



CALIFORNIA TELECONNECT FUND PERFORMANCE AUDIT

PAETEC Communications, LLC
(U-6097-C)

July 1, 2022, through June 30, 2023

Utility Audits, Risk and Compliance Division
Utility Audits Branch
April 21, 2025



MEMBERS OF THE TEAM

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Utility Audits, Risk and Compliance Division
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PUBLIC UTILITIES COMMISSION

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Transmitted via e-mail

April 21, 2025

Kristi Moody, Executive Vice President
General and Chief Compliance Officer
PAETEC Communications, LLC
4001 Rodney Parham Road
Little Rock, AR 72212

Dear Kristi Moody:

**Final Report Transmittal Letter—Audit of PAETEC's Communications, LLC's
California Teleconnect Fund Program for the period of July 1, 2022, through
June 30, 2023**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of the California Teleconnect Fund (CTF) program claim's reported by PAETEC Communications, LLC's (PAETEC) for the period of July 1, 2022, through June 30, 2023. The final audit report is enclosed.

PAETEC's response to the draft report findings and our evaluation of the response are incorporated into this final report. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

PAETEC is not currently participating in the CTF program. Therefore, a Corrective Action Plan (CAP) addressing the findings and recommendations is not required to be submitted at this time. However, if PAETEC resumes participation in the CTF program or additional audit work is conducted in the future at PAETEC, a CAP may be requested at that time.

We appreciate PAETEC's assistance and cooperation during the engagement, and its willingness to implement corrective actions. If you have any questions regarding this report, please contact Sharmin Wellington, Supervisor, at 916-928-9838.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page

Kristi Moody, Executive Vice President
Chief Compliance Officer
PAETEC Communications
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cc: Michelle Simpson, Vice President & Corporate Secretary, PAETEC
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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the California Teleconnect Fund (CTF) program's claims reported by PAETEC Communications, LLC (PAETEC) for the audit period of July 1, 2022, through June 30, 2023.

Our audit objectives were to determine whether PAETEC's claims from CTF were accurate, properly supported, incurred for eligible participants, services, and activities; and to determine whether PAETEC applied the applicable CTF discount to the eligible participants, in accordance with Public Utilities (PU) Code sections 280 and 884, CPUC Decisions (D.) 96-10-066, D.15-07-007, and D.19-04-013, and other applicable CTF program's 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 of July 1, 2022, through June 30, 2023. The instances are described in the Findings and Recommendations section of this audit report. The audit findings are summarized as follows:

- **Finding 1: Overbilled Services Totaling \$10,740 Due to Inaccurately Applied CTF Discount**

PAETEC overbilled its participants for CTF-eligible services totaling \$10,740 because PAETEC did not correctly calculate and apply the CTF discount.

- **Finding 2: Billing Methodology Not Transparent**

PAETEC combined the cost of its services into one charge when invoicing its participants rather than itemizing amounts for different services. Therefore, PAETEC did not specify costs for CTF-eligible services and did not segregate ineligible items, such as equipment cost. It was not possible to determine whether the CTF discounts were accurately applied to participants' bills for eligible services.

We issued a draft report on March 6, 2025. PAETEC responded by email dated March 19, 2025, agreeing with Finding 1 and disagreeing with Finding 2. PAETEC'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.

AUDIT REPORT

Background

California Teleconnect Fund Program

The California Public Utilities Commission (CPUC) implemented the California Teleconnect Fund (CTF) in 1996 pursuant to Public Utilities (PU) Code section 280(a). CPUC D.96-10-066 created the CTF program to promote innovation in the delivery and use of advanced communication services, encourage the diversity of choices among services and providers, and ensure affordable and widespread access to California's broadband networks and technology. CTF program aims to bring every Californian direct access to advanced communication services in their local communities, particularly those with lower rates of internet adoption and greater financial need.

