

# **CALIFORNIA PUBLIC UTILITIES COMMISSION**

Audit Report

## **California Advanced Services Fund Second Interim Performance Audit**

*July 1, 2010, through December 31, 2015*



**BETTY T. YEE**  
California State Controller

March 2017



**BETTY T. YEE**  
California State Controller

March 30, 2017

Daniel Alvarez, Secretary of the Senate  
State Capitol, Room 3044  
Sacramento, CA 95814

Dear Mr. Alvarez:

The State Controller's Office (SCO) conducted a second interim performance audit of the California Advanced Services Fund (CASF) program, adopted by the five-member Commission (Commission), the members of which sit on the California Public Utilities Commission (CPUC) in Decision 07-12-054, pursuant to Senate Bill 1193, and Public Utilities Code sections 281(a), 701, and 912.2 (a).

We performed the audit in accordance with generally accepted government auditing standards, for the period of July 1, 2010, through December 31, 2015, and in accordance with provisions of Inter-Agency Agreement 15IA5002 between the SCO and the CPUC.

The audit included assessing the effectiveness of the program's implementation and administration, compliance with laws and regulations applicable to the program, adequacy of its management control system for measuring, reporting, and monitoring expenditures and effectiveness. The audit also determined whether the program produced the intended results and benefits established by the California State Legislature and the CPUC.

We identified the following findings that represent internal control deficiencies and noncompliance with provisions of laws, in the CPUC's administration and processes of the CASF program:

1. The CPUC is not in compliance with the Commission's Decision 11-06-038, "CPA Attestation Report" requirements for consortia accounts.
2. The CPUC's grant resolutions (agreements) with the grantees lack key provisions requiring the grantees and their contractors to report performance metrics and measures, economic data on the types and number of jobs created, and social benefits established as a result of implementing the CASF program, as required by the Public Utilities Code section 281(a).
3. The CPUC is not in compliance with Public Utilities Code section 281(b)(1), which requires the CPUC to approve funding for infrastructure projects that provide broadband access to no less than 98% of California households by December 31, 2015.

4. The CPUC should improve its administrative oversight and project management processes by performing adequate on-site visits to validate and confirm project statuses as reported by grantees on progress and completion reports.

If you have any questions, please contact Andrew Finlayson, Bureau Chief, State Controller's Office, by telephone at (916) 324-6310 or by email at [afinlayson@sco.ca.gov](mailto:afinlayson@sco.ca.gov).

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/ljs

cc: Diane F. Boyer-Vine, Legislative Counsel  
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# Audit Report

## Summary

The State Controller’s Office (SCO) conducted a second interim performance audit of the California Advanced Services Fund (CASF) program, adopted by the five-member Commission (Commission), the members of which sit on the California Public Utilities Commission (CPUC) in Decision 07-12-054, pursuant to Senate Bill 1193, and Public Utilities Code sections 281(a), 701, and 912.2 (a).<sup>1</sup>

We performed the audit in accordance with generally accepted government auditing standards, for the period of July 1, 2010, through December 31, 2015, and in accordance with provisions of Inter-Agency Agreement 15IA5002 between the SCO and the CPUC.

The audit included assessing the effectiveness of the program’s implementation and administration, compliance with laws and regulations applicable to the program; and adequacy of its management control system for measuring, reporting, and monitoring expenditures and effectiveness. The audit also included determining whether the program produced the intended results and benefits established by the California State Legislature and the Commission.

Our audit determined that the CPUC’s implementation and administration of the CASF program, which includes awarding grants and loans, payment processes and controls, grant agreement provisions and grant monitoring process, and recording and reporting program expenditures, was adequate and reasonably in compliance with program requirements, written internal policies and procedures, rules, and orders established by the Commission, and other applicable state laws and regulations.

However, we identified the following findings, which represent internal control deficiencies and noncompliance with provisions of laws, in the CPUC’s administration and processes of the CASF program.

1. The CPUC is not in compliance with the Commission’s Decision 11-06-038, “CPA Attestation Report” requirements for the consortia accounts. The CPUC did not enforce the requirement that the Consortia comply with Decision 11-06-038, “CPA Attestation Report” which states “The fiscal agent must agree that the work outlined in the Consortium Work Plan will be completed and verified by an Attestation Report, which will be prepared by an independent licensed Certified Public Accountant (CPA), and submitted annually to the CPUC’s Communications Division.”
2. The CPUC’s grant resolutions (agreements) with grantees lack key provisions requiring the grantees and their contractors to report performance metrics and measures, economic data on the types and number of jobs created, and social benefits established as a result of the CASF program, as required by the Public Utilities Code sections 281(a) and 912.2(a).

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<sup>1</sup> The existing law, Public Utilities Code section 912.2(a), requires the CPUC to conduct both a financial audit and a performance audit, two interim financial audits, and a final financial audit, two interim performance audits, and a final performance audit on the implementation and effectiveness of CASF and to report its findings to the California State Legislature.

3. The CPUC is not in compliance with Public Utilities Code section 281(b)(1), which requires the CPUC to approve funding for infrastructure projects that provide broadband access to no less than 98% of California households by December 31, 2015.
4. The CPUC should improve its administrative oversight and project management processes by performing adequate on-site visits to validate and confirm project statuses as reported by grantees on projects' progress and completion reports.

## Background

The CASF program was adopted by the Commission in Decision 07-12-054, pursuant to Senate Bill 1193 and Public Utilities Code sections 281(a), 701, and 912.2(a).

The bill required the CPUC to impose a surcharge rate on revenues collected through retail telecommunications customers' bills, to fund CASF. Funding is allocated to the following four CASF accounts:

- Infrastructure Grant, which assists in financing the building and/or upgrading of broadband infrastructure in areas that are not served or are underserved by existing broadband providers;<sup>2</sup>
- Infrastructure Loan, which finances capital costs of broadband facilities not funded by a grant from the Infrastructure Grant Account;
- Consortia, which provides grants to eligible consortia to fund the cost of broadband deployment activities other than the capital cost of facilities, as specified by the CPUC; and
- Public Housing, which provides grants and loans to support deployment of broadband network and adoption programs in eligible publicly supported communities.

The existing law, Public Utilities Code section 281(a), requires the CPUC 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...."<sup>3</sup>

Since the program's inception in 2008, the CPUC's Communications Division has been responsible for developing policies, and implementing and administering the CASF program and operations. The CPUC's Administrative Services Division – Fiscal Office has been responsible for inputting CASF program expenditures data into California State Accounting and Reporting System (CALSTARS) for reporting purposes. The CASF was established as Fund 3141, which is one of the funds under the CPUC's administration in the State's fiscal accounting system. As of September 2015, CASF accounts were funded as follows:

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<sup>2</sup> An "unserved" area is an area that is not served by any form of wireline or wireless facilities-based broadband, such that internet connectivity is available only through dial-up service. An "underserved" area is an area where broadband is available, but no wireline or wireless facilities-based provider offers service at advertised speeds of at least 6 mbps download and 1.5 mbps upload.

<sup>3</sup> SB 1193, Padilla. Telecommunications: California Advanced Services Fund, Public Utilities Code section 281 (a) (d)

• Infrastructure Grant	\$270 million
• Infrastructure Loan	5 million
• Consortia	15 million
• Public Housing	<u>25 million</u>
Total	\$315 million

The CPUC's 2015 CASF Annual Report to the Legislature reported the following as of December 31, 2015.<sup>4</sup>

From the inception of the program, 2008 through 2015:

- The CASF Infrastructure Grant and Infrastructure Loan account awarded a total of \$124,113,353 in grants for 52 projects, of which 27 have been completed. The 52 projects are expected to provide broadband access to 301,574 unserved and underserved households.
- The CASF Consortia account has awarded a total of \$9,263,476 in grants to 17 consortia groups, of which \$7,713,552 has been remitted.
- The CASF Public Housing account awarded a total of \$2,124,255 in grants to 17 public housing entities for 86 public housing infrastructure projects, of which nine have been completed.

## Objectives, Scope, and Methodology

The overall objective of this second interim performance audit was to assess the implementation and effectiveness of the CASF program and to ensure that funds have been expended in accordance with the program requirements established by the California State Legislature.<sup>5</sup>

The specific objectives of the audit were to:

- Determine whether the CPUC implemented a system of internal controls to ensure that CASF program funds were expended for the intended purposes, were properly accounted for and met program objectives and the Commission's rules and applicable laws;
- Determine whether grants have been properly awarded and effectively administered according to the approved terms of the grant awards and loan agreements;
- Determine whether, in approving infrastructure projects, the CPUC gave priority to projects that provide last-mile broadband access to households unserved by an existing facilities-based broadband provider;
- Determine whether allocation of CASF to deployment and expansion of high-quality broadband services to unserved and underserved areas of California fostered and promoted economic-growth, contributed to job creation, and provided economic and social benefits to residents of local economy;

<sup>4</sup> Reported by the CPUC's Communications Division, pursuant to Public Utilities Code section 914.7(a)

<sup>5</sup> Public Utilities Code section 281(i)

- Determine whether payment processes, management control and program oversight were adequate to safeguard assets and to ensure that grantees were paid and reimbursed for expenditures included in the approved budget and work plan;
- Determine whether the grants monitoring process is adequate to ensure funds are used as intended by the law and program requirements;
- Determine whether the grants resolutions (agreements) have provisions to adequately hold grants recipients accountable for how grant funds are spent, report data on how the program contributed to local economy job creation, and provided social benefits;
- Obtain and provide an update to the California Wireline Broadband Availability maps, previously published in the California Broadband Task Force Report – January 2008; and
- Determine the current status or condition of program operations or progress in implementing legislative requirements.

