2024, dated May 2, 2025, required Verizon to provide specific supporting documentation by a designated due date.

Cause:

Verizon stated it is time consuming to collect requested documents because Verizon is a very large company, and providing requested documents requires working with other groups that are in different locations, and some requests require additional time to gather. Verizon lacks protocols to effectively coordinate data request responses with its subsidiaries and work groups and lacks adequate processes to ensure documentation is readily retrievable and made available upon request. In addition, Verizon lacks adequate policies and procedures to ensure compliance with CPUC directives including adhering to subpoenas, and the timely submittal of document requests.

Effect:

Lack of timely responses from Verizon and Verizon's inability to provide some key supporting documentation requested diminishes Verizon's apparent transparency to the public, CPUC, and various stakeholders. Lack of transparency can lead to adverse effects such as:

- CPUC's and stakeholders' inability to verify the accuracy of reported information,
- CPUC's and stakeholders' inability to detect and prevent potential material errors and funding allocation issues for the PPPs,
- Diminished public trust,
- Stakeholders' inability to properly evaluate the effectiveness of the new surcharge mechanism, and
- Lack of reliable information for decision makers to make appropriate adjustments to the surcharge flat rate.

Recommendations:

Verizon should:

- Develop protocols to coordinate its efforts effectively with its subsidiaries and various internal work groups in providing requested information by the requested due dates,
- Implement policies and procedures to ensure compliance with CPUC directives including adhering to subpoenas and the timely submittal of document requests, and
- Work with CPUC's CD to determine appropriate actions to ensure corrective actions are implemented.

APPENDIX A—UTILITY'S RESPONSE TO DRAFT AUDIT REPORT



November 25, 2025

Via Email – Confidential

Angie Williams, Director
Utility Audits, Risk and Compliance Division
California Public Utilities Commission
505 Van Ness Ave.
San Francisco, CA 94105

***Re: Letter—Audit of Verizon Communications, Inc. Subsidiary Los Angeles SMSA Limited Partnership
Public Purpose Program Surcharges for the Period of April 1, 2023, Through June 30, 2024***

Dear Ms. Williams:

Thank you for the opportunity to respond to the findings in the Audit Report. As explained below, Verizon respectfully disagrees with the Audit Report's findings, and particularly with Finding 2's conclusion that Verizon must remit \$5,466,821 to the California Public Utilities Commission ("Commission" or "CPUC"). This finding is based on an incorrect interpretation of a data file that was submitted, and a misreading of that file's entries. Accordingly, this finding must be revised to eliminate the finding that Verizon under-remitted this amount to the Commission.

In addition, Verizon requests that Finding 1 and Finding 3 be revised as well. Verizon respectfully submits that (i) its method for counting active access lines is reasonable and consistent with the CPUC's Decision D.22-10-021, and (ii) Verizon responded diligently and timely to the staff's requests.

Verizon requests confidential treatment of marked sections of this response and two attachments submitted today. Verizon also requests that Tables 1 and 2 of the Audit Report and related text in the Audit Report be redacted in their entirety as they contain Verizon's access line counts and surcharge remittances (which can reflect access line count) for several months. Please see attached Declaration for Confidential Treatment.

Finding 1: Failure to Implement the New Access Line Flat Rate Mechanism

Verizon respectfully disagrees with the Audit Report's Finding 1 that it did not comply with the assessment, billing, collecting, or reporting requirements of the new flat-rate mechanism in D.22-10-021 ("Decision"). The Decision requires providers to "assess, collect, and remit" the flat rate surcharge per each active access line. See D.22-10-021, Ordering Para. ("OP") 1. Verizon *assessed, collected, and remitted* the amount of the \$1.11 surcharge on each of its active access lines, consistent with OP 1.