CTF program provides support for the cost of advanced communication services to approved participants, including schools, libraries, hospitals, health clinics, community colleges, 2-1-1 referral providers, and community-based organizations (CBOs). Participants receive a 50 percent discount on monthly recurring charges (MRC) of eligible services, such as Ethernet and Fiber Optics. CTF support is adjusted to account for federal E-rate program support for all participants in the following categories: Public Schools, Private Schools, and Libraries, and approved Rural Health Care Program (RHCP) participants. CTF discount is applied to the balance of eligible charges remaining after the federal E-rate and federal RHCP support is applied. Service providers apply the discount within participants' monthly bills, then submit claims for reimbursement to the CPUC Communications Division (CD). CTF program is funded by California ratepayers through a surcharge assessed on revenues collected by telecommunications companies for intrastate telecommunications' products and services or the number of active access lines that a telephone corporation operates in California¹.

The CPUC's CD administers the CTF program in coordination with the CTF Administrative Committee. CD processes applications from entities requesting eligibility for the program, processes claims for reimbursement from carriers, prepares annual budgets, proposes changes to the surcharge, and performs other administration tasks. The CTF Administrative Committee advises CPUC regarding the development, implementation, and administration of the program.

PAETEC Communications, LLC

PAETEC Communications, LLC (PAETEC) is a subsidiary of Windstream, a broadband service provider. Windstream is a Limited Liability Company, incorporated in Delaware, with its headquarters in Little Rock, Arkansas. Windstream acquired PAETEC in 2011. Windstream operates as PAETEC in 11 states, including California, and provides internet services to schools, libraries, hospitals, health clinics, and CBOs. PAETEC participated in the CTF program through January 2024, providing a 50% discount on monthly recurring costs for internet services to eligible participants.

PAETEC claimed and was reimbursed a total of \$475,284 from the CTF during the audit period of July 1, 2022, through June 30, 2023. PAETEC had approximately 43 participants per month, of which some participants had services at multiple locations. Claims for reimbursement are summarized in Table 1 below:

¹ Effective April 1, 2023, pursuant to D.22-10-021.

Table 1. Claim Information During Audit Period

Claim Period	Claimed Amount	Reimbursed Amount
July 2022	\$ 62,545	\$ 62,545
August 2022	55,666	55,666
September 2022	53,208	53,208
October 2022*	0	0
November 2022	47,259	47,259
December 2022	41,420	41,420
January 2023	41,372	41,372
February 2023	43,453	43,453
March 2023	47,922	47,922
April 2023	62,528	62,528
May 2023	12,149	12,149
June 2023	7,762	7,762
Total	<u>\$ 475,284</u>	<u>\$ 475,284</u>

*PAETEC did not file October 2022 CTF claim for reimbursement.

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. UAB is authorized to verify the CTF program claims for the purposes of ensuring regulatory compliance of the CTF program.

Objective and Scope

Our audit objectives were to determine whether PAETEC's claims from CTF were accurate, properly supported, incurred for eligible participants, services, and activities; and to determine whether PAETEC applied the applicable CTF discount to the eligible participants, in accordance with PU Code sections 280 and 884, CPUC D.96-10-066, D.15-07-007, and D.19-04-013, and other applicable CTF program's rules, regulations, and requirements.

The scope of our audit covered PAETEC's claims from the CTF totaling \$475,284 for the audit period of July 1, 2022, through June 30, 2023.

Methodology

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

We conducted a risk assessment, including evaluating whether PAETEC's key internal controls relevant to our audit objectives were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, observing processes, or performing walkthroughs, and testing transactions. Deficiencies in internal control that were 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 PAETEC's subscriber database. Our assessment included examining extracted reports, tracing data between differing report formats to verify completeness, and tracing report data to source documents. We determined the data to be sufficiently reliable to address the audit objectives.

We developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. To achieve our audit objectives, we did the following:

- Reviewed applicable PU Code sections, CPUC decisions and resolutions to gain an understanding of CTF program, including eligibility and the claim filing process.
- Reviewed PAETEC's background information including its policies and procedures to gain an understanding of the nature of the utility and its responsibility over CTF program.
- Reviewed prior audits reports and determined there were no prior findings significant to our audit objectives.
- Assessed significance by performing analyses of reimbursement claims data and evaluating program requirements.
- Obtained an understanding of PAETEC's key internal controls relevant to CTF program, such as reviewing its processes over reimbursement claims, and participant billing and discounts, and assessed the design, implementation, and operating effectiveness of selected controls that are significant to the audit objectives by:
 - interviewing key personnel and administering an internal control questionnaire;
 - reviewing PAETEC's policies and procedures, and specifically assessing the recording and reporting of CTF claims data;
 - performing walkthroughs of the reimbursement claims; and
 - tracing selected transactions to source documents.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Selected July 2022, December 2022, April 2023, and June 2023, claims totaling \$62,545, \$41,420, \$62,528, and \$7,762, respectively, and selected between 8 and 18 participants from each month out of approximately 475 total participants to perform substantive testing procedures, as outlined in Table 2 below:

Table 2. Claims Selected for Testing

Months Selected	Claimed Amount	Percent of Total Claims	Participants Selected	Percent of Total Participants
July 2022	\$ 62,545	13%	18	4%
December 2022	41,420	9%	14	3%
April 2023	62,528	13%	8	2%
June 2023	7,762	2%	10	2%
Total Sampled	<u>\$ 174,255</u>	<u>37%</u>	<u>50</u>	
Total Claimed*	<u>\$ 475,286</u>		<u>475</u>	

*For the selected samples, errors found, if any, were not projected to the intended (total) population. The total number of participants is the average claimed for the audit period.

- For the selected months and participants, performed substantive testing procedures including the following:
 - Verifying claims were approved, accurately computed, and properly supported
 - requested the E-rate Funding Commitment Decision Letters (FCDL) for eligible participants to identify the approved federal discount amounts;
 - recalculated the total monthly CTF claimed amounts submitted to CPUC for reimbursement to verify the claimed amounts were accurate;
 - obtained the service order contracts for the selected participants to verify the monthly reoccurring charges (MRC) claimed amounts were accurate;
 - verified claims for reimbursement were properly approved before submittal; and
 - recalculated the CTF amounts billed for a total of 57 E-rate participants selected for the 11 months listed below in Table 3 to verify the claimed amounts were accurate:

Table 3. E-rate Participants Selected for Testing

Claim Period	E-rate Participants Reviewed	Percent of Total Participant
July 2022	7	1.5%
August 2022	7	1.5%
September 2022	7	1.5%
November 2022	5	1.1%
December 2022	7	1.5%
January 2023	7	1.5%
February 2023	5	1.1%
March 2023	5	1.1%
April 2023	3	0.6%
May 2023	2	0.4%
June 2023	2	0.4%
Total Selected	57	12.0%
Total Participants	475	

- Ensuring discounts (E-rate and CTF) were properly applied
 - traced the approved E-rate support amounts to the reimbursement claims to identify any disparity in the percentages;
- Verifying eligible services and participants were claimed
 - obtained and reviewed service provider's list of offered services to verify the services were CTF eligible;
 - compared the CPUC's CTF eligible services list to the participant's service types on the claims to determine only eligible services were claimed;
 - obtained and reviewed CPUC's CTF participant list to verify the participants were approved for the CTF program; and
 - verified the participants' eligibility start and end dates on the CTF participant list, to assess whether the participants were eligible for the CTF discount during the audit period.

We did not audit PAETEC's financial statements. Our audit scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance that PAETEC's claims from CTF program were accurate, properly supported, incurred for eligible participants, services, and activities; and to determine whether PAETEC applied the applicable CTF discount to eligible participants, in accordance with the applicable PU Code sections, CPUC decisions, and other applicable CTF program's rules, regulations, and requirements. We considered PAETEC'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 July 1, 2022, through June 30, 2023. 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 PAETEC'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 PAETEC's CTF program claims within the last ten years. We identified one external audit performed by the Universal Service Administrative Company (USAC) of the Service Provider's application of the federal E-rate discount during funding year 2020, which resulted in no findings. PAETEC did not identify any other 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 March 6, 2025. PAETEC responded by email on March 19, 2025, agreeing with Finding 1 and disagreeing with Finding 2. PAETEC'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.