The scope of our audit covered the program operations from July 1, 2010, through December 31, 2015, and included all CASF accounts and projects awarded by the CPUC during the audit period.

To achieve our audit objectives, we:

- Interviewed program managers and employees, completed internal control questionnaires, and performed a limited walk-through in order to: (a) gain a general understanding of CASF program administration and operation and internal controls; and (b) conduct limited tests of those controls to assess whether the controls were functioning as intended within the CASF program;
- Reviewed and obtained an understanding of laws, regulations, policies, procedures and other documents related to implementation of the program to ensure administrative controls are in place, and that funds are disbursed to grantees in an efficient and cost-effective manner consistent with the program requirements and the Commission's adopted rules, orders and resolutions;
- Reviewed prior audit reports and other publications significant to our audit objectives;
- Reviewed the CPUC's payment processes, management control and program oversight were adequate to safeguard assets and to ensure grantees were paid and reimbursed for expenditures included in the approved budget and work plan;
- Reviewed grantees' completed application, application scoring criteria, action and work plan, approved budgets, and paid expenditures;

- Reviewed grantee’s records, documents, receipts, invoices, claims, project completion reports and other evidence to ensure expenditures were covered by supporting documents and were for the approved project as described in the grantee’s CPUC-approved budget, action plan, and work plan;
- Reviewed resolutions (agreements) to determine whether grants agreements have provisions to adequately hold grants recipients accountable for how grant funds are spent, and report data on how the program contributed to local economy job creation and provided social benefits;
- Conducted inquiries, interviews and/or surveys to assess the types and numbers of jobs created as a result of the CASF program. Assessed jobs created during the construction phase of the infrastructure projects as well as jobs created for the purpose of public housing grants and consortia operations;
- Obtained an update to the California Wireline Broadband Availability maps as previously published in the California Broadband Task Force Report – January 2008 (Attachment 1); and
- Performed a non-statistical judgmental sampling method to test transactions associated with project expenditures (infrastructure grant and loan projects, consortia projects and public housing projects) and traced those transactions to supporting documents, as summarized in the following table:

CASF Account Type	Total Awards Sampled	Total Dollars Sampled	Total Awards Universe	Total Dollars Universe
Infrastructure Grant	3	\$18,792,167	52	\$123,486,699
Infrastructure Loan	1	40,977	4	626,654
Consortia	4	1,411,204	16	9,813,476
Public Housing	23	290,081	86	2,683,309
<b>Total</b>	<b>31</b>	<b>\$20,534,429</b>	<b>158</b>	<b>\$136,610,138</b>

Source: The CPUC’s 2015 CASF Annual Report

Samples were examined for compliance with program requirements and management’s written internal control policies and guidelines, and were traced to supporting documents such as vendor’s invoices and accounting records.

In addition, we verified that the CASF awarded grants were based on authorized funding as follows and as of December 31, 2015:

	Authorized Funding	Total Awarded	Net of Funds
CASF Account			
Infrastructure Grant	\$ 270,000,000	\$ 123,486,699	\$ 90,084,520
Infrastructure Loan	5,000,000	626,654	4,373,346
Consortia	15,000,000	9,813,476	5,186,524
Public Housing	<u>25,000,000</u>	<u>2,693,309</u>	<u>22,316,691</u>
Total	\$ 315,000,000	\$ 136,610,138	\$ 121,961,081
Less Administration Costs			(7,994,138)
Adjust Account Balance			<u>\$ 113,966,943</u>

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the CPUC's financial statements. We limited our audit scope to planning and performing audit procedures necessary to achieve our audit objectives.

## Conclusion

Our audit determined that:

- The CPUC's implementation and administration of the CASF program was reasonably in compliance with program requirements, written internal policies and procedures, rules, and orders established by the Commission and other applicable state laws and regulations. The CASF program requirements include awarding grants and loans, prioritizing projects providing last-mile broadband access to households unserved by an existing facilities-based broadband provider, and managing payment processes and controls, grant resolutions (agreements) and grant monitoring processes, and recording and reporting program expenditures.
- The current status and condition of program operations are adequately progressing in implementing legislative requirements.

However, we identified a number of reportable findings that represent internal control deficiencies and noncompliance with provisions of laws in the administration and processes of the CASF program.

## Views of Responsible Officials

We discussed our results with representatives from CPUC at an exit conference held on March 7, 2017, at CPUC headquarters. At the exit conference, we stated that the final report will include their views. On March 14, 2017, we issued a draft report. We received management responses to the draft report on March 27, 2017. CPUC agreed with Findings 1 and partially agreed or concurred with Findings 2, 3, and 4. CPUC's responses for Findings 2, 3, and 4 have been incorporated within this report and included in their entirety as an attachment. The CPUC did not make any comments on Observations 1 and 2.

**Restricted Use**

This report is intended for the information and use of the CPUC and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

March 30, 2017

# Findings and Recommendations

**FINDING 1—  
Neither the  
CPUC nor the  
Consortia  
complied with  
Commission  
Decision  
11-06-038**

Our audit determined that all 16 consortia failed to meet the requirements of Commission Decision 11-06-038, which required an independent, licensed CPA to provide an annual attestation report affirming that the work outlined in the Consortia work plan would be completed.

Commission Decision 11-06-038, part 6.4.4 states, in part:

Affirmation that the work outlined in the Consortium Work Plan will be completed and verification by an attestation report be prepared by an independent, licensed Certified Public Accountant will be submitted annually to Communications Division. The letter must also state the Consortium's acceptance of the Fiscal Agent's rights, duties, and responsibilities.

CPUC decisions include “Ordering Paragraphs” that the Communications Division follows to implement the decision. In Decision 11-06-038, the CPA attestation report requirement was not included in the ordering paragraphs and, therefore, it appears that Communications Division staff was unaware of the need to implement. Without enforcing the program requirements stated above, the CPUC loses a valuable tool to effectively monitor the progress of the grantees.

Our discussions with CPUC legal staff confirmed that the attestation reporting was a valid requirement and that Communications Division staff must implement the entire decision and not rely on instructions in the ordering paragraph only.

## Recommendations

The SCO recommends that:

- Communications Division staff require the Consortia to submit the required attestation reports on an annual basis; and
- The CPUC enter into signed, contractual, agreements with entities participating in CASF programs detailing the specific requirements to ensure compliance with Commission Decisions and Legislative mandates (see Observation 2).

**FINDING 2—  
Performance  
metrics are not  
established in a  
manner that is  
measurable**

**Participants are  
not obligated  
contractually to  
report or track  
required data to  
determine  
program  
performance**

Our audit determined that the CASF program is producing its intended results because the goals of the program are broadly stated and the CPUC, as the cognizant agency, never established or defined any specific means of measuring performance.

The CPUC did not develop standards that defined a measureable means of evaluating the success or failure of implementing the CASF program. The CPUC often refers to the Public Utilities Code and resolutions to enforce program requirements. Specific program requirements are not found in the code or in the resolutions. The requirements are so broad that detrimental results would have to exist before one could conclude that the program is not being implemented properly. The CPUC, as the cognizant agency, should develop more specific standards and guidelines.

Infrastructure Projects, Loans, and Public Housing

These CASF account categories do not have a need for specific measurement criteria during the construction phases. These projects are completed on a task basis and paid based on the progress of the project. Since they are delivery based, there is less of a need for defined measurement standards on a project-by-project basis.

The CPUC does not use a baseline year within the criteria to determine whether reduction in unserved and underserved areas demonstrates proper implementation of the infrastructure program. CASF reporting terminology needs to improve; the annual reports appear to project only the number of underserved and unserved households that infrastructure projects will service.

The CPUC cannot properly evaluate implementation because the implementation goal is not static. Fluctuation in the base data allows different interpretation of the goals. The Public Utilities Code states that infrastructure projects will provide broadband access to no less than 98% of California households; however, the CPUC never defined programmatically what that means. The evaluation of the program appears to focus on the 98% figure; however, the focus of the CASF is not the households that already have access but rather households that are underserved or unserved. A baseline year, established during the initiation of the CASF, could have created a static goal.

CASF does report the number of connections in the annual reports. As of December 31, 2015, CASF grants were awarded to connect 53,156 households, of which 16,077 are unserved and 37,079 are underserved. For completed and partially completed projects, 10,986 households can be connected and of those, 3,714 households have subscribed.

<i>Year</i>	<i>Households added by completed Infrastructure Projects</i>	<i>Cumulative Total of Households Added</i>	<i>Total Reported Household Subscribers</i>
<b>2011</b>	-	2,243	1,115
<b>2012</b>	1,713	3,956	1,777
<b>2013</b>	6,845	10,801	2,691
<b>2014</b>	47	10,848	3,988
<b>2015</b>	138	10,986	3,714

Source: 2011-2015 CASF Annual Reports.

Determining the actual reductions as a result of these projects would provide better data to determine the level of implementation accomplished by the CASF.

### Consortia

The auditors determined that work performed by the Consortia met the objectives because there was no requirement to demonstrate how meaningful a task had to be to reach the overall goals of the CASF, only that the task was completed. Additionally, even when a task was completed, there was no determination as to the quality of how that task was performed.

### Overall

In 2011, the CASF reported that there were 1,083,838 underserved and 255,306 unserved wireline and fixed wireless households. At that time, the CASF should have defined goals to reduce that specific baseline number of households to evaluate the performance of the CASF. Additional evaluation criteria to address fluctuation in the population of households should have also been established. In both cases, emphasis on the number of served households could have been eliminated because the CASF does not focus on providing services to those households who already have access.