This finding essentially takes issue with Verizon's method for determining its monthly access line count. The Decision, however, did not specify a method for recording, counting, or reporting access lines. Verizon complied with OP 2, which requires that providers "report their access lines used

to provide two-way communication, as defined in this decision.”¹ The Audit Report’s Finding 1 suggests that Verizon’s method – when it “backed into” its access line count based on “tax collected” – was incorrect.² First, this conclusion does not accurately or completely describe Verizon’s method for determining and reporting its access lines. Verizon’s current process for reporting access lines to the Commission requires data to be pulled from the billing system, as it is the most accurate source for identifying surcharges imposed on active access lines. Thus, in determining its monthly count of access lines, Verizon determined its monthly access line count by [REDACTED]

[REDACTED] ~~Conclusion. [REDACTED]~~ The Decision does not prohibit this method of counting access lines. Second, as explained below, Verizon’s methodology for reporting monthly access line count is more accurate than counting monthly individual access lines, because it is tied to billed surcharge amounts and thus reflects the amount billed for that month.⁵

The Audit Report contends that providers should report “the *number of active access lines* (emphasis added) for telephone services in California,”⁶ which the Commission’s TUFFS would use to calculate the amount to be remitted. As noted, Verizon *did report its monthly active access line count*, derived from the “billed” access lines. [REDACTED]

[REDACTED] In this scenario, if Verizon were to report only active access lines in May (as opposed to counting the number of surcharges billed to access lines), TUFFS would calculate an underpayment of Verizon’s *billed* surcharges for the month of May.

Another reason that Verizon determines its access line count as described is so that it can adjust for bad debt write-offs and recovery⁷ as these will affect the surcharges that Verizon collects and remits. Unlike the PUC’s User Fee, which is imposed on utilities,⁸ the PPP surcharge is required to be assessed *on the customer*.⁹ The Decision recognizes this by requiring providers to bill, but also to *collect and*

¹ D.22-03-021, OP 2.

² The Audit Report also incorrectly alleged that “Verizon did not maintain or would not provide a list of its active access lines.” Audit Report at 9. As discussed in response to Finding 3, Verizon noted that a comprehensive list of all access lines with the details requested by the staff was not readily available, Verizon provided files of all the account numbers that had been billed the surcharge, which effectively constituted a list of the *number* of active access lines assessed the surcharge. These files were multiple and titled: [REDACTED]

³ For Verizon’s prepaid customers, the surcharge is indirectly billed as part of a tax-inclusive plan.

⁴ Adjustments may include write-offs of bad debt.

⁵ The Audit Report recommends that Verizon “implement a system of recording, counting, and maintaining the number of active access lines to ensure compliance with CPUC’s regulations.” Verizon’s methodology is that system.

⁶ Audit Report at 8.

⁷ For example, there may be customers who never pay their bills and after a certain number of months, Verizon will write off the outstanding debt (resulting in reduced surcharge collection). Other customers may pay off outstanding debt that was previously written off (resulting in increased surcharge collection).

⁸ Pub. Util. Code Section 431 (the User Fee “shall ... *be paid by* every electrical, gas, *telephone*, telegraph, ... public utility”).

⁹ See D.22-10-021, Finding of Fact Para.4 (“*Existing law* and Commission decisions, including D.96-10-066, requires that all telephone corporations, including traditional wireline, wireless, and VoIP carriers, assess and *collect PPP surcharges from their end users* and *remit those revenues* to the Commission.”) (emphasis added).

remit surcharge amounts.¹⁰ To the extent that a provider is unable to collect surcharges from customers, such bad debts and late payments are accounted for through Verizon's methodology.

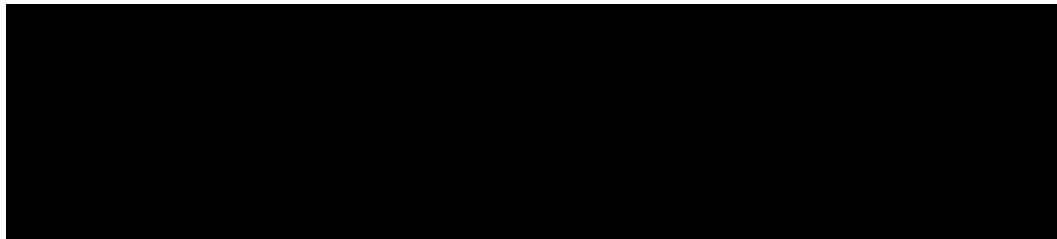
For the foregoing reasons, a requirement that Verizon report only its active access lines would result in a discrepancy between the reported line count and the number of surcharges billed to access lines, and fail to account for debt write-offs or late payments. Verizon respectfully requests that the final Audit Report be revised to conclude that Verizon's method of determining the number of access lines (based on billed surcharges, with adjustments for bad debts or late payments) is reasonable and consistent with the Decision's requirement that Verizon *assess*, and *collect and remit* surcharges to the Commission.