Restricted Use

This audit report is intended solely for the information and use of US TelePacific 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).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

FINDINGS AND RECOMMENDATIONS

Finding 1: Overbilled Services Totaling \$10,740 Due to Inaccurately Applied CTF Discount

Condition:

PAETEC overbilled its participants for CTF-eligible services totaling \$10,740 (\$7,544 + \$3,196) because PAETEC did not accurately compute and apply the CTF discount. Specifically, PAETEC overbilled \$7,544 due to applying an incorrect federal E-rate discount and \$3,196 due to incorrectly categorizing some of its participants and applying ineligible discounts to those participants.

During our testing of PAETEC's reimbursement claims from CTF, we noted systemic inaccuracies in PAETEC's application of the CTF discount during the billing and claim preparation process. Our testing revealed that these systemic errors occurred largely due to lack of effective controls in place, including but not limited to segregation of duties for the preparation, review, and submission of CTF claims, as well as monitoring and review procedures.

We initially tested and recomputed 4 of 12 monthly reimbursement claims and noted that PAETEC overbilled 5 of 6 of its public-school participants (83 percent error rate). We, therefore, expanded testing to all 57 E-rate participants and reviewed all 12 months within the audit period, except October 2022, for which PAETEC did not submit a reimbursement claim. Our testing found errors in 54 (95 percent) of the 57 E-rate participants reviewed and revealed various inaccuracies that resulted in overbilled services as described below.

PAETEC overbilled participants \$7,544 because PAETEC did not accurately calculate the federal E-rate discount. The CTF discount is computed as 50 percent of the monthly recurring charge (MRC) for eligible services, net of the federal E-rate discount, therefore, a higher E-rate percentage will result in a lower CTF discount. PAETEC's miscalculations resulted in an E-rate discount that was too high, which lowered the net MRC, resulting in a lower CTF discount being applied to the claim. The application of a lower CTF discount caused PAETEC's participants to overpay for their respective CTF-eligible internet services.

In addition, PAETEC overbilled two CBOs by \$3,196 in 2 of 11 months by incorrectly categorizing the CBOs as schools on its claims submitted for reimbursement. PAETEC inadvertently applied E-rate discounts to the CBOs; however, CBOs are ineligible for E-rate discounts per the Telecommunication Act of 1996. As a result, the two CBOs received a lower CTF discount and subsequently overpaid for their respective services.

Table 4 below summarizes the total overbilled amounts for the audit period:

Table 4. Overbilled Amounts due to Inaccurate E-rate

Claim Period	E-rate Participants Reviewed	E-rate Participants Overbilled	Overbilled Amount
July 2022	7	7	\$ 955
August 2022	7	7	955
September 2022	7	7	955
November 2022	5	5	932
December 2022	7	4	2,484
January 2023	7	7	2,532
February 2023	5	5	934
March 2023	5	5	918
April 2023	3	3	31
May 2023	2	2	22
June 2023	2	2	22
Total	<u>57</u>	<u>54</u>	<u>\$ 10,740</u>

The overbilled amounts from PAETEC's participants caused PAETEC's reimbursement claims from the CTF program to be understated by \$10,740 (\$7,544 + \$3,196) as stated above.

Criteria:

Resolution T-17666 states, in part, that:

Telecommunications carriers offering services with the CTF discount are directed to apply the discount to the recurring charges on a participant's monthly bill. After applying the discount, carriers are required to file claims for reimbursement of the discount with the Communications Division.

PU Code section 884.5(b) states, in part, that:

CTF discount shall be applied after applying an E-rate discount. The commission shall first apply an E-rate discount, regardless of whether the customer has applied for an E-rate discount or has been approved, if the customer, in the determination of the commission, meets the eligibility requirements for an E-rate discount.

Administrative Letter No.10B states, in part, that:

Requires that service providers must first apply the federal E-rate discount awarded to the participant, or Commission's statewide average E-rate discount, prior to applying the CTF discount on CTF-eligible services.

CTF Service Provider Manual, states, in part, that:

Section 5.D.i

CTF program determines the statewide average E-rate support level prior to the beginning of each fiscal year and informs service providers via email and a website posting.

