



Examination Report:  
California Teleconnect Fund  
Compliance Examination of  
Sunesys, LLC.

May 13, 2014



# Table of Contents

**Independent Accountants' Report** ..... i

**CALIFORNIA TELECONNECT FUND COMPLIANCE**..... 1

**Executive Summary** ..... 2

**Introduction** ..... 3

**The CTF Program** ..... 3

**Examination Engagement Process**..... 7

**Findings and Recommendations** ..... 10

**APPENDIX A – PROCEDURES PERFORMED** ..... 17

**List of Records Obtained** ..... 18

**Summary of Procedures Applied** ..... 19

**APPENDIX B – CARRIER RESPONSES**..... 22

## Independent Accountants' Report

California Public Utilities Commission  
San Francisco, California

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

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

Our examination disclosed material noncompliance from the required compliance guidelines. Specifically, Sunesys failed to demonstrate compliance with Resolution T-16763 by:

- Inaccurately calculating or not correctly applying the E-rate discount prior to calculating the CTF discount
- Including ineligible surcharges and taxes in the CTF discount calculation.
- Over-claimed amounts for 68 customers that were not properly supported by detailed billing records.

In total, these findings resulted in \$100,517 of over payments made by the CTF program.

In our opinion, except for the material noncompliance from the compliance requirements described in the preceding paragraph, Sunesys has complied, in all material respects, with the rules, regulations, and requirements of the California Teleconnect Fund (CTF) Program solely related to Sunesys' program costs and cost related activities for the program year ended June 30, 2010.

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

*Crowe Horwath LLP*  
Crowe Horwath LLP

San Francisco, California  
May 13, 2014

# **California Teleconnect Fund Compliance**

## Executive Summary

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

During the performance of our procedures, we noted exceptions related to Sunesys's compliance with the CTF program requirements. In total, Sunesys overclaimed and received \$100,517 in overpayments from the CTF program for the fiscal year ended June 30, 2010. Sunesys should refund this amount to the CTF. In addition, Sunesys under-remitted \$15,900 in User Fees to the CPUC and should remit this amount to the CPUC. Our observations are included in the **Findings and Recommendations** section of this reporting package. The following is a summary of our key findings

1. Sunesys failed to demonstrate compliance with Section 401 of the Public Utilities Code. Specifically, Sunesys applied an inaccurate CPUC User Fee rate. This finding results in a \$15,900 under-remittance of User Fees to CPUC.
2. Sunesys failed to demonstrate compliance with Resolution T-16763. Specifically, Sunesys inaccurately calculated the E-rate discount by excluding eligible User Fees. In addition, Sunesys over-claimed CTF amounts for 59 of 86 customers. These over-claimed amounts resulted in an estimated overpayment of \$13,156 by the CTF program.
3. Sunesys failed to demonstrate compliance with Resolution T-16763. Specifically, Sunesys included ineligible surcharges and taxes when calculating the CTF discount. This resulted in an overpayment of \$78,849 by the CTF program.
4. Sunesys failed to demonstrate compliance with Resolution T-16763. Specifically, Sunesys utilized an inaccurate E-rate when calculating the discount on two invoices. This resulted in an overpayment of \$4,432 by the CTF program.
5. Sunesys failed to demonstrate compliance with Administrative Letter 10B. Specifically, Sunesys did not apply the state-wide E-rate to a CTF eligible organization prior to calculating the CTF discount. This resulted in an overpayment of \$4,080 by the CTF program.
6. Sunesys failed to demonstrate compliance with Administrative Letter 17. Specifically, Sunesys did not properly separate out the CTF discounts for a customer that had two application numbers on the CTF claim form. This finding did not have a monetary effect on CTF program costs.
7. Sunesys failed to demonstrate compliance with Administrative Letter 17. Specifically, Sunesys did not properly complete the CTF claim for 3 customers to include claims for reimbursement in the proper fiscal year in which the services were provided to the customer. Specifically, the claims for reimbursement for these 3 customers was grouped on the form into fiscal year 2009 – 2010 when they should have been applied to fiscal year 2008 – 2009 when the services were actually provided to the customers.

