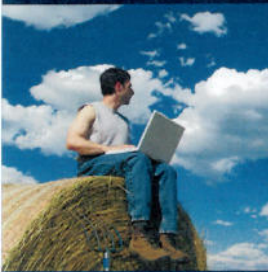
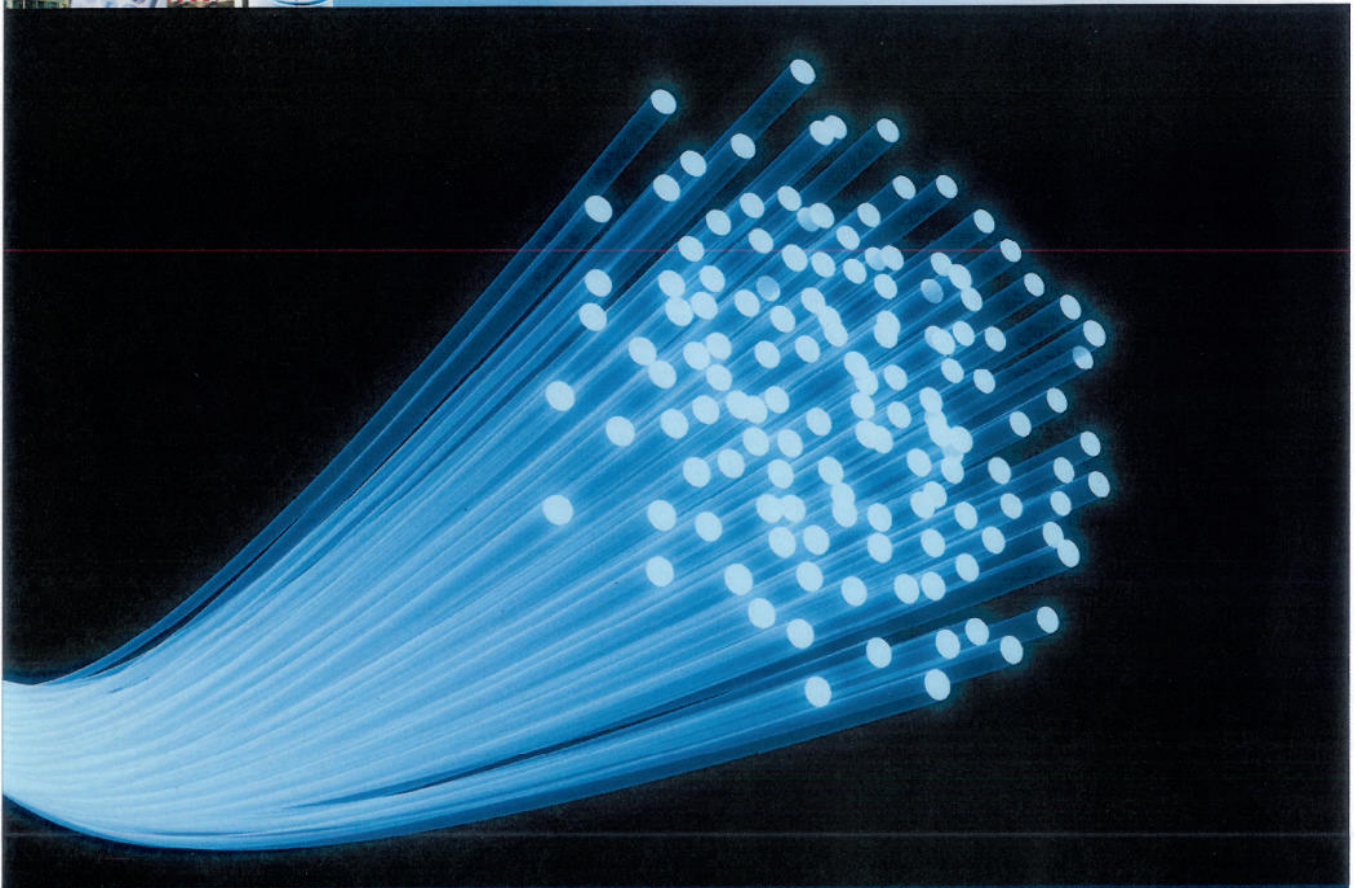




California Public Utilities Commission



# California Advanced Services Fund Interim Performance & Financial Audit Report

Volume II – April 2011





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**Interim Audit of the  
California Advanced Services Fund  
Volume II - Financial Audit  
For the Period from January 1, 2008 through June 30, 2010**

**Table of Contents**

<b>COMMISSION STAFF INDEPENDENT AUDIT OPINION.....</b>	<b>ii</b>
<b>I. EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>II. RECOMMENDATIONS.....</b>	<b>3</b>
<b>III. INTRODUCTION.....</b>	<b>3</b>
<b>IV. INTERIM FINANCIAL AUDIT.....</b>	<b>4</b>
A. AUDIT PURPOSE AND SCOPE.....	4
B. AUDIT OBJECTIVES .....	5
C. AUDIT TASK AREAS AND GOALS .....	5
D. AUDITING STANDARDS APPLIED .....	6
E. AUDITING PROCEDURES APPLIED.....	6
F. PRELIMINARY FINDINGS.....	7
<b>V. AUDIT FINDINGS .....</b>	<b>7</b>
A. CASF INTERNAL CONTROLS.....	7
B. CASF REVENUE.....	8
C. USE OF CASF FUNDS .....	14
D. CASF PROGRAM FUND BALANCES .....	17
<b>VI. FISCAL OFFICE’S COMMENTS.....</b>	<b>18</b>
<b>VII. COMMUNICATIONS DIVISION’S COMMENTS.....</b>	<b>18</b>
<b>APPENDIX A .....</b>	<b>HISTORY OF CASF PROGRAM</b>
<b>APPENDIX B .....</b>	<b>STATE LAW AND COMMISSION DIRECTIVES</b>
<b>APPENDIX C .....</b>	<b>COMMUNICATIONS DIVISION’S COMMENTS</b>
<b>APPENDIX D.....</b>	<b>FISCAL OFFICE’S COMMENTS</b>
<b>APPENDIX E .....</b>	<b>ABBREVIATIONS AND ACRONYMS</b>



**Interim Audit of the  
California Advanced Services Fund  
Part II - Financial Audit  
For the Period from January 1, 2008 through June 30, 2010**

**INDEPENDENT ACCOUNTANT'S REPORT**

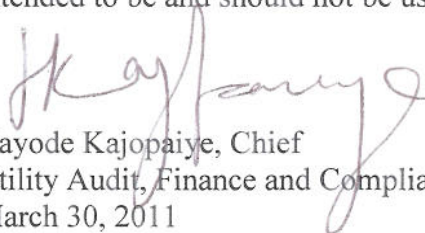
Pursuant to Public Utilities Code Section 281(f), the California Public Utilities Commission's (Commission) Utility Audit, Finance and Compliance Branch (UAFCB), of the Commission's Division of Water and Audits (DWA), conducted an independent interim financial audit of the California Advanced Services Fund (CASF), for the period from January 1, 2008, through June 30, 2010. This audit report addresses only the interim financial audit of the CASF program.

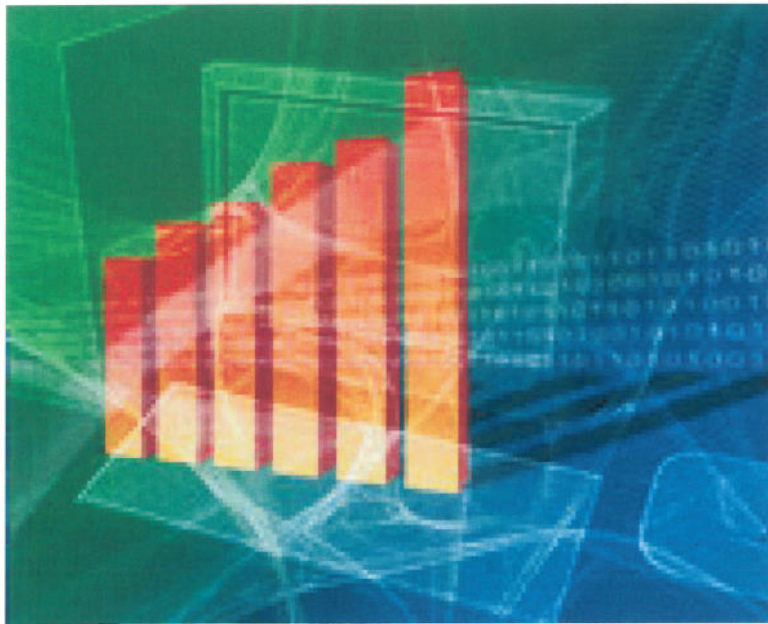
The Commission's Fiscal Office (FO) is responsible for the fair presentation of the CASF program financial data. The Commission's Communication's Division (CD) performs ministerial duties on behalf of the Commission regarding the CASF program. A comprehensive summary of the state laws and the Commission's directives applicable to the CASF program is included in Appendix B of this report.

