



Examination Report:  
California Teleconnect Fund  
Compliance Examination of  
tw telecom inc.



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## Independent Accountants' Report

California Public Utilities Commission  
San Francisco, California

We have examined tw telecom inc.'s (TW or TW's) compliance with the rules, regulations, and requirements of the California Teleconnect Fund (CTF) Program solely related to program costs and cost related activities for the fiscal year ended June 30, 2010. TW is responsible for compliance with the rules, regulations, and requirements of the CTF Program solely related to program costs and cost related activities. Our responsibility is to express an opinion on TW's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about TW's compliance with the rules, regulations, and requirements of the CTF Program solely related to program costs and cost related activities and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on TW's compliance with specified requirements.

In our opinion, TW has complied, in all material respects, with the rules, regulations, and requirements of the CTF program solely related to program costs and cost related activities for the fiscal year ended June 30, 2010.

TW's responses to the findings identified in our examination are described in the accompanying Schedule of Findings and Recommendations. TW's responses were not subjected to the procedures applied in the examination of the compliance with the requirements described above, and, accordingly, we express no opinion on them.

*Crowe Horwath LLP*

Crowe Horwath LLP

San Francisco, California  
October 17, 2013

# California Teleconnect Fund Compliance

## Executive Summary

The California Public Utilities Commission (CPUC) contracted with Crowe Horwath LLP (Crowe) to conduct an examination on tw telecom inc.'s (TW or TW's) compliance with the rules, regulations, and requirements of the California Teleconnect Fund (CTF) program solely related to program costs and cost related activities related to services provided during the program year ended June 30, 2010.

During our procedures, we noted several exceptions with respect to TW's compliance with the CTF program. Our observations are included in the **Findings and Recommendations** section of this report. We have provided, below, a summary of our findings:

1. TW failed to demonstrate compliance with Decision 08-06-020 and Resolutions T-16742 and T-16763. Specifically, TW recovered a discount for a service provided at no charge. Common Sense Media utilized a promotional offer for internet services that resulted in the customer not being charged for internet services for the December 2009 invoice period. This resulted in an overpayment of \$830 by the CTF program.
2. TW failed to demonstrate compliance with Resolution T-16763. Specifically, TW did not provide a CTF discount to KingsView Mental Health for the Flat Business Line 36M service, which is a CTF eligible service.
3. TW failed to demonstrate compliance with Resolution T-16763. Specifically, TW did not submit CTF claims on a monthly basis.
4. TW failed to demonstrate compliance with Administrative Letter 17. Specifically, TW did not list non-tariffed and deregulated service rates in its Rate Report submitted to the CPUC.
5. TW failed to demonstrate compliance with Administrative Letter 17. Specifically, two CTF-eligible organizations were incorrectly identified on TW's monthly claim forms.

In total, TW was over-reimbursed \$830 by the CTF for excess claims for the fiscal year ended June 30, 2010. TW should refund this amount to the CTF.

Our overall procedures for this engagement included testing:

1. Timeliness of claims;
2. Completeness of the format and mathematical accuracy of claims;
3. Reasonableness of tariffed and nontariffed CTF eligible service rates including bundled and unbundled services;
4. Determining CTF discount was only applied to eligible organizations and services;
5. Accuracy of CTF discount provided to customers including proper application of E-rate; and
6. Accuracy and proper application of CTF payments from the CPUC.

Our specific procedures performed for this engagement are provided in more detail in the **Appendix A – Procedures Performed**.

## **Introduction**

The CPUC periodically conducts audits of CTF carriers, pursuant to California Public Utilities Code Sections 274 and 314. Carriers should keep important information, such as pricing, tax, surcharge, E-rate percentages, and other CTF-claim related information, on a per customer, per service basis, readily available for at least five (5) years in accordance with the Public Utilities Commission of the State of California General Order No. 28.

In 2012, the CPUC contracted with Crowe to conduct an examination on TW's compliance with the CTF program for the period of July 1, 2009, through June 30, 2010 (the examination period). Crowe conducted its examination of TW in December 2012 through March 2013, in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) under the direction of CPUC's Division of Water and Audits (DWA).