California Teleconnect Fund Compliance  
Sunesys, LLC

---

In addition to refunding \$100,517 to the CTF for the over-claimed and over-reimbursed amounts and remitting \$15,900 User Fees to the CPUC, Sunesys should:

1. Start charging its customers the current PUC user rate.
2. Implement a review process to ensure that the E-rate discount is applied to User Fees that are eligible for the E-rate discount.
3. Implement a procedure to review supporting documentation to identify errors and variances between claims and billing records prior to submission to the CPUC.
4. Remove ineligible taxes and surcharges from the CTF reimbursement calculation going forward.
5. Implement a review of E-rates to verify that the correct rates for the period are being utilized in CTF discount calculations.
6. Solicit guidance from the CPUC when there is lack of clarity as to how to apply E-rate for eligible organizations under the CTF program.
7. Contact the CPUC to clarify which is the appropriate application number to use for the CTF discounts for any customers that have multiple application numbers and it isn't clear which one to use.
8. Sunesys should implement the guidance of Administrative Letter 17 and ensure that claimed amounts are properly included in the claim form by fiscal year according to when the services were provided to the customer.

## **Introduction**

The CPUC periodically conducts audits of CTF carriers, pursuant to California Public Utilities Code Sections 274 and 314. The CPUC selected Sunesys as one of the utilities to be examined for the year ended June 30, 2010.

Sunesys, LLC is a regulated telecom carrier specializing in providing dark fiber and Ethernet services to large businesses, healthcare and community based organizations (CBO) and (K-12) educational institutions. Sunesys started as Coleman Excavating providing telecommunication services in 1979 and expanded into underground cable installations as Blair Park Services in 1983 under which they began fiber optic cable installation in 1986. The Telecommunications Act of 1996 birthed Sunesys as it is currently known where they have been providing network solutions to businesses and organizations from Pennsylvania to California.

Sunesys' parent company, Quanta Services Inc. is a publically traded entity founded in 1997. Quanta Services operated in all 50 states and Canada.

During our examination period, Sunesys provided telecommunications services to 51 schools and school-based CTF customers. Sunesys' CTF claims totaled \$3,580,286 during the examination period.

## **The CTF Program**

Decision 96-10-066, issued in 1996 by the CPUC, established the CTF program. The CTF program allows eligible public libraries, K-12 public and private schools, California community colleges (CCC), government-owned hospitals and health clinics, CBO, and California Telehealth

Networks (CTN) participants to receive a 50 percent discount on select telecommunication and internet access services.

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

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

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

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

Tariff rates are the intrastate rates that the local exchange service providers and many long-distance service providers file with the California Public Utilities Commission. Service providers file tariff changes by Advice Letter provided to the CPUC's Communications Division. Tariffs contain the rates, terms, and conditions of certain services provided by telecommunications carriers.

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

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

The Federal government also provides eligible entities (Schools, Libraries and CBOs that offer the Head Start program) a similar discount on eligible telecommunications charges (known as the education rate, "E-rate", or the Universal Service Fund). E-rate discounts can range from 20 percent to 70 percent. The CTF discount should be applied to eligible charges after the



application of the E-rate discount. (It should be noted that a library or school must apply for the E-rate discount, but if a library or school did not apply for the E-rate discount or if their application is pending, the carrier must first apply the statewide average E-rate discount, which was 70 percent during our examination period, before applying the CTF discount).

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

Carriers need to retain important information, such as pricing, tax, surcharge, E-rate percentages, and other CTF-claim related information, on a per customer, per service basis, readily available for at least five (5) years in accordance with the Public Utilities Commission of the State of California General Order No. 28.