Finding 2: Under Remitted at Least \$5,466,821 Surcharges Due to Inconsistently Applying the Flat Rate

Verizon disagrees with the Audit Report's Finding 2 that it under-remitted at least \$5,466,821 of PPP surcharges due to inconsistently applying the flat rate of \$1.11.

As an initial matter, the Audit Report mistakenly relies on the Verizon Compliance Data File Detail report (the "Compliance Data File") as representing a summary of surcharge amounts for aggregate collections on a customer level. The Compliance Data File, is not the correct file to review whether the flat rate surcharge was accurately imposed. Verizon's Compliance Data File is specifically the data file that Verizon sends to its third-party vendor that completes the compliance reporting on their behalf. This distinction is important because the Compliance Data File contains various internal adjustments necessary for reporting in addition to the surcharge amount collected. The adjustments contained in the Compliance Data File are explained in detail below. The Audit Report mistakenly interpreted some of these entries - particularly the Adjustments to Business/Residential (discussed below) - as affecting the amounts remitted to the CPUC. It should also be noted that Verizon did provide a report detailing its aggregate access line assessments on a customer level (which could be used to determine whether the flat-rate surcharge was imposed on an access line). Verizon can provide this customer level report again, if necessary.

The following is an explanation of all adjustments reflected in Verizon's Compliance Data File. An attachment containing Verizon's Compliance Data File has been consolidated and notated to reflect the adjustment categories below for CPUC's reference. See **Confidential** Attachment 1. LA SMSA_Compliance Data File Report_Audit Sample Months.xlsx.



¹⁰ D.22-10-021, OP 6 ("All telephone corporations, including traditional wireline, wireless and Voice over Internet Protocol carriers or providers, shall implement the new access line flat rate *surcharge collection and remittance* mechanism adopted in this decision...").

Adjustments to Report Business/Residential: In a notice dated March 6, 2024, from [REDACTED] at the CPUC titled “Updates to the new Telecommunications & User Fee Filing System and access to the Legacy Data,” the CPUC notified providers that they would need to report access lines for residential and business service separately: “UPDATES TO NEW TUFFS: The California Public Utilities Commission (Commission) is including additional fields for reporting Residential and Business lines on the Access Line reporting form, available April 1, 2024.”

As a result of that guidance, and in order to comply with requirements in the TUFFS system, Verizon made adjustment (“ManualAdj”) entries that are flagged as such in the data provided to CPUC for the May 2024 sample period. These ManualAdj are present on 4,740 rows and contain credit entries totaling \$5,365,973 and debit entries in the same amount of \$5,365,973 to tax types [REDACTED] with the total amount resulting in \$0.15 of rounding. Thus, the credit entry was made solely to separate the total amount of \$5,365,973 into business and residential categories for reporting purposes. These entries were made only to comply with changes outlined in the notice received above and did not increase or decrease the total amount remitted to the CPUC. In the aggregate (i.e., residential plus business), the correct amount of PPP surcharges were remitted.

Billing Cycle Timing: Other entries that reflect less than \$1.11 are due to payments of the legacy calculation model (revenue-based surcharge). April 2023 was the first reporting month of the \$1.11 flat fee. Due to billing cycle timing, a portion of PPP surcharges likely related to the prior month (based on the legacy calculation model) was reported in April 2023. This activity is present on 1,921 rows and totals [REDACTED] of additional surcharge remitted. Because this surcharge follows the legacy calculation model (revenue-based surcharge), each of these rows are not divisible by \$1.11. Thus, such entries are not evidence that Verizon failed to remit the \$1.11 surcharge for the period in question.

