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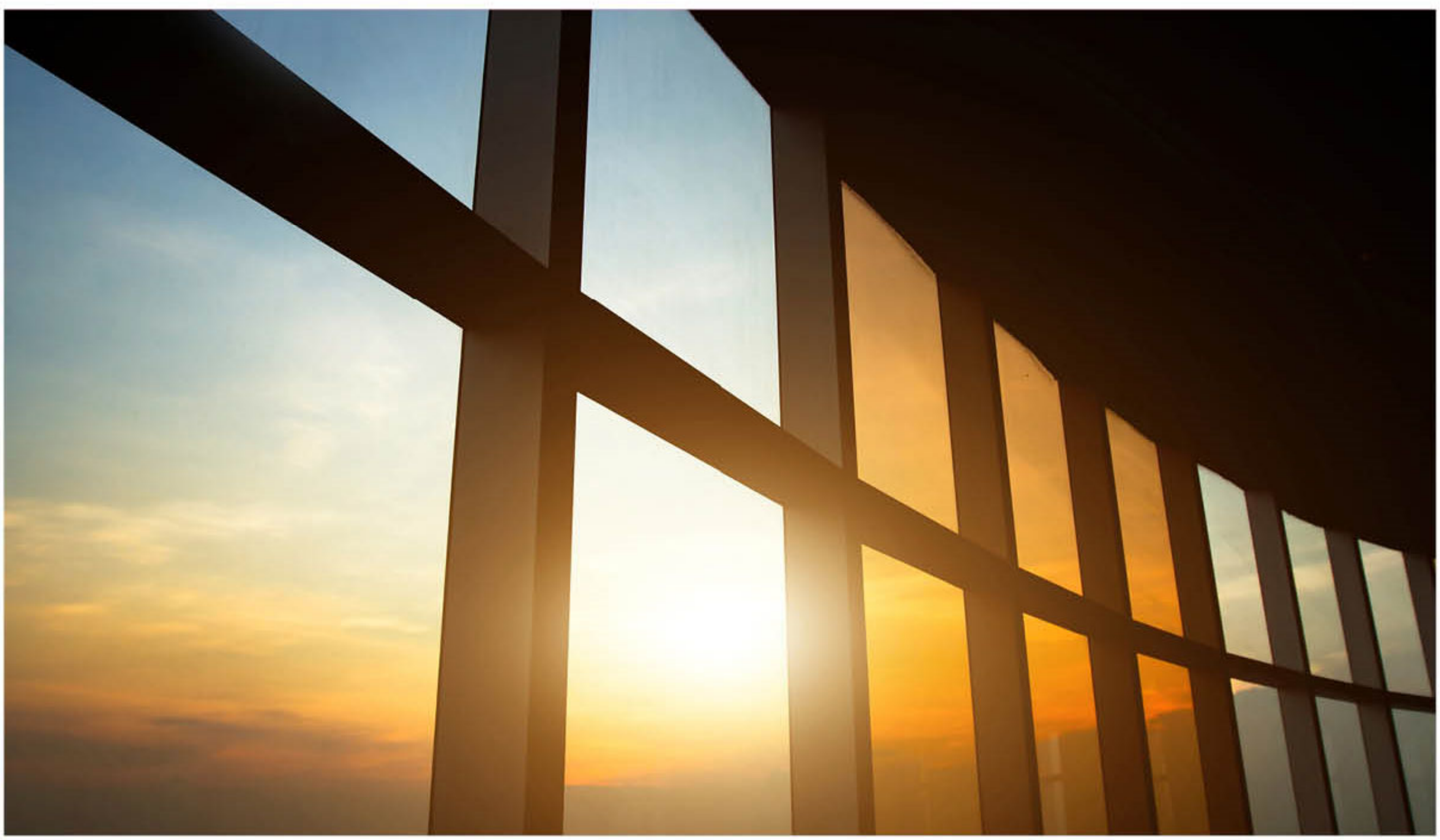
Performance Audit of Frontier Communications Parent, Inc.
California LifeLine Program

July 24, 2023



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July 24, 2023

Renee Serino, Senior Regulatory Analyst
Frontier Communications
100 Cte Dr.
Dallas, PA 18612

Dear Ms. Serino:

Final Report Transmittal Letter - Audit of Frontier Communications' California LifeLine Program for the period of July 1, 2020, through June 30, 2021

Crowe LLP (Crowe) was contracted by the California Public Utilities Commission (CPUC) to conduct a performance audit of Frontier Communications (Frontier), in accordance with General Order (GO) 153 Sections 5 and 9, Public Utilities Code Section 878, Decision (D.) 14-01-036 and D.10-11-033, and other applicable California LifeLine Program rules, regulations, and requirements for the period of July 1, 2020 through June 30, 2021.