TW, a publicly traded entity, was founded in 1993 through a joint venture between US West and Time Warner. In 1998, TW became an entity in and of itself and was known as Time Warner Communications. Subsequent thereto, an initial public offering was issued. In 2008, the company's name was officially changed to tw telecom inc. Presently, TW services markets throughout the nation through its own facilities with more than 27,000 route miles and 16,000 commercial buildings.

During the examination period, TW provided 141 telecommunications services to forty different CTF customers, inclusive of any bundled services. These customers consisted of schools, libraries, colleges, and community-based organizations. TW's CTF claims totaled \$786,856 during the examination period.

## **The CTF Program**

In Decision 96-10-066, the CPUC established the CTF program. The CTF program allows eligible public libraries, K-12 public and private schools, California community colleges, government-owned hospitals and health clinics, CBOs, and California Telehealth Networks participants to receive a 50% discount on select telecommunication and internet access services.

The CTF program is overseen by the CPUC's Communications Division, and its operations are modified through regulatory decisions and administrative letters. The program is funded by a surcharge (0.079% during the examination period) assessed by wireline and wireless telecommunications carriers on specific services and consumers' intra-state phone bills.

To receive the CTF discount, customers must apply to the CPUC for approval in the CTF program. If approved, the CPUC provides the customer an approval letter and number, which the customer presents to their service provider to obtain the discount. Approved customers are then eligible to receive their CTF discount as of their application (i.e., filing) date with the CPUC, provided they notify their carriers of acceptance in a timely manner. Service providers apply the discount to their eligible customers, and are later reimbursed through the CTF program by submitting claims to the CPUC.

The CPUC established the services that are eligible for the CTF Program in Decision 96-10-066 and expanded and clarified those services in subsequent decisions. The CTF-eligible services comprise the following:

- Measured Business service lines and basic Voice over Internet Protocols;
- Integrated Services Digital Network (ISDN);
- Switched 56 lines;
- DSL, T-1, DS-3, up to and including OC-192 services (high speed, high capacity lines);
- Internet access services;
- Multiprotocol Label Switching (MPLS) in conjunction with another CTF-eligible service; and
- Functional equivalents of these services, which may vary between service providers.

Carriers are required to charge qualified CTF customers at a rate that is 50% below tariff rates on tariffed CTF eligible services or at a rate that is 50% below regular service rates on non-tariffed CTF eligible services. Tariff rates are the intrastate rates that the local exchange service providers and many long-distance service providers file with the CPUC. Service providers file tariff changes by Advice Letter provided to the Communications Division of the CPUC. Tariffs contain the rates, terms, and conditions of certain services provided by telecommunications carriers.

Non-tariffed rates are the public or published rates that are not regulated. The carrier has the flexibility with charging the customers for the services that are not regulated.

The CTF discount also applies to carrier specific charges, such as company specific surcharges or surcredits, the CPUC user fee, the federal excise fee, the 9-1-1 fee, and local or city-specific taxes. Services not eligible for the CTF discount include, but are not limited to, nonrecurring charges (e.g. installation charges) and usage charges.

The Federal government also provides eligible entities (schools, libraries and CBOs that offer the Head Start program) a similar discount on eligible telecommunications charges (known as the education rate, "E-rate", or the Universal Service Fund). E-rate discounts can range from 20% to 70%. The CTF discount is to be applied to eligible charges after the application of the E-rate discount. A library or school must apply for the E-rate discount, but if a library or school did not apply for the E-rate discount or if their application is pending, the carrier must first apply the statewide average E-rate discount, which was 70% during our examination period, before applying the CTF discount.

For carriers seeking reimbursement from the CTF program, the CPUC established monthly claim reporting and submittal requirements. These requirements include completing and submitting a CTF claim form to the CPUC. Claims are submitted after providing the CTF discount to eligible customers.

On December 5, 2008, the CPUC adopted changes to CTF reimbursement claim protocol and to the claim form in Administrative Letter 17. Administrative Letter 17 specifies that each reimbursement claim -- a multi-tab, Excel workbook -- should include a cover letter; a claim form; a customer report; a services report; a service rate report, and a variance report. Each of these tabs has required data elements, such as customer names, categories, and CTF

application numbers for the customer report. Claims filed during the examination period should follow the revised claim reimbursement protocol and utilize the revised claim form.

Changes to the CTF program are formally adopted through legislation, Resolutions, modifications to the Public Utilities Code and Administrative letters. We have summarized below the major changes to the CTF program since inception.