Prepaid Out of Pocket Calculation: LA SMSA has product offerings that are prepaid and tax inclusive. A manual calculation is performed to report \$1.11 for each of the prepaid tax inclusive lines per month. The prepaid tax inclusive calculation results in entries that are not always divisible by \$1.11, possibly due to credits that were issued to customers. The prepaid out of pocket activity is present on 441 rows and totals [REDACTED] of additional surcharge remitted. Of the 441 rows for prepaid, 78 rows reflected surcharge amounts [REDACTED] which are not divisible by \$1.11.

Bad Debt: LA SMSA reports Bad Debt both written off and recovered from prior periods. This Bad Debt activity is noted as VISION_BDT in the SourceSystemCode column of the Compliance Data File. Bad Debt that is written off is reflected as a credit on the Compliance Data File while Bad Debt recovered from prior periods is a debit. The Bad Debt category is present on 6,434 rows and totals [REDACTED] of less surcharge remitted. Some of the bad debt is attributed to prior periods based on the legacy calculation model and is therefore not divisible by \$1.11. Therefore, this is not evidence that Verizon failed to remit \$1.11 for these entries.

Miscellaneous Adjustments: The Compliance Data File contains other miscellaneous adjustments that are made to ensure that our compliance source (billing) data reconciles to our General Ledger. There are scenarios where credits or adjustments are made to customer accounts that creates small variances between these two sources and this activity may not be divisible by \$1.11. This activity is present on 1,373 rows and totals [REDACTED] of less surcharge.

In conclusion, Verizon disagrees with the Audit Report’s Finding 2 that it under-remitted at least \$5,466,821 of PPP surcharges and believes that the various adjustments reflected in the Compliance Data File (the largest of which was required to break out residential versus business access

lines) accurately reflect the amount of PPP surcharges that Verizon was required to bill, collect and remit.

Finding 3: Failure to Comply with Subpoena and Data Requests

Verizon respectfully disagrees with the Audit Report's Finding 3 that Verizon failed to timely or completely respond to the staff's data requests including the Subpoena. Verizon worked in good faith to provide timely and complete responses to the auditors throughout the audit. The breadth and scope of the Subpoena and subsequent data requests, however, required greater time than the provided deadlines, which ranged from 10 business days to sometimes as little as three business days. Verizon appreciates that Commission staff had a schedule for conducting audits, but in its experience with other Commission audits (*e.g.*, General Order 95, General Order 156) staff has provided much more time to respond to data requests and allowed for extensions of several weeks or longer as necessary.

Staff sought a significant volume of data and documents within a short period of time. For example, the initial data request issued on October 1, 2024, sought within seven business days (October 10, 2024), among other things, a "complete list of access lines that originate/use in California via CSV or Excel or another database format ([which] should include the 10-digit NPA number or another unique identifier, service address, and start and/or end date.>"). Staff requested this file for the entire audit period of 15 months, which would have required not only an extraordinary volume of data requiring at least a couple of months to extract, but in a format that Verizon's billing department does not maintain.¹¹ However, in a good-faith effort to be responsive, Verizon did provide a complete list of all customer account numbers that were assessed surcharges and accounts with multiple access lines were repeated on the list to represent each access line in the account.¹² This list would enable staff to identify how many access lines were assessed surcharges.

Staff also issued the Subpoena that contained some requests with a deadline of "TBD." Given that no date had been set for those specific requests, Verizon believed that after our initial timely response on the due date of May 19, 2025, we would work with the Commission staff in good faith to complete the open requests as soon as possible. It should also be noted that when CPUC staff were on site at Verizon locations the following day on May 20, 2025, Verizon worked with the CPUC staff for two full days to provide as much information as possible.

Notwithstanding Verizon's diligent efforts to respond to the CPUC staff's questions and data requests, there were some misunderstandings between the CPUC staff and Verizon's team as to the scope of some requests, which also contributed to perceived delays. Part of this confusion resulted from the CPUC introducing a new audit team in March 2025 after the audit had already begun in October 2024. At this point, the agreed upon scope for the audit changed (*i.e.*, one sample month was increased to four) with the introduction of the new audit team. Despite the continual revised scope and expanded requests for information, Verizon worked diligently to respond to all the auditors' questions, some of which were sent before Verizon could respond to prior, outstanding requests.