UAFCB's interim financial audit was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants (AICPA) and, accordingly, included examining, on a test basis, evidence concerning CD and FO's processes and procedures in the implementation and oversight of the CASF program and performing any other procedures as considered necessary in the circumstances. UAFCB believes that its audit provides a reasonable basis for an opinion. UAFCB does not provide a legal determination on CD and FO's compliance with the specified requirements.

In the opinion of the UAFCB, CASF funds were expended in compliance with Public Utilities Code §§ 281 and 282, state law and the Commission's directives. The Commission's Fiscal Office accurately recorded and reported the CASF financial information; including the surcharges interest and penalties remitted by the utilities, interest earned on the deposits, project cost payments, administrative costs and interagency charges.

This report is intended for use by the Commission and the California Legislature. It is not intended to be and should not be used by anyone other than the specified parties.

  
Kayode Kajopaiye, Chief  
Utility Audit, Finance and Compliance Branch  
March 30, 2011



# Interim Audit of the California Advanced Services Fund Volume II - Financial Audit

For the Period from January 1, 2008 through June 30, 2010

## I. Executive Summary<sup>1</sup>

This report presents the results of the California Public Utilities Commission's (Commission) Utility Audit, Finance and Compliance Branch's (UAFCB) interim financial audit of the California Advanced Services Fund (CASF) for the period from January 1, 2008, through June 30, 2010. The UAFCB independently conducted this audit pursuant to Public Utilities Code § 281(f), which requires the Commission to conduct both an interim financial audit and an interim performance audit of the implementation and effectiveness of the CASF program.<sup>2</sup>

The purpose of UAFCB's interim financial audit was to assess whether CASF funds were expended in accordance with §§ 281 and 282, state law and the Commission's directives, and to determine whether CASF financial information was properly recorded and reported. The Commission's Communications Division (CD) conducted the performance audit of the CASF program separately and it reports the results of its audit in Part I of these reports.

In 2007, the Commission established the CASF program to encourage the deployment of broadband facilities to provide advanced telecommunications, as well as voice service, in unserved and underserved areas of California. The CASF program promotes economic growth, job creation, and substantial social benefits by ensuring the rapid implementation of advanced information and communications technologies through adequate long-term investment in the necessary infrastructure throughout the state, pursuant to § 709.

**CASF funds were expended in compliance with §§ 281 and 282, state law and the Commission's directives. The Commission accurately recorded and reported the CASF financial information, including the surcharges interest and penalties remitted by the utilities, interest earned on the deposits, project cost payments, administrative costs and interagency charges.**

The Commission collected \$115,140,932 from CASF surcharges during the audit period. As of June 30, 2010, the audited CASF fund balance was \$115,729,824. UAFCB summarizes the audited CASF program revenue, expenditures, and fund balances in the following table.

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<sup>1</sup> Appendix E describes the abbreviations and acronyms used in this report.

<sup>2</sup> All statutory references are to the Public Utilities Code in effect during the audit period unless stated otherwise.

**Table 1**  
**Audited CASF Revenues, Expenditures, and Fund Balances**  
**For Periods of January 1, 2008, through June 30, 2009, and July 1, 2009 through June 30, 2010**

Description	For Period 01/01/08 to 06/30/09	For Period 07/01/09 to 06/30/10	Total
<b>Revenues:</b>			
CASF Surcharges Collected	\$78,870,195	\$36,270,737	\$115,140,932
Delinquent Fees Collected	147,075	13,949	161,024
Income from Surplus Money Investments	<u>350,967</u>	<u>657,998</u>	<u>1,008,965</u>
<b>Total Revenue</b>	<b>\$79,368,237</b>	<b>36,942,684</b>	<b>\$116,310,921</b>
<b>Less Expenditures:</b>			
Payments on CASF Projects	34,509	43,498	78,007
Administrative Expenditures <sup>3</sup>	\$0	\$274,432	\$274,432
Inter-Departmental Charges <sup>4</sup>	<u>0</u>	<u>228,658</u>	<u>228,658</u>
<b>Total Expenditures</b>	<b><u>34,509</u></b>	<b><u>546,588</u></b>	<b><u>581,097</u></b>
<b>Fiscal Period Ending Balance</b>	<b><u>\$79,331,995</u></b>	<b><u>\$36,396,096</u></b>	<b><u>\$115,729,824</u></b>

Early in the audit period, the Commission’s electronic filing system for the telecommunications programs, including CASF, was corrupted by an unauthorized access, and the Commission took the system offline.<sup>5</sup> Until the Commission could construct and implement a replacement system, carriers manually filed their surcharge transmittal forms and checks for surcharges they collected for the CASF and other telecommunications programs.<sup>6</sup>

With the system down, the Commission didn’t have an efficient way to assess carriers’ full compliance with Commission directives. To assess the carriers’ compliance, UAFCB selected a sample of 1,430 carrier transmittals to review. Up to 28% of the sampled transactions, from 308 carriers, may not have been in compliance with Commission directives. The majority of these items of possible noncompliance, or 69%, were because carriers submitted their transmittal forms with missing or incomplete information. Twenty-seven carriers who were subject to UAFCB’s review may owe approximately \$573,545 in interest and penalties. CD is pursuing the matter of unpaid interest and interest penalties with these 27 carriers.

The Commission developed a new electronic filing and submittal system for CASF and the Commission’s other telecommunications programs. Beginning July 1, 2010, carriers began using the Commission’s new system. Carriers now electronically upload revenue and other pertinent information the Commission needs to assess compliance and electronically transfer the surcharge funds. This system gives the Commission an effective tool with which to

<sup>3</sup> The Commission’s costs to administer the program.

<sup>4</sup> Charges from the State Controller’s Office.

<sup>5</sup> The other programs include the California High Cost Fund A and B, the Universal Lifeline Telephone Service Program, the Deaf and Disabled Telephone Program and the California Teleconnect Fund.

<sup>6</sup> The Commission requires carriers to submit information about their revenue and other necessary information each month with the telecommunications programs’ surcharges.



efficiently evaluate carriers' compliance. With reports generated from the new system, the Commission can initiate corrective action.

## **II. Recommendations**

1. To assist in ensuring invoice submittals by the project implementers are staggered, CD should continue to encourage carriers to submit their invoices as soon as they meet the requirements established for payment.
2. CD should continue to review the Fund's ongoing balances, including interest earned on the deposits and ensure surcharge collection is metered and stopped in time so that the carriers' surcharge collections do not exceed the legislated caps of \$25 million per year or \$225 million in total.

## **III. Introduction**

In line with the Commission's goal for universal service and to ensure citizens' access to critical communication technologies, the Commission created the CASF to encourage and accelerate the deployment of broadband services to under and unserved areas. The Commission ordered the telecommunications carriers to collect a 0.25% CASF surcharge beginning with the January 1, 2008, billing cycle until the total collection reached \$100 million. The \$100 million was available for the Commission to provide grants of up to 40% of qualifying broadband projects' costs.

The Commission directed the telecommunications carriers to hold the surcharge revenue in an account accruing interest at the short-term commercial paper rate until the Commission provided further direction. On October 30, 2008, the CD directed all certificated telecommunications carriers to remit to the FO, on or before November 17, 2008, all the accumulated CASF surcharges and accrued interest. On November 17, 2008, the FO began receiving and recording the CASF program revenue and accrued interest.

Among many other things, CD assists the Commission in developing, implementing and administering CASF. In addition, CD performs ministerial duties on behalf of the Commission with respect to the CASF. UAFCB provides a summary list of some of CD's CASF tasks and duties later in this report in Section V.C. Audit Goal 3.

The Commission's Fiscal Office (FO), among other things, is responsible for accurately recording and accounting for CASF revenue and expenditures on behalf of the Commission. During the audit period, FO briefly had custody of CASF funds as they arrived from the carriers and before a state contracted carrier picked up the funds for deposit in the bank.

During the audit period, beginning in November 2008, the Commission awarded over \$46 million in CASF grants, net of projects that were rescinded. However, only one grantee submitted invoices for payment, totaling \$78,007.

The Commission's previous electronic filing system for telecommunications public purpose programs, including CASF, was compromised and the Commission decommissioned it before carriers began submitting the CASF surcharges. Beginning in May 2009, the Commission

implemented a temporary system for the carriers to electronically submit CASF information. However, the temporary system did not provide for the carriers to electronically transfer CASF funds. Carriers began using the Commission's fully completed system beginning July 1, 2010. The Commission requires carriers to both submit all CASF information electronically and electronically transfer all CASF revenue using the new system.

