



CALIFORNIA TELECONNECT FUND PERFORMANCE AUDIT

Level 3 Communications, LLC and CenturyLink
Communications, LLC (U-5941-C and U-5335-C)

July 1, 2022, through June 30, 2023

Utility Audits, Risk and Compliance Division
Utility Audits Branch
June 2, 2025



MEMBERS OF THE TEAM

Angie Williams, Director

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PUBLIC UTILITIES COMMISSION

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Transmitted via e-mail

June 2, 2025

Chris Stansbury
Executive Vice President and Chief Financial Officer
Level 3 Communications, LLC and CenturyLink Communications, LLC
1025 Eldorado Blvd, Interlocken 4000
Broomfield, CO 80021-8254

Dear Chris Stansbury:

Final Report Transmittal Letter—Audit of Level 3 Communications, LLC and CenturyLink Communication, LLC's California Teleconnect Fund Program for the Period of July 1, 2022 Through June 30, 2023

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of the California Teleconnect Fund (CTF) program claims reported by Level 3 Communications, LLC (Level 3) and CenturyLink Communications, LLC (CenturyLink) for the period of July 1, 2022, through June 30, 2023. The final audit report is enclosed.

Our audit disclosed no findings requiring a response; therefore, we are issuing the report as final. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/AuditReportsbyIndustry)

We appreciate Level 3 and CenturyLink's assistance and cooperation during the engagement. If you have any questions regarding this report, please contact Sharmin Wellington, Supervisor, at (916) 928-9838.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page

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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the California Teleconnect Fund (CTF) program's claims reported by Level 3 Communications, LLC (Level 3) and CenturyLink Communications, LLC (CenturyLink) for the audit period of July 1, 2022, through June 30, 2023.

Our audit objectives were to determine whether Level 3 and CenturyLink's claims from CTF were accurate, properly supported, incurred for eligible participants, services, and activities; and to determine whether Level 3 and CenturyLink applied the applicable CTF discount, in accordance with Public Utilities (PU) Code sections 280 and 884, CPUC Decisions (D.) 96-10-066, D.15-07-007, and D.19-04-013, and other applicable CTF program rules, regulations, and requirements.

Based on the procedures performed, samples tested, and evidence gathered, we found that Level 3 and CenturyLink's claims from CTF were accurate, properly supported, incurred for eligible participants, services, and activities; and Level 3 and CenturyLink applied the applicable CTF discount to eligible participants in compliance with applicable PU Code sections, CPUC decisions, resolutions, and applicable criteria as outlined in this report for the audit period of July 1, 2022, through June 30, 2023.

AUDIT REPORT

Background

California Teleconnect Fund Program

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

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

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

Level 3 Communications, LLC and CenturyLink Communications, LLC

CenturyLink acquired Level 3 Communications in November of 2017. CenturyLink was later rebranded as Lumen Technologies Inc. (Lumen), a publicly traded American telecommunications company headquartered in Monroe, Louisiana and Broomfield, Colorado. Lumen offers telecommunications services including network services, security, cloud solutions, managed network, and voice. Lumen is comprised of three wholly-owned brands: Lumen Technologies, CenturyLink, and Quantum Fiber, all of which were formerly called CenturyLink. Level 3 and CenturyLink LLC were formed in Delaware in 1997 and in 2009 respectively. Both Level 3 and Century Link offer CTF services in California and operate as independent carriers.

Level 3 claimed \$747,949 and was reimbursed a total of \$773,430 in subsidy from CTF during the audit period of July 1, 2022, through June 30, 2023. The overpayment totaling \$25,481 occurred because CPUC's Electronic Claims and Applications Portal inadvertently caused duplicate lines in Level 3's January 2023 claim causing an overpayment, which Level 3 subsequently remitted back to CPUC.

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

Level 3 claimed services for approximately 42 participants per month, of which some participants had services at multiple locations. Claims for reimbursement are summarized in Table 1 below:

Table 1. Level 3 Claim Information During Audit Period

Claim Period	Claimed Amount	Reimbursed Amount	Variance
July 2022	\$ 146,307	\$ 146,307	\$ -
August 2022	80,356	80,356	-
September 2022	80,530	80,530	-
October 2022	50,559	50,559	-
November 2022	47,844	47,844	-
December 2022	48,633	48,633	-
January 2023*	48,936	74,417	25,481
February 2023	48,720	48,720	-
March 2023**	48,405	48,405	-
April 2023	49,545	49,545	-
May 2023	50,065	50,065	-
June 2023	48,049	48,049	-
Total	<u>\$ 747,949</u>	<u>\$ 773,430</u>	<u>\$ 25,481</u>

*Level 3 remitted the overpayment back to CPUC caused by the system error after the audit period.