1. **Decision 96-10-066** established the CTF in compliance with Assembly Bill 3643 (Chapter 278, Statute 1994) to provide discounts on selected telecommunications services to qualified entities.
2. **Resolution T-16319** changed the filing requirement for the submission of claims to a maximum of 45 days for eligibility of receiving interest payments from CPUC; determined that telecommunications carriers shall receive interest when the administrative committee fails to complete its review and approval of a CTF claim within one calendar month; and determined that the CTF discount for bundled service offerings shall be based on either the bundled offering or the unbundled tariff rate for access line type services, whichever is lower.
3. **Public Utilities (PU) Code Sections 270-281**, as codified in October 1999 by the enactment of Senate Bill 669, require that the monies in the CTF only be disbursed pursuant to PU Code Sections 270-281 (pertaining to the operation of California's universal service programs) and upon appropriation in the annual State of California Budget Act.
4. **Rulemaking 01-05-046** investigated the "feasibility of redefining universal telephone service by incorporating two-way voice, video, and data service as components of basic service" and how the CTF program might be revised to better support this objective.
5. **Resolution T-16742** complied with portions of Senate Bill 1863 – intended to provide educational institutions, health care institutions, community-based organizations and governmental institutions with access to advanced telecommunications services – by equalizing the CTF discount available to all program participants at 50%, and added hospital district owned-and-operated health clinics to the list of qualifying entities.
6. **Resolution T-16763** shortened the time frame for telecommunications carriers to file reimbursement claims from the CTF from two years forty-five days to one year forty-five days from the end of the month for which the claim is made; revised the format of the CTF claim worksheet; ordered carriers to discount services to CTF customers upon notification of customer eligibility and prior to submitting reimbursement claims; adopted rules that carriers may impose on E-rate customers who wish to also receive CTF discounts; specified when carrier claims will be eligible for interest and provides direction for carriers wishing to claim interest; and eliminated the filing of adjustment claims except in specified circumstances.
7. **Administrative Letter No. 15** dated December 1, 2006 implemented in part the PU Code Section 884 setting aside funds on a first come, first serve basis for nonrecurring installation costs for high-speed broadband services for eligible community organizations.



8. **Senate Bill 1102** added section 884.5 to the PU Code including a provision requiring carriers to first apply the Federal actual or statewide average E-rate discount – regardless of whether the customer has applied for or been approved – prior to applying the CTF discount to certain eligible services subscribed to by schools and libraries. (**Administrative Letter 10B** provides further clarification on the application of the E-Rate discount and application procedure.)
9. **Administrative Letter No. 11** dated February 1, 2006 revised the CTF claim procedure through a simplified claim form supported by new variance and management reporting.
10. **Resolution T-17142** issued on April 24, 2008 reduced the CTF surcharge rate from 0.130% to 0.079%.
11. **Rulemaking 06-05-028** involved a comprehensive review of the Telecommunications Public Policy Programs, including the CTF, which led to Decision 08-06-020.
12. **Decision 08-06-020** directed several key changes to the CTF program including: an expansion of CTF-eligible services; the removal of CTF tariff requirements for all carriers providing CTF-eligible services on a detariffed or non-regulated basis; the inclusion of CCCs, CTN participants and non-profit CBOs; a cap on total CTF discounts received by CCCs; and allowed partnering in the CTF program between Internet Service Providers and registered telecommunications carriers.
13. **Administrative Letter No. 17** dated December 5, 2008 made additional revisions to the claim form established by Administrative Letter No. 11 including: reformatting to present the claims per customer group and per fiscal year in a table; adding CCCs as customer groups; disclosing important information concerning the funding limitations for CTF discounts received by CCCs; and dividing schools and libraries into two separate customer groups.
14. **Resolution T-17314** adopted a policy requiring that Federal Communications Commission program support or discounts be deducted from the CTF service charges incurred by eligible non-profit CBOs and rural health care providers prior to computing the CTF discount.

## Engagement Purpose and Scope

### Purpose

The CPUC selected Crowe to conduct an examination and issue an opinion on TW's compliance with the rules, regulations, and requirements of the CTF program solely related to program costs and cost related activities related to services provided during the fiscal year ended June 30, 2010. This examination was performed in accordance with AICPA standards for compliance examinations.