Estimating that the surcharge collections were approaching the \$100 ceiling dictated in §281, on December 17, 2009, the Commission reduced the CASF surcharge from 0.25% to 0.00%, effective January 1, 2010. However, by June 30, 2010, CASF revenue from collections was \$115,140,932. The overcollection became moot, when, on September 25, 2010, §281 was amended to, among other things, increase the ceiling to \$225 million.

UAFCB provides additional details regarding CASF program history in Appendix A and applicable state law and Commission directives in Appendix B.

#### **IV. Interim Financial Audit**

Section 281(f) requires the Commission to conduct both an interim financial audit and an interim performance audit of the implementation and effectiveness of the CASF to ensure that funds have been expended in accordance with the approved terms of the grant awards and loan agreements and the requirements of §§ 281 and 282.

In May 2010, the Commission's Executive Director requested the UAFCB to conduct an interim financial audit and for the CD to conduct an interim performance audit of the implementation and effectiveness of the CASF program for the period from January 1, 2008, through June 30, 2010. The UAFCB and the CD finalized the interim financial audit scope on September 21, 2010.

UAFCB began its interim financial audit of the CASF program on September 7, 2010 and concluded its audit fieldwork on January 7, 2010.

##### **A. Audit Purpose and Scope**

The overall purpose of UAFCB's interim financial audit was to determine whether CASF funds were expended in accordance with §§ 281 and 282, state law and Commission directives and to determine whether CASF financial information was properly recorded and reported.

The overall scope of UAFCB's interim financial audit includes:

1. *Existence of Safeguards* – The CD and FO's internal controls over the program funds from January 1, 2008, through June 30, 2010.
2. *Process Compliance* – Utilities' transmittal forms filed with the Commission and copies of their surcharge remittance checks, delinquent fees, and interest assessments, any letters from the CD or FO requesting delinquencies or interest, invoices from CASF grant recipients, bank statements pertaining to the CASF program deposits, Commission resolutions and decisions pertaining to the CASF program, disbursement documentation such as remittance advices supporting the amount of any invoices, CD's

formal communications to the utilities and CD's approval letters for payments, from January 1, 2008, through June 30, 2010.

3. Integrity of Reporting – California State Transaction and Reporting System (CALSTARS) Procedure Manual, the State Administrative Manual (SAM), FO's reports on CASF revenue and expenditures, CASF-related CALSTARS reports, Certification of Year-End Financial Reports from FO to the State Controller's Office (SCO), including SCO's Automated year-end reports, including its Statement of Revenue, Final Budget Report, Trial Balance, Statement of Change in General Fixed Assets, Statement of General Fixed Assets, and Statement of Contingent Liabilities from January 1, 2008, through June 30, 2010.
4. Oversight Adequacy – CD's management processes over the CASF program from January 1, 2008, through June 30, 2010.

## **B. Audit Objectives**

UAFCB developed the following audit objectives that are designed to fulfill the interim financial audit purpose. UAFCB was to determine whether:

1. Records were reliable.
2. Revenue was properly managed and correctly recorded.
3. Program Expenditures were in compliance with §§ 281 and 282, state law and the Commission's directives.
4. CASF program fund balances as of June 30, 2009, and June 30, 2010, as recorded, were accurate.
5. CASF program had proper oversight.

## **C. Audit Task Areas and Goals**

To achieve the audit objectives, the UAFCB developed four audit task areas and for each area, specific audit goals as follows:

### CASF Internal Controls:

1. Determine whether FO's internal controls were adequate to ensure the reliability of recorded and reported information.

### CASF Revenue:

1. Determine whether the FO properly recorded and reported the CASF program revenue.
2. Determine the adequacy of CD's oversight over the CASF remittances.
3. Based on Carriers' transmittal forms and remittances, determine if carriers complied with Commission directives.
4. Determine the total CASF program revenue, as of June 30, 2010, including but not limited to, CASF revenues collected from the telecommunications carriers, interest revenue earned on deposits with SMIF, and any interest and delinquent fees collected from telecommunications carriers as a result of any late submissions of CASF revenue.

### Use of CASF Funds:

1. Determine whether the FO properly recorded and reported the CASF program expenditures.

2. Determine the adequacy of CD's management and oversight over the CASF expenditures.
3. Determine whether disbursements from the CASF were in accordance with §§ 281 and 282, state law and the Commission's directives and guidelines.
4. Determine the total CASF program expenditure as of June 30, 2010, including but not limited to, disbursements to CASF project contractors, disbursements to the Commission for administering the CASF, and any inter-departmental charges pertaining to the operation of the CASF.

Fund Balance Review:

1. Determine the CASF fund balance as of June 30, 2010.

**D. Auditing Standards Applied**

UAFCB conducted this audit in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and accordingly, included an examination, on a test basis, of evidence concerning the CD and FO's processes and procedures in their implementation, roles, and oversight of the CASF program and performing any other procedures as considered necessary in the circumstances.

**E. Auditing Procedures Applied**

The UAFCB's procedures and testing included the following general steps.

Risk Assessment:

- Obtain an understanding of the CASF program.
- Obtain an understanding of the CASF program processes.
- Review the any internal controls over the CASF program.
- Perform the risk assessment on the interim financial audit.

Revenue Analysis:

- Perform a reconciliation of CASF revenue.
- Review the CASF surcharge revenue.
- Review the interest revenue earned on deposits.
- Review the delinquent fees.
- Sample-test the CASF revenue.
- Summarize the CASF revenue as of June 30, 2009, and June 30, 2010.

Expenditure Analysis:

- Perform a reconciliation of CASF expenditures.
- Review Commission payments for CASF projects.
- Review Commission expenditures for administering the CASF program.
- Review the inter-departmental charges pertaining to the CASF program.
- Sample-test the CASF expenditures.

**Fund Balance Review:**

- Determine and summarize the CASF program fund balances as of June 30, 2009, and June 30, 2010.

**F. Preliminary Findings**

On March 11, 2011, UAFCB provided a copy of its preliminary findings and recommendations to FO and CD to enhance discussion at the audit exit meeting held with CD on March 30, 2011. Based on additional information supplied by FO and CD in response to UAFCB's preliminary findings and recommendations, UAFCB made edits and clarifications to its draft findings and recommendations as appropriate.

**V. Audit Findings**

**A. CASF Internal Controls**

**Audit Goal 1:** Determine whether FO's internal controls were adequate to ensure the reliability of recorded and reported information.

**Findings:**

1. When processing the CASF surcharge remittances and expenditures, FO followed the practices and procedures specified in the CALSTARS Procedure Manual and the SAM.
2. To capture additional details about CASF revenue, FO used the Commission's Transportation Management Information System (TMIS).

When processing CASF funds, the FO utilized the procedures specified in the CALSTARS procedure manual regarding state processes for the governmental accounting of specialized funds, including the CASF, for all tracking and reporting purposes. FO's controlling agency, the Department of Finance (DOF), created all the policies and procedures for all CALSTARS agencies to use to ensure consistency in the recording, reporting, and reconciliation of governmental transactions.

FO indicated it recorded any cash/checks it received into the CALSTARS, capturing the total deposit for each day. However, the CALSTARS system was unable to record the detailed information related to the CASF deposits that the Commission would want FO to maintain. Consequently, FO used the Commission's TMIS to record the detailed CASF deposit information, such as the telecommunications carrier's name, amount of the check, date, check number, etc.<sup>7</sup>

On a daily basis, Monday through Friday, a state contracted courier picked up cash and checks received by the FO and deposited them in the bank. The FO kept cash/checks received after the FO's cut-off time, or pending additional information to identify the account to be deposited into, in FO's safe until the next business day.

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<sup>7</sup> TMIS is an Oracle database system created by the Commission to maintain and track detailed data on the transportation carriers that it regulates.

With respect to the CASF interest revenue earned on deposits with the state's Surplus Money Investment Fund (SMIF), FO used a designated staff to handle the following functions:<sup>8</sup>

- (a) Retrieving interest revenue from the State Controller's Office's (SCO) journal entries;
- (b) Recording the interest revenue to the CASF in CALSTARS;
- (c) Reconciling interest revenue between the SCO's records and the CALSTARS records; and,
- (d) Reporting interest revenue for the CASF program.

## **B. CASF Revenue**

**Audit Goal 1:** Determine whether the FO properly recorded and reported the CASF program revenue.

### **Findings:**

1. FO correctly recorded and reported the CASF surcharges that the carriers remitted to the Commission.

The CASF was unique in that CD instructed the telecommunications carriers to send the CASF surcharges by check and a copy of their transmittal form directly to FO for deposit and management. For the other telecommunications programs, the carriers sent checks directly to each of the other public program funds' post office boxes, which the Union Bank then deposited in each funds' account at the Union Bank.<sup>9</sup>

FO indicated that it verified that the amounts per the CASF checks agreed with the amounts on the transmittals accompanying the CASF checks. The FO accurately posted checks received in the CALSTARS and in the Cash Receipts/Deposits Reports for the months selected for testing.

