



Examination Report: California Teleconnect Fund Compliance Examination of XO Communications



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EXAMINATION REPORT

Independent Accountants' Report

California Public Utilities Commission
San Francisco, California

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

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

Our examination disclosed a material noncompliance from the required compliance guidelines as XO did not properly claim the E-rate discount prior to applying the CTF discount for their customers that are schools. Not properly applying the E-rate discount prior to the CTF discount resulted in XO over claiming funds from the CPUC for the CTF program.

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

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



Crowe Horwath LLP

San Francisco, CA
July 9, 2013

Project Overview

Executive Summary

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

This reporting package cumulates our efforts and includes:

- Examination Report
 - Independent Accountants' Report
- Project Overview
 - An Executive Summary
 - Introduction
 - The California Teleconnect Fund Program
 - Background on XO
 - Examination Purpose and Scope
 - Description of Sampling Methodology
 - List of Records Examined
 - Summary of Procedures Applied
 - Findings and Recommendations
- Appendix A – Carrier Responses

This reporting package consists of two separate sections. The first section in the reporting package (Examination Report) consists of a report regarding an examination conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants solely related to program costs and cost related activities for the period of July 1, 2009 through June 30, 2010. The second section (Project Overview) provides information and background on the project as requested by the CPUC. This section also includes exceptions and recommendations noted during our CTF compliance testing procedures.

Our overall procedures for this engagement included testing:

1. Timeliness of claims
2. Completeness of the format and mathematical accuracy of claims
3. Reasonableness of tariffed and nontariffed CTF eligible service rates including bundled and unbundled services
4. Determining CTF discount was only applied to eligible organizations and services
5. Accuracy of CTF discount provided to customers including proper application of E-rate
6. Accuracy and proper application of CTF payments from the CPUC

Our specific procedures performed for this engagement are provided in more detail in the **Summary of Procedures Applied** section.

California Teleconnect Fund
XO Communications

During our procedures, we noted several exceptions related to XO's compliance with the CTF program. These observations are included in the ***Findings and Recommendations*** section of this reporting package. We have provided below a summary of our key findings.

Finding Reference	Summary of Finding	Monetary Impact to CTF program
1	E-rate discount was not applied prior to applying the CTF to any of the 14 schools claimed as CTF customers (Section 884.5 of the Public Utilities (PU) Code).	Overpayment of \$48,765 by CPUC
2	XO's twelve CTF monthly claim forms for 2009-10 did not include a Rate Report as required (Administrative Letter 17).	None
3	XO's twelve CTF monthly claim forms for 2009-10 were not in the format required due to the use of outdated "Customer Type" identifications (Administrative Letter 17).	None
4	XO did not provide the customers with the CTF discount for all eligible services (Resolution T-16763).	None
5	XO claimed the CTF discount on the Auto Attendant service which is an ineligible service (Decision 08-06-020).	Overpayment of \$426 by CPUC
6	XO provided customer credits to 8 customers after applying the CTF discount (Decision 96-10-066).	Overpayment of \$2,558 by CPUC
7	Amounts claimed on the CTF claim forms were different than the amounts supported by the billing records for 8 customers (Decision 96-10-066).	Overpayment of \$3,783 by CPUC
8	Four customers were reported on the CTF claim form with an inaccurate "Customer Type" identification which did not match the identification per CPUC records (Administrative Letter 17).	None
9	XO provided certain customer discounts to customers after applying the CTF discount (Decision 96-10-066).	Overpayment of \$7,518 by CPUC
Total Amount of Overpayments		\$ 63,050

Introduction

On October 25, 1996, the California Public Utilities Commission (“CPUC”) established the California Teleconnect Fund (“CTF”) program by enacting Decision 96-10-066. The CPUC designed the CTF program to facilitate increased access to voice and data communications services to qualified participants by providing a discount on their service rates.

Accordingly, the CTF program provides a 50% discount on select telecommunications and Internet access services to a range of eligible organizations. These organizations consist of public libraries, K-12 public and private schools, California community colleges (“CCCs”), government-owned hospitals and health clinics, community based organizations (“CBOs”), and California Telehealth Networks (“CTN”).

The CTF program operates by reimbursing telecommunications carriers that provide a discount on services to CTF-eligible organizations. As such, the CPUC periodically conducts audits of CTF carriers, pursuant to California Public Utilities Code Sections 274 and 314. Carriers should keep important information, such as pricing, tax, surcharge, E-rate percentages, and other CTF-claim related information, on a per customer, per service basis, readily available for at least five (5) years in accordance with the Public Utilities Commission of the State of California General Order No. 28.