The intent of the program is to encourage deployment of high-quality advanced communications services to all Californians and help promote economic growth, job creation, and the substantial social benefits of advanced information and communications technologies.

The program has encouraged the deployment of high-quality advanced communications because the number of households that have access to broadband technologies has increased from 89.45% in 2010 to 94.9% as of December 31, 2015.

The CASF program has also helped promote economic growth, job creation, and substantial social benefits because the funding for these programs has led to the employment of labor to install infrastructure projects, and funds spent on consortium type activities promotes education and substantial social benefits, such as computer literacy programs and internet classes.

Criteria have never been established to define the meaning of “substantial.” The level of compliance for this requirement is indeterminable without any measuring criteria. Analysis and evaluation of economic growth and job creation had similar barriers for the auditor. Participants were not contractually obligated to track jobs created, nor were they required to provide any benchmarking information that defined an acceptable level of economic growth. The audit does provide assessment of these requirements for infrastructure projects (see Observation 1); however, the audit has to conclude that objectives were met because the program provides the opportunity for recipients to benefit and the Consortia completed a quantity of tasks.

### Recommendations

The SCO recommends that the CPUC:

- As the cognizant agency, should establish measurement and performance criteria; and
- Enter into signed, contractual grant agreements with entities participating in CASF programs and require participants to provide the CPUC the data necessary to measure performance, such as tracking jobs created.

### Management's Response

CD partially agrees with Finding #2 and agrees with the recommendation that the CPUC should establish measurement and performance criteria for the Consortia Account. However, CD disagrees that creating a base year as a static measure is practical, given the changing program speed requirements and changing market and technology conditions. To do so going forward, a base year would have to be created each time the program is modified. However, measuring performance relying on changed base year estimates becomes no-less problematic than our current state of affairs.

Further, CD and Legal Division disagree that the CPUC should enter into signed, contractual grant agreements with entities participating in CASF programs and require participants to provide the CPUC the data necessary to measure performance.

Pursuant to Public Utilities Code section 281, the Commission is charged with developing, implementing and administering the CASF program, which it did in a series of Commission Decisions (e.g., D.12-02-015, D.11-06-038, D.14-12-039.) In these Decisions, the Commission established the rules and guidelines for the CASF program. These rules provide for approval of CASF grant funding via Commission resolution. A resolution is a decision of the Commission, which binds the applicants to its terms.

Using contracts, as opposed the resolution process identified in these decisions, would be inconsistent with – and in violation of – these established decisions and guidelines.

Further, adopting a set of program rules and guidelines and applying these to a particular group of applicants is more efficient than negotiating individual contracts. In contrast, a contractual obligation would require the Commission to employ additional attorneys to oversee the negotiation and enforcement of individual contracts, a costly proposition. Enforcement of individual contracts would be in State court whereas the Commission can enforce its Resolutions and in the Courts of Appeal. Although CD and Legal Division are not persuaded that a separate signed contractual agreement is necessary, going forward, CD will consider requiring entities participating in the CASF program to sign a consent form acknowledging and agreeing to the terms of the CASF award to ensure compliance with the Resolution and Commission Decisions.

### SCO's Comment

Contracts would be the preferable method by which to protect the interests of the CPUC. However, the signed consent forms mentioned above, if implemented, would add some additional safeguards to ensure compliance with the grant requirements between the CPUC and the grantees. Our finding remains unchanged.

### Management's Response

- Consortia

The audit notes that "...work performed by the Consortia met the objectives because there was not a requirement to demonstrate how meaningful a task had to be reach the overall goals of the CASF, only that the task was completed." As written, the legislation authorizing the consortia program allowed a wide variety of activities, ranging from training programs to encouraging infrastructure deployment. The Commission's program permits the regional consortia to develop widely diverging work plans based on local priorities. For example, urban consortia primarily concentrate on improving digital literacy, while other consortia assess community broadband needs or assist communities in developing infrastructure plans. The only measurement tool CD had on hand was each consortium's individual annual action plan. CD used those plans as guides at the end of each fiscal year to determine each consortium's results against its own goals for the purpose of grant compliance and payment. However, these data do not serve as a basis to determine measurable performance toward the goal of 98% availability.

- Infrastructure Projects, Loans, and Public Housing

The audit finding #2 states that "participants are not obligated contractually to report or track required data to determine program performance" and in the text incorrectly suggests such is lacking beyond the construction phase. Current Commission procedures mandate that in order to receive final payment, infrastructure grantees are to file a completion report affirming that the project is 100 percent completed, serves all households promised, and provides minimum required CASF speeds. Infrastructure grantees are also required to submit copies of their biannual filings of FCC Form 477 data to the CPUC for 5 years post-completion of the project grant. FCC Form 477 includes coverage, subscription, and speed information that is useful in documenting and measuring CASF deployment for the new service area. Failure of the grantee to meet the above requirements subjects them to grant termination, withholding of payments, or other penalties, per D.12-02-015. Further, CD conducts an annual survey of grant recipients regarding project households served and the number of subscribers.

### SCO's Comment

The SCO acknowledges that the CPUC does track internet access data as mentioned above; however, certain pertinent data needed for economic growth, job creation, and social benefits is not currently provided by grantees. Our finding remains unchanged.

**FINDING 3—  
The CPUC was  
unable to award  
\$146 million in  
infrastructure  
projects by  
December 31,  
2015 to meet the  
goals of  
providing access  
to 98% of  
California  
Households**

Our audit determined that the CASF program was able to award only \$123,486,699 of the approved \$270,000,000 of authorized funding since the program inception through December 31, 2015, leaving \$146,513,301 in authorized funding available for infrastructure projects. The awarded projects, when completed, were estimated to provide coverage to only 97% of underserved and unserved households as follows:

Households	Served	Approved Infrastructure	Projected Served	Percentage
Served	12,180,931	301,574	12,482,505	97.29%
Underserved	308,541	(285,497)	23,044	0.18%
Unserved	340,563	(16,077)	324,486	2.53%
Total Households	12,830,035		12,830,035	

This finding is based on the information provided for the 2015 CASF Annual Report. The auditors determined that the CPUC did not meet the goals based only on the figures presented. The impact of these infrastructure projects may not be determined for years to come, as household and data reported was only a snapshot in time and the requirement was only to award authorized funding. There are no assurances that authorized projects would provide intended results, specifically, middle-mile projects.

Public Utilities Code section 281(a) requires the CPUC to “develop, implement, and administer the CASF program 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...” The goal of the program is, “no later than December 31, 2015, to approve funding for infrastructure projects that will provide broadband access to no less than 98 percent of California households.” The CPUC is to prioritize projects that provide last-mile broadband access to households that are unserved by an existing facilities-based broadband provider and also provide both grant applicants, and any party challenging an application, the opportunity to demonstrate actual levels of broadband service in the proposed project area. During the 2013-2014 Legislative session, the Legislature passed SB 740 to expand eligibility requirements for the CASF Infrastructure Grant Account and AB 1299 to authorize the creation of the CASF Public Housing Account.

As noted above, this code states that this is a goal, not necessarily a requirement. The auditors are not able to access the level of compliance or non-compliance, as that measurement is problematic.

As stated previously, household and broadband access reported was only a snapshot in time and was based on when data was provided, as follows:

<u>Annual Report</u>	<u>Served</u>		<u>Underserved</u>		<u>Unserved</u>	
2011 <sup>1</sup>	11,238,254	89.4%	1,083,838	8.6%	255,306	2.0%
2012 <sup>1</sup>	12,107,765	96.3%	344,913	2.7%	124,820	1.0%
2013 <sup>2</sup>	12,086,242	95.3%	339,153	2.7%	250,481	2.0%
2014 <sup>2</sup>	12,154,477	95.5%	265,993	2.1%	310,753	2.4%
2015 <sup>2</sup>	12,180,931	94.9%	308,541	2.4%	340,563	2.7%

<sup>1</sup> Wireline and fixed wireless

<sup>2</sup> Wireline only

In addition to the variances in percentages of households served, the quantity of households that the CPUC estimates will be served by the infrastructure projects does not correlate to the amounts reported above. The CPUC reported that the infrastructure projects could potentially serve the total number of households as follows:

<u>Annual Report</u>	<u>Underserved</u>	<u>Unserved</u>	<u>Total</u>
2011	238,266	16,530	254,796
2012	238,716	16,530	255,246
2013	251,650	7,569	259,219
2014	251,650	7,569	259,219
2015	285,497	16,077	301,574

Changes in population density and census data fluctuations should have a similar effect on both estimates. Therefore, the SCO can state only that meeting the 98% target is difficult to measure, as the underlying basis of that calculation is different whenever the data is accessed.

The CASF awarded an additional six projects, totaling \$152,951,278, during the period of January 1, 2016, through December 31, 2016. An additional six projects, totaling \$34,257,543, were also pending award on December 31, 2016. Therefore it is likely that the CPUC was in compliance with the legislative requirement by December 31, 2016.

### Recommendations

The SCO recommends that the CPUC:

- Determine the impact, if any, as a result of delay in awarding infrastructure projects; and
- Perform future analysis and conclusions as to whether existing projects will provide access to 98% of California households.

### Management's Response

Per Public Utilities Code section 281 (b)(1), “The goal of the program is, no later than December 31, 2015, to approve funding for infrastructure projects that will provide broadband access to no less than 98 percent of California households.” There is no reference to the word “served” in the statute. Based on a literal reading of the statute, the Commission could define the program such that the underserved household counts are added to the served household counts, and therefore the program could have met the 98% goal. The audit could have correctly found that the Commission already met the statutory goal.