Total CASF program revenue per FO's Year-End Statement of Revenue reconciled with the SCO's records and a compilation of the monthly CALSTARS reports without exception. Total Commission monthly miscellaneous revenues per the CALSTAR records reconciled with the total monthly deposits per daily check deposit records/transmittals without exception.<sup>10</sup> CASF surcharge revenues recorded in the daily check records/transmittals and deposited into the bank reconciled with the daily CALSTARS Receipt Transaction Register without exception.

**Audit Goal 2:** Determine the adequacy of CD's oversight over the CASF remittances.

### **Findings:**

1. During most of the audit period, CD did not have direct access to an electronic system to efficiently evaluate and assess individual carriers' CASF revenue and transmittal form information.
2. CD evaluated remittances through periodic audits.

<sup>8</sup> The State Treasurer's Office maintains SMIF and determines interest rates.

<sup>9</sup> Beginning July 1, 2010, using a system established by the Commission, the carriers electronically submit their transmittal forms and electronically transfer their surcharges directly to the public program funds, including CASF.

<sup>10</sup> The Commission's miscellaneous revenue is comprised of transportation and CASF funds. The Commission deposited its miscellaneous revenue in the State Treasury's account at the Bank of America.

3. CD monitored total surcharge revenue and fund balances by reviewing accounting reports from FO.

Prior to the implementation of the CASF program, the Commission established and the carriers used the Commission's Electronic Filing (EF) program and database system when remitting their surcharges. EF was an internet-based program designed to simplify the carriers' reporting of the surcharges, provide access to carriers to update their official/regulatory contact information, and improve staff work efficiency. The Commission required carriers to enter the following data in the EF program:

1. Carrier's name;
2. The reporting period (months and year);
3. The surcharge due;
4. Adjustments, if any;
5. Applicable interest and penalty;
6. Date of report (transaction date); and
7. User profile (i.e., address).

CD relied on this system to monitor individual carriers' surcharges and other information. However, in June of 2008, the Commission detected attempts by entities from outside the Commission to gain unauthorized access to the EF system. The Commission shut the system down and CD did not have a replacement system to electronically and efficiently monitor and evaluate individual carriers' surcharge payments and other carrier information related to CASF.<sup>11</sup>

During the audit period, the Commission developed a replacement for the EF system. This new system is called the Telecommunications and User Fee Filing System (TUFFS). However, TUFFS didn't become fully operational until July 1, 2010.

Because EF was shut down early in the audit period and TUFFS didn't become operational until July 2010, the Commission did not have an efficient way to assess whether:<sup>12</sup>

1. The carrier filled out all of the information required on the transmittal form.
2. The carrier's reported billing base times the surcharge rate matched the surcharges remitted and reported.
3. The carrier remitted its surcharges in a timely manner and if not, whether it submitted the proper amount of interest penalties.

In addition, carriers collect and remit surcharges based on their intrastate billing bases. Carriers may report incorrect billing bases on their monthly transmittals. This discrepancy can only be detected through a thorough audit of each carrier. Only a few carriers can be audited each year. CD periodically selects carriers each year for an audit of all six of the Commission's public purpose program or universal service programs surcharge collection and

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<sup>11</sup> Beginning in May of 2009, the Commission implemented a temporary system for the carriers to electronically submit vital carrier information to CD. However, CD was not able to access this data in a way to electronically sort for noncompliance.

<sup>12</sup> Without an electronic system to assess compliance, each month CD would have had to manually review each transmittal form for completeness and perform a number of mathematical calculations for every transmittal.

remittances, including the CASF program.<sup>13</sup> UAFCB conducts these audits at the request of CD.

At CD's request, UAFCB conducted audits on 4 carriers whose CASF remittances occurred during the audit period. For these carriers, UAFCB found that:

- (a) One had never paid CASF surcharges and owed \$175,288 in surcharges and \$19,010 in interest penalties. As a result of the audit, CD requested and the carrier paid the back surcharges owed plus the interest penalties in full.
- (b) The second understated its intrastate revenue and owed \$12,219 in surcharges and \$1,592 in interest penalties. As a result of the audit, CD requested and the carrier paid the difference in CASF surcharges plus the related interest penalties.
- (c) For the third and fourth, UAFCB did not have any negative CASF findings.

On an informal basis, CD procured accounting statements from FO and used those to monitor total CASF revenue and fund balances.

**Audit Goal 3:** Based on information on the carriers' transmittal forms and remittances, determine if carriers complied with Commission directives.

**Findings:**

1. Between 324 and 401, or up to 28% of the surcharge transmittals submitted by 308 telecommunications carriers that UAFCB selected to review, did not fully comply with Commission CASF directives.<sup>14</sup>
2. Seventy-seven of those, or 5% of the remittances that were selected by UAFCB to review, may have incorrectly calculated CASF surcharges based on the billing bases that they reported.<sup>15</sup>
3. Of the transmittals UAFCB reviewed, 27 carriers owe approximately \$573,545 in interest and interest penalties to the CASF fund.

Based on the results of its risk assessment, the UAFCB judgmentally selected 1,430 individual remittances, excluding interest revenue from deposits with the SMIF, in six different months, as a sample for testing remittances. In the following table, UAFCB presents a summary of the sample it selected for testing.

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<sup>13</sup> The other five programs include the California High Cost Fund A and B, the Universal Lifeline Telephone Service Program, the Deaf and Disabled Telephone Program and the California Teleconnect Fund.

<sup>14</sup> The UAFCB did not audit these carriers' records to ascertain whether or not the billing base that they reported on the transmittal forms was correct.

<sup>15</sup> The billing base is the amount of services that the telecommunications carriers bill their customers for, not including taxes and surcharges. The carriers apply the surcharge rates to the billing base, or the services it provided to its customer, to develop the surcharge amounts on the customer's bill.



**Table 3**  
**Representation of Sample**  
**For the Period from January 1, 2008, through June 30, 2010**

Month / Year	CASF Revenue Tested	Transmittals Tested
November 2008	\$29,869,430	301
December 2008	8,201,680	296
April 2009	20,782,272	261
June 2009	4,815,866	259
January 2010	4,587,098	305
June 2010	8,745	8
<b>Total</b>	<b><u>\$68,265,091</u></b>	<b><u>1,430</u></b>

The total amount of remittances that UAFCB selected as a sample for testing represents approximately 59.29% of the total CASF revenue of \$115,140,932, excluding interest revenue from deposits with the SMIF. UAFCB determined that:

- (a) Based on the billing bases that the utilities reported on their surcharge transmittals, some of the carriers may have miscalculated the amount of CASF surcharges:
  - (i) Thirty-seven transmittals, or 2.6% of the sample, remitted and reported \$113,414 less CASF surcharges than directly attributable to the carrier's reported billing base.
  - (ii) Forty transmittals, or 2.8% of the sample, remitted and reported \$79,987 more CASF surcharges than directly attributable to the carrier's reported billing base.

In these cases, the amount of surcharges these carriers remitted tied with the amount they reported on their transmittal forms. These discrepancies may be due to uncollectible revenue or fractional surcharge amounts on customer bills that the carriers appropriately round to the nearest cent.

- (b) For one of the transmittals from the sample, the amount the carrier remitted did not match with the amount that it calculated and reported on its transmittal form. The carrier remitted \$1,907.03 and on its transmittal form and indicated the CASF surcharge to be \$174.37. The FO deposited and posted in its deposit record the \$1,907.03, which was reflected in the Cash Receipts/Deposit Report.
- (c) For 48 of the transmittals from the sample, or 3.4% of the total sample reviewed, the carriers failed to include either the interest accrued in the initial period, from January 1, 2008, through September 30, 2008, when the CASF was in the carriers' accounts or the delinquent fees; i.e., interest and penalties of 10% per year on the outstanding CASF surcharges. UAFCB estimates that the unpaid interest and delinquent fees on those 48 items amounts to approximately \$573,545.
- (d) For 275 of the transmittals from the sample, or 19.2% of the total sample reviewed, carriers submitted their transmittals and payments with either missing or incomplete information. The missing information included either one of, or a combination of the following:
  - (i) Failure to include the amount of intrastate billing subject to assessment of CASF surcharge in the transmittal;

- (ii) Failure to include the transmittal form with the CASF surcharge payment remitted to the Commission; or
- (iii) Failure to indicate the month-end period applicable to the CASF payments.

UAFCB summarizes the results of its testing of the audit sample in the following table.

