

Supplementary Information to the California Teleconnect Fund Compliance Examination of Sunesys, LLC, dated May 13, 2014

For the Years Ended June 30, 2011 and June 30, 2012



Prepared by:
Crowe Horwath LLP
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Transmittal Letter

California Public Utilities Commission
San Francisco, California

Please find attached Crowe Horwath LLP's (Crowe) consulting report on the potential subsequent impact of certain findings reported in an examination report, dated May 13, 2014, on 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. This report addresses the potential impact of these findings on the CTF program for the program years ended June 30, 2011 and June 30, 2012.

Based on Crowe's analysis:

1. Sunesys failed to demonstrate compliance with Resolution T-16763. Specifically, Sunesys inaccurately calculated the E-rate discount by excluding eligible taxes and User Fees
2. Sunesys failed to demonstrate compliance with Resolution T-16763. Specifically, Sunesys included ineligible surcharges and taxes when calculating the CTF discount.

Due to the non-compliance noted above, in total, \$133,059 of over payments were made by the CTF program for the program year ended June 30, 2011, and \$90,012 of over payments were made for the program year ended June 30, 2012.

A Summary of the over payments by program year is provided in Attachment A of this report. Crowe recommends that Sunesys refund a total of \$223,071 (\$133,059 + \$90,012) to the CTF program.

This analysis was conducted in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants (AICPA). Because the supplementary information included in this report did not constitute an audit, review, or examination in accordance with standards established by the AICPA, Crowe does not express an opinion on the supplementary information contained in this report or on the compliance of Sunesys with the rules, regulations, and requirements of the CTF Program solely related to program costs and cost related activities for the program years ended June 30, 2011 and June 30, 2012.

Should you have any questions regarding this report, please contact Bert Nuehring, Partner, at (bert.nuehring@crowehorwath.com).



Crowe Horwath LLP

Executive Summary

As a result of the following non-compliance, Sunesys, LLC (Sunesys) was reimbursed for over-claimed California Teleconnect Fund (CTF) program costs by \$133,059 for the program year ended June 30, 2011 and by \$90,012 for the program year ended June 30, 2012.

1. Sunesys failed to demonstrate compliance with Resolution T-16763. Specifically, Sunesys inaccurately calculated the E-rate discount by excluding eligible taxes and User Fees.
2. Sunesys failed to demonstrate compliance with Resolution T-16763. Specifically, Sunesys included ineligible surcharges and taxes when calculating the CTF discount.

Accordingly, Sunesys should refund to the CTF program a total of \$223,071 for the over claimed amounts.

Brief Background

The California Public Utilities Commission (CPUC) contracted with Crowe Horwath LLP (Crowe) to conduct an examination on Sunesys' compliance with the rules, regulations, and requirements of the CTF Program solely related to program costs and cost related activities related to services provided (herein referred to as the examination report) for the program year ended June 30, 2010 (herein referred to as the examination period). Crowe examined Sunesys' compliance with the applicable requirements of the CTF program solely related to program costs and cost related activities associated to services provided during the program year ended June 30, 2010. On May 13, 2014, Crowe issued its examination report regarding Sunesys's compliance. This report contains the results of consulting services performed by Crowe to determine the monetary impact of the findings noted in the examination report to the program years ended June 30, 2011 and June 30, 2012.

Scope

The examination report noted a total of seven (7) findings related to Sunesys' compliance with the CTF program requirements for the program year ended June 30, 2010. Five (5) of these findings had a monetary impact to the CTF program. Per the CPUC's request, Crowe analyzed these five findings (as shown below) for the program years ended June 30, 2011 and June 30, 2012.

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 resulted in an 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 program cost for 59 of 86 customers in a sample selected by Crowe.
3. Sunesys failed to demonstrate compliance with Resolution T-16763. Specifically, Sunesys included ineligible surcharges and taxes when calculating the CTF discount.

4. Sunesys failed to demonstrate compliance with Resolution T-16763. Specifically, Sunesys utilized an inaccurate E-rate when calculating the discount on two invoices.
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.

Objectives

Crowe's objectives in analyzing the findings were to:

1. Determine the accuracy of the CTF program discounts that Sunesys provided to its customers and subsequently claimed against the CTF program as reimbursement: and
2. Calculate any over-claimed or under-claimed amounts.

Crowe derived the criteria by which to measure these objectives from the CPUC's CTF program directives including Assembly and Senate Bills, Rulemakings, Decisions, Resolutions and Administrative Letters governing the CTF program.

Methodology

Crowe analyzed the aforementioned monetary findings for the period of July 1, 2010 through June 30, 2011 and the period July 1, 2011 through June 30, 2012. When a finding involved a limited subset of CTF customers, Crowe determined the monetary impact for these specific customers in each program year. When a finding involved an exception that was systemic in nature, Crowe determined the monetary impact for all CTF customers in each program year.