In 2012, the CPUC contracted with Crowe Horwath LLP (“Crowe”) to conduct an examination on XO Communications’ (“XO”) compliance with the CTF program for the period of July 1, 2009, through June 30, 2010 (the “engagement period”). Crowe conducted its examination of XO in late 2012 and early 2013, in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) under the direction of CPUC’s Division of Water and Audits (“DWA”).

The format of this document is as follows:

- Examination Report
 - Independent Accountant’s Report
- Project Overview
 - Executive Summary
 - Introduction
 - The California Teleconnect Fund Program
 - Background on XO
 - Examination Purpose and Scope
 - Description of Sampling Methodology
 - List of Records Examined
 - Summary of Procedures Applied
 - Findings and Recommendations
- Appendix A – Carrier Responses

The California Teleconnect Fund (CTF) Program

As noted above, Decision 96-10-066, issued in 1996 by the CPUC, established the CTF program. The CTF program allows eligible public libraries, K-12 public and private schools, California community colleges, government-owned hospitals and health clinics, and California Telehealth Networks participants to receive a 50% discount on select telecommunication and internet access services.

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

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

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

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

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

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

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

California Teleconnect Fund
XO Communications

The Federal government also provides eligible entities (Schools, Libraries and CBOs that offer the Head Start program) a similar discount on eligible telecommunications charges (known as the education rate, “E-rate”, or the Universal Service Fund). E-rate discounts can range from 20% to 70%. The CTF discount should be applied to eligible charges after the application of the E-rate discount. (It should be noted that a library or school must apply for the E-rate discount, but if a library or school did not apply for the E-rate discount or if their application is pending, the carrier must first apply the statewide average E-rate discount which currently is 70% before applying the CTF discount).

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

The CPUC adopted changes to CTF reimbursement claim protocol, and to the claim form, on December 5, 2008 in Administrative Letter 17. Administrative Letter 17 specifies that each reimbursement claim -- a multi-tab, Excel workbook -- should include a cover letter; a claim form; a customer report; a services report; a service rate report, and a variance report. And each of these tabs has required data elements, such as customer names, categories, and CTF application numbers for the customer report. Claims filed during FY 2009-10 should follow the revised claim reimbursement protocol and utilize the revised claim form.

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

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

5. **Resolution T-16742** complied with portions of SB 1863 – intended to provide educational institutions, health care institutions, community-based organizations and governmental institutions with access to advanced telecommunications services – by equalizing the CTF discount available to all program participants at 50%, and added hospital district owned-and-operated health clinics to the list of qualifying entities.
6. **Resolution T-16763** shortened the time frame for telecommunications carriers to file reimbursement claims from the CTF from two years forty-five days to one year forty-five days from the end of the month for which the claim is made; revised the format of the CTF claim worksheet; ordered carriers to discount services to CTF customers upon notification of customer eligibility and prior to submitting reimbursement claims; adopted rules that carriers may impose on E-rate customers who wish to also receive CTF discounts; specified when carrier claims will be eligible for interest and provides direction for carriers wishing to claim interest; and eliminated the filing of adjustment claims except in specified circumstances.
7. **Administrative Letter No. 15** dated December 1, 2006 implemented in part the PU Code Section 884 setting aside funds on a first come, first serve basis for nonrecurring installation costs for high-speed broadband services for eligible community organizations.
8. **Senate Bill 1102** added section 884.5 to the PU Code including a provision requiring carriers to first apply the Federal actual or statewide average E-rate discount – regardless of whether the customer has applied for or been approved – prior to applying the CTF discount to certain eligible services subscribed to by schools and libraries. (**Administrative Letter 10B** provides further clarification on the application of the E-Rate discount and application procedure.)
9. **Administrative Letter No. 11** dated February 1, 2006 revised the CTF claim procedure through a simplified claim form supported by new variance and management reporting.
10. **Resolution T-17142** issued on April 24, 2008 reduced the CTF surcharge rate from 0.130% to 0.079%.
11. **Rulemaking 06-05-028** involved a comprehensive review of the Telecommunications Public Policy Programs, including the CTF, which led to Decision 08-06-020.
12. **Decision 08-06-020** directed several key changes to the CTF program including: an expansion of CTF-eligible services; the removal of CTF tariff requirements for all carriers providing CTF-eligible services on a detariffed or non-regulated basis; the inclusion of CCCs, CTN participants and non-profit CBOs; a cap on total CTF discounts received by CCCs; and allowed partnering in the CTF program between Internet Service Providers (“ISPs”) and registered telecommunications carriers.
13. **Administrative Letter No. 17** dated December 5, 2008 made additional revisions to the claim form established by Administrative Letter No. 11 including: reformatting to present the claims per customer group and per fiscal year in a table; adding CCCs as customer groups; disclosing important information concerning the funding limitations for CTF

discounts received by CCCs; and dividing schools and libraries into two separate customer groups.