**Table 4**  
**Summary of Audit Sample Testing Results**

Description of Finding	Number of Transmittals	% of Sample	Revenue
<b>(a) Surcharges Based on Transmittal Info</b>			
Surcharges < Attributable to Billing Base	37	2.5%	(\$113,414)
Surcharges > Attributable to Billing Base	<u>40</u>	<u>2.8%</u>	<u>79,987</u>
<b>Total Surcharges</b>	<b><u>77</u></b>	<b><u>5.3%</u></b>	<b><u>\$ 33,427</u></b>
<b>(b) Variance between Transmittal and Received</b>			
	<u>1</u>		<u>\$ 1,907</u>
<b>(c) Interest or Interest Penalties Not Remitted</b>			
	<u>48</u>	<u>3.4%</u>	<u>\$573,545</u>
<b>(d) Missing or Incomplete Information</b>			
	<u>275</u>	<u>19.2%</u>	<u>N/A</u>

**Audit Goal 4:** Determine the total CASF program revenue, as of June 30, 2010, including but not limited to, CASF revenues collected from the telecommunications carriers, interest revenue earned on deposits with SMIF, and any interest and delinquent fees collected from telecommunications carriers as a result of any late submission of CASF revenue.

**Findings:**

1. Total revenue at June 30, 2010 was \$116,310,921, including surcharge revenue, delinquent fees or interest and interest earned on deposits.
2. Carriers may be required to remit additional surcharge revenue and interest related to the audit period, based on findings in this and other audits.

UAFCB summarizes the CASF revenue in the following table.

**Table 4**  
**Summary of CASF Revenue**  
**For the Audit Period from January 1, 2008, through June 30, 2010**

Description	1/1/2008 to 6/30/2008	7/1/2009 to 6/30/2010	Total
CASF Surcharges	\$78,870,195	\$36,270,737	\$115,140,932
Delinquent Fees	147,075	13,949	161,024
Interest Revenue from Deposits at SMIF	<u>350,967</u>	<u>657,998</u>	<u>1,008,965</u>
<b>Total CASF Program Revenue</b>	<b><u>\$79,368,237</u></b>	<b><u>\$36,942,684</u></b>	<b><u>\$116,310,921</u></b>

Because the surcharge is based on revenue and a portion of the carriers' revenue is usage based, the Commission was unable to precisely time the end of the surcharge so that only \$100

million would have been collected. If SB 1040 did not become law, the Commission could have returned the overcollection to customers via a surcredit on the customer's bills from the carriers. Because the enactment of SB 1040 on September 25, 2010, extended the CASF program operation indefinitely and authorized the Commission to collect an additional \$125,000,000 through the CASF program surcharges, the overcollection of \$16 million is moot.

**Recommendations:**

1. CD should continue to evaluate the level of surcharge collection and interest earned on deposits and initiate action in time so that carriers remittances and interest earned on deposits do not exceed the legislated caps of \$25 million per year or \$225 million in total.

**C. Use of CASF Funds**

**Audit Goal 1:** Determine whether the FO properly recorded and reported the CASF program expenditures.

**Findings:**

1. Once project invoices were approved by CD, FO correctly processed and paid CASF project implementers.
2. The FO properly recorded and reported the CASF program expenditures.

The Commission made three payments totaling \$78,007.61 for approved CASF projects. FO followed proper procedures when making these payments and FO properly reflected these payments on its year-end reports to the SCO.

The Commission incurred administrative expenses to manage the program and charged some of those expenses to the CASF program. UAFCB did not find any exceptions with FO's recording and reporting of the Commission's administrative expenditures charged to the CASF program during the audit period. UAFCB did not find any exceptions on inter-departmental charges to the CASF program between SCO's and FO's records.

**Audit Goal 2:** Determine the adequacy of CD's management and oversight over the CASF expenditures.

**Findings:**

1. CD ensured that grantees that did not comply with Commission directives did not receive CASF funds.
2. CD exercised proper procedures in approving payment requests for CASF projects.

The Commission directed that payments:<sup>16</sup>

... to the CASF recipient will be on a progress billing basis with the first 25% to be made upon the proponent's submission to the Commission staff of a progress report showing that 25% of the total project has been completed. Subsequent payments shall be made on 25% increments showing completion

<sup>16</sup> See the Commission's Resolution T-17143, Appendix A, Section IX, titled "Payment."

at 50%, 75%, and 100%. A project completion report will be required before full payment...

CD properly rescinded grants when grantees did not comply with Commission directives. CD ensured that CASF project invoices sent to the Commission for payment were properly supported and met the Commission's disbursement requirements. CD advised FO when the payments of invoices were appropriate.

During the audit period, the Commission approved 40 projects totaling \$51.2 million. However, the Commission only received 3 invoices from one project implementer who was awarded \$108,000 in CASF funds for two projects. CD received and approved \$34,509.20 in invoices during the fiscal period January 1, 2008, through June 30, 2009; and \$43,498.41 during the fiscal year ended June 30, 2010.

**Recommendations:**

1. CD should encourage carriers to submit invoices for payment as soon as they meet the Commission's payment thresholds to avoid mass influx of invoices and the payment approval is staggered.

**Audit Goal 3:** Determine whether disbursements from CASF were in accordance with §§ 281 and 282, state law and the Commission's directives and guidelines.

**Findings:**

1. All project payments from CASF were in compliance with the Commission's directives and guidelines.
2. All disbursements from CASF, including project payments, were in accordance with §§ 281 and 282 and state law.

Section 281(c)(1) states:

Any moneys appropriated from the California Advanced Services Fund to the commission may only be expended for the program administered by the commission pursuant to subdivision (a), including the costs incurred by the commission in developing, implementing, and administering the program and the fund.

For the period from January 1, 2008, through June 30, 2009, the Commission did not charge any expenses to the CASF program for developing, implementing and administering the program. Beginning July 1, 2009, the Commission charged the equivalent of two full time CD staff dedicated to developing, implementing and administering the CASF program. The Commission did not charge the CASF program for any FO or other staff time for developing, implementing or administering CASF.

CD performed many tasks in developing, implementing, and administering CASF:

- (a) Assisted in developing and implementing the CASF program, providing advice to decision makers on the construct of the program, grantee qualification criteria, and application processes and procedures;
- (b) Drafted and assisted in drafting Commission orders;

- (c) Designed and put into production a page on the Commission’s website on CASF, with maps of areas in the state that could qualify for CASF grants, and other reference materials for the public and prospective grant applicants;
- (d) Coordinated CASF with the federal American Recovery and Reinvestment Act (ARRA) funding program;
- (e) Processed grant applications;
- (f) Rescinded grants where grantees did not comply with Commission directives; and
- (g) Reviewed and approved invoices for payment.

The Commission charged administrative expenditures to the CASF program based on the personnel costs submitted by the CD and the system-allocated overhead costs associated with those personnel costs. The overhead allocation system is a statewide system set up by the DOF. The Commission does not have control over DOF’s automatic system allocation of overhead costs.

The Commission’s administrative expenditures that it charged to the CASF program consisted of the following:

- (a) Personnel Costs, which includes the salaries and benefits of the CD’s staff who developed, implemented and administered the CASF program.
- (b) Operating Expenses and Equipment (OE&E), which includes allocated general expenses, printing, communications, travel, training facilities operation, utilities, etc.
- (c) Special Items, which includes expenditures that cannot be categorized into (a) or (b).

The SCO charged interdepartmental costs to the CASF program fund. These inter-departmental charges are called Pro Rata, which were billed quarterly through the SCO. According to DOF’s website, Pro Rata represents General Fund recoveries of statewide general administrative costs, i.e., indirect costs incurred by central service agencies, from special funds. CASF is considered a special fund and therefore the Pro-Rata charges apply. Due to UAFCB auditors’ lack of authority to audit SCO’s records, UAFCB treated the inter-departmental charges per the SCO’s records as final figures.

There were no inter-departmental charges for the CASF program for the period from January 1, 2008, through June 30, 2009. Total Pro Rata inter-departmental charges to the CASF program were \$221,000 for the period from July 1, 2009, through June 30, 2010, excluding year-end accruals.

In addition, SCO directly charged \$1,000 per quarter to the CASF program for the 21st Century Project costs in the fiscal year 2009.<sup>17</sup> There were no similar charges for calendar year 2008 nor during the first six months of 2009.

The year-end accrual of \$3,658.16 represented the year-end inter-departmental charges pertaining to statewide system-allocated costs to the CASF for telephone services, security, and indirect distributed costs.

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<sup>17</sup> By Government Code 12432, the State Legislature created the 21st Century Project to modernize the state’s human resource/payroll systems. The State Controller is authorized to assess special and nongovernmental cost funds in sufficient amounts to pay for the authorized 21st Century Project costs that are attributable to those funds. The State Controller’s Office charged CASF for the 21st Century Project costs accordingly.

All CASF expenditures, including CPUC’s administrative expenditures and the inter-departmental charges pertaining to the CASF program, reported by the Commission relate to developing, implementing, and administering the program and the fund. The project costs were for broadband deployment and also meet the requirements of § 281. The Century 21<sup>st</sup> Project costs charged to CASF are required pursuant to Government Code 12432.