In conjunction with our examination, CPUC provided two main objectives for this project. These objectives were as follows:

Objective number 1 required the development of procedures to determine compliance with CPUC's directives related to:

- The timeliness of TW's CTF claims;
- The completeness of TW's CTF claims with respect to format and included data elements as provided in Administrative Letter 17;
- The eligibility of organizations receiving CTF discounts;
- The Reasonableness of tariffed and non-tariffed CTF eligible service rates including bundled and unbundled services;
- The eligibility of services receiving CTF discounts; and
- The proper application of E-rate.

Objective number 2 required the development of procedures to test the accuracy of CTF program discounts given to customers and resulting reimbursements claimed against the CTF program by the carriers.

We tested both objectives through a combination of analyzing the data on TW's CTF claims (e.g., ascertaining the eligibility of included customers and services and the mathematical accuracy of calculations) and sampling of TW's CTF customer records including customer invoices and payments. We derived the criteria by which to measure both objectives from the CPUC's CTF program directives including Assembly and Senate Bills, Rulemakings, Decisions, Resolutions and Administrative Letters governing the CTF program.

#### Scope

Our examination period covered July 1, 2009 through June 30, 2010. Our population consisted of all customers included in TW's monthly claims to the CPUC. TW filed no adjustment claims pertaining to our examination period.

During the examination period, TW submitted reimbursement claims for forty unique customers consisting of one hospital, two libraries, three colleges, nine schools, and twenty-five CBOs. In total, these customer claims included a total of 1,510 customer service lines for the examination period. We selected a sample of customer services for testing (i.e. each selection represented a unique service provided to a customer for a specific month). Though our sample was selected for an individual service, we tested all services provided to that customer for the month selected. If a customer monthly claim involved multiple invoices (i.e. multiple locations are invoiced separately under the same customer number) all invoices for that customer were included as part of our testing.

#### **Risk Based Approach**

Crowe utilizes a risk based approach for conducting examinations. As part of this risk based approach, we assess risks during the planning phase and re-assess risks throughout the examination. As such, our planning activities included establishing and documenting an overall examination strategy, developing a detailed written examination plan; and determining the extent of involvement of professionals with specialized skills. Based on the risks identified, we designed and implemented overall responses to address our assessed risks of material non-compliance with the rules and regulations of the CTF program and we performed examination procedures whose nature, timing, and extent were based on, and are responsive to, the assessed risks of non-compliance.

## **Sampling Methodology**

Our sampling methodology for this examination was based on guidance from the American Institute of Certified Public Accountants - Government Auditing Standards and Circular A-133 Audit Guide - Chapter 11: Audit Sampling.

Sampling is the application of an examination procedure to less than 100 percent of the items within an account balance or class of transactions for the purpose of evaluating some characteristic of the balance or class. In other words, sampling may provide the accountant an appropriate basis on which to conclude on a characteristic of a population based on examining evidence regarding that characteristic from a subset of the population.

It is important to note that sampling is one of many techniques designed to provide sufficient appropriate examination evidence to support the accountant's compliance opinion. An accountant often does not rely solely on the results of any single type of procedure to obtain sufficient appropriate evidence on compliance. Rather, conclusions may be based on evidence obtained from several sources and by applying a variety of testing procedures. Combined evidence obtained from the various types of procedures to determine whether there is sufficient appropriate evidence to provide an opinion on compliance.

Our sampling methods used a combination of both random and judgmental sampling. Judgmental sampling was utilized to test individually important items. Specifically, we used the judgment and experience in examining a population for risky or unusual transactions for testing. These individually important items were selected based on our risk assessment and based on the data analytics that were completed during the examination.

When sampling is used to test transactions sampling risk exists. Sampling risk represents the risk that the sample is not representative of the population. In other words, that the evaluation of a population based on an sample is different from what it would be if the entire population was tested. Based on a statistically valid sample, our sampling methodology is designed to provide a high level of assurance (90 - 95%) in accordance with the AICPA Audit Guide's guidance on Sampling.

## Findings and Recommendations

In planning and performing our examination of TW's compliance with the rules, regulations, and requirements of the CTF Program solely related to program costs and cost related activities related to services provided during the fiscal year ended June 30, 2010, we noted several items that we considered to be reportable to CPUC's management. This section of our report provides a listing of these findings.