### SCO's Comment

We concur that the statutes are interpretative. As stated in Finding 2, the CASF goals are fluid. At a certain point in time, it could appear that the statutory goals have been met. Our finding remains unchanged.

### Management's Response

The paragraph in the draft audit stating, “As noted above, this code states...,” notes that “measurement is problematic.” First, the draft audit does not recognize the historical changes to the speed thresholds made by the Commission that would impact meeting the goal. As an example, increasing the speed threshold for defining “served” status from 3 Mbps downstream and 1 Mbps upstream to 6 Mbps downstream and 1.5 Mbps upstream increased the number of underserved (CASF program eligible) households.

### SCO's Comment

Our audit did not address these historical changes as we can only audit to current criteria. We acknowledge that the CPUC has adequately implemented this program including using these changes. Our finding remains unchanged.

### Management's Response

Second, the draft audit does not recognize efforts by Communications Division staff to address reliability of data and its impact on CD's determination of service availability. A major contributor to the data “fluidity” is that CD has improved data accuracy over time via the Commission's CalSPEED testing program as well as public feedback. Further, wired broadband service provider data is collected and validated by several means as described on the website; broadband validation methods at <http://www.cpuc.ca.gov/General.aspx?id=2529>. The broadband mapping data collection is explained on the CPUC's website at <http://www.cpuc.ca.gov/General.aspx?id=2540>.

In the paragraph stating, “in addition to the variances in percentages of households served...” the last sentence should say “total number of potential households served as follows:” Further, the emphasis should be on the number of connections built for last-mile grants. For potential households, the majority is from middle-mile projects, as explained in the annual report on page 21, “‘middle-mile households’ is the estimated number of households that would have access should last-mile

connections be built following the middle-mile infrastructure grant and deployment.”

The recommendation that the CPUC... “Determine any impact, if any, as a result of delay in awarding infrastructure projects...” is problematic given that the audit was tasked with determining social benefits of the program. If the audit was unable to determine social benefits, it is unreasonable to task the Commission with the same. Our focus is on how to improve the program to be more effective.

#### SCO’s Comment

We edited the description of the table in the final report to address the CPUC’s concerns. We were tasked with determining whether the CPUC had adequately documented objectives such as social benefits. Absent of available data, we did determine that such assessment was difficult. Our finding remains unchanged.

#### **FINDING 4— Administrative and program oversight should be improved**

The CPUC staff implemented the CASF program according to state law and Commission rules, including in the awarding of grants, denying applications, prioritizing projects, providing last-mile broadband access to households unserved by an existing facilities-based broadband providers, and managing challenges. However, we determined that the process and procedures to perform this implementation needs improvement.

#### Project Management

We reviewed progress and completion reports for infrastructure projects marked complete in the 2015 CASF Annual Report and noted that finalized completion reports were never prepared for certain projects.

Some projects were noted as complete in the progress reports, but final payments were not yet issued; therefore, final completion reports were not yet provided by the grantee. The 2015 CASF Annual Report highlighted these projects as complete even though the project had not yet been finalized.

One project not listed on the report as complete was actually considered complete by CPUC staff. The grantee never submitted progress reports because they never submitted a request for reimbursement. During the audit period, the SCO confirmed that the project was completed but the grantee would not seek reimbursement. The CPUC passed Resolution #T-17528 rescinding this, and a few other projects.

Grantees are required to submit quarterly reports; however, there were no contractual agreements that indicated such requirements. Review of these progress reports mainly involved CPUC staff reviewing written status reports provided by the grantee. CPUC staff rarely performed site visits. CPUC staff stated that they observed only a few of the 27 completed infrastructure projects while they were being built.

### Administrative Oversight

The SCO also performed the second interim financial audit for the CASF program. This audit determined that there were discrepancies existed in program expenditures between CALSTARS and the 2015 CASF Annual Report. The discrepancies were the result of timing issues and the SCO determined that internal controls were adequate to implement the program; however, failure to reconcile discrepancies between the reports is a potential weakness in internal controls.

### Recommendations

The SCO recommends that the CPUC:

- Dedicate resources to perform adequate project management tasks, such as on-site visits, to determine the status of infrastructure projects;
- Report projects as complete in the annual report only when final payments have been completed;
- Enter into signed, contractual grant agreements with entities participating in CASF programs to require participants to provide the CPUC with the data necessary to measure performance; and
- Dedicate additional resources to reconcile differences and discrepancies between management reporting tools.

### Management's Response

CD believes that the draft audit report was referring to the Verizon projects for Sea Ranch and Pinyon, which were verified as complete (including a staff site visit to Pinyon and staff conversation with Verizon contacts), but the grantee never came in for payment. Both of these projects were rescinded in August 2016 (Resolution T- 17528). Therefore, the audit recommendation has been remedied by this rescission as the households and funds are no-longer included for the 2016 annual report.

### SCO's Comment

The Communications Division's reference to projects Nos. 46 and 47 above were not reported as complete in the 2015 CASF Annual Report (page 10). Our recommendation actually refers to projects Nos. 19, 21, 22, and 23 (page 9), which are reported as completed; however, the grantee had not received payment.

### Management's Response

CD and Legal Division are not persuaded that a separate signed contractual agreement is necessary. Further, performance measurement standards have not been developed, and it is CD and Legal Division's interpretation that Public Utilities Code section 281 does not mandate such measurement.

SCO's Comment

As stated in Finding 2, contracts would be preferred method by which to protect the interests of the CPUC. However, the signed consent forms mentioned in Finding 2 would add some additional safeguards to ensure compliance with the grant requirements between the CPUC and the grantees. Our finding remains unchanged.

# Observations and Recommendations

## **OBSERVATION 1— Promotion of economic growth, job creation**

We determined that the CASF program has encouraged deployment of high-quality advanced communications services to all Californians that will promote economic growth and job creation consistent with Public Utilities Code section 281(a). However, the CPUC’s lack of adequate tracking, required reporting, and general oversight of this objective could not provide enough data for the SCO to measure how the CASF specifically met this objective. Additionally, the Public Utilities Code section 281(a) did not establish enough criteria to determine a measurement for that criteria.

Public Utilities Code section 281(a) requires the CPUC to develop, implement, and administer the CASF program to encourage deployment of high-quality advanced communications services to all Californians. The SCO analyzed and developed procedures to determine whether the CASF program achieved its objectives. Our analysis was to determine the number and types of jobs created, both direct and indirect, as well as other ways in which the CASF program may have promoted economic growth and substantial social benefits.

The CPUC did not track job-creation data and did not document any requirements for CASF participants to monitor, track, or report economic development. The CPUC stated that participants were to refer to the Public Utilities Code as a guideline for compliance; however, projects were granted to participants by passage of resolutions, and no formal agreements created any other stated contractual obligation to provide such data.

Although the CPUC did not track job-creation data, the CASF program partially funded six American Recovery and Reinvestment Act of 2009 (ARRA) projects that had job-creation reporting requirements. This job data was once readily available; however, due to changes in administration and the length of time since the ARRA programs, certain information is no longer easily accessible to the public. We were able to determine from the available ARRA data that the following jobs were reported on these projects:

Project	(A) Total ARRA Project	(B) Total Jobs Reported	(C) CASF Cost Share	(C)/(A)*(B) Estimated Jobs Paid by CASF
Ponderosa Cablevision	\$ 3,850,000	71	\$ 1,154,780	21
Calaveras Poker Flat	4,090,000	109	348,254	9
Digital 395 Middle Mile	81,150,000	992 *	26,754,941	327
Plumas Sierra Telecom	13,770,000	96	1,721,280	12
Audeamus Last Mile	5,480,000	52	1,154,494	11
CVIN	46,620,000	1,157 *	6,312,983	157

\*Reported to ARRA

The infrastructure projects are either middle-mile or last-mile projects. The objective of the middle-mile projects is to bring high-speed internet access capability, such as fiber optic cable, to rural areas, and the objective of last-mile projects is to bring actual internet service to a customer or end-user. In both types of projects, the work entails installing lines of cable along public access points to reach a destination. We therefore determined that each project involved similar skill sets, even if different sets of labor were employed. Cost differentials could be attributed to various geographic barriers and limitations.

Our review of available ARRA data determined that, as the work performed was similar in each project, the ratio of quarter-FTE jobs created per dollar spent should provide a reasonable range by which to determine which jobs were created by the infrastructure projects.

Project	(E)=(A)/(B) Spend per Job ARRA	(F) Total CASF Paid*	(F)/(E) CASF Cost Share
Ponderosa Cablevision	\$ 54,225	\$59,250,528	1,093
Calaveras Poker Flat	37,523	59,250,528	1,579
Digital 395 Middle Mile	81,812	59,250,528	724
Plumas Sierra Telecom	143,438	59,250,528	413
Audeamus Last Mile	105,385	59,250,528	562
CVIN	40,292	59,250,528	1,427

\*Total Infrastructure Project Payments made as of December 31, 2015 was \$59,250,528

Based on the actual data reported by the ARRA projects, it is reasonable to correlate that the CASF's infrastructure projects created between 413 to 1,579 quarter-jobs, with an average of 974 quarter-jobs and a median of 908 quarter-jobs. A quarter-job is one person employed for 520 hours. Although this is not an exact figure that should be reported with a high level of confidence, it is a reasonable range for the number of jobs likely created by the CASF as of December 31, 2015.