14. **Resolution T-17314** adopted a policy requiring that Federal Communications Commission program support or discounts be deducted from the CTF service charges incurred by eligible non-profit CBOs and rural health care providers prior to computing the CTF discount.

Background on XO

XO Communication Services (“XO”) is a wholly-owned subsidiary of XO Holdings, Inc., a privately-held Delaware corporation with its principal executive offices in Herndon, Virginia. Founded in 1996, XO is a facilities-based, telecommunications company that provides voice, data and Internet Protocol (“IP”) services to small and medium-sized business, large enterprises, government, cable TV companies, content providers, telecommunications companies and wireless service providers.

XO uses its nationwide IP network, extensive local metropolitan networks and broadband wireless facilities to offer a broad portfolio of services. Core services include products using next generation IP technologies and transport services, and include broadband services and integrated/voice services.

XO’s customers are located in more than 85 major metropolitan markets across the United States and 50 countries. Its customers include more than 50% of the Fortune 500 and many of the largest telecommunications, mobile wireless and cable companies, and its annual revenue exceeds \$1.5 billion.

During our examination period (FY 2009-10), XO provided telecommunications services to 84 different CTF customers (i.e. 84 unique application numbers). These customers consisted entirely of schools and CBOs. XO’s CTF claims totaled \$449,000 during the examination period.

Engagement Purpose and Scope

Purpose

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

In conjunction with our examination, CPUC provided two main objectives for this project. These objectives were as follows:

Objective number 1 required the development of procedures to determine compliance with the Commission’s directives related to:

- The timeliness of XO’s CTF claims

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

Objective number 2 required the development of procedures to test the accuracy of CTF discounts given to customers and resulting reimbursements claimed against the CTF by the carriers.

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

Scope

As discussed above, our examination period covered July 1, 2009 through June 30, 2010. Our population consisted of all customers included in XO's monthly claims to the CPUC. XO filed no adjustment claims pertaining to our examination period.

During the examination period, XO submitted reimbursement claims for 84 unique customers (as measured by application numbers) consisting of 70 CBOs and 14 schools. In total, these customer claims included a total of 1,510 customer service lines for the period of July 1, 2009 through June 30, 2010. We selected a sample of 60 customer services for testing (i.e. each selection represented a unique customer and month). If a customer monthly claim involved multiple invoices (i.e. multiple locations are invoiced separately under the same customer number) all invoices for that customer were included as part of our testing.

Description of Sampling Methodology

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

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

It is important to note that sampling is one of many techniques designed to provide sufficient appropriate examination evidence to support the accountant's compliance opinion. An accountant often does not rely solely on the results of any single type of procedure to obtain sufficient appropriate evidence on compliance. Rather, conclusions may be based on evidence

obtained from several sources and by applying a variety of testing procedures. Combined evidence obtained from the various types of procedures to determine whether there is sufficient appropriate evidence to provide an opinion on compliance.

Based on a statistically valid sample, our sampling methodology is designed to provide a high level of assurance (90 - 95%) in accordance with the AICPA Audit Guide's guidance on Sampling.

List of Records Obtained

Records obtained for our XO testing procedures included:

- The twelve (12) monthly claims obtained from the CPUC that were filed by XO during the examination period
- CPUC's CTF Claim Tracking
- Tariff service rate documents
- Service revenue report for nontariffed customers – This report detailed service charge rates for non-CTF customers for the same services provided to CTF customers within our sample
- Detailed electronic data reports provided by XO that support each customer's CTF discount on every monthly claim. These data reports included each CTF customer's
 - application number
 - organization name
 - account number
 - service description
 - service quantities
 - unit price of service
 - exchange billing surcredit or surcharge, if applicable.
 - toll billing surcredit or surcharge, if applicable.
 - access billing surcredit or surcharge, if applicable.
 - E-rate discount
 - CTF discount after E-rate
 - CPUC User Fee
 - 911 Tax
 - Federal Excise Tax
 - local tax
 - monthly claim amount for each organization and service claimed
- The crosswalk provided by XO between XO's specialized communications services and the CPUC's list of CTF-eligible services
- XO's tariffed rate schedules obtained from XO that correspond to the examination period
- 60 customer invoices and payment support from XO for each customer-month included in the sample selection made by Crowe
- Canceled checks to confirm customer payments for the 60 sampled invoices
- XO Bank Statements that contained CPUC payments for the CTF program

Summary of Procedures Applied

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

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

The second phase involved on-site visits to XO during the weeks of November 5, 2012 and January 28, 2013. During the on-site visits, Crowe conducted an entrance conference with XO to confirm the scope and extent of our procedures, and requested documentation. We tested a sample of claims and their supporting invoices with respect to the CTF-eligibility of organizations and services including bundled services; tariffed rates and non-tariffed prices; application of the E-rate; and the adequacy and accuracy of reimbursement claims.