PAETEC Communications, LLC CTF Process and Procedures, dated June 6, 2024, states, in part, that:

Step 2: Credit Calculation

PAETEC imputes any E-rate/RHC percentage or the statewide average, as posted, to applicants as required by CTF program.

Federal Communications Commission, Telecommunications Act of 1996, Title 47, section 54.501, Eligible Recipients, states, in part, that:

29. We concur with the Joint Board's recommendation to provide schools and libraries with discounts on all commercially available telecommunications services, Internet access, and internal connections. This program provides schools and libraries with the maximum flexibility to purchase the package of services they believe will meet their communications needs most effectively.

Cause:

Although PAETEC is not currently participating in CTF program, during the audit period PAETEC lacked adequate policies and procedures over its billing and claims preparation process to ensure that:

- Segregation of duties and a claim review process were in place to verify that all eligible CTF customers receive the correct CTF discount on eligible services and that claims are accurately prepared and submitted. PAETEC indicated the incorrect E-rate calculations were due to human error; for example, PAETEC staff stated they carried the E-rate over from a previous month.
- PAETEC complies with CTF regulations, which require that participants without a current approved FCDL must have E-rate calculated using the statewide average.
- The correct SA and participants' category is verified prior to preparing and submitting the reimbursement claim.
- Systemic errors, under/over charges to participants, and inaccurate claim reporting to CPUC did not occur.

Effect:

When participating in CTF program, PAETEC has a responsibility to ensure participants receive accurate CTF discounts and are billed accurately for CTF-eligible services. However, lack of proper controls over its billing and claim preparation processes resulted in:

- The intended recipients of CTF discount or support, such as local communities, public schools, libraries, etc., did not receive the full discounts they were entitled to. As a result, participants paid more for the CTF-eligible services.

- Ratepayer-contributed CTF funds were underclaimed and not fully utilized for its intended purpose of supporting local communities or eligible participants with discounted internet access services.
- Stakeholders' inability to easily evaluate program results and effectiveness which could impact decision makers.
- Although these errors resulted in an underclaim from CTF, the cumulative effect of having systemic errors in computing CTF discounts and preparing CTF claims can lead to material differences significant to each participant over time.

Recommendations:

Before resuming participation in CTF program, PAETEC should develop and implement effective policies and procedures over its billing and claims preparation process to ensure that:

- Segregation of duties and an effective review process are implemented to verify that all eligible CTF customers receive the correct CTF discount on eligible services and that CTF claims are accurately prepared and submitted to CPUC.
- PAETEC complies with CTF regulations, including application of the FCDL E-rate and/or SA E-rate support to E-rate eligible participants.
- The correct SA and participants' category is verified prior to preparing and submitting the reimbursement claim.
- A monitoring and review process is in place to identify discrepancies timely and to eliminate systemic errors, under/over charges to participants, and inaccurate claim reporting to CPUC.

Finding 2: Billing Methodology Not Transparent

Condition:

PAETEC's billing methodology did not clearly segregate eligible services for the associated CTF discounts, and all other services leading to PAETEC submitting CTF claims that were not properly supported. During our testing procedures, we selected 50 participants' bills from July 2022, December 2022, April 2023, and June 2023, and found that CTF eligible and ineligible services were bundled on 33 of the 50 (66 percent) bills reviewed. PAETEC combined the cost of its services into one charge when invoicing its participants rather than itemizing amounts for different services. Therefore, PAETEC did not specify costs for CTF-eligible services and did not segregate ineligible items, such as equipment cost. It was not possible to determine whether CTF discounts were accurately applied to participants' bills for eligible services. For example, PAETEC's July 2022 claim submitted to CPUC for Participant A reported a CTF-eligible MRC of \$1,910 for services. The corresponding bill for Participant A had line items for six services including equipment cost, which is not eligible for CTF, under one amount totaling \$3,410.