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

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

1. **Decision 96-10-066** established the CTF in compliance with Assembly Bill (“AB”) 3643 (Chapter 278, Statute 1994) to provide discounts on selected telecommunications services to qualified entities.
2. **Resolution T-16319** changed the filing requirement for the submission of claims to a maximum of 45 days for eligibility of receiving interest payments from the Commission; determined that telecommunications carriers shall receive interest when the administrative committee fails to complete its review and approval of a CTF claim within one calendar month; and determined that the CTF discount for bundled service offerings shall be based on either the bundled offering or the unbundled tariff rate for access line type services, whichever is lower.
3. **Public Utilities (PU) Code Sections 270-281**, as codified in October 1999 by the enactment of Senate Bill (“SB”) 669, require that the monies in the CTF only be disbursed pursuant to PU Code Sections 270-281 (pertaining to the operation of California’s universal service programs) and upon appropriation in the annual State of California Budget Act.
4. **Rulemaking 01-05-046** investigated the “feasibility of redefining universal telephone service by incorporating two-way voice, video, and data service as components of basic service” and how the CTF program might be revised to better support this objective.

5. **Resolution T-16742** complied with portions of SB 1863 – intended to provide educational institutions, health care institutions, community-based organizations and governmental institutions with access to advanced telecommunications services – by equalizing the CTF discount available to all program participants at 50 percent, and added health clinics owned and operated by a hospital district to the list of qualifying entities.
6. **Resolution T-16763** shortened the time frame for telecommunications carriers to file reimbursement claims from the CTF from two years forty-five days to one year forty-five days from the end of the month for which the claim is made; revised the format of the CTF claim worksheet; ordered carriers to discount services to CTF customers upon notification of customer eligibility and prior to submitting reimbursement claims; adopted rules that carriers may impose on E-rate customers who wish to also receive CTF discounts; specified when carrier claims will be eligible for interest and provides direction for carriers wishing to claim interest; and eliminated the filing of adjustment claims except in specified circumstances.
7. **Administrative Letter No. 15**, dated December 1, 2006, implemented in part PU Code Section 884 setting aside funds on a first come, first serve basis for nonrecurring installation costs for high-speed broadband services for eligible community organizations.
8. **Senate Bill 1102** added section 884.5 to the PU Code including a provision requiring carriers to first apply the Federal actual or statewide average E-rate discount – regardless of whether the customer has applied for or been approved – prior to applying the CTF discount to certain eligible services subscribed to by schools and libraries. (**Administrative Letter 10B** provides further clarification on the application of the E-Rate discount and application procedure.)
9. **Administrative Letter No. 11**, dated February 1, 2006, revised the CTF claim procedure through a simplified claim form supported by new variance and management reporting.
10. **Resolution T-17142** issued on April 24, 2008, reduced the CTF surcharge rate from 0.130 percent to 0.079 percent.
11. **Rulemaking 06-05-028** involved a comprehensive review of the Telecommunications Public Policy Programs, including the CTF, which led to Decision 08-06-020.
12. **Decision 08-06-020** directed several key changes to the CTF program including: an expansion of CTF-eligible services; the removal of CTF tariff requirements for all carriers providing CTF-eligible services on a detariffed or non-regulated basis; the inclusion of CCC, CTN and non-profit CBO; a cap on total CTF discounts received by CCC; and allowed partnering in the CTF program between Internet Service Providers (“ISPs”) and registered telecommunications carriers.

13. **Administrative Letter No. 17** dated December 5, 2008, made additional revisions to the claim form established by Administrative Letter No. 11 including: reformatting to present the claims per customer group and per fiscal year in a table; adding CCCs as customer groups; disclosing important information concerning the funding limitations for CTF discounts received by CCCs; and dividing schools and libraries into two separate customer groups.
14. **Resolution T-17314** adopted a policy requiring that Federal Communications Commission program support or discounts be deducted from the CTF service charges incurred by eligible non-profit CBOs and rural health care providers prior to computing the CTF discount.

### **Examination Engagement Process**

The CPUC engaged Crowe to conduct an examination and issue an opinion on Sunesys' compliance with the rules, regulations, and requirements of the California Teleconnect Fund (CTF) Program solely related to program costs and cost related activities related to services provided during the fiscal year ended June 30, 2010. This examination was performed in accordance with AICPA standards for compliance examinations, under the direction of the CPUC's Division of Water and Audits.

#### Purpose

The CPUC provided two main objectives for this project, as follows:

Objective Number 1: Determine compliance with CPUC's directives related to:

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

Objective Number 2: Test the accuracy of CTF program discounts given to customers and resulting reimbursements claimed against the CTF program by the carriers.