**Level 3 re-submitted March 2023 claim after the audit period for the corrected amount of \$48,405 following CD's instructions.

CenturyLink claimed \$169,182 and was reimbursed a total of \$163,552 in subsidy from CTF during the audit period of July 1, 2022, through June 30, 2023. CenturyLink remitted the June 2023 overpayment of \$5,630 in September 2023 due to the participant becoming ineligible in June 2023 but inadvertently being claimed in June 2023. CenturyLink claimed services for two participants in July and August 2022 and only one participant thereafter, of which both participants had services at multiple locations. Claims for reimbursement are summarized in Table 2 below:

Table 2. CenturyLink Claim Information During Audit Period

Claim Period	Claimed Amount	Reimbursed Amount	Variance
July 2022	\$ 16,154	\$ 16,154	\$ -
August 2022	16,341	16,341	-
September 2022	14,030	14,030	-
October 2022	14,030	14,030	-
November 2022	14,030	14,030	-
December 2022	15,863	15,863	-
January 2023	15,505	15,505	-
February 2023	15,633	15,633	-
March 2023	16,131	16,131	-
April 2023	14,587	14,587	-
May 2023	11,248	11,248	-
June 2023*	5,630	-	(5,630)
Total	<u>\$ 169,182</u>	<u>\$ 163,552</u>	<u>\$ (5,630)</u>

*CenturyLink returned the June 2023 overpayment of \$5,630 in September 2023 due to the participant becoming ineligible in June 2023.

Audit Authority

UAB conducted this audit under the general authority outlined in the PU Code sections 270-274, 314.5, 314.6, 581, 582, and 584. UAB is authorized to verify the CTF program claims for the purposes of ensuring regulatory compliance of the CTF program.

Objective and Scope

Our audit objective was to determine whether Level 3 and CenturyLink's claims from the CTF were accurate, properly supported, incurred for eligible participants, services and activities; and to determine whether Level 3 and CenturyLink applied the applicable CTF discount, in accordance with PU Code sections 280 and 884, CPUC D.96-10-066, D.15-07-007, and D.19-04-103, and other applicable CTF program rules, regulations, and requirements.

The scope of our audit covered Level 3 and CenturyLink's claims from CTF totaling \$747,949 and \$169,182, respectively, for the audit period of July 1, 2022, through June 30, 2023.

Methodology

In planning our audit, we gained an understanding of CTF and Level 3 and CenturyLink's operations and identified relevant criteria, by reviewing Level 3 and CenturyLink's policies and procedures, relevant PU Code sections, rules, regulations, CPUC decisions, resolutions, orders, directives, and interviewing Level 3 and CenturyLink's personnel.

We conducted a risk assessment, including evaluating whether Level 3 and CenturyLink's key internal controls relevant to our audit objectives were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, observing processes, or performing walkthroughs, and testing transactions. Deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

Additionally, we assessed the reliability of the data extracted from Level 3 and CenturyLink's billing system. Our assessment included examining extracted reports, tracing data between differing report formats to verify completeness, and tracing report data to source documents. We determined the data to be sufficiently reliable to address the audit objectives.

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

- Reviewed applicable PU Code sections, CPUC decisions and resolutions to gain an understanding of CTF program, including eligibility and the claim filing process.
- Reviewed Level 3 and CenturyLink's background information including its policies and procedures to gain an understanding of the nature of the utility and its responsibility over CTF program.
- Assessed significance by performing analyses of reimbursement claims data and evaluating program requirements.
- Obtained an understanding of Level 3 and CenturyLink's key internal controls relevant to the CTF program, such as reviewing its processes over reimbursement claims, discounts, and participant/services eligibility, and assessed the design, implementation, and operating effectiveness of selected controls that are significant to the audit objectives by:
 - interviewing key personnel and administering an internal control questionnaire;
 - reviewing Level 3 and CenturyLink's policies and procedures, and specifically assessing the recording and reporting of CTF claim data;
 - performing walkthroughs of the reimbursement claims; and
 - tracing selected transactions and/or participant eligibility to source documents.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Selected July 2022, August 2022, January 2023, and March 2023 claims totaling \$146,307, \$80,356, \$48,936 and \$48,405 respectively, and selected the same 10 participants from each month to perform testing procedures for Level 3, as shown in Table 3 below:

