



# CALIFORNIA TELECONNECT FUND PERFORMANCE AUDIT

U.S. TelePacific Corporation and MPower  
Communications Corp. (U-5721-C and U-5859-C)

July 1, 2022, through June 30, 2023

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
June 12, 2025



## **MEMBERS OF THE TEAM**

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**A digital copy of this report can be found at:**

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**You can contact our office at:**

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Utility Audits, Risk and Compliance Division  
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## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
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Transmitted via e-mail

June 12, 2025

Shaun Andrews  
Chief Executive Officer  
U.S. TelePacific Corporation and MPower Communications Corporation  
303 Colorado Street, Suite 2075  
Austin, TX 78701

Dear Shaun Andrews:

**Final Report Transmittal Letter—Audit of U.S. TelePacific Corporation and MPower Communications Corporation'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 program claims reported by U.S. TelePacific Corporation (US TelePacific) and MPower Communications Corporation (MPower) for the period of July 1, 2022, through June 30, 2023. The final audit report is enclosed.

US TelePacific and MPower provided an email response on May 27, 2025, agreeing with the audit findings. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](#).

A Corrective Action Plan (CAP) addressing the findings and recommendations are required. US TelePacific and MPower's response to the draft audit report included some information on corrective actions planned. If US TelePacific and MPower have further detailed CAP information including specific steps and target dates to correct the findings identified, please submit the CAP by July 28, 2025, which is 45 calendar days from the issuance of this final audit report to: [UtilityAudits@cpuc.ca.gov](mailto:UtilityAudits@cpuc.ca.gov).

We appreciate US TelePacific and MPower's assistance and cooperation during the engagement, and its willingness to implement corrective actions. 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

Shaun Andrews, Chief Executive Officer  
U.S. TelePacific Corporation and MPower Communications Corporation  
June 12, 2025  
Page 2

cc: Johann Lim, Chief Accounting Officer, TPx  
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# TABLE OF CONTENTS

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EXECUTIVE SUMMARY .....	1
AUDIT REPORT	
Background .....	2
Audit Authority.....	4
Objective and Scope .....	4
Methodology .....	4
Conclusion.....	7
Follow-up on Prior Audit Findings .....	7
Views of Responsible Officials.....	8
Restricted Use .....	8
FINDINGS AND RECOMMENDATIONS .....	9

## EXECUTIVE SUMMARY

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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 U.S. TelePacific Corp. (US TelePacific) and MPower Communications Corp. (MPower) for the audit period of July 1, 2022, through June 30, 2023.

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

Based on the procedures performed, samples tested, and evidence gathered, we found instances of noncompliance with requirements for the audit period July 1, 2022, through June 30, 2023. The instances are described in Findings and Recommendations section of this audit report. The audit findings are summarized as follows:

- **Finding 1: Overclaimed CTF Program Funds Totaling \$7,581 for Ineligible Participants**  
US TelePacific overclaimed and was reimbursed \$7,581 from CTF for ineligible participants during the audit period.
- **Finding 2: Overbilled Service Totaling \$3,336 Due to Inaccurately Applied CTF Discount**  
US TelePacific overbilled its participants for CTF-eligible services totaling \$3,336 due to not correctly computing and applying the CTF discount.
- **Finding 3: Failure to Provide Supporting Documentation**  
US TelePacific did not provide all the supporting documentation requested. Therefore, we were unable to verify whether the claimed monthly recurring charges (MRC) for US TelePacific and MPower were accurate.

We issued a draft report on May 14, 2025. US TelePacific and MPower' responded by email dated May 27, 2025, agreeing with the audit results.



## AUDIT REPORT

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### 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. 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.

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 monthly recurring charges (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 California<sup>1</sup>.

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.