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

Scope

Our examination covered the period of July 1, 2009 through June 30, 2010. The population consisted of all customers included in Sunesys's monthly claims to the CPUC. These included Sunesys's 12 monthly CTF claims that pertained to our examination period.

During the examination period, Sunesys submitted reimbursement claims for 664 unique customers (as measured by application numbers) consisting of 567 CBOs, 91 schools, 3 hospitals and 3 libraries. We selected a sample of customer services for testing (i.e. each selection represented a unique customer and month). If a customer monthly claim included multiple services and/or invoices (i.e. multiple locations are invoiced separately under the same customer number) all services and invoices for that customer listed on the monthly CTF claim were included as part of our testing.

Risk Based Approach

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

Examination Procedures

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

Sampling Methodology

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

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

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

California Teleconnect Fund Compliance  
Sunesys, LLC

---

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

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

## **Findings and Recommendations**

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

### ***Finding 1: PUC User Fee Rate***

#### Condition

Sunesys charged and collected an incorrect PUC User Fee to its CTF eligible customers. Specifically, Sunesys charged 0.11 percent PUC User Fee rate, but the rate, per the PUC User Fee filing statement instructions, was 0.18 percent during the examination period. The PUC User Fee is one mechanism by which the CPUC finances its annual operations.

#### Criteria

Section 401 of the California Public Utilities Code established a reimbursement fund to which carriers are required to remit payment on a quarterly basis in order to fund the CPUC. The PUC User Fee is levied to calculate the remittance required.

#### Cause

Rates appearing on the CPUC website were modified after the date that Sunesys identified the rates for use. Sunesys did not revise the rate used in the calculations in a timely manner due to an administrative oversight.

#### Effect

Sunesys underpaid the CPUC by approximately \$15,900 during the examination period by applying a PUC User Fee rate of .11 % instead of the correct rate of .18% to its CTF eligible customers.

#### Recommendation

Sunesys should start charging its customers the current PUC user rate. In addition, Sunesys should remit the applicable shortfall to the CPUC with its next scheduled quarterly payment.

#### Management Response

Sunesys agrees with the Finding and its Recommendation. Sunesys shall remit the applicable shortfall after the final report and assessment and will remit payment upon receipt.

## ***Finding 2: Manual Claim Process***

### Condition

For 13 of 86 customers, Sunesys did not assess the E-rate discount on the PUC user fee for these E-rate eligible customers. Therefore, a 50% CTF discount was taken on this fee without an E-rate discount first being applied. This resulted in Sunesys over-claiming the CTF discount and overpayments made by the CTF program.

In addition, 59 of 86 customer claims did not agree to the supporting billing records. Specifically, the service charges and CTF discount on the customer invoice were less than the information Sunesys provided on the CTF claim form.

### Criteria

Resolution T-16763 states that "carriers are required to discount a service according to the e-rate that a customer has been approved for and then apply the 50% CTF discount to the remainder". In addition, Administrative Letter 10b provides clarification regarding the required approach for different scenarios, including when the CTF participant has been approved but the dollar amount granted is not sufficient to cover all CTF-eligible services. The instruction follows:

"...apply the actual E-rate discount documented in the funding commitment letter even if the E-rate funding has been depleted prior to the end of the fiscal period, before applying the 50% CTF discount to CTF-eligible services."

### Cause

Sunesys' interpretation of billing procedures was that any eligible costs remaining after application of the approved E-rate discount amount were eligible for the CTF discount. Furthermore, this was the first year that Sunesys was administering the CTF program and the errors in the claim process occurred as individuals involved were becoming familiar with the rules and requirements applicable to the CTF program.

### Effect

As a result of the errors found in our sample, the CTF program was overcharged by \$1,566. Extrapolating this amount over the whole population of CTF customers for the examination period, we calculated a \$13,156 over-reimbursement by the CTF program.

### Recommendation

Sunesys should implement a review process and ensure that E-rate discount is applied to that PUC user fee for E-rate eligible customers. Sunesys should also implement a procedure to review supporting documentation to identify errors and variances between claims and billing records prior to submission to the CPUC. In addition, Sunesys should refund the \$13,156 in over-reimbursement to the CTF program.