The CTF Service Provider Manual requires that monthly invoices for participants should list CTF discounts as separate line items and indicate a total amount payable net of CTF discounts for the billing period. However, PAETEC did not provide adequate detail on some of its participants' monthly

invoices for auditors to determine if the CTF discount had been properly applied only to eligible services. Transparent billing would list the cost of each service element, specifically CTF eligible services, and clearly identify which items comprise the CTF-eligible portion of the bundle or combined cost. Lack of specific itemized details prevents stakeholders from verifying whether PAETEC's claims submitted to CPUC were accurately computed.

Criteria:

CPUC Decision D.15.07.007 states, in part, that:

Section 5.3

Maintenance, equipment or construction costs are not CTF eligible, consistent with Appendix B, Non-Eligible Communication Services.

Appendix B

Provides a list of non eligible communication services.

For bundled products/services that contains both eligible and non-eligible services, carriers must cost allocate to receive partial CTF reimbursements.

CTF Service Provider Manual, states, in part, that:

Section 5

Monthly invoices to participants should list CTF discounts as separate line items and indicate a total amount payable that is net of CTF discounts for the billing period.

The CTF discount applies only to the monthly recurring charge of an eligible service. The following fees, services, and products are ineligible: Usage fees... Equipment / Maintenance...

Generally Accepted Accounting Principles (GAAP) states, in part, that:

...when submitting a claim for reimbursement, all expenses should be properly documented, categorized, and supported by receipts or other verifiable evidence.

Cause:

Although PAETEC is not currently participating in CTF program, during the audit period, PAETEC lacked clear protocols for its service billings to ensure monthly billings to participants clearly listed and identified CTF-eligible services and discounts as a separate line item. PAETEC indicated that their billing methodology bundled services, for example, CTF-eligible services such as ethernet were combined with non-eligible services such as equipment costs under one charge. PAETEC stated that the claim preparation involved accessing customer accounts to determine the specific services and costs to be discounted.

Effect:

Lack of clear procedures and itemized documentation to support PAETEC's computations of CTF-eligible service discounts applied, and the corresponding claims filed for reimbursement could lead to potentially material errors, such as:

- Ratepayers contributed funds could be misapplied to ineligible services, and

- The likelihood of potential overpayments, or misuse of CTF funds could be increased. Ratepayers contribute to CTF with the expectation that funds are used for eligible services that are accurately computed and properly accounted for and documented, which cannot be clearly ascertained with PAETEC's co-mingled billing methodology.

Recommendations:

Before resuming participation in CTF program, PAETEC should:

- Develop and implement clear procedures for its service billings to ensure monthly billings to CTF participants clearly identify CTF-eligible services and discounts in a separate line-item, and
- Revise its claims preparation process to ensure the amounts claimed are supported by clearly identified CTF services and costs itemized on participant bills to allow for easy tracing and verifying whether PAETEC's claims submitted to CPUC were accurately computed.

APPENDIX A—UTILITY'S RESPONSE TO DRAFT AUDIT REPORT

PAETEC Communications, LLC – Response to California Teleconnect Fund Program Draft Audit Report dated March 6, 2025

March 19, 2025

Finding 1: Overbilled Service Totaling \$10,740 Due to Inaccurately Applied CTF Discount

PAETEC has reviewed the recommendations outlined for Finding 1 and will take steps to ensure that its claims preparation process is compliant with CTF program rules and regulations in the event it resumes participation in the program.

Finding 2: Billing Methodology Not Transparent

PAETEC has reviewed Finding 2 but disagrees with the conclusions drawn by the auditors. We assert that PAETEC's billing methodology was in compliance with Section 5 of the CTF Service Provider Manual (the "Manual"), as well as Section 5 of the CTF Applicant & Participant Guidebook (the "Guidebook") and program guidance as reflected in program decisions and resolutions posted to the CTF website.

Section 5 of the Manual requires that invoices to program participants, "list CTF discounts as separate line items and indicate a total amount payable that is net of CTF discounts for the billing period." To confirm, PAETEC invoices, which were provided to auditors as part of this review, listed the CTF discount as a separate line item and indicated the amount payable that is net of the CTF discount. Eligible services and CTF discounts are clearly segregated, and therefore, PAETEC invoicing was in compliance with the Manual.