**Audit Goal 4:** Determine the total CASF program expenditures as of June 30, 2010, including but not limited to, disbursements to CASF project contractors, disbursements to the Commission for administering the CASF, and any inter-departmental charges pertaining to the operation of the CASF.

**Findings:**

1. Total CASF expenditures, including administration and inter-departmental charges as of June 30, 2010, were \$581,097.

UAFCB summarizes CASF program expenditures in the following table.

**Table 6**  
**Summary of CASF Program Expenditures**  
**From January 1, 2008, through June 30, 2010**

Description	01/01/08 to 06/30/09	07/01/09 to 06/30/10	Total
Payments for Approved Projects	\$34,509	\$ 43,498	\$ 78,007
CPUC Administrative Expenses	0	274,432	274,432
Interdepartmental Charges	0	221,000	221,000
SCO Direct Charge for 21 <sup>st</sup> Century Project	0	4,000	4,000
Program Expenditure Accruals	0	3,568	3,658
<b>Total Program Expenditures</b>	<b><u>\$34,509</u></b>	<b><u>\$546,588</u></b>	<b><u>\$581,097</u></b>

**D. CASF Program Fund Balances**

**Audit Goal 1:** Determine the CASF fund balance as of June 30, 2010.

**Findings:**

1. The fund balance at June 30, 2010 was \$115,729,824.
2. Revenue related to the audit period may increase if carriers remit additional surcharges, interest and/or interest penalties resulting from the Commission’s enforcement efforts related to findings from this and other audits.

UAFCB provides a summary of CASF revenues and expenditures in the following table.

**Table 7**  
**Audited CASF Fund Balance as of June 30, 2010**

Description	January 1, 2008 to June 30, 2009	July 1, 2009 to June 30, 2010	Total As Audited As of June 30, 2010
<b>CASF Revenues:</b>			
CASF Surcharges	\$78,870,195	\$36,270,737	\$115,140,932
Delinquent Fees	147,075	13,949	161,024
Interest Revenue	<u>350,967</u>	<u>657,998</u>	<u>1,008,965</u>
Total CASF Revenue	79,368,237	36,942,684	116,310,921
<b>CASF Expenditures:</b>			
Payments for Approved CASF Projects	34,509	43,498	78,007
CPUC Administrative Expenditures	0	274,432	274,432
Inter-Departmental Charges	0	221,000	221,000
SCO Charge for 21 <sup>st</sup> Century Project	0	4,000	4,000
Inter-Department Accruals	<u>0</u>	<u>3,658</u>	<u>3,658</u>
Total CASF Expenditures	<u>34,509</u>	<u>546,588</u>	<u>581,097</u>
<b>Fund Balance</b>	<b><u>\$79,333,728</u></b>	<b><u>\$36,396,096</u></b>	<b><u>\$115,729,824</u></b>

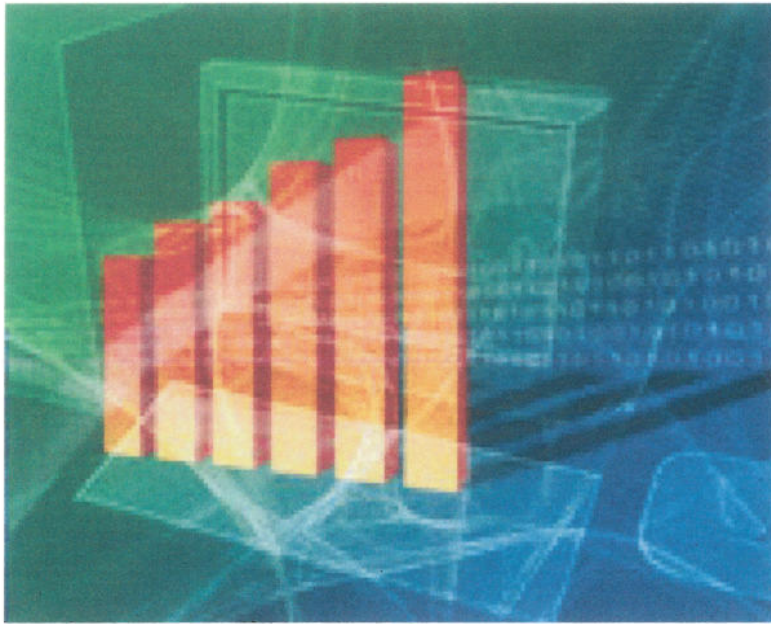
## VI. Fiscal Office's Comments

On April 8, 2001, UAFCB submitted a copy of its draft audit report to FO for its review and comments. The draft report, dated March 11, 2011, included Sections I through IV, as well as the UAFCB's draft audit findings and recommendations. On April 12, 2011, CD provided timely comments to UAFCB's draft audit report. In its comments, FO briefly confirmed its processes.

## VII. Communications Division's Comments

On April 8, 2001, UAFCB submitted a copy of its draft audit report to CD for its review and comments. The draft report, dated March 11, 2011, included Sections I through IV, as well as the UAFCB's draft audit findings and recommendations.

On April 12, 2011, CD provided timely comments to UAFCB's draft audit report. In its comments, CD recommended two minor clarifications to UAFCB's report. UAFCB made these minor edits to its report. In addition, UAFCB made other minor edits and corrections of errors throughout its report to improve clarity, as appropriate.





## **Appendix A**

### **History of the CASF Program Pertinent to the Audit Period**

In Decision (D.) 07-12-054, dated December 20, 2007, the California Public Utilities Commission (Commission) established the California Advanced Services Fund (CASF) program to further its commitment to promote universal service<sup>1</sup> in unserved<sup>2</sup> and underserved<sup>3</sup> areas in the state and provide all Californians access to state-of-the art communications and information technologies, as articulated in Public Utilities Code § 709.<sup>4</sup>

Senate Bill (SB) 1193 approved the Commission's establishment of the CASF to develop, implement, and administer the CASF to provide grants to telephone corporations to encourage the deployment of high-quality advanced communications services to all Californians that will promote economic growth, job creation, and substantial social benefits of advanced information and communications technologies.<sup>5</sup> SB 1193 amended §§ 270 and 281 and authorized the Commission to collect no more than \$100 million through the CASF surcharges.

The Commission's first priority was to fund the unserved areas where there weren't any facilities-based provider offering any level of broadband service. After granting projects in unserved areas, the Commission next considered funding for underserved areas in which no facilities-based provider offered broadband service at the benchmark download transmission speeds of three (3) million bits per second (MBPS) and upload speed of one (1) MBPS.

In D.07-12-054, the Commission specified that the initial allocation of \$100 million was to be collected for approximately two years beginning on January 1, 2008. The CASF surcharge rate was set at 0.25% to be assessed on consumers' bills for intrastate telecommunications services. All telecommunications carriers were required to charge end-users the 0.25% surcharge and establish a memorandum account tracking system for recording the CASF collections.

Initially, telecommunications carriers held and accounted for revenues collected prior to the issuance of a remittance schedule by the Commission in their CASF memorandum account, together with interest accrued on the accumulated CASF balance at the short-term commercial paper rate.

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<sup>1</sup> Universal service is defined as an "evolving level of telecommunications services.... taking into account advances in telecommunications and information technologies and services." See Page 14 of D.07-12-054.

<sup>2</sup> Unserved area is defined as any service region in which no facilities-based provider offers any level of broadband service such that internet connectivity can only be achieved through dial-up service. See Page 9 of D.07-12-054.

<sup>3</sup> Underserved area is defined as any service region in which no facilities-based provider offers broadband service at the benchmark transmission speeds of at least 3 MBPS upload and 1 MBPS download. See Page 9 of D.07-12-054.

<sup>4</sup> All statutory references are to the Public Utilities Code in effect during the audit period unless stated otherwise.

<sup>5</sup> SB 1193 was approved and became law in 2008.

On June 12, 2008, in Resolution T-17143, the Commission approved grant application requirements, timelines, and scoring criteria for parties to qualify for broadband project funding under the CASF.

In a letter, dated October 30, 2008, the Communications Division (CD) directed all certificated telecommunications carriers to remit to the Commission's Fiscal Office (FO), on or before November 17, 2008, their accumulated CASF surcharge revenue and associated accrued interest for the period of January 1, 2008, through September 30, 2008. Remittances postmarked after November 17, 2008 were to be assessed a penalty at an annual interest rate of 10%. In addition, CD directed the carriers to remit a completed transmittal form with required carrier information with each remittance.<sup>6</sup>

As an attachment to the letter, CD provided guidelines for remitting subsequent monthly CASF surcharges and delinquent fees. The attachment, titled "Instructions for Filing the Combined California Telephone Surcharge Transmittal (Rev. Oct 2008)," outlined the specific filing requirements for the telephone surcharges. Telecommunications carriers were required to submit a signed copy of the Transmittal Form, which was also included as an attachment to CD's letter, with the CASF surcharge monies and remit them to the FO no later than the 10th day of the second month, i.e. approximately 40 days, following the close of the reporting period. Late remittances from the 41st day after the close of the reporting period must include a penalty equal to an annual rate of 10%.