#### **U.S. TelePacific Corporation and MPower Communications Corporation**

U.S. TelePacific Corporation (US TelePacific) was founded in 1998 in California as a competitive local exchange carrier. U.S. TelePacific dba TPx Communications shifted its services to include other IT services. US TelePacific is Headquartered in Austin, Texas. MPower Communications Corp. (MPower) is a leading facilities-based broadband communications provider offering a full range of data, telephony, internet access and network services for retail business and wholesale customers in California, Nevada, and Illinois. US TelePacific acquired MPower in 2006. Both US TelePacific and MPower offer CTF services in California and operate as independent carriers.

US TelePacific claimed \$3,192,270 but was reimbursed a total of \$3,232,948, due to prior year adjustments of \$54,615 (\$17,954 in April 2023 + \$36,661 in June 2023) and a disallowance of \$13,937 in May 2023, from the CTF during the audit period of July 1, 2022, through June 30, 2023. US TelePacific had approximately between 480 – 650 participants per month, of which some participants had services at multiple locations. Claims for reimbursement are summarized in Table 1 below:

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<sup>1</sup> Effective April 1, 2023, pursuant to D.22-10-021.

Table 1. US TelePacific Claim Information During Audit Period

<b>Claim Period</b>	<b>Claimed Amount</b>	<b>Reimbursed Amount</b>	<b>Variance</b>
July 2022	\$ 424,742	\$ 424,742	\$ -
August 2022	408,005	408,005	-
September 2022	309,030	309,030	-
October 2022	286,250	286,250	-
November 2022	242,609	242,609	-
December 2022	254,019	254,019	-
January 2023	240,087	240,087	-
February 2023	240,142	240,142	-
March 2023	232,832	232,832	-
April 2023	223,151	241,105	17,954
May 2023	219,367	205,430	(13,937)
June 2023	112,036	148,697	36,661
Total	<u>\$ 3,192,270</u>	<u>\$ 3,232,948</u>	<u>\$ 40,678</u>

MPower claimed and was reimbursed a total of \$10,528 from the CTF during the audit period of July 1, 2022, through June 30, 2023. MPower had approximately between 3-5 participants per month. Claims for reimbursement are summarized in Table 2 below:

Table 2. MPower Claim Information During Audit Period

<b>Claim Period</b>	<b>Claimed Amount</b>	<b>Reimbursed Amount</b>
July 2022	\$ 1,444	\$ 1,444
August 2022	1,056	1,056
September 2022	1,056	1,056
October 2022	1,056	1,056
November 2022	1,056	1,056
December 2022	1,056	1,056
January 2023	669	669
February 2023	669	669
March 2023	669	669
April 2023	599	599
May 2023	599	599
June 2023	599	599
Total	<u>\$ 10,528</u>	<u>\$ 10,528</u>



## **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 objectives were to determine whether US TelePacific and MPower's claims from CTF were accurate, properly supported, incurred for eligible participants, services and activities; and whether US TelePacific and MPower applied the applicable CTF discount to the eligible participants, 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's rules, regulations, and requirements.

The scope of our audit covered US TelePacific and MPower's claims from the CTF totaling \$3,192,270 and \$10,528, respectively, for the audit period of July 1, 2022, through June 30, 2023.

## **Methodology**

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

We conducted a risk assessment, including evaluating whether US TelePacific and MPower'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 US TelePacific and MPower'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 US TelePacific and MPower's background information including its policies and procedures to gain an understanding of the nature of the utility and its responsibility over CTF program.
- Reviewed prior audits reports and determined there were prior findings significant to our audit objectives, which are discussed in the prior audit findings section of this report.

- Assessed significance by performing analyses of reimbursement claims data and evaluating program requirements.
- Obtained an understanding of US TelePacific and MPower’s key internal controls relevant to CTF program, such as reviewing its processes over reimbursement claims and participant billings and discounts, 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 US TelePacific and MPower’s policies and procedures, and specifically assessing the recording and reporting of CTF claims data;
  - performing walkthroughs of the reimbursement claims; and
  - tracing selected transactions to source documents.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Selected July 2022, May 2023, and June 2023 claims totaling \$424,742, \$219,367, and \$112,036, respectively, for US TelePacific; within these three months, haphazardly selected 60 unique participants out of approximately 650 total participants to perform substantive testing procedures; however, all participants were not claimed in each month, as shown in Table 3 below:

Table 3. US TelePacific Claims Selected for Testing

<b>Months Selected</b>	<b>Claimed Amount</b>	<b>Percent of Total Claims</b>	<b>Participants Selected</b>	<b>Percent of Total Participants</b>
July 2022	\$ 424,742	13.3%	56	8.6%
May 2023	219,367	6.9%	41	6.3%
June 2023	112,036	3.5%	31	4.8%
Total Sampled	\$ 756,145	23.7%	60*	
Total Claimed**	<u>\$3,192,270</u>		<u>650</u>	

\* Haphazardly selected 60 of 650 unique participants identification numbers but each month tested did not include all selected participants.

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

- Selected July 2022 and May 2023 claims totaling \$1,444 and \$599 respectively for MPower; and selected three participants from each of the two months out of approximately five total participants to perform testing procedures, as shown in Table 4 below:

Table 4. MPower Claims Selected for Testing

<b>Months Selected</b>	<b>Claimed Amount</b>	<b>Percent of Total</b>	<b>Participants Selected</b>	<b>Percent of Total Participants</b>
July 2022	\$ 1,444	13.7%	3	60.0%
May 2023	599	5.7%	3	60.0%
Total Sampled	<u>\$ 2,043</u>	<u>19.4%</u>		
Total Claimed*	<u><u>\$ 10,528</u></u>		<u><u>5</u></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
    - requested the E-rate supporting documentation for eligible participants to identify the approved federal discount amounts;
    - recalculated the total monthly CTF claimed amounts submitted to CPUC for reimbursement to verify the claimed amounts were accurate;
    - obtained the service order contracts for the selected participants to verify the monthly recurring charges (MRC) claimed amounts were accurate; and
    - recalculated the CTF amounts claimed for the selected participants to verify the claimed amounts were accurate.
  - Ensuring discounts (E-rate and CTF) were properly applied
    - traced the approved E-rates support amount to the reimbursement claims to identify any disparity in the percentages; 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 is correcting to verify the adjustment is applied to the correct service month;
    - obtained the participants' bills and service contract to verify the correct MRC and CTF discount amount was applied; and
    - recalculate the adjustment amount to verify accuracy.
  - Verifying eligible services and participants were claimed

- obtained and reviewed service provider's list of offered services to verify the services were CTF eligible;
- 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 US TelePacific and MPower's financial statements. Our audit scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance that US TelePacific and MPower's claims from CTF were accurate, properly supported, incurred for eligible participants, services, and activities; and to determine whether US TelePacific and MPower applied the applicable CTF discount to eligible participants, in accordance with the applicable PU Code sections, CPUC decisions, and other applicable CTF program's rules, regulations, and requirements. We considered US TelePacific and MPower'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 instances of noncompliance with requirements for the audit period of July 1, 2022, through June 30, 2023. These instances are described in the Findings and Recommendations section of this audit report.

We also identified deficiencies in internal control that are significant to the audit objectives and warrant the attention of US TelePacific and MPower's management. These deficiencies are also described in the Findings and Recommendations section of this audit report.

## Follow-up on Prior Audit Findings

Our prior CTF examination report of US TelePacific issued on December 30, 2013, and the supplementary information issued on January 27, 2015, disclosed audit findings, which were significant within the context of our audit. Specifically, US TelePacific did not provide CTF discounts to some of its CTF-eligible customers for CTF-eligible services, provided CTF discounts on 13 ineligible services and for 1 ineligible participant, reported inaccurate information for 7 CTF-eligible customers, included CPUC User Fee in calculating the CTF discount, and the CTF discount was not properly supported by its detailed billing records. Some of the issues identified in these prior reports relate to both Findings 1 and 2 of this audit report.

We have not previously conducted an audit of MPower's CTF program claims within the last ten years. Furthermore, MPower 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 issued a draft report on May 14, 2025. US TelePacific and MPower responded by email dated May 27, 2025, agreeing with the audit results.