To analyze each finding, Crowe completed an analysis on data provided by Sunesys. For this analysis, Crowe requested that Sunesys provide supporting documentation for its CTF claims made for the periods July 1, 2010 through June 30, 2011 and July 1, 2011 through June 30, 2012. In response, Sunesys provided the following documents:

- 'Audit Spreadsheet Template 2010 - 2011' and 'Audit Spreadsheet Template 2011 - 2012', which contain CTF customer service quantities and service prices, E-rates, CPUC User Fees, and recalculated CTF discounts for each CTF customer across the respective years;
- 'CA USAC Rates 2010 - June 2011' and 'CA USAC Rates 2011 - June 2012', which contain the E-rates for all Sunesys customers across the respective program years as provided by the administrator of the E-rate Program, the Universal Service Administrative Company (USAC);
- 'Summary of Variances for July 2010 - June 2011' and 'Summary of Variances for July 2011 - June 2012', which compare the recalculated CTF discounts for each customer against the CTF reimbursements claimed on the CTF monthly claims and then summarize the overclaims.

In addition to the above-mentioned data elements, Crowe requested and obtained the following items:

California Teleconnect Fund
Sunesys, LLC

1. A random selection of sixteen (16) CTF customer invoices spanning both program years, as well as a random selection of four (4) CTF customer invoices for a single customer (Application #161) pertaining to Finding 3 under the "Scope" section above from Sunesys;
2. Copies of Sunesys' CTF monthly claims from the CPUC;
3. Spreadsheets of E-rates from USAC for Sunesys' CTF customers.

Crowe developed and populated data files that captured information from Sunesys' data submissions, including 2010-2011 and 2011-2012 CTF monthly claim amounts, CTF customer services, service prices, E-rates, surcharges and taxes, and recalculated CTF discounts. Crowe also incorporated into these data files information obtained from the CPUC and the USAC.

Crowe then tested the information collected in these data files in the following manner:

1. For each invoice selected for testing, Crowe tested services and service prices by comparing the amount billed for eligible services to those used in the data files.
2. Crowe tested the E-rates used in the data files by comparing them to the spreadsheets obtained from the USAC. Crowe verified whether the customers had approved E-rates and whether the correct E-rates were used in the recalculation of the CTF discounts.
3. Crowe tested that the CPUC User Fee used in the recalculation of the CTF discounts was 0.18%, which was the CPUC User Fee rate for the program years ended June 30, 2011 and June 30, 2012. For each invoice selected for testing, Crowe also checked whether customers were charged a CPUC User Fee of 0.18% to verify if Sunesys remitted the correct amounts to the CPUC. Additionally, Crowe checked that no surcharges or taxes were included in the recalculated CTF discounts.
4. Crowe tested the Excel formulas that Sunesys used to recalculate the CTF discounts, looking to identify anomalies that might indicate problems with Sunesys' data and/or errors in Sunesys' methodology.
5. Crowe tested that the CTF claim amounts that Sunesys used in calculating the CTF over claimed amounts were the same as those in the CTF monthly claims provided by the CPUC.

This analysis was conducted in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants (AICPA). Because the supplementary information included in this report did not constitute an audit, review, or examination in accordance with standards established by the AICPA, Crowe does not express an opinion on the supplementary information contained in this report or on the compliance of Sunesys 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 years ended June 30, 2011 and June 30, 2012.

Results of Procedures

In analyzing the impact of the findings to the two subsequent program years, Crowe found that:

- 1) Sunesys over claimed \$133,059 in reimbursements from the CTF Program for FY 2010-11; and
- 2) Sunesys over claimed \$90,012 in reimbursements from the CTF Program for FY 2011-12.

Provided below is a summary of each finding included in the scope and Crowe's analysis of each finding that results in a potential CTF over payment for program year 2011 and 2012. **Attachment A** to this report provides a schedule of CTF over payments by program year and by each examination report finding.

Finding 1: PUC User Fee Rate

Examination Report - Sunesys charged 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.

2011 and 2012 Analysis - Based on Crowe's analysis, Sunesys applied the correct CPUC User Fee rate of 0.18 percent during the program years ended June 30, 2011 and June 30, 2012. Crowe tested that Sunesys used the correct CPUC User Fee rate by testing a selection of 16 random customer invoices provided by the carrier. Specifically, Crowe recalculated the CPUC user fee rate on each invoice to determine if the rate equaled 0.18 percent of the total service price.

Finding 2: Manual Claim Process

Examination Report - Sunesys did not assess the E-rate discount on the PUC User Fee for 13 of 86 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.

2011 and 2012 Analysis - Sunesys agreed that it incorrectly calculated CTF discounts and claim amounts for the program years ended June 30, 2011 and June 30, 2012, and as a result completed an analysis to recalculate its CTF claims for those years. Sunesys estimated its CTF over-claimed amount to be \$132,770 for program year 2011 and \$89,964 for program year 2012.