### ***Finding 1: Overcharge to the CTF Program***

#### Condition

Common Sense Media was the recipient of what appeared to be a promotional offer for internet services that resulted in the customer not being charged for internet services for December 2009. The CTF discount was calculated using the original amount that would have been charged for the service (\$1,660) resulting in a claim to the CPUC of \$830. Since the customer received a credit for this service and did not make payment for the service for this month, a claim should not have been made to the CPUC for the CTF discount on this service. This was the only credit noted in the 64 sampled customer invoices that were tested.

#### Criteria

The CTF program provides a discount for the cost of services charged to customers per Decision 08-06-020 and Resolutions T-16742 and T-16763.

#### Cause

CTF claims are assembled based on the cost of the service identified on the invoice to the customer and excludes entries in the "Late Payment, Installation, and Other Charges" portion of the customer invoices. The promotional credit is shown in the portion of the customer invoice that is excluded from the CTF claim preparation process, which resulted in TW being unaware of the adjustment at the time the claim was filed with the CPUC.

#### Effect

The CTF program was overcharged and the CPUC made an overpayment in the amount of \$830.

#### Recommendation

TW should determine if there is a method within the billing system that will permit those responsible for invoicing the CPUC to identify when there is a credit on an account to prevent this matter from recurring. If a system-driven method is not possible, we recommend that TW conduct a review of each invoice included within monthly claims to determine if there are promotional credits that could result in inaccurate billing. Lastly, TW should reimburse the CPUC for the \$830 of CTF discounts over claimed for Common Sense Media.

#### Management Response

This was an error caused by how the data was being pulled. tw telecom has made data pull corrections and, effective with the 2011 funding year, each debit and credit adjustment, including promotional credits, is investigated to see if it was for an eligible service. This particular credit adjustment appeared to be a waiver and not a promotional credit.

***Finding 2: Eligible Charge Excluded From the Discount Calculation***

Condition

TW did not provide a CTF discount to KingsView Mental Health for the Flat Business Line 36M service, which is a CTF eligible service. Total costs for the service during the period under assessment, inclusive of installation and other charges, were \$136. An additional CTF discount of \$68 could have been provided to the customer in accordance with the CTF program rules.

Criteria

Resolution T-16763 prescribed that the discount for qualified community based organizations shall be 50 percent for measured business service, switched 56, integrated services digital network (ISDN), T-1 service, DS-3, and up to OC 192 or their functional equivalents.

Cause

TW inadvertently excluded the service line from the invoice when completing the invoicing schedules.

Effect

This finding does not have a dollar impact on the program since the customer was not provided the CTF discount. However, customer discounts made possible by the CTF program were not utilized to their full extent.

Recommendation

TW should consider establishing an automated CTF billing function to mitigate the risk of excluding eligible programs from the discount calculation.

Management Response:

tw telecom has corrected this issue going forward as billed services and eligible services are being compared against all customers.

***Finding 3: CTF Reimbursement Claims Filed Semi-Annually***

Condition

TW submitted two 6-month CTF reimbursement claims for 2009-10, one for \$330,869 and the other for \$455,987. Although TW broke out individual monthly reimbursements within a single claim form, TW did not meet the requirements for filing semi-annually. Since TW did not meet the requirements for filing semi-annually, TW should have submitted monthly claims to the CPUC for the CTF program.

Criteria

Resolution T-16763 (May 24, 2004, p. 27) states, "When a carrier's total CTF claims for a six month period are less than \$2,500, the carrier may file semi-annually."

Cause.

Filing semi-annually rather than monthly resulted from TW's unfamiliarity with the requirements of Resolution T-16763.

Effect

Filing large CTF reimbursement claims semi-annually as oppose to monthly makes it more difficult for the CPUC to estimate the funding needs of the CTF program.

Recommendation

TW should review the requirements specified in resolution T-16763 and start filing its CTF reimbursements in accordance with that resolution.

Management Response:

tw telecom agrees that it has not been submitting monthly claims to the CPUC and understands that the CPUC requests monthly filings for budget and cash flow purposes. However, due to the additional labor resources it would take to file on a monthly basis it would not be cost effective for tw telecom to file monthly. Therefore, tw telecom would like to continue submitting semi-annually filings knowing that it is waiving its rights to any interest for the filing, per tw telecom's conference call with the CPUC on December 13, 2012.