Further, the Manual does not prohibit service providers from bundling services – including eligible and ineligible services – as one charge on an invoice. Neither does Resolution T-16319, cited by the auditors in Finding 2, pursuant to which the program adopted a simplified approach to application of CTF discounts to bundled offerings, include a requirement for itemized billing of bundled services.

In fact, Section 5.G. of the Manual specifically addresses bundled services that are sold together as a "single bundled cost." That section does not require itemized billing, but rather provides methodologies to calculate CTF discounts when the price of the bundled eligible service is not readily available. Section 5 of the Guidebook similarly states, "[f]or bundled services...service providers cost allocates (sic) to determine the appropriate CTF discount." Thus, while auditors may have preferred that PAETEC "list the cost of each service element" of bundled services on invoices, it is clear that program rules contemplate that bundled services may not have itemized rates on invoices.

If the program requires bundled services to have itemized pricing, as suggested by the auditors in Finding 2 – including allocated pricing on ineligible features, which may vary depending on the allocation method used – we recommend that the Manual and Guidebook be updated for clarity. However, PAETEC contends that this is not the intent of the program rules.

Finally, PAETEC's claims for reimbursement were properly documented, categorized and supported by receipts and verifiable evidence. During its participation in the program, PAETEC utilized an internal database of all eligible services and their known monthly recurring costs (MRC) to submit claims to the CTF program. This database allowed PAETEC to readily determine the eligible service MRC for any program participant. This process is one of the approved cost allocation methodologies for bundled services under the Universal Service Administrative Company's E-Rate program; CTF adopted these cost allocation methodologies as part of the program's rules with Decision 15-07-007.

When submitting claims for bundled services within the ePAC system, PAETEC's procedures require submission of eligible services by service name, not the bundle name, along with the corresponding MRC for that eligible service using this database. Further, all service names are itemized on PAETEC invoices under a bundled charge, which aligns with industry standards. Claims can be easily verified by reviewing the service name and itemized CTF discount on an invoice against the corresponding ePac claim to ensure the proper discount was applied, and PAETEC staff walked auditors through this verification process during the audit.

In sum, PAETEC refutes the conclusions of the auditors in Finding 2 and asserts that its billing methodology and claims for reimbursement have been transparent and verifiable in compliance with program rules. PAETEC respectfully requests that CTF reconsider Finding 2 when issuing its final audit report.

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

We appreciate PAETEC's comments submitted on March 19, 2025. In its response, PAETEC agreed with UAB's Finding 1 and disagreed with Finding 2. We appreciate PAETEC's willingness to take corrective actions to implement UAB's recommendations relating to Finding 1 in the event it resumes participation in the CTF program.

In its response, PAETEC disagreed with Finding 2 and asserted that the CTF Service Providers Manual does not explicitly prohibit bundling services. PAETEC stated that it believes its billings are in accordance with the Manual as PAETEC segregated the CTF discount line from billed services on its invoices. Therefore, PAETEC believes that its billing methodology and claims for reimbursement have not violated any requirements and have been "transparent and verifiable." We disagree.

As stated in Finding 2, PAETEC did not provide adequate detail on some of its participants' monthly invoices for auditors to determine if the CTF discount had been properly applied only to eligible services. In fact, 66 percent (33/50) of the bills reviewed revealed that PAETEC did not specify costs for CTF-eligible services and did not segregate ineligible items, such as equipment cost, which made it impossible to determine whether CTF discounts were accurately applied to these participants' bills for eligible services. We continue to maintain our position that lack of itemized detail on some of PAETEC's bills makes it impossible to verify accuracy of computations for CTF discounted services, specifically which items comprise the CTF-eligible portion of the bundled costs.

We provided additional clarifying language in the Condition of Finding 2 regarding the number of PAETEC customer bills reviewed containing eligible and ineligible services under a single charge. In addition, we provided clarifying information in the Criteria of Finding 2. Except for these minor updates on pages 11 and 12 of this final report, the findings and recommendations remain unchanged.