## Restricted Use

This audit report is intended solely for the information and use of US TelePacific, MPower, 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 is available on the CPUC website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

*Angie Williams*

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Angie Williams, Director  
Utility Audits, Risk and Compliance Division

## FINDINGS AND RECOMMENDATIONS

### Finding 1: Overclaimed CTF Program Funds Totaling \$7,581 for Ineligible Participants

#### Condition:

US TelePacific overclaimed and was reimbursed \$7,581 (\$5,976 + \$857+\$748) from the CTF program for including ineligible participants in its reimbursement claims for the period of July 1, 2022, through June 30, 2023. Specifically, US TelePacific claimed ineligible service locations not approved by CPUC, listed the wrong application number, and claimed a participant beyond the end of eligibility date, as outlined in Table 5 below:

Table 5. Ineligible Participants Claimed

Description of Errors	Participants Overclaimed	Overclaimed Amount
Ineligible Service Location	2	\$ 5,976
Wrong Application Number	1	857
Ineligible Participant	1	748
Total	4	\$ 7,581
Total Participants Selected	60	

Specifically, US TelePacific overclaimed \$5,976 for services provided at two unapproved locations for two of the 60 selected participants for the audit period. A CBO participant with a CTF-ID must request the CTF discount for specific geographic locations where services are provided pursuant to D.15-07-007 as such only the approved specific geographic locations are eligible for the CTF discount. However, US TelePacific claimed for services at locations that were not an approved geographic location as listed on the CPUC's Participant Report. Therefore, \$5,976 claimed from CTF for the period of July 1, 2022, through June 30, 2023, is ineligible.

In addition, US TelePacific overclaimed \$1,605 (\$857 + \$748) from CTF for two ineligible participants for the audit period. US TelePacific claimed \$857 for a participant whose name approved on CPUC's Participant Report, associated with the application number claimed on the reimbursement claims, did not match the name on supporting documentation provided. US TelePacific was unable to provide documents supporting any name changes or affiliations between the name claimed and the name in the Participant Report. Additionally, US TelePacific claimed \$748 for an ineligible participant whose eligibility ended August 1, 2022, but was claimed for the entire month of August 2022.

As a result of claiming unapproved locations and ineligible participants, US TelePacific overclaimed \$7,581 from the CTF program during the audit period:

#### Criteria:

Decision 15-07-007, Appendix A, states, in part, that:

#### Section 4, bullet 7

Each CBO must have: Provides services directly to individuals at specific geographic locations.

**Section 9, bullets 1 and 3**

“Digital Transmission Services” generally refer to data links that connect multiple points using any available technology. An eligible digital transmission service may be used to connect an eligible location.... A wireless Internet access service designated for portable electronic devices is eligible if used for the intended goals of the CTF program at a CTF eligible location and is the sole method to deliver Internet Access to a mobile device at that location.

CTF Service Providers Manual, version 4, states, in part, that:

**Section 5.B.2**

Verify the eligibility status of the participant and/or service address by referencing the CTF Participant Report. Within that report, refer to the Eligibility Start Date and Eligibility End Date to determine the periods during which a participant is/was eligible. Service providers can only apply CTF discounts to services provided on or after a participant’s Eligibility Start Date and on or prior to the participant’s Eligibility End Date.

**Section 7**

Upon recertifying a participant, the CTF program will send the participant a new Approval Letter and assign the participant a unique CTF-ID number for each service address that is eligible to receive the discount. IMPORTANT NOTE: Participant with one or more CTF-ID are eligible to receive the discount only at the service address associated with the CTF-ID.

Appendix B: Instructions for Claim Worksheet, provide guidance on completing the claims correctly.

**Cause:**

US TelePacific stated that it did not have adequate staff to ensure that only eligible participants received the CTF discount during the audit period. US TelePacific stated it has subsequently implemented a process that will mitigate these issues going forward by hiring additional staff and implementing a review process beginning May 2023. US TelePacific indicated it inadvertently claimed \$7,581 in ineligible participants due to human error; for example, the participants were carried over from previous reimbursement claims.