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

Objective 1: Compliance with the CTF's Administrative Directives

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

Approach

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

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

Approach

We tested each monthly claim filed during the engagement period to determine if the claim was prepared in conformity with the Commission's directives and contained all required elements. For each claim, we then tested whether the claim was filed on the CPUC approved Claim Form and the claim form was complete. We additionally tested that XO had properly filed all the annual Customer Report and Service Report as required by Administrative Letter 17. Finally, we tested if the Rate Report and/or Guidebook was properly included with the claims filed during the engagement period.

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

Approach

For each customer selected, we tested if the customer was approved to receive the CTF discount and that the discount was provided to the customer only after the CPUC's approval date. We tested CPUC's approval dates for the 84 unique CTF-customers, as listed on the CPUC's website, to determine whether CPUC approval occurred prior to XO's provision of any CTF discount.

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

Approach

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

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

Approach

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

6. Determine whether the carriers are in compliance with the CPUC's directives, PU Code 884, and administrative letter 10b and 14, with respect to applying the E-rate discount before providing and claiming CTF discounts. Test claims supporting detail to determine if E-rate

discount was properly applied. Obtain Form 486 per customer from Carrier and Verify the E-rate applied was properly supported by Form 486.

Approach

For each school selected for testing, we tested whether XO properly applied the E-rate discount to customer's bills prior to calculating the CTF discount. Since, during our examination period, none of XO customers had an approved E-rate, we tested that XO used the California statewide average rate as promulgated by the CPUC at the time of the billing.

Objective 2: Accuracy of the CTF Reimbursement Claims

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

Approach

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

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

Approach

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

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

Approach

We compared the final, calculated CTF discount to the amount claimed on the CTF claim. If there was an underpayment or overpayment, we calculated the interest due to / from XO as required by regulations.

Findings and Recommendations

In planning and performing our examination of XO Communications' (XO) compliance with the rules, regulations, and requirements of the California Teleconnect Fund (CTF) Program solely related to program costs and cost related activities related to services provided during the fiscal year ended June 30, 2010, we noted several items that we felt should be reported to CPUC management.

This section of our report provides a listing of these findings that we noted during our testing procedures.

Finding 1: E-rate discount

Condition

XO's detailed billing support for its CTF monthly claims showed that XO did not apply the E-rate discount prior to applying the CTF to any of the 14 schools claimed as CTF customers during the period of July 1, 2009 through June 30, 2010.

Criteria

Revised Administrative Letter 10B (dated June 1, 2006) notes that Senate Bill 1102 (Statutes of 2004, Chapter 227) added Section 884.5 to the Public Utilities (PU) Code. The section, which became operative on January 1, 2006, includes the provision that "(b) A teleconnect discount shall be applied after applying the E-rate discount. The Commission shall first apply the E-rate discount, regardless of whether the customer has applied for the E-rate discount or has been approved, if the customer, in the determination of the commission, meets the eligibility requirements for the E-rate discount."

Administrative Letter 10B goes on to state that if the "CTF participant that has not filed for E-rate that the current statewide average E-rate discount should be applied before applying the CTF discount to CTF- eligible services".

Cause

XO stated that they were not aware of the requirement to apply the E-rate discount to E-rate eligible customers that had not been approved in the E-rate program. XO stated that they would have applied the E-rate discount had they received appropriate notification (Form 486) from the Universal Service Administrative Company (the federal E-rate administrator) informing them of an individual customer's E-rate eligibility.

Effect

Because the E-rate discount was not applied prior to the application of the CTF discount, the CTF discount that XO provided to its school customers was overstated, and thus its CTF reimbursement by the CPUC was overstated. Based on the detail billing support, this overpayment by the CPUC to XO was \$48,765 during the engagement period.

Recommendation

XO should review the requirements of Administrative Letter 10B and begin applying the 70% state average E-rate discount to CTF reimbursement claims. In addition, XO should determine the impact that not applying the E-rate discount prior to the CTF had on the CTF program from

June 1, 2006 through the most recent claim filed as of the date of this report. XO should discuss the CTF overpayments as a result of this finding with the CPUC to determine the best course of action related to the overpayments to ensure that they are properly refunded to the CTF program fund. XO should also consider informing their school and library customers of the E-rate discount and recommend that they formally apply to the E-rate program.

Management Response

XO agrees with the finding that XO did not apply the E-rate discount prior to applying the CTF to any of the fourteen (14) schools claimed as CTF customers during the period of July 1, 2009 through June 30, 2010. Upon notification of the revised calculation method, XO immediately changed its discount calculation method for schools that receive the CTF discount from XO but do not receive federal E-Rate funding. The calculation changes were reflected beginning with the October 2012 customer invoices for the CTF Claim submitted in early November. Prior to that time, XO has no record of receiving Administrative Letter 10B from the CPUC and the claims forms that it had submitted did not indicate such revised calculation methodology was to be used.