We also performed an assessment of economic development. Criteria for measuring economic development also was not established in the Public Utilities Code or by CPUC. The SCO did not have any means of measurement, as the objectives were never defined. To assess a measure of economic development, the SCO approached the stakeholders and potential end-users for each of the completed infrastructure projects for their assessment.

We examined 23 regional areas that received infrastructure improvements from completed CASF projects. Within each of these areas, we inquired with economic development agencies, both private and governmental, and surveyed business development agencies, such as chambers of commerce, when applicable. Responses from the 23 regional areas were generally consistent, except for some that experienced immediate and direct impact. In general, each region reported that:

- It was not aware of the CASF but was aware of infrastructure projects when named or described by the auditor;

- The CASF infrastructure projects were successful and it was satisfied by the results; and
- It has not experienced immediate economic growth from these projects but stated that:
  - Immediate growth was not expected;
  - The infrastructure must be in place before growth would occur;
  - Future growth would be impossible without the infrastructure project.

The Mojave Air and Space Port Project reported immediate economic impact mainly because the high-speed fiber optic line was brought out to an existing business center. The IT Director of the airport reported that, without access, the airport would not have been able to retain or make the area available for up to 70 tenants. The director also stated it was likely that the internet service assisted in retaining four tenants that accounted for over 600 jobs in the business park.

**OBSERVATION 2—  
The CPUC should  
contractually  
obligate CASF  
participants**

The SCO notified the CPUC’s Communications Division at the onset of this audit, in May and June of 2016, that our preliminary analysis had determined that the CASF program’s methodology of awarding grants to participants was not consistent with State contracting requirements or best practices. As stated in the finding section, the CPUC uses the resolution approval process as the means of awarding grants.

Our findings in this report reflect the need for the CASF to contractually obligate their participants; these grant contracts would lay out the specific requirements each grantee is obligated to perform, whereas the current process uses resolutions without final concurrence from the grantee.

**Attachment 1—  
California Public Utilities Commission’s Response to  
Draft Audit Report**

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PUBLIC UTILITIES COMMISSION  
505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



March 27, 2017

Andrew Finlayson  
Bureau Chief, State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, California 94250-5874

**SUBJECT: COMMUNICATIONS DIVISION COMMENTS ON MARCH 14, 2017  
DRAFT CASF PERFORMANCE AUDIT REPORT**

Dear Mr. Finlayson,

The Communications Division (CD) appreciates this opportunity to comment on the DRAFT California Advanced Services Fund (CASF) second independent interim performance audit report prepared by the State Controller's Office (SCO) and distributed for comments on March 16, 2017. This audit was initiated pursuant to Public Utilities (Pub. Util.) Code section 912.2(a) on the implementation and effectiveness of the CASF, and to ensure that funds have been expended in accordance with the approved terms of the grant awards and loan agreements pursuant to Pub. Util. Code section 281.

CD is pleased to see SCO's conclusions presented on page 6 of the draft performance audit report that: "the CPUC's implementation and administration of the CASF program was reasonably in compliance with program requirements; written internal policies and procedures, rules, and orders established by the Commission and other applicable state laws and regulations. The CASF program requirements include awarding grants and loans, prioritizing projects providing last-mile broadband access to households unserved by an existing facilities-based broadband provider, and in managing payment processes and controls, grant resolution (agreements) and grant monitoring processes, and recording and reporting program expenditures. The current status and condition of program operations is adequately progressing in implementing legislative requirements." We interpret these audit report findings to confirm that the Commission has been adequately administering and implementing the CASF program.

In addition, CD appreciates the constructive recommendations for improvements in the administration and processes of the CASF program as articulated in the audit finding below. We have already implemented and resolved several of SCO's recommendations.

The following are CD's responses to individual audit findings:

**Finding 1: Neither the CPUC nor the Consortia complied with Commission Decision 11-06-038.**

**Response:** CD agrees with this finding, especially the audit report's recognition that the requirement was ambiguous to staff, because it was not included in the Ordering Paragraph. This audit recommendation has been implemented prospectively for current consortia. Commission Resolution T-17550, approved on January 19, 2017, reinforced the need for Consortia to comply with the need for annual attestation reports. The Commission has clarified that Consortia must submit the required attestation reports on an annual basis for all consortia.

**Finding 2: Performance metrics are not established in a manner that is measurable. Participants are not obligated contractually to report or track required data to determine program performance.**

**Response:** CD partially agrees with Finding #2 and agrees with the recommendation that the CPUC should establish measurement and performance criteria for the Consortia Account. However, CD disagrees that creating a base year as a static measure is practical, given the changing program speed requirements and changing market and technology conditions. To do so going forward, a base year would have to be created each time the program is modified. However, measuring performance relying on changed base year estimates becomes no-less problematic than our current state of affairs.

Further, CD and Legal Division disagree that the CPUC should enter into signed, contractual grant agreements with entities participating in CASF programs and require participants to provide the CPUC the data necessary to measure performance.

Pursuant to Public Utilities Code section 281, the Commission is charged with developing, implementing and administering the CASF program, which it did in a series of Commission Decisions (*e.g.*, D.12-02-015, D.11-06-038, D.14-12-039.) In these Decisions, the Commission established the rules and guidelines for the CASF program. These rules provide for approval of CASF grant funding via Commission resolution. A resolution is a decision of the Commission, which binds the applicants to its terms. Using contracts, as opposed the resolution process identified in these decisions, would be inconsistent with – and in violation of – these established decisions and guidelines.

Further, adopting a set of program rules and guidelines and applying these to a particular group of applicants is more efficient than negotiating individual contracts. In

contrast, a contractual obligation would require the Commission to employ additional attorneys to oversee the negotiation and enforcement of individual contracts, a costly proposition. Enforcement of individual contracts would be in State court whereas the Commission can enforce its Resolutions and in the Courts of Appeal. Although CD and Legal Division are not persuaded that a separate signed contractual agreement is necessary, going forward, CD will consider requiring entities participating in the CASF program to sign a consent form acknowledging and agreeing to the terms of the CASF award to ensure compliance with the Resolution and Commission Decisions.

- Consortia

The audit notes that "...work performed by the Consortia met the objectives because there was not a requirement to demonstrate how meaningful a task had to be reach the overall goals of the CASF, only that the task was completed." As written, the legislation authorizing the consortia program allowed a wide variety of activities, ranging from training programs to encouraging infrastructure deployment. The Commission's program permits the regional consortia to develop widely diverging work plans based on local priorities. For example, urban consortia primarily concentrate on improving digital literacy, while other consortia assess community broadband needs or assist communities in developing infrastructure plans. The only measurement tool CD had on hand was each consortium's individual annual action plan. CD used those plans as guides at the end of each fiscal year to determine each consortium's results against its own goals for the purpose of grant compliance and payment. However, these data do not serve as a basis to determine measurable performance toward the goal of 98% availability.

- Infrastructure Projects, Loans, and Public Housing

The audit finding #2 states that "participants are not obligated contractually to report or track required data to determine program performance" and in the text incorrectly suggests such is lacking beyond the construction phase. Current Commission procedures mandate that in order to receive final payment, infrastructure grantees are to file a completion report affirming that the project is 100 percent completed, serves all households promised, and provides minimum required CASF speeds. Infrastructure grantees are also required to submit copies of their biannual filings of FCC Form 477 data to the CPUC for 5 years post-completion of the project grant. FCC Form 477 includes coverage, subscription, and speed information that is useful in documenting and measuring CASF deployment for the new service area. Failure of the grantee to meet the above requirements subjects them to grant termination, withholding of payments, or other penalties, per D.12-02-015. Further, CD conducts an annual survey of grant recipients regarding project households served and the number of subscribers.

**Finding 3: The CPUC was unable to award \$146 million in infrastructure projects by December 31, 2015 to meet the goals of providing access to 98% of California households.**

**Response:** While we concur with the overall assessment that the Commission did not meet the 98 percent goal, based on the Commission's own definition of served status, several assessments SCO makes in this section of the draft audit are problematic.

Per Public Utilities Code section 281 (b)(1), "The goal of the program is, no later than December 31, 2015, to approve funding for infrastructure projects that will provide broadband access to no less than 98 percent of California households." There is no reference to the word "served" in the statute. Based on a literal reading of the statute, the Commission could define the program such that the underserved household counts are added to the served household counts, and therefore the program could have met the 98% goal. The audit could have correctly found that the Commission already met the statutory goal.

The paragraph in the draft audit stating, "As noted above, this code states...", notes that "measurement is problematic." First, the draft audit does not recognize the historical changes to the speed thresholds made by the Commission that would impact meeting the goal. As an example, increasing the speed threshold for defining "served" status from 3 Mbps downstream and 1 Mbps upstream to 6 Mbps downstream and 1.5 Mbps upstream increased the number of underserved (CASF program eligible) households.

Second, the draft audit does not recognize efforts by Communications Division staff to address reliability of data and its impact on CD's determination of service availability. A major contributor to the data "fluidity" is that CD has improved data accuracy over time via the Commission's CalSPEED testing program as well as public feedback. Further, wired broadband service provider data is collected and validated by several means as described on the website; broadband validation methods at <http://www.cpuc.ca.gov/General.aspx?id=2529>. The broadband mapping data collection is explained on the CPUC's website at <http://www.cpuc.ca.gov/General.aspx?id=2540>.

In the paragraph stating, "in addition to the variances in percentages of households served..." the last sentence should say "total number of *potential* households served as follows:" Further, the emphasis should be on the number of connections built for last-mile grants. For potential households, the majority is from middle-mile projects, as explained in the annual report on page 21, "middle-mile households' is the estimated number of households that would have access should last-mile connections be built following the middle-mile infrastructure grant and deployment."