***Finding 4: De-Tariffed and Non-Regulated Services Not Listed***

Condition

TW noted the following on the carrier's claim forms: "Currently all of tw telecom holdings Inc. services are tariffed." During the course of our examination, TW informed us that many services - such as internet access - were de-tariffed or non-regulated. None of these services or their prices was included on the Rate Report as required.

Criteria

CPUC CTF Administrative Letter 17 (dated December 5, 2008) outlines a revised method for submitting CTF claims. Under the "Rate Report & Guidebook" section, the letter states that "the rate (monthly recurring charge) of any de-tariffed or unregulated service that receives the CTF discount must either be listed within the Rate Report and/or a Guidebook. If the carrier chooses to report the information via a Guidebook... the carrier should disclose the URL address (on the Rate Report) of an online version of the Guidebook. The Guidebook should be archived in a fashion that allows the [Communications Division] to retrieve pricing information for a specific month for up to 5 years."

TW included a URL to the carrier's main tariff page on its Rate Report, but no de-tariffed services or service rates were included on the Rate Report.

Cause

TW interprets the requirements of Administrative Letter 17 differently than Crowe, stating that the included URL (i.e. the hyperlink to TW's public tariff/price list web site) remains a comprehensive and accurate reference tool despite the CPUC's de-tariffing of services other than basic local exchange services.

Effect

The failure to include de-tariffed services and rates makes it more difficult for the CPUC to examine the reasonableness of the service prices charged to CTF customers.

Recommendation

TW should remove the statement "Currently all of tw telecom holdings Inc. services are tariffed" from its Rate Report. It should review the requirements of Administrative Letter 17 and list on its Rate Report any de-tariffed or non-regulated services and service prices not found in its online tariffs or price books.

Management Response

tw telecom understands the request of this information and will include additional product pricing along with the tariff/price list link on all future filings.

***Finding 5: Incorrect Identification of Two CTF Eligible Organizations***

Condition

Two CTF-eligible organizations were incorrectly identified on TW's monthly claim forms. Mesivta of Greater Los Angeles (application number 6812) was listed with an incorrect application number on all twelve monthly claims, and United Way of Fresno County (application number 2490), was listed without an application number on five monthly claim forms.

Criteria

The CTF Claim Form provided by the CPUC as part of Administrative Letter 17 (dated December 5, 2008) includes a Customer Report tab that requires carriers to list their CTF customers by customer type, applicant name, application number, and CTF discount.

Cause

This matter was caused by human error due to the manual process of completing the CTF claim form. The billing account number for Mesivta of Greater Los Angeles was used in place of its application number, while the application number for United Way of Fresno County was accidentally deleted during preparation of the claim forms.

Effect

Improperly listing customers increases the likelihood that reimbursement claims are made for ineligible customers. However, these two customers were CTF-eligible so these errors did not result in payments being made to ineligible customers.

Recommendation

We recommend that TW cross-reference the application number used for each customer on their CTF claim form back to the CPUC CTF eligible customer database to ensure that the right customer application number is being utilized.

Management Response:

This has been corrected for any future filings. tw telecom will be using a cross reference table before each claim is filed to insure correct application numbers.



## **Appendix A – Procedures Performed**

## List of Records Obtained

Records obtained for our TW testing procedures included:

- Obtained twelve (12) monthly claims that were consolidated into 2 claims filed with the CPUC during the examination period.
- CPUC's CTF Claim Tracking.
- Tariff service rate and price listing documents.
- Invoices for non-CTF customers receiving the same services.
- A system-generated report showing prices charged to non-CTF customers for services that are non-tariff and also are excluded from the pricing guides.
- Detailed electronic data reports provided by TW that support each customer's CTF discount on every monthly claim. These data reports included each CTF customer's:
  - application number;
  - organization name;
  - organization type;
  - account number;
  - telephone number;
  - CTF service classification;
  - Service classification/description;
  - Service quantities;
  - Unit price of service;
  - E-rate discount percentage;
  - E-rate discount;
  - CTF discount after E-rate;
  - CPUC User Fee;
  - 911 Tax;
  - Federal Excise Tax;
  - local tax; and
  - monthly claim amount for each organization and service claimed.
- The crosswalk provided by TW between TW's specialized communications services and the CPUC's list of CTF-eligible services.
- 60 customer invoices and payment support from TW for each customer-month included in the sample selection made by Crowe.
- Canceled checks to confirm customer payments for the 60 sampled invoices.
- Reports from TW's bank showing the deposit of payments received from the CPUC.
- Form 486 notification letters provided by TW that describe the E-rate for each of TW's school and library customers.