XO has contacted the 14 current schools impacted by this change of policy. XO has explained to these customers why their CTF discount has been reduced and they have been encouraged to apply for federal E-Rate funding. Correspondence sent to these customers encourages them to contact XO with any questions.

Finding 2: CTF Claim Rate Reports

Condition

XO's twelve (12) CTF monthly claim forms for 2009-10 did not include a Rate Report as required by the CPUC. As a consequence, XO did not provide a list of its detariffed services, nor did it provide a link to an online Guidebook, which are both required elements to be included on the Rate Report. The CTF monthly claim forms follow a prescribed format and contain required data elements set out by the CPUC in Administrative Letter 17. XO's 12 CTF monthly claims did not include the required Rate Report. Additionally, XO informed Crowe that some CTF-eligible services became detariffed as of April 2010, so for at least three (3) claim forms XO had detariffed services and prices that it did not communicate to the CPUC. As a consequence, XO did not provide a list of its detariffed services, nor did it provide a link to an online Guidebook, which are both required elements to be included on the Rate Report.

Criteria

CPUC CTF Administrative Letter 17 outlines the method for submitting CTF claims. Under the "Rate Report & Guidebook" section, the letter states that "the rate (monthly recurring charge) of any de-tariffed or unregulated service that receives the CTF discount must either be listed within the Rate Report and/or a Guidebook. If the carrier chooses to report the information via a Guidebook, the Guidebook must be made available to the CPUC as part of the claim submission. In order to do so, the carrier should disclose the URL address (on the Rate Report) of an online version of the Guidebook. The Guidebook should be archived in a fashion that allows the CD to retrieve pricing information for a specific month for up to 5 years."

Administrative Letter 17 also states that, "Every claim submission is required to include a Rate Report for each fiscal year claimed".

Cause

XO stated they were not aware of the Rate Report requirement contained in CTF Administrative Letter 17.

Effect

XO did not report required CTF components to the CPUC related to their detariffed services. Therefore, CPUC could not properly analyze XO's detariffed services and whether the rates for these detariffed services were reasonable.

Recommendation

XO should review Administrative Letter 17 and ensure that they are compliant with all rules and requirements of that letter. XO should also consider developing a CTF claim procedure guide that includes the requirements of Administrative Letter 17 to provide instructions for XO to prepare and submit monthly CTF claims.

Management Response

XO agrees that twelve (12) CTF monthly claim forms for 2009-10 did not include a Rate Report as required by the CPUC. As a consequence, XO did not provide a list of its detariffed services, nor did it provide a link to an online Guidebook. Upon notification by Crowe Horwath of Administrative Letter 17 regarding the Rate Report requirement for CTF Claims, XO reviewed the Administrative Letter and updated its monthly claim procedure to include the Rate Report tab on the Excel file sent to the CPUC.

XO has no record of receiving the Administrative Letter 17 Claims Guide, dated 12/5/08. XO had been using a prior version of the claim form, which did not include the Rate Report tab. Until XO became aware that the Rate Report tab was missing from its claim file template, XO submitted a monthly CTF Discount claim file to the CPUC without the Rate Report. No claims were ever denied by the CPUC due to absence of a Rate Report, nor did a representative from the CPUC ever contact XO to request a Rate Report before paying a claim.

Finding 3: Customer Reports

Condition

The Customer Reports in XO's twelve (12) CTF monthly claim forms for the engagement period contained an outdated "Customer Type" format. Rather than identify CTF-eligible customers as Schools, Libraries, Community Colleges, Government Hospitals & Health Clinics, or Community Based Organizations as currently required by the CPUC, XO used an older list of categories, including Non Profit Private School, Private School, School and Libraries, School and Libraries/Private, Hospital, and Community Based Organizations. The CTF monthly claim forms follow a prescribed format and contain required data elements set out by the CPUC. XO's 12 CTF monthly claims did not use the "Customer Type" format required during our engagement period by the CPUC.

Criteria

The CTF Claim Form provided by the CPUC as part of Administrative Letter 17 (dated December 5, 2008) includes a Customer Report tab that delineates customers into the following five categories: Schools, Libraries, Community Colleges, Gov. Hospitals & Health Clinics, and Community Based Organizations.

Cause

XO personnel were not aware of the revised categories listed under CTF Administrative Letter 17.

Effect

XO's use of the older customer categories limits the ability for the CPUC to analyze the customer data provided to determine that those customers receiving CTF discounts are CTF-eligible customers.

Recommendation

XO should review Administrative Letter 17 and ensure that they are compliant with all rules and requirements of that letter. XO should also consider developing a CTF claim procedure guide that includes the requirements of Administrative Letter 17 to provide instructions for XO to prepare and submit monthly CTF claims.