Attached for reference is a spreadsheet detailing the dates of Verizon's responses to the auditors' data requests and the Subpoena. See **Confidential** Attachment 2 entitled "CA PUC Audit

¹¹ Staff ultimately agreed to narrow the data request to a narrower sample period.

¹² See [REDACTED]

Request Tracker.” As you will observe, some requests only provided three business days to respond. On the second page of Attachment 2, Verizon also responds to the Audit Report’s chart on page 13. This tab shows that Verizon responded to all the questions with responsive data, with the exception of the last request sent on September 4, 2025, that did not provide a due date, and to which Verizon was working to respond when the draft Audit Report was issued.

CONCLUSION

In conclusion, the Audit Report should be revised to eliminate Finding 2’s conclusion that Verizon must remit \$5,466,821 to the Commission. Verizon would be happy to work with the CPUC staff to explain why it did not under-remit any amounts to the CPUC.

Moreover, Findings 1 and 3 should be revised to acknowledge that (i) Verizon’s method for counting active access lines is reasonable and consistent with the CPUC’s Decision D.22-10-021, and (ii) Verizon responded as diligently and as timely as possible to the staff’s requests.

We welcome the opportunity to address any further questions or to clarify issues.

Sincerely,

Verizon Regulatory Compliance Group

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

We appreciate Verizon's comments submitted on November 25, 2025. We reviewed Verizon's response to the draft audit report. In its response letter, Verizon disagreed with the draft report findings and requested that all three of the audit findings be revised and provided additional information via attachments to its response letter to support its request. The response letter is included in this final report as Attachment A. However, the additional documents provided as attachments are not included in this final report due to length and confidentiality considerations. UAB reviewed all additional documentation provided and evaluated its content to make our final determination. We are providing our assessment of key areas of Verizon's response in the same order as listed in the response letter.

In addition, Verizon also requested that "Tables 1 and 2 of the Audit Report and related text in the Audit Report be redacted in their entirety as they contain Verizon's access line counts and surcharge remittances (which can reflect access line count) for several months," and provided a Declaration for Confidential Treatment attachment. This final report reflects redacted confidential information consistent with Verizon's comments.

Finding 1: Failure to Implement the New Access Line Flat Rate Mechanism

Verizon disagreed with Finding 1, which stated that Verizon did not comply with the assessment, billing, collecting, or reporting requirements of the new flat-rate mechanism outlined in CPUC Decision (D) 22-10-021. Verizon clarified that its current process for reporting access lines to CPUC requires pulling data from its billing system, emphasizing this system being the most accurate source for identifying surcharges imposed on access lines in Verizon's opinion. Therefore, to determine the monthly count of access lines, Verizon divided the monthly amount of billed surcharges by the flat rate of \$1.11 applicable during our audit period. Verizon asserted that its methodology for reporting monthly access lines is more accurate than counting monthly individual access lines because it is tied to billed surcharge amounts, net of internal adjustments; thus, reflecting the amount billed for that month.

We appreciate Verizon's detailed explanation for how it determined access line counts. Verizon explained its process of utilizing its billing system to arrive at the number of reported access lines and asserted its methodology is a reasonable method consistent with D.22-10-021 requirements. We disagree. Verizon's method does not provide an accurate count of access lines as explained in the finding and corroborated by Verizon's own response, as the number of access lines reported was derived net of various adjustments. Factoring the adjustments into the computation of access lines inherently leads to a misstated number of access lines that deviates from the actual number of active access line operable in California.

Verizon asserted its belief that utilizing the monthly billing information yielded accurate results for backing into the number of access lines as Verizon's methodology accounted for subscriber's activation dates and billing cycles, thus potentially avoiding duplicative or underpaid charges for the same months. We disagree. Service providers are required to remit surcharges on all active access lines regardless of the billing cycles or whether they collected the amounts from the customers.

Lastly, Verizon also explained that its methodology for utilizing its billing system to compute the reported number of active access lines allows to incorporate any adjustments for bad debt, late payments, and recovery that affect total surcharges collected.