Sunesys' analysis was documented for each program year in an 'Audit Spreadsheet Template' file and a 'Summary of Variances' file. The 'Audit Spreadsheet Template' files contained recalculations of each customer's CTF monthly discount using Sunesys' service quantities, service prices, E-rate discounts, and CPUC User Fees. The 'Summary of Variances' files contained the total over-claimed amounts by comparing the CTF calculated monthly discounts

from the 'Audit Spreadsheet Template' files to what Sunesys actually claimed in CTF reimbursements from the CPUC.

Crowe selected a sample of customer invoices to test the accuracy of the service quantities and prices. To test the E-rate used, Crowe compared the rates directly to the USAC rates. Crowe also tested the Excel formulas that Sunesys used to recalculate the CTF discounts, including determining that no ineligible taxes and surcharges were included and that a 0.18% CPUC User Fee rate was used. For the 'Summary of Variances' files, Crowe tested that the CTF monthly discounts used were the same ones calculated in the 'Audit Spreadsheet Template' files, and Crowe checked the CTF monthly claim amounts were the same as those in the CTF monthly claims provided by the CPUC.

Crowe found that Sunesys made two errors when copying CTF monthly discount amounts from the 'Audit Spreadsheet Template' files to the 'Summary of Variances' files for the calculation of the CTF over-claimed amount. For FY 2010-11, application #435 had a CTF monthly discount of \$875.57, but in the 'Summary of Variances' file it was mistakenly entered as \$923.83. For FY 2011-12, application #1360 had a CTF monthly discount of \$4,414.38, but in the 'Summary of Variances' this was mistakenly entered as \$4,418.38. By correcting these two errors, Crowe calculated that Sunesys over-claimed reimbursements from the CTF Program of \$133,059 for FY 2010-11 and \$90,012 for FY 2011-12.

Finding 3: Ineligible Taxes and Surcharges

Examination Report - Sunesys included the following surcharges and taxes when calculating the CTF discount:

- 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 taxes and surcharges were ineligible for the CTF discount.

2011 and 2012 Analysis – Sunesys agreed that it incorrectly included the aforementioned surcharges and taxes in its calculation of CTF discounts for the program years ended June 30, 2011 and June 30, 2012. In the two 'Audit Spreadsheet Template' files that Sunesys used to recalculate the CTF monthly discount for each customer, Sunesys zeroed out these taxes and surcharges in its recalculations. Consequently, the impact of this non-compliance for the period of July 1, 2010 through June 30, 2012 is included in the impact for finding #2.

Finding 4: Incorrect E-Rates Applied

Examination Report - On two of sixty invoices tested, 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 486s thus resulting in an overcharge to the CTF program. The two invoices pertained

to the same customer: Norwalk-La Mirada, and both involved using a 68% E-rate when the proper E-rate was 72%.

2011 and 2012 Analysis - Sunesys provided Form 486 as well as copies of four invoices for this customer that were randomly selected by Crowe. Based on Crowe's analysis of these documents, Sunesys used the correct E-rates in calculating the CTF discounts for this customer for the program years ended June 30, 2011 and June 30, 2012.

Finding 5: E-rate Application

Examination Report - One customer 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.

2011 and 2012 Analysis – This customer was tested during the procedures specified under Finding 2. Based on Crowe's analysis, Sunesys used the correct E-rates in calculating the CTF discounts for this customer for the program years ended June 30, 2011 and June 30, 2012.

California Teleconnect Fund
Sunesys, LLC

Attachment A – CTF Over Payments by Program Year

Examination Report Findings			CTF Over Payments		
No.	Title	Description	Examination Period	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2012
1	Incorrect PUC User Fee Rate Assessed	Sunesys utilized a .11 percent PUC User fee instead of the .18 percent effective on July 1, 2007	\$ 15,900	\$ -	\$ -
2	CTF Discount Calculation Methodology and E-Rate Application	For 13 customers, the E-Rate was not applied to taxes and surcharges before calculating the CTF discount	\$ 13,156	\$ 133,059	\$ 90,012
3	Ineligible Taxes and Surcharges Charged to the CTF Program	Sunesys included ineligible surcharges and taxes when calculating the CTF discount	\$ 78,849	(Included above)	(Included above)
4	Incorrect E-Rates Applied	Sunesys utilized an inaccurate E-Rate when calculating the discount on four invoices	\$ 4,432	\$ -	\$ -
5	E-Rate not Applied to One CTF Eligible Customer	For 1 customer, a 0% E-Rate was applied rather than the statewide rate in calculating the CTF discount	\$ 4,080	\$ -	\$ -
6	Inaccurate Claim Forms*	One customer was improperly identified on CTF claim forms as having two application numbers	\$ -	\$ -	\$ -
7	Improper Completion of Claim Form*	For 3 customers, CTF claims had reimbursements for services provided in other fiscal years	\$ -	\$ -	\$ -
Total Over Payments			\$ 116,417	\$ 133,059	\$ 90,012

* - Findings excluded by the CPUC from the scope of this analysis.