## **Summary of Procedures Applied**

Our engagement was divided into two phases. The first phase of our project consisted of completing an off-site data analysis on data provided by the carrier. The second phase involved on-site visits to TW to perform testing of supporting documentation and procedures over compliance.

In the first (data analysis) phase, Crowe designed, developed and populated a CTF claims database. The database captured available data from TW's FY 2009-10 monthly claims, as well as supporting information from TW and the CPUC including CTF-eligible organizations, application date, application number, approval date, and CTF-eligible services and their functional equivalents. Crowe analyzed this data to identify anomalies that might indicate problems with TW's data and conducted compliance tests, as described in the following sentence, of the data that supplemented our field work. Crowe used the CTF claims database to test the timeliness of each CTF claim; the eligibility of TW's CTF customers and services; the correct application of the E-rate; the accuracy of the math underlying each claim; and the completeness of the claim format.

The second phase involved on-site visits to TW during the weeks of December 10, 2012 and February 4, 2013. During the on-site visits, Crowe conducted an entrance conference with TW to confirm the scope and extent of our procedures and requested documentation. We tested a sample of claims and their supporting invoices with respect to the CTF-eligibility of organizations and services including bundled services; tariffed rates and non-tariffed prices; application of the E-rate; and the adequacy and accuracy of reimbursement claims.

CPUC specified key objectives for evaluating the compliance with administrative directives and the accuracy of CTF claims for the fiscal year ended June 30, 2010. Below, we have provided a summary of these objectives and our approach to meet these objectives as part of our testing procedures.

### ***Objective 1: Compliance with the CTF's Administrative Directives***

1. Determine whether the carriers filed their original CTF claims with the timeframe specified in Resolution T-16763, Ordering Paragraphs (OP) 1-2.

#### *Approach*

We tested each monthly claim filed during the engagement period to determine if the claim for reimbursement was filed within the required timeframe per Resolution T-16763, Ordering Paragraphs, 1-2. Resolution T-16763 requires the reimbursement claim be filed within one (1) year and forty-five (45) days from the period being claimed.

2. Determine whether the format of the carrier's CTF claim is in conformance with the CPUC's directives, specifically Administrative letters 11 and 17 as well as Decision 08-06-020, the claim contains all required elements, and contains complete supporting information.

Approach

We tested each monthly claim filed during the engagement period to determine if the claim was prepared in conformity with the CPUC's directives and contained all required elements. For each claim, we then tested to determine if the claim was filed on the CPUC approved Claim Form and that the claim form was complete. We additionally tested that TW had properly filed all the annual Customer Reports and Service Reports required by Administrative Letter 17.

3. Determine whether the carriers are in compliance with the CPUC's directives, Decisions 96-10-066 and 08-06-020, and Resolutions T-16763, and T-16742, in providing CTF discounts to the CPUC's approved CTF eligible organizations only after the CPUC's approval dates.

Approach

For each customer selected, we tested if the customer was approved to receive the CTF discount and that the discount was provided to the customer only after the CPUC's approval date. We tested CPUC's approval dates for the unique CTF-customers, as listed on the CPUC's website, to determine whether CPUC approval occurred prior to TW's provision of any CTF discount.

4. Determine whether the carriers' tariffs are in compliance with the CPUC's directives, Decision 08-06-020, and provide that the rates for qualifying schools, libraries, government owned hospitals and health clinics, and CBOs for CTF eligible services are 50% below the rates charged to other business for those same services or their functional equivalents.

Approach

For each invoice selected for testing, we compared the amount billed for eligible services to Tariffed rates or if a detariffed service to published rates or to rates charged to other customers for similar services in the same geographic region. We then tested if the rates charged for CTF eligible services were 50% below the rates charged to other business for the same service by comparing the rate to the approved range for rates for that service per the tariff and the Rate Report. We then tested the CTF discount was properly applied to applicable charges.