The results of our audit indicated that Frontier met the audit objectives in all significant respects for the period of July 1, 2020 through June 30, 2021. We identified one finding on page 12, which was not deemed to be significant to the objectives of the performance audit. The final audit report will be available on the CPUC website[1].

Sincerely,

Bert Nuehring, Partner
Crowe LLP

[1] https://www.cpuc.ca.gov/about-cpuc/divisions/utility-audits-risk-and-compliance-division/utility-audits-branch/audit-reports-by-industry

Table of Contents

Independent Auditor's Report

Crowe LLP (Crowe) conducted a performance audit of Frontier Communications Parent, Inc. (Frontier), in accordance with General Order (GO) 153 Sections 5 and 9, Public Utilities Code Section 878, Decision (D.) 14-01-036 and D.10-11-033, and other applicable California LifeLine Program rules, regulations, and requirements for the period of July 1, 2020 through June 30, 2021. The objectives of the audit are described on pages eight (8) through ten (10) and evaluate whether Frontier's claims from the California LifeLine Fund for fiscal year 2020-21 are accurate, properly supported, for eligible customers, and for allowable costs and activities.

We conducted our performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on our audit objectives. Our audit was limited to the objectives listed on pages 8 through 10 of this report.

Solely to assist us in planning and performing our performance audit, we obtained an understanding of the internal controls of Frontier to determine the audit procedures that were appropriate for the purpose of providing a conclusion on the audit objectives, as specified, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express any assurance on the internal control.

The results of our tests indicated that Frontier met Objectives 1 through 7 in all significant respects for the period of July 1, 2020 through June 30, 2021.

We have identified one finding on page 12, which was not deemed to be significant to the objectives of the performance audit.

Government Auditing Standards requires us to perform limited procedures on the Frontier's response to the finding. Frontier's response was not subjected to the other auditing procedures applied in the performance audit and, accordingly, we express no opinion on the response.

Crowe LLP

Crowe LLP
Sacramento, CA
July 24, 2023

Executive Summary

Crowe LLP (Crowe) conducted a performance audit of Frontier in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the U.S. General Accountability Office (GAO). The goal of the audit was to determine whether Frontier's claims from the California LifeLine Fund for the period of July 1, 2020 through June 30, 2021 are accurate, properly supported, for eligible customers, and for allowable costs and activities, in accordance with General Order (GO) 153 Sections 5 and 9, Public Utilities Code Section 878, Decision (D.) 14-01-036 and D.10-11-033, and other applicable California LifeLine Program's rules, regulations, and requirements.

The audit objectives, shown on pages 8 through 10 of this report, were developed based on the requirements set forth in General Order (GO) 153 Sections 5 and 9, Public Utilities Code Section 878, Decision (D.) 14-01-036 and D.10-11-033.

Crowe identified one (1) finding, which is summarized in **Exhibit 1**. Significant findings are defined as those items that are important enough to merit attention by those in charge of governance and should be prioritized for remediation. Further details of the finding are presented on pages 11 and 12 of this report.

In performance audits, a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct (1) impairments of effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) noncompliance with provisions of laws, regulations, contracts, or grant agreements on a timely basis.

Exhibit 1
Finding and Control Evaluation

Finding	Control Evaluation[2]	Audit Objective Impacted
1. Approximately 81 California LifeLine Customers Were Incorrectly De-enrolled and Then Reinstated	*Deficiency*	1, 6

Project Background

<u>California LifeLine Program</u>

The California Public Utilities Commission (CPUC) created the Universal LifeLine Telephone Service program (now known as the California LifeLine program) pursuant to the Moore Universal Service Telephone Act. The California LifeLine Program (LifeLine Program) is a state program that provides discounted home phone and cell phone services to eligible households. General Order 153 (GO 153) implements the LifeLine program and provides guidance on the procedures for administration of the LifeLine program for telecommunications carriers operating in California.