During the audit period, US TelePacific lacked adequate review process to ensure that:

- Only eligible participants within their eligibility window and approved service locations were claimed.
- Errors from previous claims did not carry over, and inaccurate claims reporting to CPUC did not occur.

**Effect:**

As the CTF program is funded by ratepayers, US TelePacific has the fiduciary duty to ensure that the funds are utilized as intended, for eligible participants, eligible services, and for approved geographic locations. When the funds are used on ineligible participants, the errors adversely affect availability of funds allocated to support local communities or other eligible participants.



**Recommendations:**

US TelePacific should strengthen its review process to ensure that:

- Only eligible participants within their eligibility window and approved service locations are claimed.
- Errors from previous claims do not carry over, and claims reported to CPUC are accurate.

US TelePacific should also remit \$7,581 for overclaimed CTF funds due to ineligible participants back to the CPUC and work with CPUC's CD to reimburse the appropriate amount.

**Finding 2: Overbilled Services Totaling \$3,336 Due to Inaccurately Applied CTF Discount****Condition:**

US TelePacific overbilled its participants for CTF-eligible services totaling \$3,336 due to not accurately computing and applying the CTF discount. Specifically, US TelePacific applied the incorrect statewide average E-rate percent, the incorrect E-rate discount and/or did not apply the CTF discount on the participants' bills.

Table 6 below summarizes the total overbilled and incorrectly applied CTF discounts for the audit period:

Table 6. Overbilled and Incorrectly Applied CTF Discount

Description of Errors	Participants Overbilled	Amount Overbilled	Overclaimed from CTF
Omitted CTF Discount on Bills	1	\$ 1,652	\$ 1,652
Incorrect Statewide Average E-rate	13	984	-
Incorrect Federal E-rate Applied*	2	95	-
Omitted Federal E-rate*	1	605	-
Total	17	\$ 3,336	\$ 1,652
Total Participants Selected	60		

\* US TelePacific subsequently corrected the participants' bills totaling \$95 and \$605 after the audit period on the July 2023 bills.

Specifically, US TelePacific overbilled \$1,652 to a participant by not applying the CTF discount on one of 60 selected participants' bills. Further inquiry revealed that US TelePacific did not apply the full CTF discount from July through November 2022 for internet services provided for this participant. US TelePacific billed the affected participant the full MRC for services provided but claimed and was reimbursed from CTF for the same full costs. Additionally, this participant disconnected services in December 2022. Therefore, US TelePacific overbilled the eligible participant a total of \$1,652 for eligible services rendered and, since the CTF discount was never applied to the participant's bill, overclaimed from the CTF program the same amount.

Furthermore, US TelePacific overbilled 13 participants \$984 due to applying the incorrect statewide average E-rate. We initially selected July 2022, May 2023, and June 2023, and noted that US TelePacific applied the incorrect statewide average E-rate of 73 percent instead of the correct 2022-2023 statewide

average E-rate of 72 percent for 13 of 60 selected participants. We, therefore, expanded testing for the 13 participants with an incorrect statewide average E-rate to all 12 months in the audit period. Our testing found US TelePacific applied the incorrect statewide average E-rate from July 2022 through February 2023 resulting in approximately \$984 overbilling to the participants.

Additionally, US TelePacific overbilled \$95 for not applying the federal approved E-rate percentage in May 2023 reimbursement claims for two of 60 selected participants. US TelePacific applied the federal approved E-rate for July 2022 and June 2023, however, US TelePacific incorrectly applied the statewide average E-rate for May 2023. The discounts are computed at 50 percent CTF discount applied to the MRC balance for eligible services after applying the federal E-rate discount first, which resulted in overbilling to the two participants in May 2023 totaling \$95. US TelePacific corrected this error after our audit period.