The recommendation that the CPUC... "Determine any impact, if any, as a result of delay in awarding infrastructure projects..." is problematic given that the audit was tasked with determining social benefits of the program. If the audit was unable to determine social benefits, it is unreasonable to task the Commission with the same. Our focus is on how to improve the program to be more effective.

**Finding 4: Administrative and program oversight should be improved.**

**Response:** CD generally acknowledges that elements of administrative and program oversight can be improved.

- Program Management
  - The draft audit report recommends that the CPUC report projects as "complete" in the annual report only when final payments have been completed.
    - CD believes that the draft audit report was referring to the Verizon projects for Sea Ranch and Pinyon, which were verified as complete (including a staff site visit to Pinyon and staff conversation with Verizon contacts), but the grantee never came in for payment. Both of these projects were rescinded in August 2016 (Resolution T-17528). Therefore, the audit recommendation has been remedied by this rescission as the households and funds are no-longer included for the 2016 annual report.
  - The draft audit report recommends that the CPUC enter into signed, contractual grant agreements with entities' participating in CASF programs to require participants to provide the CPUC with the data necessary to measure performance.
    - All CASF grantees are required to comply with CASF rules and requirements, which includes reporting requirements. As noted in response to Finding #2, CASF rules provide for approval of CASF grant funding via Commission resolution. A resolution is a decision of the Commission, which binds the applicants to its terms. Using contracts, as opposed the resolution process identified in these decisions, would be inconsistent with – and in violation of – these established decisions and guidelines. CD and Legal Division are not persuaded that a separate signed contractual agreement is necessary. Further, performance measurement standards have not been developed, and it is CD and Legal Division's interpretation

that Public Utilities Code section 281 does not mandate such measurement.

- The draft audit report recommends that the CPUC dedicate resources to perform adequate project management tasks such as on-site visits to determine the status of infrastructure projects.
  - CD agrees with the recommendation. With priority given to application review and resource constraints, CASF Section staff has not been able to devote more attention to site visits as a result. There are currently six analyst positions and a Project Supervisor that are budgeted to the four CASF accounts: One for consortia account, one for the loan account, one for the public housing account, two for the infrastructure account, and one support staff. Thus, the six analysts currently in the CASF Section have been insufficient to cover all the tasks involved in the implementation and oversight of all four CASF accounts and in the overall administration of the CASF program. These tasks are summarized in attachment A.

- Administrative Oversight

- The draft audit report recommends that the CPUC dedicate additional resources to reconcile difference and discrepancies between management reporting tools. Specifically, SCO's draft financial audit report determined that there were discrepancies in program expenditures between CALSTARS and the 2015 CASF Annual Report. The discrepancies were the result of timing issues and the SCO determined that internal controls were adequate to implement the program.
  - CD agrees with this recommendation. See CD's comments on the draft CASF financial audit report.

CD is committed to continuing to implement the CASF program effectively. CD recommends that the Audit Letter be modified to highlight the key conclusions from page 6 of your draft performance audit report.

Should you have any questions, please feel free to contact me or Selena Huang at (415) 703-5247.

Sincerely,

*Original signed by*

Robert Wullenjohn  
Manager  
Broadband, Video and Market Branch  
Communications Division

cc: Michael Amato, Acting Director, CD  
Selena Huang, CASF Section Supervisor, CD  
Stacie Castro, CASF Advisory Attorney, Legal Division

## Attachment A

### CASF Program Activities

Administration and oversight of the CASF require staff to perform activities pertaining to the CASF program overall and those specific to each of the four existing accounts under CASF. These include:

1. Staff support in the development of CASF rules and requirements: Staff conducts complex economic, legal, policy, and/or technical analyses and research to support development of policies, rules and guidelines for the CASF program, and assist the assigned Commissioner and Administrative Law Judges in Commission proceedings related to CASF in the preparation of rulings and/or proposed decisions on various issues.
2. Responding to inquiries and assisting potential CASF applicants: Staff prepares FAQs; conducts webinars, workshops; responds to questions, advises and consults with applicants; conducts legal research and prepares responses to legal inquiries regarding the CASF application requirements and procedures.
3. Identifying and recommending development or enhancement of tools and processes used for CASF program operations (e.g. Oracle system for submission of CASF applications, CASF project data base, payment tracking spreadsheets, E-Fast, etc.)
4. Reviewing and evaluating CASF Infrastructure Grant or Grant/Loan applications: Staff investigates whether the proposed project areas are eligible for CASF funding (i.e., unserved or underserved) based on the Commission's Broadband Availability map and other proofs submitted by the applicants, in addition to investigating information provided by entities who filed challenges to the proposed project. Staff also evaluates all other information submitted by the applicant to determine if the project meets the requirements of the program as set forth in Commission decisions and resolutions. Other information staff reviews includes: proof of a CPCN or WIR from the Commission; descriptions of current and proposed broadband infrastructure; number of potential subscriber households and average incomes; project construction schedule; project budget; proposed pricing and commitment period for new subscribers; and financial viability of the applicant. Staff then scores and rates the proposals based on the criteria set by the Commission, and determines which proposals to recommend for funding.

For projects that also request supplemental funding from the CASF Revolving Loan Account, staff sends applications after they have been reviewed and deemed eligible to the loan underwriting contractor for more

detailed review of creditworthiness. Staff will proceed with the scoring and rating of the applications that passed the underwriting. Legal staff performs legal research and provides advice on legal matters as needed.

5. Managing the contract with the loan underwriting and servicing contractor (SAFE-BIDCO) and coordinate with contractor the review of loan applications, in accordance with the Loan Practices and Procedures Manual developed in collaboration with Commission staff. This includes reviewing invoices and processing payments to SAFE-BIDCO for services rendered in accordance with the contract and acting as liaison coordinating the review of loan applications. This also involves extensive legal review of loan agreements to ensure that borrowers assume appropriate liability so that public funds are sufficiently protected.
6. Reviewing and evaluating CASF Consortia Grant applications: Since AB 1262 increases funding for the Consortia Grant Account, the Commission conducted a solicitation for proposals to award and encumber the funds in new grants following the rules and guidelines that the Commission adopted in D.11-06-038.
7. Responding to inquiries and assisting the newly-eligible entities under the Public Housing Account regarding program rules and application requirements.
8. Reviewing and evaluating Public Housing Account applications for broadband network connection and adoption projects: These applications are typically for small projects ranging from \$50,000 or less for adoption projects and \$75,000 or less for network deployment projects. Hundreds of such project applications are expected given the number of eligible publicly supported housing communities in the State. Grant approval of projects meeting the expedited review checklist that the Commission adopted in D.14-12-039 is through letters from the Communications Division Director.
9. Preparing resolutions for Commission consideration: Staff prepares resolutions to recommend Commission approval of (a) new CASF funding awards (*i.e.*, Infrastructure Grant/Loan, Consortia Grant, and Public Housing projects not meeting the expedited review criteria set forth in D.14-12-039), (b) CASF infrastructure grant funding rescissions, (c) additional funding for current projects, (d) changes to consortia fiscal agents, (e) CASF annual budgets, (f) changes in CASF surcharges as needed in order to fully collect the authorized funding for the CASF program, and (g) environmental study reports and mitigation measures for those projects needing CEQA review. Legal staff reviews each resolution for compliance with Commission policies, precedents, and state law.

10. Monitoring progress of CASF-funded projects and grantees by reviewing progress reports, conducting field visits, sending information requests as needed, addressing specific issues as they arise and overseeing the projects to minimize risks as much as possible.
11. Reviewing and processing CASF payments for approved projects and consortia grantees: Current CASF guidelines allow Infrastructure project grantees to seek progress payments in 25% increments and upon submission of progress reports. CASF grant recipients must submit project completion reports before full payments are disbursed and have 24 months to complete their projects, although extension may be requested. Regional consortia grantees are required to submit quarterly progress reports, and can seek grant reimbursements on a calendar quarter basis. Public Housing project grantees are also required to submit quarterly progress and completion reports, and may submit reimbursement requests with these reports depending on the projects' completion timelines.
12. Organizing and facilitating the Regional Consortia Learning Community Summit and other workshops to discuss CASF program issues and solutions as needed.
13. Coordinating with internal or external staff in conducting financial and/or performance audits of individual CASF projects/grantees or the CASF program overall to ensure that CASF funds are spent in accordance with Commission requirements
14. Providing guidance, consultation, recommendations regarding the Commission's broadband mapping data and tools to enhance their usefulness for the CASF program.
15. Reviewing and preparing legislative analyses on pending legislation and providing input as needed on proposed rulemakings/orders of the Federal Communications Commission (FCC). Legal staff draft and submit comments on FCC rulemakings.
16. Preparing the CASF annual program budget and determining the required revenue requirements: Staff reviews and analyses the monthly and year-end budget reports provided by the CPUC Administrative Services regarding the CASF accounts to monitor CASF surcharge revenues and program expenditures; maintains internal tracking spreadsheets that record CASF program payments and other supporting worksheets used for CASF surcharge determination and budget forecasting; and provides information to Administrative Services as needed during the budget process.
17. Preparing statutorily required reports on the CASF program: Pub. Util. Code, § 281(i)(1) requires the Commission to conduct two interim and final financial audits, 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 this section. Furthermore, Pub. Util. Code, § 281(j)(1) requires the Commission to submit an annual report to the Legislature beginning on January 1, 2012, on the amount of funds, recipients, geographic regions, expected benefits, and other information on the CASF program areas. Staff maintains CASF program data and analyzes them in preparing these required reports. Legal staff review reports prepared for submission to the Legislature.