Management Response:

XO agrees that twelve (12) CTF monthly claim forms for the engagement period contained an outdated "Customer Type" format. XO used an older list of categories for some CTF- discount customers. However, XO has no record of receiving the Administrative Letter 17 Claims Guide, dated 12/5/08. Upon notification by Crowe Horwath of the requirements in Administrative Letter 17, XO has revised its CTF claim procedure guide to include the revised customer categories.

Although the 'Customer Reports' tab on XO's monthly CTF claim listed some CTF-discount customers under the old Customer Type categories (e.g. Non-Profit Private School), the 'Claim Form' and 'Service Report' tabs of XO's monthly CTF claim correctly listed all CTF-discount customers under the correct categories (e.g. 'Schools', 'Libraries', 'Community Based Organizations').

Prior to notification by a representative of Crowe Horwath that the 'Customer Reports' tab included incorrect or outdated categories, XO continued to submit a monthly CTF Discount claim file to the CPUC using some outdated categories on the 'Customer Reports' tab. No claims were ever denied by the CPUC due to incorrect customer categories, nor did a representative from the CPUC ever contact XO to require resubmission of a claim using the updated categories.

Finding 4: CTF Discount on Eligible Services not provided to Customers

Condition

Some customers did not receive CTF discount on eligible services provided by XO. During our testing, it was noted that for four (4) of the sixty (60) invoices sampled, the CTF discount was not provided to the customers for following services:

California Teleconnect Fund
XO Communications

1. True Business Incremental Line (2 Yr)
2. True Business TC Voice Package (3 Yr)
3. XOP Flex Additional T1
4. True Business TC Voice Package (2 Yr)

The four customers noted above were Community Based Organizations (CBOs).

Criteria

Per Resolution T-16763, "The discount for qualified CBOs effective June 8, 2003 shall be 50% for measured business service, switched 56, Integrated Services Digital Network (ISDN), T-1 service, DS-3 and up to OC 192 or their functional equivalents."

Cause

Based on inquiry with XO, it was noted that this was due to human error on part of the order entry personnel. Specifically, order entry personnel had not specified in the billing system that the above service line items for the four (4) customers should be provided the CTF discount. It was noted during our procedures, that these service entries are not reviewed for accuracy.

Effect

XO's system did not calculate the CTF discount on these service line items specifically for these customers. Thus, the customers, even though eligible for CTF discount on these services, were charged 100% of the service rate. XO's system requires services discounts to be applied to each customer and would not necessarily be system-wide based on the service. Therefore, the errors noted in this finding relate specifically to these 4 customers and would not necessarily relate to all customers receiving these services. Since, the customer never received the discount and XO never claimed a discount for these services to the CPUC, there is no monetary effect on the CTF program.

Recommendation

We recommend that the XO implement a review process to ensure that the work of the data entry personnel is reviewed by an independent authority in order to mitigate data entry errors. Further, the review process should specifically identify CTF eligible services and indicate those services as such to help ensure that eligible CTF customers are properly receiving their CTF discount.

Management Response:

XO agrees that some customers did not receive CTF discount on eligible services provided by XO. XO's data collection and analysis methods used to prepare the monthly CTF claim were updated in 2011. The new, updated methods provide more accurate visibility regarding monthly recurring charges and subsequent CTF discounts that are charged to CTF-eligible customers. Each month when the claim file is prepared, the CTF administrator analyzes each customer's discount amount, compares it to the amount of eligible monthly recurring charges, and determines if corrections are needed. Thus, data entry errors as illustrated in Finding Number 4 are captured and corrected as needed.

Finding 5: Ineligible service claimed

Condition

XO's detailed billing support for its CTF monthly claims showed that it claimed the CTF discount on an ineligible service, Auto Attendant. XO claimed the Auto Attendant service as part of their Internet Access Services. This service and a CTF discount was provided to two CTF customers (application numbers 1298 and 1424) during the engagement period. Specifically, XO applied a CTF discount to their customer invoices and claimed from the CPUC a discount of \$426 on this ineligible service.

Criteria

Decision 08-06-020 (June 12, 2008) expands the list of services eligible for the CTF program adopted in Resolution T-16742 (May 8, 2003) to include Internet access services. This decision discusses the types of internet access services allowable under the CTF program to include DSL, cable broadband and wireless Internet services.

Cause

This matter was due to a manual error made by XO's billing department when setting up the service codes as CTF and non-CTF eligible.

Effect

Improper identification of services as CTF eligible services increases the likelihood that CTF discounts could be claimed on these services thus resulting in overpayments made by the CPUC. This observation resulted in overpayments made by the CPUC in the amount of \$426.