### Management Response

Sunesys agrees with the Finding and has already acted on the recommendations following the on-site examination. Review procedures have been implemented and Sunesys shall refund the CPUC for over-reimbursements after the finalization of this examination process. Sunesys would like to work with the CPUC to better understand the extrapolation methodology used in the finding and the impact, if any, of that extrapolation for Sunesys.

***Finding 3: Ineligible Taxes and Surcharges***

Condition

When calculating the CTF discount, Sunesys included the following surcharges.

- Universal Lifetime Telephone Service (ULTS);
- Relay Services & Communications Devices Fund (DDTP);
- California High Cost - Fund A (CHCF-A);
- California High Cost - Fund B (CHCF-B);
- California Teleconnect Fund (CTF); and
- California Advanced Services Fund (CASF).

The aforementioned surcharges are ineligible for the CTF discount.

Criteria

Resolution T-16763 states:

"Taxes refer to the following taxes on the total CTF discount: 911 tax, federal excise tax and local and city taxes. User fee refers to the Commission's Reimbursement Fee as applied in compliance with PU Code 402 and 431. Include in this line category, applicable bill and keep surcharge(s)/surcredit(s) applicable to the CTF discount."

The surcharge(s) referred in T-16769 are not the public purpose program surcharges assessed to CTF eligible customers.

Cause

Sunesys mistakenly believed that surcharges eligible under the E-Rate program as documented in the USAC Schools and Libraries regulations were also eligible under the provisions of the CTF Program. Accordingly, the surcharges were included in the calculation of CTF claim amounts.

Effect

The CTF Program was overcharged by \$78,849 through the inclusion of ineligible surcharges in the CTF discount calculation.

Recommendation

Sunesys should remove the aforementioned surcharges from the CTF discount claimed for reimbursement going forward. In addition, Sunesys should refund the \$78,849 in over-reimbursement to the CTF program.

Management Response

Sunesys agrees with the Recommendation and Sunesys has removed the aforementioned surcharges from CTF discounts claimed for reimbursements going forward. Sunesys shall refund the \$78,849 in over reimbursement to the CTF program.

Sunesys questions whether there was enough clarity for a reasonable determination of eligibility from Res. T-16763 and a resulting training PowerPoint that was not easily accessible.



***Finding 4: Incorrect E-Rates Applied***

Condition

On two of the 60 invoices evaluated, Sunesys utilized an incorrect E-rate when calculating the discount. On the two invoices, the E-rate used was lower than the rate present on the Form 486 thus resulting in an overcharge to the CTF program. The two invoices pertained to the same customer and both involved using a 68% E-rate when the proper E-rate was 72%.

Criteria

The Guide for Carriers Submitting CTF Reimbursement Claims: Section A as appearing in Resolution T-16763 states that carriers must apply the e-rate discount that a customer was approved for then apply the CTF discount to the remainder.

Cause

The e-rates used to calculate the CTF discount were not updated to match the rates contained in the approved Form 486 for these customers.

Effect

As a result of using the incorrect E-rate for this customer, we calculated that the CTF Program was overcharged by \$4,432 during the examination period.

Recommendation

Sunesys should implement a review of E-rates to verify that the correct E-rates for the period are being utilized in CTF discount calculations. In addition, Sunesys should refund the \$4,432 in over-reimbursement to the CTF program.

Management Response

Sunesys agrees with the Finding and has implemented a review of E-rate information to verify that the correct E-rate percentages are being utilized in CTF discount calculations; including a review of FCDL and Form 486 published rates. Sunesys shall refund the \$4,432 in over-reimbursement to the CTF program.

***Finding 5: E-rate Application***

Condition

For one customer in our sample, Sunesys did not apply the statewide E-rate prior to calculating the CTF discount. The customer did not apply for E-rate, but was categorized as a school and as such the statewide E-rate should have been assessed prior to calculating the CTF discount.

Criteria

Administrative Letter 10B states, "Commencing January 1, 2006:

- CTF participant with pending E-rate application - apply the statewide average E-rate discount before applying the CTF discount to CTF-eligible services until the customer presents the new E-rate discount to the carrier. The E-rate and CTF discounts will be trued-up to January 1, 2006.
- CTF participant that has not filed for E-rate – apply the current statewide average E-rate discount before applying the CTF discount to CTF- eligible services."