18. Providing briefings/presentations to Commissioners and/or their advisors, Commission management, and other stakeholders in meetings/conferences outside the Commission, as needed, regarding the CASF program activities, accomplishments, and/or challenges. Legal staff review presentations and participate in briefings.
19. Responding to inquiries from the public and other governmental agencies as needed regarding the CASF program and related issues. Legal staff responds to inquiries of a legal nature.
20. Preparing bill analyses on California legislation related to CASF.
21. Maintaining and organizing program records; maintaining the CASF distribution list used for purposes of CASF resolutions, applications, and other communications as needed; posting documents, maintain, and update the CASF website as needed.

**Attachment 2—  
An update to the California Wireline Broadband Availability maps,  
previously published in the California Broadband Task Force  
Report – January 2008**

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Since the 2008 California Broadband Task Force Final Report, broadband mapping in California has evolved, as have the maps and data. The California Interactive Broadband Map has taken the place of the task force maps. CPUC map updates were primarily uploaded to the National Broadband Map at [www.broadbandmap.gov](http://www.broadbandmap.gov) (prior to December 31, 2015) and currently to the California Interactive Broadband Availability Map at [www.broadbandmap.ca.gov](http://www.broadbandmap.ca.gov). The Wireline data is the most consistent and useful for tracking progression over time.

Attached are the following maps published by the CPUC:

- Consumer Wireline Broadband Served Status map as of December 31, 2015
- Wireline Broadband Availability Consumer map as of December 31, 2015
- Wireline Broadband Availability data as of December 31, 2015
- Households Served at 6 down/1.5 Up by Wireline Technologies (2010-2015) comparison chart.

### **AN UPDATE TO 2008 BROADBAND TASK FORCE FINAL REPORT**

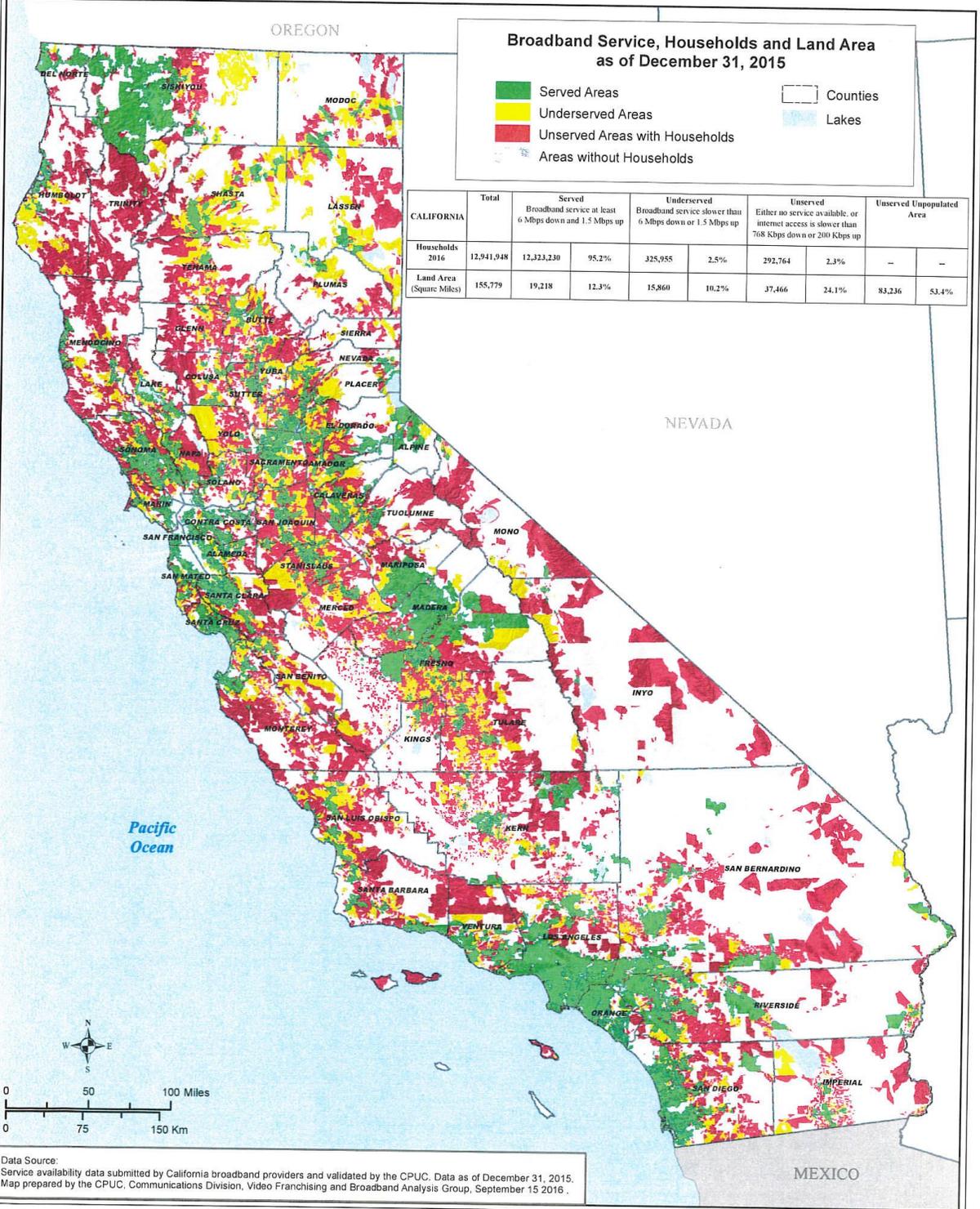
Since 2008 Broadband Task Force Final Report, broadband mapping in California has evolved as have the maps and data. The mapping application has taken place of the task force maps. CPUC map updates were primarily uploaded to the National Broadband Map at [www.broadbandmap.gov](http://www.broadbandmap.gov) and also to the California Interactive Broadband Availability Map here: [www.broadbandmap.ca.gov](http://www.broadbandmap.ca.gov). The Wireline data is the most consistent and useful for tracking progression over time.

Attached are:

- Consumer Wireline Broadband Served Status Map as of December 21, 2015
- Consumer Wireline Broadband Availability Map as of December 21, 2015
- Wireline Broadband Availability Data as of December 21, 2015
- Households Served at 6 Down / 1.5 Up by Wireline Technologies (2010-2015) Comparison Chart



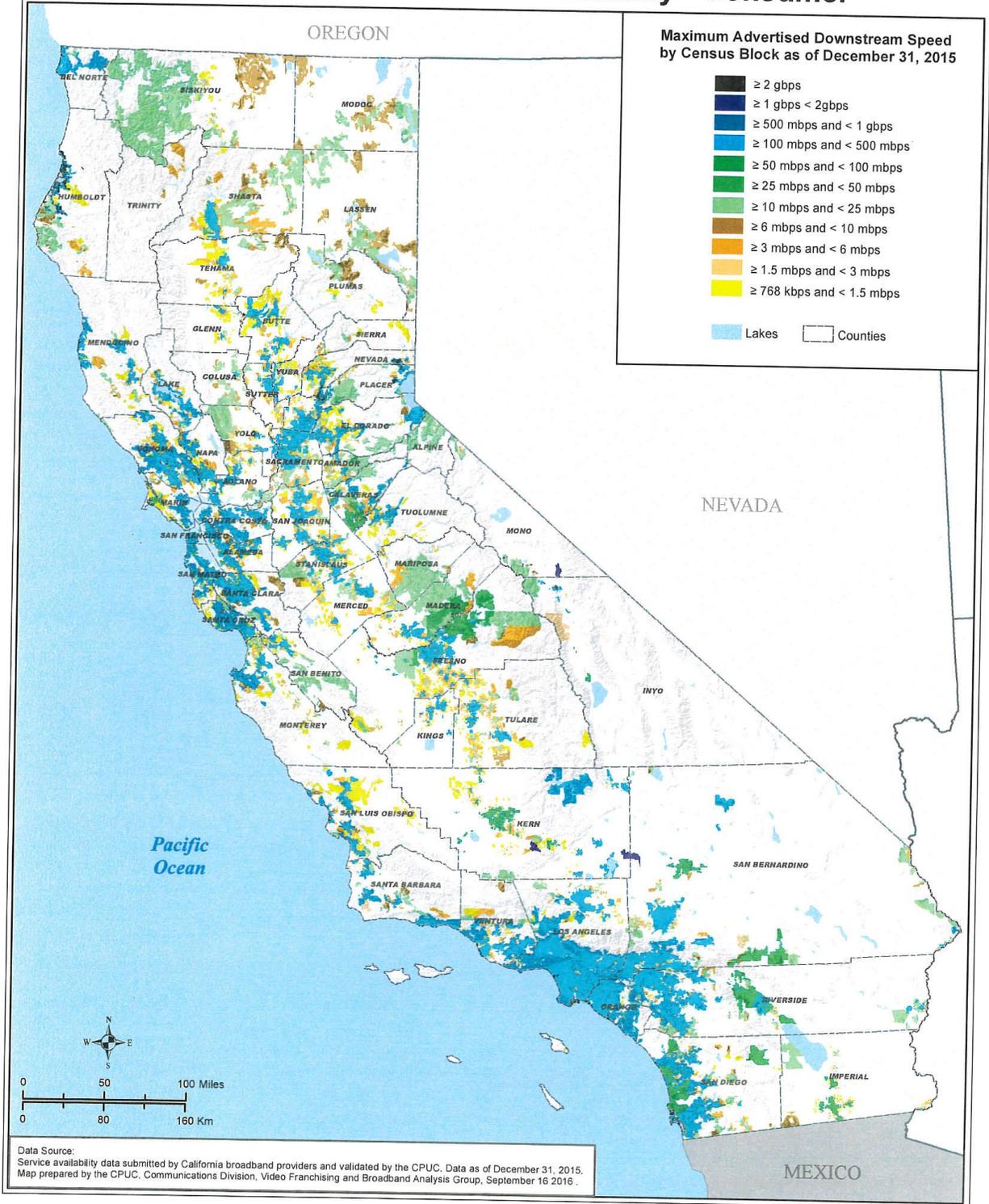
# STATE OF CALIFORNIA Consumer Wireline Broadband Served Status