LifeLine discounts help consumers lower the cost of their phone bills by offering discounts to qualified customers. Only one discount per household is allowed (except for teletypewriter users and for Deaf and Disabled Telecommunications Program participants). Each household must choose to apply the discount either on a home phone or on a cell phone, but not on both. Households must only receive the discount from one carrier and may lose eligibility for the discount if the one discount per household rule is violated.

A household includes adults and children who are living together at the same address as one economic unit. An economic unit consists of all adults (persons at least 18 years old unless emancipated) contributing to and sharing the household's income and expenses. To qualify for the LifeLine program, California consumers must have a total gross annual income that does not exceed 150 percent of the Federal Poverty Guidelines or must be a participant in one of the following public assistance programs:

[2] Where "significant deficiency" is a control deficiency that is significant to the audit objectives and "deficiency" in control is not considered significant to the audit objectives, but auditors otherwise wish to communicate to those in charge of governance.

- Medi-Cal
- Women, Infants, and Children Program (WIC)
- Supplemental Security Income (SSI)
- National School Lunch Program (NSLP)
- Low Income Home Energy Assistance Program (LIHEAP)
- Cal Fresh, Food Stamps, or Supplemental Nutrition Assistance Program (SNAP)
- Federal Public Housing Assistance, or Section 8
- Federal Veterans and Survivors Pension Benefit Program
- Tribal Temporary Assistance for Needy Families (TANF)
- Head State Income Eligible (Tribal Only)
- Bureau of Indian Affairs General Assistance
- Food Distribution Program on Indian Reservations (FDPIR)
- TANF, California Work Opportunity and Responsibility to Kids (CalWORKs), Stanislaus Work Opportunity and Responsibility to Kids (Stan Works), Welfare-to-Work (WTW), or Greater Avenues for Independence (GAIN).

The CPUC is responsible for the oversight of the LifeLine Program and maintaining an independent third-party administrator (TPA) to provide clearinghouse services for the LifeLine Program. The role of the TPA is to qualify new applicants and to verify the continued eligibility of existing LifeLine subscribers. Subscribers must verify eligibility annually to remain qualified to participate in the LifeLine Program by submitting proof of eligibility to the TPA. The TPA collects, maintains, and provides important information such as the LifeLine subscriber weighted average counts, new connection counts, and disconnection and de-enrollment counts for Service Providers to prepare and submit their monthly LifeLine reimbursement claims to the CPUC. Service Providers submit reimbursement for the costs of providing services to LifeLine subscribers. We obtained and assessed the information provided by the TPA; however, we did not audit the TPA.

Service Providers apply discounts on LifeLine services to qualified customers on a monthly basis. Service Providers then submit reimbursement claims to the CPUC. Service Providers file reimbursement claims monthly to CPUC's Communications Division for review and approval. Service Providers may recover from the California LifeLine Fund, an amount up to the Specific Support Amount (SSA)[3] per each eligible subscriber claimed, to cover LifeLine non-recurring charges, applicable taxes/surcharges, interest, and administrative costs as set forth in GO 153.

Frontier Communications Parent, Inc.

Frontier Communications Parent, Inc. (Frontier) provides data and internet, voice, video, and other services throughout the United States. Frontier was incorporated in 1935 and maintains its headquarters in Norwalk, Connecticut[4]. Frontier originally provided telecommunications services to rural areas but has since expanded its footprint into 29 states in a range of service locations, from rural to metropolitan[5].

Frontier claimed and was reimbursed a total of $7,954,770 from the California LifeLine Fund during the audit period of July 1, 2020 through June 30, 2021. Monthly subscribers averaged 41,647 per month. **Exhibit 2** provides service recovery expense categories and amounts claimed for reimbursement for the audit period.

[3] The rate that Service Providers use to compute and file claims for reimbursement.

[4] https://finance.yahoo.com/quote/FYBR/profile/.

[5] https://frontier.com/corporate/company/service-regions.