5. Determine whether the carrier is in compliance with the CPUC's directives including Decisions 96-10-066 and 08-06-020, Resolution T-16742, and Administrative Letter 16 with respect to providing CTF discounts on approved CTF-eligible services.

Approach

TW provided a list of all the CTF-eligible services it provided in 2009-10 and how these services related to the CPUC's list of CTF-eligible services (the "crosswalk"). We obtained feedback from the CPUC on TW's crosswalk to determine CTF eligibility and followed up with TW to clarify the definition of certain services. Then, for each customer invoice selected through our sample, we compared the billed services per the invoice to the crosswalk to determine if TW calculated the CTF discount only on eligible services.

6. Determine whether the carriers are in compliance with the CPUC's directives, PU Code 884, and administrative letter 10b and 14, with respect to applying the E-rate discount before providing and claiming CTF discounts. Test claims supporting detail to determine if E-rate

discount was properly applied. Obtain Form 486 per customer from Carrier and Verify the E-rate applied was properly supported by Form 486.

Approach

For each school selected for testing, we obtained and tested the Form 486 to determine if the customer had an approved E-rate and to identify the specific rate. We then tested whether TW properly applied the E-rate discount to customer's bills prior to calculating the CTF discount. For customers without an approved E-rate, we tested that TW used the California Statewide average rate as promulgated by the CPUC at the time of the billing.

**Objective 2: Accuracy of the CTF Reimbursement Claims**

1. Determine the CTF discount (i.e. 50 percent) was properly calculated on the eligible services (after properly applying E-rate) in accordance with Resolution T-16742.

Approach

We obtained a list of all CTF eligible services provided by TW (the "crosswalk"). For each customer invoice selected in our testing sample, we compared the billed services per the invoice to the crosswalk. Using the crosswalk and invoice, we tested if TW calculated the CTF discount only on eligible services and used the proper 50 percent CTF discount rate.

2. Determine whether CTF claim payments agree to the carrier's claimed amount, the amounts of the CTF claim reimbursement that the carriers received agree to the CPUC's CTF claim payment records and that the CTF claim payments were deposited into the proper accounts.

Approach

We obtained claim payment information from the CPUC. Using this information we traced the amounts paid by the CPUC (per their claim payment detail) to the amounts claimed by TW. Next, we traced the amount paid by the CPUC to the amount received by TW and traced this amount to TW's bank account to determine it was properly deposited via the lockbox.

3. Determine if there was an underpayment or overpayment of CTF claims to the carrier. Recalculate interest due to or from the carrier in accordance with Resolution T-16763.

Approach

We compared the final, calculated CTF discount to the amount claimed on the CTF claim. If there was an underpayment or overpayment, we calculated the interest due to / from TW as required by regulations.

## **Appendix B – Carrier Response**

October 16, 2013

Crowe Horwath LLP  
575 Market Street, Suite 3300  
San Francisco, California 94105-5829

Ladies and Gentlemen:

We are providing the following finding responses in connection with your examination of tw telecom's compliance with the rules, regulations, and requirements of the California Teleconnect Fund (CTF) Program including the accuracy of the CTF discounts claimed on the CTF monthly claim forms filed with for the California Public Utility Commission (CPUC) related to services provided during the fiscal year ended June 30, 2010.

**Finding 1:**

This was an error caused by how the data was being pulled. **tw telecom** has been data pull corrections and, effective with the 2011 funding year, each debit and credit adjustment, including promotional credits, is investigated to see if it was for an eligible service. This particular credit adjustment appeared to be a waiver and not a promotional credit.

**Finding 2:**

**tw telecom** has corrected this issue going forward as billed services and eligible services are being compared against all customers.

**Finding 3:**

**tw telecom** agrees that we have not been submitting monthly claims to the CPUC and understand that the CPUC requests monthly filings for budget and cash flow purposes. However, due to the additional labor resources it would take to file on a monthly basis it would not be cost effective for us to file monthly. Therefore, we would like to continue submitting semi-annually filings knowing that we are waiving our rights to any interest for the filing, per our conference call with the CPUC on December 13, 2012.

**Finding 4:**

**tw telecom** understands the request of this information and will include additional product pricing along with the tariff/price list link on all future filings.

**Finding 5:**

This has been corrected for any future filings. **tw telecom** will be using a cross reference table before each claim is filed to insure correct application numbers.