The FO began receiving and recording the CASF program revenues and accrued interest remitted by the telecommunications carriers on November 17, 2008.

Beginning November 18, 2008, the Commission began issuing orders awarding CASF grant funds. A list of these Commission orders is included in Appendix B.

On April 30, 2009, CD notified carriers that the Commission was implementing an interim electronic filing system and that the system would be available for carriers to use beginning May 15, 2009. CD directed that all carriers were required to begin using the electronic filing system for CASF information beginning with their June 2009 report period. All CASF funds continued to be submitted to FO.

On July 9, 2009, in D.09-07-020, the Commission modified the CASF program and established schedules for applicants seeking both CASF and American Recovery and Reinvestment Act (ARRA) federal stimulus funds for broadband.

On October 29, 2009, in Resolution T-17233, the Commission approved application requirements and guidelines for non-licensed broadband providers applying for CASF grant money in conjunction with an application for ARRA funding to support broadband infrastructure.

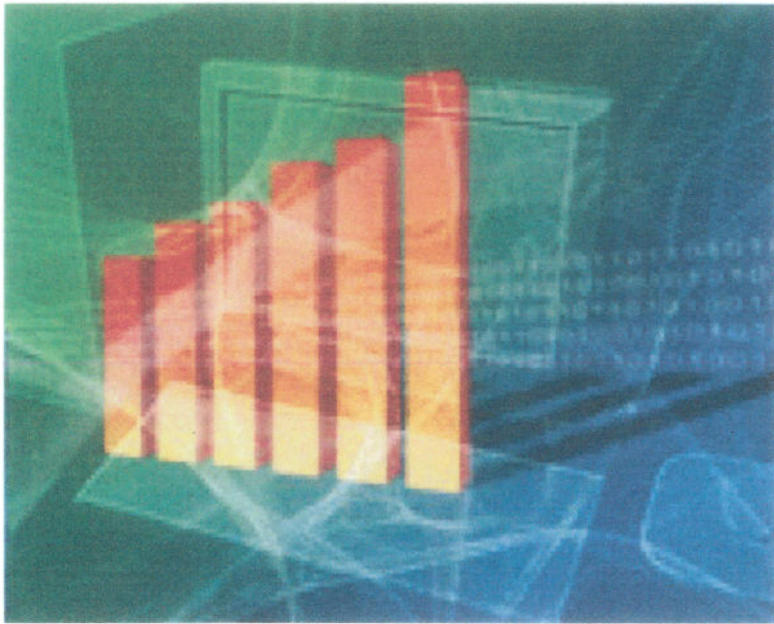
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<sup>6</sup> The Commission's former electronic filing system was compromised and the Commission decommissioned it prior to the CD's letter.

On December 17, 2009, in Resolution T-17248, the Commission reduced the CASF surcharges from 0.25% to 0.00% effective January 1, 2010.

In May 2010, CD informed carriers that the Commission's Telecommunications and User Fees Filing System (TUFFS) was complete and instructed carriers to begin electronically submitting their transmittal form and CASF information and electronically transferring their CASF funds beginning July 1, 2010. Subsequently, CD provided carriers with a letter clarifying the use of TUFFS, in a question and answer format. Beginning July 1, 2010, carriers began electronically submitting their CASF information and funds.

On September 25, 2010, SB 1040 was signed into law by Governor Schwarzenegger. SB 1040 amended § 281 and extended the operation of CASF program indefinitely, while authorizing the Commission to collect no more than \$225 million through the CASF surcharges pursuant to a specified schedule.



## Appendix B

### Applicable State Laws and Commission Directives

The following represents the state laws and the California Public Utilities Commission's (Commission) directives applicable to the California Advanced Services Fund (CASF) applicable or related to the audit period.

#### *State Law*

1. **Senate Bill (SB) 1193** was enacted on September 27, 2008. This bill approved the Commission's establishment of the CASF to develop, implement, and administer the CASF to provide for transfer payments to telephone corporations to encourage deployment of high-quality advanced communications services to all Californians that will promote economic growth, job creation, and substantial social benefits of advanced information and communications technologies. SB 1193 amended §§ 270 and 281 of the Public Utilities Code and authorized the Commission to collect no more than \$100 million through the CASF surcharges.<sup>1</sup>
2. **SB 1040** was enacted on September 25, 2010. This bill amended § 281 and extended the operation of CASF program indefinitely, while authorizing the Commission to collect no more than \$225 million through the CASF surcharges pursuant to a specified schedule. The bill requires the Commission to conduct an interim and final financial audit and an interim and final performance audit of the implementation and effectiveness of the CASF and to report to the Legislature its interim findings by April 1, 2011, and its final findings by April 1, 2017. The bill requires the Commission to annually provide a report to the Legislature, until January 1, 2016, relating to the CASF and containing specified information.
3. **Section 281** authorizes the Commission to develop, implement, and administer the CASF to encourage deployment of high-quality advanced communications services to all Californians that will promote economic growth, job creation, and the substantial social benefits of advanced information and communications technologies. Section 281 authorized the Commission to collect no more than \$100 million through CASF surcharges before January 1, 2011. After January 1, 2011, the Commission was authorized to collect no more than \$225 million through CASF surcharges. In addition, a revision to § 281 extended the operation of CASF program indefinitely. Finally, § 281 mandates the Commission to conduct an interim and final financial audit and an interim and final performance audit of the implementation and effectiveness of the CASF to ensure that funds have been expended in accordance with the approved terms of the grant awards and loan agreements and § 281.
4. **Section 282** specifies that any CASF revenues shall not be used by the state for any purpose other than as specified in § 281. Notwithstanding any other provision of law, the Controller may use the funds created pursuant to this chapter for loans to the General Fund as provided in Sections 16310 and 16381 of the Government Code.

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<sup>1</sup> All statutory references are to the Public Utilities Code unless stated otherwise.

5. **Section 709** declares and defines the following policies for telecommunications in California:
  - (a) To continue our universal service commitment by assuring the continued affordability and widespread availability of high-quality telecommunications services to all Californians.
  - (b) To focus efforts on providing educational institutions, health care institutions, community-based organizations, and governmental institutions with access to advanced telecommunications services in recognition of their economic and societal impact.
  - (c) To encourage the development and deployment of new technologies and the equitable provision of services in a way that efficiently meets consumer need and encourages the ubiquitous availability of a wide choice of state-of-the-art services.
  - (d) To assist in bridging the "digital divide" by encouraging expanded access to state-of-the-art technologies for rural, inner-city, low-income, and disabled Californians.
  - (e) To promote economic growth, job creation, and the substantial social benefits that will result from the rapid implementation of advanced information and communications technologies by adequate long-term investment in the necessary infrastructure.
  - (f) To promote lower prices, broader consumer choice, and avoidance of anticompetitive conduct.
  - (g) To remove the barriers to open and competitive markets and promote fair product and price competition in a way that encourages greater efficiency, lower prices, and more consumer choice.
  - (h) To encourage fair treatment of consumers through provision of sufficient information for making informed choices, establishment of reasonable service quality standards, and establishment of processes for equitable resolution of billing and service problems.
6. **Government Code 12432** authorizes the Controller to assess the special and nongovernmental funds in sufficient amounts to pay for the authorized 21<sup>st</sup> Century Project costs that are attributable to those funds. The state uses the 21<sup>st</sup> Century Project to modernize its human resources management system.

### ***Commission Orders***

1. **D.07-12-054**  
In D.07-12-054, dated December 20, 2007, the Commission established the CASF to further its commitment to promote universal service in unserved and underserved areas in the state and provide all Californians access to state-of-the art communications and information technologies by bridging the "digital divide" as articulated in § 709. The State legislature approved the establishment of the CASF by the enactment of SB 1193.
2. **D.09-07-020**  
In D.09-07-020, dated July 9, 2009, the Commission modified the CASF program and established schedules for applicants seeking both CASF and American Recovery and Reinvestment Act (ARRA) federal stimulus funds for broadband.
3. **Resolution T-17143**  
Resolution T-17143 adopted the application requirements, timelines, and scoring criteria for parties to qualify for broadband project funding under the CASF.

**4. Resolution T-17233**

Resolution T-17233 adopted application requirements and guidelines for non-licensed broadband providers applying for CASF grant money in conjunction with an application for ARRA funding to support broadband infrastructure.

**5. Resolution T-17248**

Resolution T-17248 reduced the CASF surcharges from 0.25% to 0.00% effective January 1, 2010.