# STATE OF CALIFORNIA

## Wireline Broadband Availability - Consumer





STATE of CALIFORNIA  
Wireline Broadband Availability

Maximum Advertised Speeds

As of December 31, 2015

County	All Households (CA DOF 1/1/2016)	Served Households (Wireline broadband is available at speeds of at least 6 Mbps down AND 1.5 Mbps up)		Underserved Households (Wireline broadband is available, but at speeds lower than 6 Mbps down OR 1.5 Mbps up)		Unserved Households (Wireline broadband is either not present, or is slower than 768 Kbps down OR 200 Kbps up)	
		Number	Percent	Number	Percent	Number	Percent
<b>California</b>	<b>12,941,948</b>	<b>12,323,230</b>	<b>95.2 %</b>	<b>325,955</b>	<b>2.5 %</b>	<b>292,764</b>	<b>2.3 %</b>
Alameda	569,029	560,910	98.6 %	2,850	0.5 %	5,269	0.9 %
Alpine	493	258	52.3 %	107	21.7 %	128	26.0 %
Amador	14,349	12,124	84.5 %	1,194	8.3 %	1,031	7.2 %
Butte	88,666	78,330	88.3 %	4,680	5.3 %	5,656	6.4 %
Calaveras	18,906	12,977	68.6 %	3,415	18.1 %	2,514	13.3 %
Colusa	7,263	5,865	80.7 %	537	7.4 %	861	11.9 %
Contra Costa	392,848	385,252	98.1 %	3,086	0.8 %	4,510	1.1 %
Del Norte	9,744	9,099	93.4 %	6	0.1 %	639	6.6 %
El Dorado	69,637	53,265	76.5 %	10,184	14.6 %	6,188	8.9 %
Fresno	302,936	270,523	89.3 %	17,225	5.7 %	15,188	5.0 %
Glenn	10,019	6,370	63.6 %	1,814	18.1 %	1,834	18.3 %
Humboldt	55,986	43,696	78.0 %	4,016	7.2 %	8,274	14.8 %
Imperial	49,811	42,977	86.3 %	4,045	8.1 %	2,789	5.6 %
Inyo	8,010	6,385	79.7 %	332	4.1 %	1,293	16.1 %
Kern	264,953	246,986	93.2 %	6,463	2.4 %	11,503	4.3 %
Kings	42,346	35,016	82.7 %	3,712	8.8 %	3,618	8.5 %
Lake	26,537	22,116	83.3 %	1,807	6.8 %	2,614	9.9 %
Lassen	9,762	5,967	61.1 %	2,718	27.8 %	1,077	11.0 %
Los Angeles	3,308,022	3,294,439	99.6 %	6,409	0.2 %	7,175	0.2 %
Madera	44,322	39,950	90.1 %	1,115	2.5 %	3,257	7.3 %
Marin	103,127	100,250	97.2 %	1,806	1.8 %	1,071	1.0 %
Mariposa	7,871	5,340	67.8 %	1,154	14.7 %	1,377	17.5 %
Mendocino	34,226	23,006	67.2 %	2,310	6.8 %	8,909	26.0 %
Merced	79,530	66,079	83.1 %	7,145	9.0 %	6,306	7.9 %
Modoc	4,072	1,695	41.6 %	1,498	36.8 %	879	21.6 %
Mono	5,879	1,108	18.8 %	3,338	56.8 %	1,433	24.4 %
Monterey	126,182	96,074	76.1 %	23,176	18.4 %	6,932	5.5 %
Napa	50,117	46,318	92.4 %	1,505	3.0 %	2,293	4.6 %

Sources:

Broadband availability data collected by the California Public Utilities Commission (CPUC). The CPUC defines "broadband service" as Internet connectivity with download / upload speeds of at least 768 Kbps / 200 Kbps. Such service is considered "available" if the provider can provision new requests for service within 10 business days. Urban vs Rural defined by the 2010 Census urban/rural indicator by census block.

Household data from the California Department of Finance, January 1, 2015 estimate.



**STATE of CALIFORNIA  
Wireline Broadband Availability**

Maximum Advertised Speeds

As of December 31, 2015

County	All Households (CA DOF 1/1/2015)	Served Households (Wireline broadband is available at speeds of at least 6 Mbps down AND 1.5 Mbps up)		Underserved Households (Wireline broadband is available, but at speeds lower than 6 Mbps down OR 1.5 Mbps up)		Unserved Households (Wireline broadband is either not present, or is slower than 768 Kbps down OR 200 Kbps up)	
		Number	Percent	Number	Percent	Number	Percent
Nevada	40,167	28,804	71.7 %	7,193	17.9 %	4,170	10.4 %
Orange	1,024,810	985,238	96.1 %	25,419	2.5 %	14,153	1.4 %
Placer	139,235	125,368	90.0 %	7,370	5.3 %	6,497	4.7 %
Plumas	8,540	2,283	26.7 %	3,974	46.5 %	2,283	26.7 %
Riverside	713,205	692,600	97.1 %	7,489	1.1 %	13,116	1.8 %
Sacramento	526,915	511,723	97.1 %	9,125	1.7 %	6,067	1.2 %
San Benito	17,461	14,231	81.5 %	1,735	9.9 %	1,495	8.6 %
San Bernardino	631,012	596,559	94.5 %	16,871	2.7 %	17,581	2.8 %
San Diego	1,126,029	1,086,261	96.5 %	13,296	1.2 %	26,472	2.4 %
San Francisco	359,416	358,510	99.7 %	791	0.2 %	115	0.0 %
San Joaquin	226,579	210,123	92.7 %	6,939	3.1 %	9,517	4.2 %
San Luis Obispo	103,964	92,942	89.4 %	7,563	7.3 %	3,459	3.3 %
San Mateo	260,940	257,433	98.7 %	1,990	0.8 %	1,518	0.6 %
Santa Barbara	145,757	136,865	93.9 %	5,664	3.9 %	3,227	2.2 %
Santa Clara	628,087	604,888	96.3 %	8,525	1.4 %	14,673	2.3 %
Santa Cruz	97,163	92,526	95.2 %	2,639	2.7 %	1,998	2.1 %
Shasta	70,426	54,965	78.0 %	11,872	16.9 %	3,589	5.1 %
Sierra	1,432	0	0.0 %	705	49.2 %	727	50.8 %
Siskiyou	19,351	14,532	75.1 %	2,036	10.5 %	2,784	14.4 %
Solano	147,821	140,918	95.3 %	2,099	1.4 %	4,804	3.2 %
Sonoma	192,101	184,802	96.2 %	2,861	1.5 %	4,438	2.3 %
Stanislaus	168,204	157,442	93.6 %	6,406	3.8 %	4,356	2.6 %
Sutter	31,504	28,581	90.7 %	1,670	5.3 %	1,253	4.0 %
Tehama	23,929	11,899	49.7 %	8,757	36.6 %	3,273	13.7 %
Trinity	5,796	1,435	24.8 %	254	4.4 %	4,107	70.9 %
Tulare	134,564	90,143	67.0 %	32,206	23.9 %	12,215	9.1 %
Tuolumne	22,290	15,538	69.7 %	3,897	17.5 %	2,855	12.8 %
Ventura	273,286	268,256	98.2 %	3,222	1.2 %	1,808	0.7 %
Yolo	72,088	66,402	92.1 %	3,018	4.2 %	2,669	3.7 %
Yuba	25,233	19,587	77.6 %	2,718	10.8 %	2,928	11.6 %

Sources:

Broadband availability data collected by the California Public Utilities Commission (CPUC). The CPUC defines "broadband service" as Internet connectivity with download / upload speeds of at least 768 Kbps / 200 Kbps. Such service is considered "available" if the provider can provision new requests for service within 10 business days. Urban vs Rural defined by the 2010 Census urban/rural indicator by census block.

Household data from the California Department of Finance, January 1, 2016 estimate.

## Households Served at 6 Down /1.5 Up by Wireline Technologies - 2010 - 2015



YEAR	TOTAL Households	SERVED	Percent	UNDERSERVED	Percent	UNSERVED	Percent
2015	12,941,948	12,323,230	95.22%	325,955	2.52%	292,764	2.26%
2014	12,830,035	12,180,932	94.94%	308,541	2.40%	340,563	2.65%
2013	12,731,222	12,241,235	96.15%	275,297	2.16%	214,690	1.69%
2012	12,675,875	12,134,058	95.73%	317,179	2.50%	224,638	1.77%
2011	12,633,402	11,509,109	91.10%	861,825	6.82%	262,468	2.08%
2010	12,577,498	11,832,885	94.08%	392,237	3.12%	352,376	2.80%