We acknowledge Verizon's explanation. However, we disagree that this method is consistent with D.22-10-021 and D.12-02-032. Surcharges must still be remitted on every line the carrier services regardless of whether any bad debt is related to uncollectable surcharges from the end-user consumer. CPUC D.12-02-032 states, in part, that "regardless of how surcharges are calculated, collected, and remitted, the carrier, not the customer, is ultimately responsible for payment of the surcharges."

Verizon also stated that a requirement to report only the number of active access lines would result in a discrepancy between the reported line count and the number of surcharges billed to access lines and would fail to account for debt write-offs or late payments. We disagree with Verizon's assertions that debt write-offs and late payments are relevant to the process of reporting its active access lines as required by D.22-10-021. Verizon's methodology to back into the number of reported access lines based on its billing information with account for various adjustments and billing cycles yields an inaccurate number of active access lines operable in California. And therefore, as outlined in Finding 1 of this audit report, Verizon has failed to implement the new access line reporting mechanism as required by CPUC. The utility is responsible for remitting the surcharges to CPUC even if the utility is unable to collect the surcharges from the customer. CPUC D.12-02-032 clarifies that while the surcharge is assessed on the end-user customer, the utility is still responsible for remitting the surcharges even when it may not be able to collect them from the customer.

The finding and recommendations remain unchanged.

Finding 2: Under Remitted at Least \$5,466,821 Surcharges Due to Inconsistently Applying the Flat Rate (as stated in the draft audit report and further revised)

Verizon disagreed with the draft report's Finding 2 and stated the report mistakenly relied on the Verizon Compliance Data File Detail report (Compliance Data File) instead of using a report detailing its aggregate access line assessment on a customer level. Verizon stated the Compliance Data File was not the correct report to review to determine whether the flat rate surcharges were accurately imposed. Verizon further stated that this report is specifically sent to its third-party vendor who completes the compliance reporting on Verizon's behalf and that the file contains various internal adjustments necessary for reporting in addition to the surcharge amount collected. Verizon also indicated that Verizon provided a different report during fieldwork that detailed its aggregate access line assessments on a customer level, which could be used to verify the accuracy of flat-rate surcharges assessed by Verizon.

In response to Verizon's assertions stated in the paragraph above, we would like to point out the following:

- Verizon did in fact provide a report detailing its aggregate line assessment on a customer level that was retrieved from its billing system (Customer Report); nonetheless, the Customer Report did not reconcile to the access lines reported or surcharge remitted to CPUC's TUFFS or other documents provided. In fact, it was a recurring event throughout the audit that different reports provided by Verizon did not reconcile. And since the reports did not reconcile, we could not rely on uncorroborated reports as evidence to support our conclusions because we could not validate their accuracy and completeness.
- Due to the uncorroborated nature of Verizon's reports submitted during the audit, we requested additional documentation to support the remitted surcharge amounts. We utilized the Compliance Data File to conduct our testing because out of all reports that were provided

during the audit, the Compliance Data File was *the only* (emphases added) report that reconciled the amounts remitted to CPUC's TUFFS.

- We repeatedly asked Verizon to provide explanations of the various adjustments captured in the Compliance Data File report and have not received any explanation prior to issuing the draft audit report. Due to Verizon's non-responsiveness during fieldwork, we were unable to obtain clarification or explanation of the adjustments in the Compliance Data File.

In Verizon's response letter, Verizon provided explanation of various adjustments reflected in the Compliance Data File report including Attachment 1 supporting its explanation of these various adjustments. Below is our evaluation of Verizon's explanation of the adjustments:

Adjustments to Report Business/Residential: In its response letter, Verizon cited a CPUC issued notice dated March 6, 2024, and indicated that Verizon interpreted the notice as notification to service providers requiring to report access lines for residential and business service separately. As a result, Verizon made manual adjustments to separate the surcharges into business and residential categories for reporting purposes that did not affect the total surcharge amount remitted to CPUC.