In addition to the above, the Commission issued orders approving specific projects for CASF grants. UAFCB summarizes the orders applicable to the audit period in the following table.

**Table A-1**  
**Commission Orders Approving Grant Awards**  
**Net of Rescinded Projects**  
**January 1, 2008 through June 30, 2010**

<b>Commission Order Approving Project</b>	<b>Funding</b>
<b><u>Unserved Areas</u></b>	
Resolution T-17182 (November 12, 2008)	\$ 372,976
Resolution T-17195 (February 20, 2009)	216,832
Resolution T-17183 (March 12, 2009) <sup>(a)</sup>	108,000
Resolution T-17197 (July 9, 2009)	2,771,341
Resolution T-17221 (September 10, 2009)	285,992
Resolution T-17236 (November 20, 2009)	405,613
Resolution T-17274 (May 20, 2010)	749,167
<b>Total for Unserved Areas</b>	<b><u>4,909,921</u></b>
<b><u>Underserved Areas</u></b>	
Resolution T-17196 (March 12, 2009)	620,093
Resolution T-17199 (April 16, 2009)	389,154
Resolution T-17237 (November 20, 2009)	2,621,824
Resolution T-17240 (November 20, 2009)	4,975,009
Resolutions T-17242 (November 20, 2009)	1,312,747
Resolution T-17227 (November 20, 2009)	4,212,982
Resolution T-17232 (December 3, 2009)	19,294,717
Resolution T-17238 (January 21, 2010)	1,872,017
Resolution T-17230 (February 25, 2010)	1,721,280
Resolution T-17225 (May 6, 2010)	3,110,064
Resolution T-17265 (May 6, 2010)	1,154,496
Resolution T-17279 (June 24, 2010)	506,199
<b>Total for Underserved Areas</b>	<b><u>41,790,582</u></b>
<b>Total CASF Funding Awarded</b>	<b><u>\$46,700,503</u></b>

Notes:

<sup>(a)</sup> Commission paid invoices totaling \$78,007.61 for some of these projects during the audit period.

### ***Commission Directives***

**1. Communications Division's Letter to Carriers Dated October 30, 2008**

The Commission delegated authority to its Communications Division (CD) to instruct the utilities when and where to remit the surcharges and CASF information. In this letter, the CD directed all certificated telecommunications carriers to remit to the Commission's Fiscal Office the accumulated CASF surcharge revenues and the associated accrued interest for the period of January 1, 2008, through September 30, 2008, on or before November 17, 2008. In the attachment of the letter, the CD also provided instructions for filing the Combined California Public Utilities Commission Telephone Surcharge Transmittal.

**2. Communications Division's Letter to Carriers Dated April 30, 2009**

In this letter, the CD directed all certificated telecommunications carriers to electronically submit to the Commission all required carrier and CASF information using the Commission's new interim electronic filing system. CD informed carriers that the system was available for use beginning May 15, 2009 and instructed all carriers to begin electronically filing the required information beginning with the June 2009 report period.

**3. Communications Division's Letter to Carriers Dated May, 2010**

In this letter, the CD informed all certificated telecommunications carriers that the Commission was implementing its new Telecommunications and Users Fees Filing System (TUFFS). CD directed all certificated telecommunications carriers to electronically submit to the Commission all required carrier and CASF information and electronically remit CASF and User Fee revenue using the TUFFS beginning July 1, 2010.

**4. Communications Division's Letter to Carriers Dated June, 2010**

In this letter, the CD provided additional information to the telecommunications carriers on TUFFS in a question and answer format.



## Appendix C Communications Division's Comments

State of California

### Memorandum



**Date:** April 12, 2011  
**To:** Kayode Kajopaiye, Branch Chief – Division of Water & Audits  
**From:** Michael Amato, Branch Chief – Communications Division  
**File No:**  
**Subject:** Communications Division Comments on 4-8-11 DRAFT CASF Financial Audit Report

The Communications Division (CD) appreciates this opportunity to comment on the DRAFT California Advanced Services Fund (CASF) financial audit report prepared by the Division of Water & Audit's Utility Audit, Finance, and Compliance Branch (UAFCB) and distributed for comments on April 8th. This audit was initiated pursuant to Public Utilities (PU) Code § 281, to ensure that program funds were expended as directed in applicable PU Code sections and in compliance with the requirements of winning CASF bids.

CD is pleased to see UAFCB's findings that the CASF funds were expended in compliance with the applicable code sections, state law and the Commission directives. We interpret these audit report findings to confirm that the Commission has been appropriately managing the CASF program since its inception in January 2008.

To follow-up on Finding 3 (pages 9-11) of the audit report, CD plans to contact carriers, as appropriate, seeking applicable interest and/or penalties from their late submissions of CASF surcharges. In addition, CD suggests the following technical edits to improve the accuracy of the report.

- Regarding Audit Goal 2 at the top of page 9, it reads: "Because EF was shut down early in the audit period and TUFFS didn't become operational until July 2010, **CD** did not have an efficient way to assess whether:....." [emphasis added]. CD believes that it is more accurate to say that: the Commission did not have an efficient way to assess whether:.....
- On page 10 at the end of the sentence under (a)(ii), it reads ".....to the nearest dollar." This is not quite accurate as written and we suggest that the word 'dollar' be replaced with the word "cent".

In closing, we expressed our appreciation for your efforts in generating this first financial audit report of the CASF program

Interim Audit of California Advanced Services Fund  
Volume II – Financial Audit  
For the Period from January 1, 2008, through June 30, 2010  
April, 2011

cc: Jack Leutza, Director – Communications Division  
Raminder Kahlon, Director – Division of Water & Audits  
Charles Christiansen – CD  
Geraldine Carlin – CD  
Donna Wagoner – UAFCB  
Raymond Yin – UAFCB  
Gilda Robles - UAFCB

## Appendix D Fiscal Office's Comments

State of California

### Memorandum



**Date:** April 12, 2011

**To:** Mr. Kayode Kajopaiye, CPA  
Program Manager  
Public Utilities Commission  
Water & Audits Division

**From:** Public Utilities Commission—IMSD, Fiscal  
Office – Beverly Sligh, Fiscal Office Manager

**File No:** CASF Audit - 1

**Subject:** California Advanced Services Fund (CASF) Comments

Thank you for the March 11, 2011, draft report titled Interim Audit Report on the California Advanced Services Fund (CASF), Part II, Financial Audit, for the period January 1, 2008 through June 30, 2010.

While Fiscal Office is continuing improving, its current accounting processes to insure the accuracy, and reliability of financial records reported to our stakeholders i.e. State Controller's Office and State Legislature etc. The Fiscal Office's primary responsibility is the accounting, recording, and reporting financial transactions in accordance to directives mandated by Financial Control Agencies, i.e. Department of Finance, State Controller's Office, State Treasurer's Office, etc. Additionally those control agencies also provide controls and administrative guidelines including but not limited to the Budget Act, State Administrative Manual, Government Code, etc. CALSTARS, an Accounting reporting system maintained by Department of Finance is utilized for recording and processing of financial transactions and it produces reports reflecting CPUC's financial positions used to for reporting to the Financial Control Agencies and reconciling our resources, i.e., cash, revenue, appropriation balances to the Financial Control Agencies.

Fiscal Office will continue to record and report CASF surcharges that the carriers remitted when revenue is recognized. This revenue recognition better known as the modified accrual method is the practice for governmental accounting and this is the standard method for recognizing revenue. Fiscal Office also captures additional revenue information in TMIS to help monitor this fund.

As for our processing CASF payments Fiscal Office has properly

record all payments in a timely matter. These processes has comply with State mandates in classifying, recording and reporting financial transactions attest to the fact that the Fiscal Office fulfill directives mandates by our controlling agencies above. This fiscal accountability has been demonstrated by the Fiscal Office to insure that Fiscal compiled with restrictions on the use of resources, particularly restrictions arising in connection with the reporting of this fund.

Cc: Ed Quan, Administrative Executive Director  
Brenda Cochran, IMSD Chief

## **Appendix E**

### **Abbreviations and Acronyms**

AICPA	American Institute of Certified Public Accountants
ARRA	American Recovery and Reinvestment Act
CALSTARS	California State Accounting and Reporting System
CASF	California Advanced Services Fund
CD	Commission's Communications Division
Commission	California Public Utilities Commission
CPCN	Certificate of Public Convenience and Necessity
D.	Decision
DOF	Department of Finance
DWA	Commission's Division of Water and Audits
EF	Electronic Filing System
FO	Commission's Fiscal Office
MBPS	Million Bits Per Second
SAM	State Administrative Manual
SB	Senate Bill
SCO	State Controller's Office
SMIF	Surplus Money Investment Fund
TMIS	Commission's Transportation Management Information System
TUFFS	Commission's Telecommunications and Users Fees Filing System
UAFCB	Commission's Utility Audit, Finance, and Compliance Branch