Table 3. Level 3 Claims Selected for Testing

Months Selected	Claimed Amount	Percent of Total Claims	Participants Selected	Percent of Total Participants
July 2022	\$ 146,307	20%	10	24%
August 2022	80,356	11%	10	24%
January 2023	48,936	7%	10	24%
March 2023	48,405	6%	10	24%
Total Sampled	<u>\$ 324,004</u>	<u>43%</u>		
Total Claimed*	<u>\$ 746,414</u>		<u>42</u>	

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

- Selected July 2022, August 2022, and June 2023 claims totaling \$16,154, \$16,341, and \$5,630 respectively, and selected the same 2 participants from each month to perform testing procedures for CenturyLink, as shown in Table 4 below:

Table 4. CenturyLink Claims Selected for Testing

Months Selected	Claimed Amount	Percent of Total Claims	Participants Selected	Percent of Total Participants
July 2022	\$ 16,154	10%	2	100%
August 2022	16,341	10%	2	100%
June 2023	5,630	3%	1	50%
Total Sampled	<u>\$ 38,125</u>	<u>23%</u>		
Total Claimed*	<u>\$ 169,182</u>		<u>2</u>	

*For the selected samples, errors found, if any, were not projected to the intended (total) population.

- For the selected months and participants, performed substantive testing procedures including the following:
 - Verifying claims were approved, accurately computed, and properly supported
 - obtained E-rate funding information from the service provider, as well as accessed USAC's open data for eligible participants to identify the approved federal discount amounts;
 - recalculated the CTF amounts claimed for the selected participants to verify the claimed amounts were accurate;
 - recalculated the total monthly CTF claimed amounts submitted to CPUC for reimbursement to verify the claimed amounts were accurate;
 - obtained the agreements for the selected participants to verify the monthly recurring cost (MRC) claimed were accurate; and
 - verified claims for reimbursement were properly approved before submittal.

- Ensuring discounts (E-rate and CTF) were properly applied
 - traced the approved E-rates to the reimbursement claims to identify any disparity in the percentages;
 - recalculated the E-rate discount on the participants' billing invoices to verify the discounts reconciled to the E-rate funding information and USAC's open data; and
 - recalculated the CTF discount on the participants' billing invoices to verify that the correct discount was applied.
- Ensuring adjustments were properly applied
 - determined the service month that the adjustment corrected to verify the adjustment is applied to the correct service month;
 - obtained the participants' bills to verify the correct MRC and CTF discount amount was applied; and
 - recalculated the adjustment amount to verify accuracy.
- Verifying eligible services and participants were claimed
 - compared the CPUC's CTF eligible services list to the participant's service types on the claims to determine only eligible services were claimed;
 - obtained and reviewed CPUC's CTF Participant Report to verify the participants were approved for the CTF program; and
 - verified the participants' eligibility start and end dates on the CTF Participant Report, to assess whether the participants were eligible for the CTF discount during the audit period.

We did not audit Level 3 and CenturyLink's financial statements. Our audit scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance that Level 3 and CenturyLink's claims from the CTF program were accurate, properly supported, incurred for eligible participants, services, and activities; and whether Level 3 and CenturyLink applied the applicable CTF discount to eligible participants, in accordance with the applicable PU Code sections, CPUC decisions, and other applicable CTF program rules, regulations, and requirements. We considered Level 3 and CenturyLink's internal controls only to the extent necessary to plan the audit and achieve our audit objectives.

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

Conclusion

Based on the procedures performed, samples tested, and evidence gathered, we found that Level 3 and CenturyLink's claims from CTF were accurate, properly supported, incurred for eligible participants, services, and activities; and Level 3 and CenturyLink applied the applicable CTF discount to eligible participants in compliance with applicable PU Code sections, CPUC decisions, resolutions, and applicable criteria as outlined in this report for the audit period of July 1, 2022, through June 30, 2023.

Follow-up on Prior Audit Findings

We have not previously conducted an audit of Level 3 and CenturyLink's CTF program claims within the last ten years. Furthermore, Level 3 and CenturyLink did not identify any prior engagements that are significant within the context of our audit objectives that would require us to determine if appropriate corrective actions have been taken to address potential findings and recommendations.

Views of Responsible Officials

We discussed the audit results with Level 3 and CenturyLink representatives at an exit conference held on March 26, 2025. At the exit conference, we stated that the final report will include the views of responsible officials. Because there were no audit findings requiring a response, we are issuing the report as final.

Restricted Use

This audit report is intended solely for the information and use of Level 3 and CenturyLink and CPUC; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and will be available on the CPUC website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division