We would like to clarify that the CPUC's notice mentioned required carriers to report total access lines in the newly updated TUFFS. The notice did not require the breakdown between residential and business access lines and such breakdown remains voluntary to this day. We reviewed the additional information submitted by Verizon with its response letter and confirmed total adjustments for residential and business services totaling \$5,365,973 captured in 4,740 rows in the Adjustment Category labeled as Adjustments to Report Business/Residential. These adjustments reconciled to the Compliance Data File report. To corroborate these amounts, we asked Verizon to provide additional supporting documentation such as the general ledger (GL) to support these adjustments and reconcile them to Verizon's accounting records. Verizon provided a reconciliation summary of the GL, which did not reflect the double-entry details, and we cannot fully determine the reliability of the summary provided as the document was not corroborated to financial records. However, the manual adjustments within the Compliance Data File report for Business/Residential appear to offset each other, resulting in a net zero impact, and overall reconcile to the summary provided and the amount reported in TUFFS. Therefore, we concluded it is reasonable to remove \$5,365,973 amount from the finding.

Billing Cycle Timing: Verizon explained that some entries that reflected less than \$1.11 in April 2023 period were likely due to the transition from the revenue-based surcharge mechanism to the flat rate surcharge mechanism in April 2023 since customers' billing cycles do not always coincide with the beginning/end of the month.

We acknowledge this situation might have happened since prior surcharge remittance was based on revenue and April 2023 was the first implementation period of the new surcharge flat rate mechanism. We acknowledge the likelihood of the billing period adjustments during implementation. However, Verizon did not provide any corroborating documentation such as the GL reflecting double-entry details to substantiate these adjustments. Therefore, the adjustments for billing cycle timing remain unsupported.

Prepaid Out of Pocket Calculation: Verizon explained that some adjustments might have been attributed to prepaid products that included taxes in prepaid services. These prepaid services would require manual calculations to report the surcharge for each prepaid line. Verizon stated that some calculations may not be divisible by \$1.11 possibly due to credits to the customers' accounts.

We acknowledge Verizon's explanation; however, we disagree. On December 5, 2024, Verizon provided its Policies and Procedures for access lines, which state, in part, that: "Prepaid wireless...CA PPP fee is never prorated." Therefore, any proration or adjustments to prepaid services should not affect the surcharge amount to be remitted regardless of whether Verizon issued credits to its customers. Thus, the adjustments for any prorated prepaid services are unallowable. At this time, we are unable to determine the potential surcharge amount to be remitted due to customer credits, as this information resides within Verizon's database that Verizon did not provide. Verizon should work with CD to identify prepaid customers that were issued credits for the surcharges during our audit period and remit the amount to CPUC.

Bad Debt: Verizon explained that bad debt consists of both written off and recovered from prior periods. Verizon indicated that some adjustments were due to bad debt, specifically, written off bad debt showing as a credit on the Compliance Data File and bad debt recovered from prior periods showing as a debit.

We acknowledge Verizon's explanation; however, we disagree. The providers are still required to remit the surcharges to CPUC even when the carriers are unable or do not attempt to collect surcharges from the consumer. CPUC's D.12-02-032 states, in part, that "regardless of how surcharges are calculated, collected, and remitted, the carrier, not the customer, is ultimately responsible for payment of the surcharges." This is because the regulated party is the utility not the customer. Therefore, Verizon is required to remit \$1.11 per active access line regardless of whether it collects surcharges from its customers. The adjustments for bad debt are unallowable.

Miscellaneous Adjustments: Verizon provided comments stating that miscellaneous adjustments were made to ensure that its compliance source data reconciled with the GL. We acknowledge Verizon's comments and confirm there are miscellaneous adjustments. On several occasions we requested Verizon provide corroborating documentation to substantiate the adjustments, such as the GL with double-entry details. However, Verizon did not provide corroborating documentation. Therefore, we are unable to confirm these amounts or determine whether these amounts represent allowable or unallowable adjustments. Therefore, the miscellaneous adjustments are unsupported and potentially unallowable.

Revisions to Finding 2: After evaluating additional documentation submitted by Verizon with its response to the draft report, we updated Finding 2 as follows:

- Updated the Executive Summary on page 1 of this report to reflect newly revised Finding 2 verbiage and amounts,
- Updated Condition section of Finding 2 on pages 10-11 of this report to reflect reduction of the finding from \$5,466,821 as stated in the draft audit report to newly revised verbiage and amount of at least \$100,848 in total under remitted surcharges and related explanations,
- Updated Criteria section of Finding 2 on page 12 of this report to include D.12-02-032 citation, and
- Updated Recommendations section of Finding 2 on page 13 of this report.