Lastly, US TelePacific overbilled \$605 for not applying the approved federal E-rate percentage for one of the 60 selected participants. Further inquiry revealed that this participant was approved for a federal E-rate of 60 percent at the beginning of school year 2022-2023; however, US TelePacific used the incorrect statewide average E-rate to calculate the CTF discount for December 2022 and January 2023. The participant subsequently disconnected services in February 2023 and US TelePacific made corrections in its April and May 2023 reimbursement claims. However, the corrections were based on the incorrect CTF discount calculation that was originally calculated using the statewide average E-rate of 72 percent and not the approved federal E-rate of 60 percent, which resulted in \$605 overbilling to the participant. US TelePacific corrected this error after our audit period.

**Criteria:**

PU Code 884.5 states, in part, that:

- (a) This section shall apply to all customers eligible to receive discounts for telecommunications services under the federal Universal Service E-rate program administered by the Schools and Libraries Division of the Universal Service Administrative Company that also apply for discounts on telecommunications services provided through the California Teleconnect Fund Administrative Committee Fund program pursuant to subdivision (a) of Section 280.
- (b) A teleconnect discount shall be applied after applying an E-rate discount. The commission shall first apply an E-rate discount, regardless of whether the customer has applied for an E-rate discount or has been approved, if the customer, in the determination of the commission, meets the eligibility requirements for an E-rate discount.

CPUC D.96-10-066 established the CTF program to provide discounts on selected telecommunications services to qualified participants, such as schools.

Resolution T-17314 states, in part, that:

Federal funding or subsidy given to California Teleconnect Fund (CTF) participants for their CTF-eligible services shall first be taken into account prior to applying the CTF discount.

Resolution T-17666 states, in part, that:

Telecommunications carriers offering services with the CTF discount are directed to apply the discount to the recurring charges on a participant's monthly bill. After applying the discount,

carriers are required to file claims for reimbursement of the discount with the Communications Division.

Administrative Letter No. 10B states, in part, that:

Requires that service providers must first apply the federal E-rate discount awarded to the participant, or Commission's statewide average E-rate discount, prior to applying the CTF discount on CTF-eligible services

CTF Service Providers Manual, version 4, states, in part, that:

### **Section 5**

Service providers must provide the discount within monthly recurring invoices prior to submitting claims for reimbursement to the CTF program. Monthly invoices to participants should list CTF discounts as separate line items and indicate a total amount payable that is net of CTF discount for the billing period.

### **Section 5.D**

CTF support is adjusted to account for E-rate support for all participants in the following categories: Public Schools, Private School, and Libraries. This rule applies to all participants in these categories, including those that do not participate in the E-rate program...(i) This adjustment requires the CTF discount of 50% apply only to the balance of eligible charges remaining after (actual or statewide average) E-rate support.

Federal Communications Commission, Telecommunications Act of 1996, Title 47, section 54.501, Eligible Recipients, states, in part, that:

29. We concur with the Joint Board's recommendation to provide schools and libraries with discounts on all commercially available telecommunications services, Internet access, and internal connections. This program provides schools and libraries with the maximum flexibility to purchase the package of services they believe will meet their communications needs most effectively.

### **Cause:**

US TelePacific stated that it did not have adequate staff to ensure that participants received the correct CTF discount on their billing invoices during the audit period. US TelePacific stated it has subsequently implemented a process that will mitigate these issues going forward by hiring additional staff and implementing a review process beginning May 2023. However, during the audit period, US TelePacific lacked adequate policies and procedures to ensure that:

- The correct statewide average E-rate was verified prior to preparing and submitting the reimbursement claims.
- The approved federal E-rate percentage was verified prior to applying the E-rate discount.
- The approved federal E-rate is consistently applied for the period in which the rate was approved unless otherwise amended by the Universal Service Administrative Company (USAC).