Exhibit 2
Frontier Communications
Subsidy Amounts Claimed via Monthly Claims Forms
California LifeLine Program Reimbursement, by Expense Category
(July 1, 2020 to June 30, 2021)

Expense Category	Expense Amount Claimed
1. Allowable SSA for Flat Rate Service	$5,324,340
2. Allowable SSA for Flat Rate Service, California-only Eligibility	$1,966,757
3. Allowable SSA for Measured Rate Service	$91,382
4. Allowable SSA for Measured Rate Service, California-only Eligibility	$69,998
5. Surcharges and Taxes	$270,400
6. Administrative Expense Recovery	$231,893
Total	**$7,954,770**

Performance Audit Approach

Crowe developed our audit plan and procedures to meet specific objectives identified by the CPUC. In developing this audit plan, among other factors, we primarily considered the requirements of the California LifeLine Program, as set forth by GO 153 Sections 5 and 9, Public Utilities Code Section 878, D.14-01-036 and D.10-11-033.

Objectives, Procedures and Conclusion

Crowe submitted several data requests to Frontier which were progressively more focused throughout the engagement as we obtained more detailed data and information on the company's administration of the LifeLine Program. We reviewed policies and procedures to understand Frontier's use of supporting information systems. We conducted an internal controls assessment to obtain an understanding of Frontier's internal controls as they related to enrolling, tracking, and monitoring customer program eligibility. Finally, we developed workpapers to document results of the performance audit.

The audit included seven (7) objectives, which we list below together with detailed procedures. The objectives of the audit were developed based on CPUC's request for Crowe to determine whether Frontier's claims from the California LifeLine Fund for fiscal year 2020-21 are accurate, properly supported, for eligible customers, and for allowable costs and activities, in accordance with General Order (GO) 153 Sections 5 and 9, Public Utilities Code Section 878, Decision (D.) 14-01-036 and D.10-11-033, and other applicable California LifeLine Program's rules, regulations, and requirements.

Objectives:

1. **Determine if Frontier's internal controls over operations related to its administration of the California LifeLine Program were operating effectively.**

   Procedures

   - Requested and obtained copies of documented policies and procedures related to governance of California LifeLine Program operations.
   - Documented controls relevant to the California LifeLine Program.
   - Tested to verify whether controls were operating effectively through our sampling and detailed testing in Objectives 2 through 7. The sample selection was comprised of a random selection of seventy-seven (77) customer accounts such that at least 5 accounts were randomly selected from each of the 12 months of the audit period. The monthly population averaged 41,647 subscribers.

   Conclusion: Objective met in all significant respects. Crowe identified one finding related to this Objective that is not considered to be significant. *See Finding 1.*

2. **Determine if Frontier utilized accurate subscriber counts in the Claims Forms submitted to the CPUC for reimbursement during the audit period.**

   Procedures

   - Requested and obtained all third-party administrator (TPA) Weighted Average Reports (WAR) and Connections Reports from the CPUC for each month of the audit period of July 1, 2020 through June 30, 2021.
   - For each data source, calculated the weighted average subscriber count by two funding types: (1) California-only and (2) Federal & California, and two rate types: (1) measured and (2) flat.
   - Extracted the weighted average subscriber count from each Claims Form.
   - Compared the weighted average subscriber counts, by funding and rate type, per the 1) WAR and 2) Claims Forms.

   Conclusion: Objective met in all significant respects.

3. **Determine if claimed administrative expenses were allowable in accordance with General Order (GO) 153 Sections 5 and 9, Public Utilities Code Section 878, Decision (D.) 14-01-036 and D.10-11-033, and other applicable California LifeLine Program's rules, regulations, and requirements.**

Procedures

- Requested and obtained a schedule of administrative expenses and rationale for calculations.
- Allocated total Frontier administrative expenses to the California LifeLine Program by multiplying total expenses by the percent of time Frontier service representatives spent handling California LifeLine calls.
- Calculated the rate of invoiced amount per California subscriber.
- Calculated the rate of reimbursement amount per California subscriber.
- Analyzed the calculated per-California subscriber rates to verify that the requested reimbursement per California subscriber did not exceed the lesser of the invoiced amount per California subscriber and $0.50 per California subscriber, per the California LifeLine Program policy.
- Reviewed GO 153, Section 8.4, to establish which types of expenses are considered allowable for reimbursement.
- Confirmed all expenses included in requests for reimbursement did not fit the description of any unallowable expense claims as described in GO 153, Section 8.4.

Conclusion: Objective met in all significant respects.