Finding 3: Failure to Comply with Subpoena and Data Requests

Verizon disagreed with Finding 3 that Verizon failed to timely or completely respond to CPUC data requests including the Subpoena. Verizon believed it acted in good faith to provide timely and complete responses throughout the audit. Verizon also asserted that the breadth and scope of the subpoena required greater time than the deadlines provided. In addition, Verizon stated that prior CPUC audits have provided more time to respond to data requests.

We disagree with Verizon's assertions. Data request due dates during the audit are standard turnaround times typically provided for any UAB audit. We requested data be provided as it becomes available, but not later than the set due dates. The data request process and typical due dates were thoroughly discussed during the entrance conference held on October 4, 2024. Verizon has requested multiple extensions to data requests, which UAB granted. However, even after providing multiple extensions in response to Verizon's requests throughout the audit, Verizon continuously did not provide requested data in a timely manner.

Verizon noted in its response that UAB's initial data request asked for a complete list of access lines for the entire 15-month audit period to be provided in a specific format within seven business days. Verizon stated the volume of data requested on October 1, 2024, would require "at least a couple of months to extract," and that the format requested was not one that Verizon's billing department maintained. We would like to point out that the data requested relevant to the subject matter of this audit should have been readily available to substantiate the information reported to CPUC for the audit period. We did not request any new information that should not have been easily retrievable from Verizon's systems. In addition, if the format requested did not align with Verizon's databases, Verizon should have communicated its concerns during the audit and proposed alternative formats to query its systems to produce the requested information. In fact, UAB team has repeatedly asked Verizon to provide a walkthrough of its system and showcase its methods of retrieving the requested access line counts so that the audit team can adapt its requests to Verizon's data tracking mechanisms. However, Verizon never provided such walkthroughs with the subject matter experts responsible for these functions.

Furthermore, on October 31, 2024, per Verizon's request, we revised the initial data request from 15 months to just one month of access line data to ensure Verizon could accurately query its system for UAB auditors to evaluate. On December 20, 2024, UAB granted Verizon's request for additional time with an extension of the due date to January 17, 2025. Verizon provided the requested data on May 19, 2025, seven months after the original due date and four months after the extended due date.

In its response letter, Verizon also commented that some of the requested Subpoena items showed "TBD" deadlines and Verizon worked with CPUC staff to provide as much information as possible. We would like to point out that the Subpoena dated May 2, 2025, was issued as a direct result of Verizon's continued requests for extensions and subsequent failure to provide documents as requested. We acknowledge that two Subpoena items with listed TBD due dates were for Customer Usage Reports and Customer Bills, both of which indicated that items were for a specific sample of customers selected for testing at a later time. UAB's evaluation of Verizon's responses for Subpoena TBD items used the due date stated in subsequent data requests for specific samples selected. Verizon provided the data for the subsequent requests two to six weeks after the due dates.

In its response letter, Verizon also asserted that there were misunderstandings between audit staff and Verizon's team as to the scope of some requests, which contributed to perceived delays. Verizon indicated that part of the confusion resulted from UAB introducing a new audit team after the audit

had begun, and the audit scope changed. We disagree with Verizon's assertions. The audit scope was not revised at any time during the audit. The audit scope, as stated in the audit report, of April 1, 2023, through June 30, 2024, remained the same throughout the audit process and as stated in our engagement letter to Verizon dated October 1, 2024. The initial data request covered all 15 months and was revised to one month at Verizon's request, with the understanding that UAB would request data for additional months at a later time. In addition, UAB's audit team members did not change throughout the audit. On March 13, 2025, UAB introduced existing members of the audit team that were assigned to work on different components of this audit, as a courtesy to Verizon, to provide clarity, and to help facilitate timely responses from Verizon. Furthermore, the tasks and audit team members have no effect on or relevance to Verizon's duty to respond to data requests timely.

The finding and recommendations remain unchanged.