**Effect:**

US TelePacific has a responsibility to ensure participants receive accurate CTF discounts and are billed accurately for CTF-eligible services. However, the lack of proper controls over billing and/or claims preparation processes resulted in the following:

- The intended recipients of CTF discount or support, such as local communities, public schools, libraries, etc., did not receive the full discount they were entitled to receive. As a result, participants paid more for the CTF-eligible services.
- Ratepayer-contributed CTF funds were underclaimed or overbilled and not fully utilized for its intended purposes of supporting local communities or eligible participants with discounted internet access services.
- Although individual errors were immaterial and US TelePacific made some corrections during and after the audit period; the cumulative effect of having such errors in computing the CTF discounts occurring routinely could lead to material differences significant to each participant over time.

**Recommendations:**

US TelePacific should develop and implement adequate policies and procedures over its billing and claims preparation process to ensure that:

- The correct statewide average E-rate is verified prior to preparing and submitting the reimbursement claims.
- The approved federal E-rate percentage is verified prior to applying the E-rate discount.
- The approved federal E-rate is consistently applied for the period in which the rate was approved unless otherwise amended by USAC.

US TelePacific should also remit \$1,652 for overpaid CTF funds back to CPUC and work with CPUC CD to reimburse the appropriate amount.

**Finding 3: Failure to Provide Supporting Documentation****Condition:**

US TelePacific did not provide some of the requested documentation related to our selection of participants' service contracts and bills selected to verify MRC. We selected participants from three out of 12 months, July 2022, May 2023, and June 2023 for US TelePacific, and selected participants from two out of 12 months, July 2022 and May 2023 for MPower, to verify all MRCs claimed. US TelePacific did not provide adequate documentation as follows:

- US TelePacific provided some but not all supporting documentation for 11 participants from the selected months to verify whether the CTF discount was properly applied to all claimed services or the contracts provided did not support the claimed MRCs.
- MPower provided some but not all the supporting documentation for 3 participants from the selected months to verify whether the CTF discount was properly applied. MPower did provide the participants bills; but the bills did not distinguish between US TelePacific provided

services and MPower services. Additionally, the services claimed in MPower's reimbursement claims were not listed in the bills provided.

**Criteria:**

PU Code section 582 (a), states, in part, that:

Whenever required by the commission, every public utility shall deliver to the commission copies of any or all maps, profiles, contracts, agreements, franchises, reports, books, accounts, papers, and records in its possession or in any relating to its property or affecting its business, and also a complete inventory of all its property in such form as the commission may direct.

CTF Service Provider Manual, version 4, section 4.C.7, states, in part, that:

Requirements for service provider participation in the CTF program also include...Provide documentation or information requested by the CTF program and the CPUC Communications Division, including Data Requests and other inquiries.

Generally Accepted Account Principles (GAAP) states, in part, that:

...when submitting a claim for reimbursement, all expenses should be properly documented, categorized, and supported by receipts or other verifiable evidence.

**Cause:**

US TelePacific stated that it could not find the documentation because some of the contracts were very old. After the exit conference, US TelePacific clarified the exact time frame of these contracts, however, some contracts that were not provided were within its informal retention policy of 10 years for documents stored in Microsoft Office 365, SharePoint, and similar office platforms. However, US TelePacific stated that this policy is not documented.

**Effect:**

Lack of supporting documentation and transparency in the claimed MRCs affects the ability to verify whether the claimed or reported information was accurate, such as whether US TelePacific and MPower properly applied the CTF discount to their participants' MRCs. Additionally, lack of documentation increases the likelihood of potential overpayments or misuse of CTF funds. Ratepayers contribute to the CTF program with the understanding that only eligible services are provided, and the costs of those services are accurately computed and properly accounted for and documented, which cannot be clearly ascertained without supporting documentation.

**Recommendations:**

To ensure consistent retention of supporting documentation, US TelePacific should:

- Develop and implement a written record retention policy outlining its retention procedures in accordance with PU Code section 582 and CTF Service Provider Manual to ensure supporting documents are maintained consistently and are readily retrievable.
- Adhere to its policies and procedures to ensure all CTF program documents are accounted for or properly maintained in accordance with PU Code section 582 and CTF Service Provider Manual.