Cause

The customer – an administrative educational organization – did not apply for the E-rate. Sunesys categorized the organization as a school and as ineligible for E-Rate. Sunesys asserts that this was discussed with both the organization and the CPUC during the program year. The categorization of the organization as a school was subsequently determined to be correct.

Effect

As a result of this error, we calculated that Sunesys was over-reimbursed \$4,080 for this customer over the examination period due to the seventy percent statewide E-rate not having been applied before deriving CTF discount.

Recommendation

Sunesys should solicit guidance from the CPUC when there is lack of clarity as to how to apply E-rate for eligible organizations under the CTF program. In addition, Sunesys should remit the \$4,080 over-reimbursement to the CTF program.

Management Response

Sunesys agrees that it should remit the over-reimbursement to the CTF Program. Sunesys did reach out to the CPUC related to the application of E-rate and will continue to solicit guidance when there is a lack of clarity regarding guidance provided for the CTF Program.

***Finding 6: Inaccurate Claim forms***

Condition

Sunesys did not properly separate out the CTF discounts for a customer that had two application numbers on the CTF claim form. Specifically, all twelve CTF monthly claims had this customer's CTF discount applied to both application numbers instead of breaking out the CTF discount for each unique application number.

Criteria

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

Cause

Sunesys could not determine which one was the correct application number based on the service address that Sunesys had for the customer contract and as such filed the customers on the CTF claim forms with both application numbers.

Effect

The incorrectly listed customers were both CTF-eligible so there was no monetary impact to CTF program costs.

Recommendation

Sunesys should contact the CPUC to clarify which is the appropriate application number to use for the CTF discounts for this customer.

Management Response

Sunesys did reach out to the CPUC for this situation and will continue to solicit guidance when there is a lack of clarity regarding guidance provided for the CTF Program.

***Finding 7: Improper Completion of Claim Form***

Condition

During our testing, it was noted that Sunesys did not properly complete the CTF claim form for 3 customers. Specifically, the claims for reimbursement were recorded on the form into the fiscal year 2009 – 2010 category when they should have been applied to fiscal year 2008 – 2009 to correspond with when the services were actually provided to the customers.

Criteria

CTF Administrative Letter 17 (dated 12/5/2008) outlines the method for submitting CTF claims. CTF Administrative Letter 17 states that “all payments will be made subject to a subsequent formal audit” and “Claims and supporting reports will identify fiscal years prominently and separately, so payments are made from the correct fiscal year appropriation.” The CTF Claim Form provided as part of Administrative Letter 17 consequently includes a table on the cover page to break out claims for reimbursement by fiscal year. In addition, the Customer Report tab of the form breaks down each customer type and fiscal year by applicant number.

Cause

Sunesys indicated they were not aware of the requirements related to Administrative Letter 17 to break out each claim for reimbursement by fiscal year.

Effect

The claim amounts for the customers incorrectly listed to the wrong fiscal year were allowable so there was no monetary impact to CTF program costs.

Recommendation

Sunesys should implement the guidance of Administrative Letter 17 and ensure that claimed amounts are properly included in the claim form by fiscal year according to when the services were provided to the customer.

Management Response

Sunesys agrees with the Finding and the Recommendation and has implemented the guidance from the Administrative Letter 17. Sunesys has implemented review procedures to help ensure claims are filed for the correct year when services were delivered.

## **Appendix A – Procedures Performed**

## List of Records Obtained

Records obtained for our Sunesys testing procedures included:

- Obtained twelve (12) monthly claims
- CPUC's CTF Claim Tracking
- Tariff service rate and price listing documents
- A system-generated report showing prices charged to non-CTF customers for services that are non-tariff and also are excluded from the pricing guides
- Detailed electronic data reports provided by Sunesys that support each customer's CTF discount on every monthly claim. These data reports included each CTF customer's
  - application number
  - organization name
  - organization type
  - account number
  - telephone number
  - CTF service classification
  - Service classification/description
  - Service quantities
  - Unit price of service
  - E-rate discount percentage
  - E-rate discount
  - CTF discount after E-rate
  - CPUC User Fee
  - 911 Tax
  - Federal Excise Tax
  - local tax
  - monthly claim amount for each organization and service claimed
- The crosswalk provided by Sunesys between Sunesys' specialized communications services and the CPUC's list of CTF-eligible services
- Eighty six customer invoices and payment support from Sunesys for each customer-month included in the sample selection made by Crowe
- Copies of checks to confirm customer payments for the 86 sampled invoices
- Reports from Sunesys' bank showing the deposit of payments received from the CPUC
- Form 486 notification letters provided by Sunesys that describe the E-rate for each of Sunesys' school and library customers

## **Summary of Procedures Applied**

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

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

The second phase involved on-site visits to Sunesys during the weeks of March 11, 2013, March 25, 2013, and May 13, 2013. During the on-site visits, Crowe conducted an entrance conference with Sunesys to confirm the scope and extent of our procedures and requested documentation. We tested a sample of claims and their supporting invoices with respect to the eligibility of organizations and services including bundled services; tariffed rates and non-tariffed prices; application of the E-rate; and the adequacy and accuracy of reimbursement claims.

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

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

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

#### ***Approach***

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

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

Approach

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

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

Approach

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

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

Approach

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

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

Approach

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

6. Determine whether the carriers are in compliance with the CPUC's directives, PU Code 884, and administrative letter 10b and 14, with respect to applying the E-rate discount



before providing and claiming CTF discounts. Test claims supporting detail to determine if E-rate discount was properly applied. Obtain Form 486 per customer from Carrier and Verify the E-rate applied was properly supported by Form 486.

Approach

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

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

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

Approach

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

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

Approach

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

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

Approach

We compared the final, calculated CTF discount to the amount claimed on the CTF claim to derive an overpayment or underpayment from the CTF program.

## **Appendix B – Carrier Responses**



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

### **Finding 1: PUC User Fee Rate**

#### **Management Response**

Sunesys agrees with the Finding and its Recommendation. Sunesys shall remit the applicable shortfall after the final report and assessment and will remit payment upon receipt.

### **Finding 2: Manual Claim Process**

#### **Management Response**

Sunesys agrees with the Finding and has already acted on the recommendations following the on-site examination. Review procedures have been implemented and Sunesys shall refund the CPUC for over-reimbursements after the finalization of this examination process. Sunesys would like to work with the CPUC to better understand the extrapolation methodology used in the finding and the impact, if any, of that extrapolation for Sunesys.

### **Finding 3: Ineligible Taxes and Surcharges**

#### **Management Response**

Sunesys agrees with the Recommendation and Sunesys has removed the aforementioned surcharges from CTF discounts claimed for reimbursements going forward. Sunesys shall refund the \$78,849 in over reimbursement to the CTF program.

Sunesys questions whether there was enough clarity for a reasonable determination of eligibility from Res. T-16763 and a resulting training PowerPoint that was not easily accessible.





#### **Finding 4: Incorrect E-Rates Applied**

##### **Management Response**

Sunesys agrees with the Finding and has implemented a review of E-rate information to verify that the correct E-rate percentages are being utilized in CTF discount calculations; including a review of FCDL and Form 486 published rates. Sunesys shall refund the \$4,432 in over-reimbursement to the CTF program.

#### **Finding 5: E-rate Application**

##### **Management Response**

Sunesys agrees that it should remit the over-reimbursement to the CTF Program. Sunesys did reach out to the CPUC related to the application of E-rate and will continue to solicit guidance when there is a lack of clarity regarding guidance provided for the CTF Program.

#### **Finding 6: Inaccurate Claim forms**

##### **Management Response**

Sunesys did reach out to the CPUC for this situation and will continue to solicit guidance when there is a lack of clarity regarding guidance provided for the CTF Program.

#### **Finding 7: Improper Completion of Claim Form**

##### **Management Response**

Sunesys agrees with the Finding and the Recommendation and has implemented the guidance from the Administrative Letter 17. Sunesys has implemented review procedures to help ensure claims are filed for the correct year when services were delivered.