4. **Determine if customers included in Claims Reports provided proof of eligibility.**

Procedures

- Randomly selected a non-statistical sample of seventy-seven (77) accounts. The population averaged 41,647 monthly subscribers during the 12-month audit period.
- Requested and obtained proof of California LifeLine Program eligibility.
- Reviewed proof of eligibility for each sampled account. If the subscriber was a first-time applicant, determined if proof exhibited participation in a qualifying public assistance program (e.g., Medi-Cal, Social Security Income, Women, Infants, and Children Program, etc.). If the subscriber was not a first-time applicant, determined if the Renewal Form included a self-certification of participation in a qualifying public assistance program.
- Reviewed and calculated the federal poverty threshold by household size, per the 2021 Federal Poverty Guidelines.
- For those first-time applicants using annual income to qualify for the program, determined that the customer's total annual gross income did not exceed 150% of the federal poverty threshold. If the subscriber was not a first-time applicant, determined that self-reported annual gross income did not exceed 150% of the federal poverty threshold.

Conclusion: Objective met in all significant respects.

5. Determine if California LifeLine credits were accurately applied to customer accounts.

Procedures

- Randomly selected a non-statistical sample of seventy-seven (77) accounts from the subscriber data. The monthly population averaged 41,647 subscribers.
- Requested and obtained invoices for the sampled accounts during the audit period.
- Reviewed invoices to determine that charges related to the California LifeLine Plan were accurate.
- Reviewed each invoice to determine that credits related to the California LifeLine Plan were applied accurately and properly netted against the California LifeLine Plan charge.
- Matched subscriber profiles across the attributes of (1) service type, (2) rate group, and (3) funding type to those contained in the Claims Forms provided by CPUC.
- Crowe observed that LifeLine credits shown on 66 of 75 (88%) customer invoices varied from the rates given in the Claims Forms. However, Crowe determined Frontier claimed the appropriate reimbursement amount on Claims Forms, and thus did not overstate claims reimbursed by CPUC.

Conclusion: Objective met in all significant respects.

6. Determine if those customers who de-enrolled from the California LifeLine Program were removed from the Program in a timely manner.

Procedures

- Judgmentally selected a non-statistical sample of ten (10) accounts from the subscriber data that de-enrolled from the California LifeLine Program. The sample included no more than one selection from any particular month. De-enrolled accounts are a subset of the overall population that averaged 41,647 monthly subscribers during the 12-month audit period.
- Requested and obtained proof of program de-enrollment for the sampled accounts.
- Reviewed proof of de-enrollment to determine the date of de-enrollment request.
- Reviewed proof of de-enrollment to determine the date of de-enrollment.
- Reviewed proof of de-enrollment to determine the reason for de-enrollment.

Conclusion: Objective met in all significant respects. Crowe identified one finding related to this Objective that is not considered to be significant. See Finding 1.

7. Determine if subscribers with duplicate addresses met the multiline consumer household eligibility.

Procedures

- Randomly selected a non-statistical sample of seventy-seven (77) accounts from the subscriber data. The monthly population averaged 41,647 subscribers.
- For first-time applicants in the sample, requested Household Worksheets.
- Reviewed Household Worksheets to determine if customers certified that there were multiple households at the service address.

Conclusion: Objective met in all significant respects.

Performance Audit Results

Our performance audit resulted in one (1) finding. Findings include a recommendation to correct the issue, and is organized into the following six (6) components:

- *Condition* – includes the error observed based on facts revealed from the examination.
- *Criteria* – the basis for our evaluation; in this case a specific policy, procedure, or leading practice.
- *Cause* – the underlying reason for why the non-compliance or error occurred.
- *Effect* – the impact on the organization and/or the ratepayer from the error.
- *Recommendation* – a suggested action to correct the deficiency; or what can be done to address both the cause and condition.
- *Views of Responsible Officials* – an opportunity for the company to provide its response to the finding and/or recommendation.

The finding and recommendation from this performance audit is provided beginning on the next page. In **Exhibit 3** below we summarize the finding and related questioned costs for prudency review.

Exhibit 3
Summary of Findings

Description of Finding	Questioned Costs
1. Approximately 81 California LifeLine Customers Were Incorrectly De-enrolled and Then Reinstated	N/A

Views of Responsible Officials

We discussed the audit results with Frontier representatives at an exit conference held on August 29, 2023. At the exit conference, we stated that the final report will include the views of responsible officials.

Restricted Use

This audit report is intended solely for the information and use of Frontier and the CPUC; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of the final audit report, which is a matter of public record and will be available on the CPUC website[6].