Recommendation

XO should remove the Auto Attendant service from subsequent CTF claims and review their entire list of CTF eligible services to ensure that all services listed are truly CTF eligible. If questions arise on a specific service, XO should seek written clarification from the CPUC on that service. XO should also discuss the CTF overpayments as a result of this finding with the CPUC to determine the best course of action related to the overpayments to ensure that they are properly refunded to the CTF program fund.

Management Response:

XO agrees that it inadvertently claimed the CTF discount on an ineligible service, Auto Attendant for two customers. Upon notification that Auto Attendant was included in customers' CTF discount calculation, XO's IT billing group was notified immediately to correct the issue. IT billing confirmed that Auto Attendant was not currently included as an eligible service for the CTF discount in our billing systems. To the best of XO's knowledge, the inclusion of Auto Attendant was a temporary error that occurred for a limited period in or about 2009. During 2Q 2013, IT Billing provided a comprehensive list of products that are currently discounted by the CTF discount offer code. This list has been reviewed by the CTF Administrator to ensure that no items are included that are not considered eligible for CTF discount by the CPUC.

Finding 6: Customer credits

Condition

XO's detailed billing support for its CTF monthly claims showed that XO provided customer credits to CTF customers after applying the CTF discount. Specifically, we noted that the XO applied credits after applying the CTF discount to 8 customers during the engagement period. Thus, these customers paid less than 50% of the cost of their CTF-eligible services.

Criteria

Decision 96-10-066, Appendix B, "Adopted Universal Service Rules" (October 25, 1996) sets the precedent for incorporating customer discounts and credits prior to applying the CTF discount. Section 8E states that "Carriers who provide the above-referenced [qualified CTF] entities with those discounted [CTF] services shall receive a subsidy for each qualified entity that it serves. The subsidy amount shall be: (1) the difference between the tariffed rate for businesses for such services, and the tariffed discount rate; or (2) if the rate negotiated is below the tariffed discount rate, the carrier shall be entitled to the sum that represents the percentage discount off of the negotiated rate." Consequently, the CTF discount is placed on the negotiated rate with the customer rather than on the gross service rate.

Cause

The billing set-up is standard in XO's billing system to apply customer credits after the CTF discount is applied.

Effect

Applying credits after applying the CTF discount could result in the customer receiving a credit in excess of the amount they actually paid for the eligible services. As a result of this item, the CTF program was overbilled by \$2,558.

Recommendation

XO should apply all customer discounts and credits prior to applying the CTF discount in accordance with the requirements. Specifically, XO should modify the billing system to have the system take all credits, discounts, and adjustments prior to calculating the CTF discount. XO should also discuss the CTF overpayments as a result of this finding with the CPUC to determine the best course of action related to the overpayments to ensure that they are properly refunded to the CTF program fund.

Management Response:

XO agrees that it provided customer credits to eight (8) CTF customers after applying the CTF discount. The majority of the 8 customers that were found to have other discounts applied after the CTF discount were billed out of a legacy system that was updated sometime after the 2009 funding year to ensure that the CTF discount calculated only after all other discounts were calculated. The eight accounts that were found to have this issue received a rarely-used discount that has since been updated to calculate before the CTF discount. After Crowe Horwath's second onsite visit (in late January, 2013), the IT Billing group reviewed all active discounts in the XO billing systems and confirmed again that the system calculates the CTF discount only after all other applicable discounts are calculated.

Finding 7: Claimed Amounts not supported by Billing Records

Condition

During our testing, we noted that 8 customers had an amount claimed on the CTF claim form that was different than amounts supported by their detailed billing records. In total, these differences resulted in overpayments made by the CPUC in the amount of \$3,783.

Criteria

Decision (D.) 96-10-066 states that the CTF eligible customers can receive a 50% discount on CTF eligible services received. Sound internal controls over compliance dictate that amounts reported should be supported by documentation and reconcile to accounting records.

Cause

These differences were the result of errors made during the manual process of preparing the monthly CTF claim.

Effect

Having amounts claimed to the CPUC that do not reconcile to underlying data increases the likelihood that amounts claimed to the CPUC are not correct and that CPUC could make overpayments to that carrier. This item resulted in CPUC making overpayments to XO in the amount of \$3,783.

Recommendation

We recommend that XO implement a procedure to complete a reconciliation each month in conjunction with the completion of their monthly CTF claim form to reconcile the amounts reported on the claim to the amounts reported in their detailed billing records by customer. XO should also discuss the CTF overpayments as a result of this finding with the CPUC to determine the best course of action related to the overpayments to ensure that they are properly refunded to the CTF program fund.

