

Performance Audit of Cox Communications, Inc.
California LifeLine Program

August 11, 2023





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August 11, 2023

Mark DiNunzio, Sr. Director, Regulatory Affairs
Cox Communications
5159 Federal Blvd.
San Diego, CA 92105

Dear Mr. DiNunzio:

Final Report Transmittal Letter—Audit of Cox 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 Cox Communications (Cox), 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 disclosed no findings requiring a response and therefore, we are issuing the report as final. The final audit report will be available on the CPUC website¹.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bert Nuehring".

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>

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Independent Auditor's Report

Crowe LLP (Crowe) conducted a performance audit of Cox Communications, Inc. (Cox), 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 seven (7) through nine (9) and evaluate whether Cox'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 conclusions based on our audit objectives. Our audit was limited to the objectives listed on pages 7 through 9 of this report.

Solely to assist us in planning and performing our performance audit, we obtained an understanding of the internal controls of Cox 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 Cox met Objectives 1 through 7 in all significant respects for the period of July 1, 2020 through June 30, 2021.

A handwritten signature in black ink that reads "Crowe LLP". The letters are cursive and slightly slanted to the right.

Crowe LLP
Sacramento, CA
August 11, 2023

Executive Summary

Crowe LLP (Crowe) conducted a performance audit of Cox 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 Cox'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 seven (7) through nine (9) 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.

The results of our tests indicated that Cox met Objectives 1 through 7 in all significant respects.

Project Background

California LifeLine Program

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) 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:

- 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. Providers file reimbursement claims monthly to CPUC’s Communications Division for review and approval. Service Providers may recover from the California LifeLine Fund up to the Specific Support Amount (SSA)² per each eligible subscriber claimed, LifeLine non-recurring charges, applicable taxes/surcharges, interest, and administrative costs as set forth in GO 153.

Cox Communications, Inc.

Cox Communications, Inc. (Cox), established in 1962, is the largest private broadband company in America. Cox provides data and internet, voice, digital cable, and other services to seven million homes and business across 18 states. Cox is the largest division of Cox Enterprises and maintains a headquarters in Atlanta, Georgia³.

Cox claimed and was reimbursed a total of \$1,607,079 in subsidy from the California LifeLine Fund during the audit period of July 1, 2020 through June 30, 2021. Monthly subscribers averaged 10,361 per month. **Exhibit 1** provides service recovery expense categories and amounts claimed for reimbursement for the audit period.

Exhibit 1
Cox Communications, Inc.
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	\$1,173,618
2. Allowable SSA for Flat Rate Service, California-only Eligibility	\$397,949
3. Allowable SSA for Measured Rate Service	\$3,810
4. Allowable SSA for Measured Rate Service, California-only Eligibility	\$3,749
5. Administrative Expense Recovery	\$40,934
6. Reduction for Over-Collection of Reimbursement for the period of 7/1/20 – 4/1/21	(\$12,981)
Total	\$1,607,079

² The rate that Service Providers use to compute and file claims for reimbursement.

³ <https://newsroom.cox.com/company-overview>

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 Cox 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 Cox's use of supporting information systems. We conducted an internal controls assessment to obtain an understanding of Cox'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 with detailed procedures. The objectives of the audit were developed based on CPUC's request for Crowe to determine whether Cox'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 Cox 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 sixty customer accounts such that 5 accounts were randomly selected from each of the 12 months of the audit period. The monthly population averaged 10,361 subscribers.

Conclusion: Objective met in all significant respects.

2. Determine if Cox 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) 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.
- Calculated the rate of allowable reimbursement amount per subscriber.
- Calculated the rate of claimed reimbursement amount per subscriber.
- Analyzed the calculated subscriber rates to verify that the requested reimbursement per subscriber did not exceed the lesser of the incurred cost per subscriber and \$0.50 per 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 sixty (60) accounts. The population averaged 10,361 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 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 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 sixty (60) accounts from the subscriber data. The monthly population averaged 10,361 subscribers.
- Requested and obtained invoices for the sampled accounts during the audit period.
- Reviewed all 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. Determined that LifeLine credits shown on all customer invoices varied from the rates given in the Claims Forms. However, Cox claimed the appropriate reimbursement amount on Claims Forms, and thus did not overstate claims to-be 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 10 accounts from the subscriber data that de-enrolled from the California LifeLine Program. Accounts in this sample were randomly selected such that no more than one selection was derived from any particular month. De-enrolled accounts are a subset of the overall population that averaged 10,361 monthly subscribers during the 12-month audit period.
- Requested proof of program de-enrollment for the sampled accounts.
- Cox stated that because LifeLine subscribers pay a monthly service fee, they are not subject to non-usage de-enrollment rules. Further, Cox provided that the TPA, and not Cox, is responsible for determining LifeLine program eligibility.

Conclusion: Objective met in all significant respects.

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

Procedures

- Randomly selected a non-statistical sample of sixty (60) accounts from the subscriber data. The monthly population averaged 10,361 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.
- Cox did not provide a household worksheet for four of the eight first-time applicant forms. For these four accounts, Cox stated that there was a renewal process suspension due to COVID-19 and applicants were not evaluated until after the audit period. But these accounts were first-time applicants, not renewals, and therefore should not have been impacted by a COVID-19 renewal process suspension.

Conclusion: Objective met in all significant respects.

Performance Audit Results

The results of our tests indicated that Cox met Objectives 1 through 7 in all significant respects.

Views of Responsible Officials

We discussed the audit results with Cox representatives at an exit conference held on August 2, 2023. At the exit conference, we stated that the final report will include the views of responsible officials. Because there were no audit findings requiring a response, we are issuing the report as final.

Restricted Use

This audit report is intended solely for the information and use of Cox 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 website⁴.

⁴ <https://www.cpuc.ca.gov/about-cpuc/divisions/utility-audits-risk-and-compliance-division/utility-audits-branch/audit-reports-by-industry>

Appendix A – List of Records Examined

1. Third-Party Administrator (TPA) Weighted Average Reports (WAR).
2. California LifeLine Claims Forms submitted by Cox for reimbursement.
3. Written policies and procedures related to the Cox's California LifeLine Program administration.
4. Meeting minutes for each ULTS Administrative Committee Meeting during the audit period.
5. Cox 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.
11. California Public Utilities Code 878, Section (a).