[6] https://www.cpuc.ca.gov/about-cpuc/divisions/utility-audits-risk-and-compliance-division/utility-audits-branch/audit-reports-by-industry

Finding #1 – Approximately 81 California LifeLine Customers Were Incorrectly De-enrolled and Then Reinstated

Deficiency

Condition
Approximately eighty-one (81) California LifeLine customers that switched to a new product offering in 2021 were incorrectly de-enrolled from the program.

Criteria
GO 153 sets forth rules and requirements of the California LifeLine program. Rules include filing schedules of rates and charges; written and oral communications with Residential Customers; in-language communications; residential customers' and service providers' eligibility to participate in the program; transmission and sharing of information for purposes such as eligibility determination, de-enrollment, and reimbursement of claims; California LifeLine Service elements, rates, and charges; reimbursement methodology and amounts; claims-related requirements and process; surcharge-related requirements and process; audits; and record retention.

Cause
Frontier introduced a new product offering in January 2021. The product was initially set up as both a standalone and a bundled product[7]. Frontier's automated programming evaluated the standalone product group first and assumed all customers subscribing to the new product were only eligible for the Federal LifeLine Program and not the CA LifeLine Program. For customers that previously were enrolled in the CA LifeLine Program, who signed up for the new product offering, TPA's system signaled that the customer was only eligible for the Federal Program and subsequently sent Frontier a CA LifeLine disconnection request.

Effect
Customers eligible for the CA LifeLine Program were either not enrolled or de-enrolled in error. Newly eligible CA LifeLine customers that signed up for the new product offering did not receive a notification of their eligibility nor a new application for the CA LifeLine Program. Existing CA LifeLine customers were incorrectly de-enrolled from the program and then required to reenroll by submitting a new application.

Recommendation
Frontier fixed the issue with this product offering in August 2021. Frontier applied CA Lifeline credits to those accounts affected by the error that successfully completed the new application. Frontier applied these credits to cover the applicable time period between when the customer was incorrectly de-enrolled to when re-enrolled.

Management Response
Frontier management concurs with the recommendation. As noted, it was remediated in August 2021. Frontier discovered an issue in the programming that drives the daily Lifeline file transfers between Frontier and the Third Party Administrator (TPA) that caused the CA Lifeline credits to either not be added or to be removed for customers on a new product code. The system interpreted these customer accounts as broadband only Lifeline which is only eligible for federal credits. This resulted from a change in how product codes were built. Once the issue was discovered, an IT project was opened to determine the solution to processing the new code and subsequent new codes appropriately as federal only or federal and state eligible accounts. Frontier has extensive coding built to accomplish successful daily transactions between the Company and the TPA. Regular updates are made to this code as needed to accommodate any changes in processing.

[7] A standalone product is only eligible for Federal LifeLine credit. A bundled product is eligible for both Federal and State LifeLine credits and is processed through the CA TPA before credits are added.

Appendix A – List of Records Examined

1. Third-Party Administrator (TPA) Weighted Average Reports (WAR).
2. California LifeLine Claims Forms submitted by Frontier for reimbursement.
3. Written policies and procedures related to the Frontier's California LifeLine Program administration.
4. Meeting minutes for each ULTS Administrative Committee Meeting during the audit period.
5. Frontier administrative expenses schedules related to administrative expenses submitted for reimbursement.
6. Invoices/billings/statements to customers.
7. California LifeLine Program customer applications.
8. Customer proof of eligibility documents.
9. Customer Household Worksheets.
10. General Order (GO) 153 Sections 5 and 9, Public Utilities Code Section 878, Decision (D.) 14-01-036 and D.10-11-033.

Appendix B – Management Response

Frontier management concurs with the recommendation. As noted, it was remediated in August 2021. Frontier discovered an issue in the programming that drives the daily Lifeline file transfers between Frontier and the Third Party Administrator (TPA) that caused the CA Lifeline credits to either not be added or to be removed for customers on a new product code. The system interpreted these customer accounts as broadband only Lifeline which is only eligible for federal credits. This resulted from a change in how product codes were built. Once the issue was discovered, an IT project was opened to determine the solution to processing the new code and subsequent new codes appropriately as federal only or federal and state eligible accounts. Frontier has extensive coding built to accomplish successful daily transactions between the Company and the TPA. Regular updates are made to this code as needed to accommodate any changes in processing.