Management Response:

XO agrees that eight (8) customers had an amount claimed on the CTF claim form that was different than amounts supported by the customers' detailed billing records. XO's key administrator of the CTF Discount changed in 2011. Beginning in 2011, more precise guidelines, calculation methods, record keeping and reconciliation processes were enacted to ensure that any amount on monthly claims can be matched back to supporting data. An up-to-date process document was recently created to outline each step of the CTF discount administration process.

Finding 8: Inaccurate Customer Classifications

Condition

Four XO customers had an inaccurate classification on the monthly CTF claim forms. Specifically, when we compared the classification of an organization per CPUC records to that of the classification XO listed for that customer on their claim form, we noted that one customer was listed as a "Hospital" but should have been listed as a "CBO" and three customers were listed as "CBOs" but should have been listed as "Schools".

Criteria

The CTF Claim Form provided by the CPUC as part of Administrative Letter 17 (dated December 5, 2008) includes a Customer Report tab that delineates customers into the following five categories: Schools, Libraries, Community Colleges, Gov. Hospitals & Health Clinics, and Community Based Organizations.

Cause

This matter was a human error due to the manual process of completing the monthly CTF claim form.

Effect

Improperly classifying customers increases the likelihood that an ineligible customer could be claimed and also increases the likelihood that an E-rate eligible customer did not have their E-rate discount applied prior to the CTF discount. This observation did not impact eligible CTF customers since these four customers were deemed CTF eligible.

Recommendation

We recommend that XO cross-reference the classification used for each customer on their CTF claim form back to the CPUC CTF eligible customer database to ensure that the right customer classification is being utilized.

Management Response

XO agrees that four XO customers received inaccurate classification on the monthly CTF claim forms. A change in personnel has resulted in more precise guidelines, calculation methods, record keeping and reconciliation processes to ensure that existing customer data is correctly classified and that new customers are cross-referenced on the approved applicants' lists on the CPUC website. An up-to-date process document was recently created to outline each step of the CTF discount administration process, including the instruction to verify on the CPUC website the 'Customer Type' of each new or newly-approved CTF discount customer.

Finding 9: Improper Application of Customer Discounts

Condition

XO's detailed billing support for its CTF monthly claims showed that XO provided customer discounts to CTF customers after applying the CTF discount. Specifically, we noted that XO applied XOptions-related discounts after applying the CTF discount on 11 customer claims (5 unique customers) out of the sample of 60 during the engagement period. Thus, these customers paid less than 50% of the cost of their CTF-eligible services.

Criteria

Decision 96-10-066, Appendix B, "Adopted Universal Service Rules" (October 25, 1996) sets the precedent for incorporating customer discounts and credits prior to applying the CTF discount. Section 8E states that "Carriers who provide the above-referenced [qualified CTF] entities with those discounted [CTF] services shall receive a subsidy for each qualified entity that it serves. The subsidy amount shall be: (1) the difference between the tariffed rate for businesses for such services, and the tariffed discount rate; or (2) if the rate negotiated is below

the tariffed discount rate, the carrier shall be entitled to the sum that represents the percentage discount off of the negotiated rate.” Consequently, the CTF discount is placed on the negotiated rate with the customer rather than on the gross service rate.

Cause

The billing set-up is standard in XO’s billing system to apply XOptions-related discounts after the CTF discount is applied.

Effect

Applying additional discounts after applying the CTF discount means that these customers paid less than 50% of the cost of their CTF-eligible services. From the sample of 60 customer claims, the CTF program was overbilled by \$984. Analyzing the entire customer population from the detailed billing reports provided by XO for customers receiving XOptions-related discounts during the examination period indicates that the CTF program was potentially overbilled by a total of \$7,518.

Recommendation:

XO should apply all customer discounts and credits prior to applying the CTF discount in accordance with the requirements. Specifically, XO should modify the billing system to have the system take all credits, discounts, and adjustments prior to calculating the CTF discount. XO should also discuss the CTF overpayments as a result of this finding with the CPUC to determine the best course of action related to the overpayments to ensure that they are properly refunded to the CTF program fund.

Management Response

XO agrees that it inadvertently provided customer discounts to CTF customers after applying the CTF discount. Specifically, XO applied XOptions-related discounts after applying the CTF discount on 11 customer claims (5 unique customers). After Crowe Horwath’s second onsite visit (in late January, 2013), XO’s IT Billing group reviewed all active discounts in the XO billing systems to ensure that the system calculates the CTF discount only after all other applicable discounts are calculated. It appears that some of XO’s legacy billing systems were initially not updated to implement this calculation method, but all systems have now been modified accordingly.

Appendix A – Carrier Responses

XO Communications CPUC External Audit: Management Responses to Audit Findings

Finding 1: E-Rate Discount

XO agrees with the finding that XO did not apply the E-rate discount prior to applying the CTF to any of the fourteen (14) schools claimed as CTF customers during the period of July 1, 2009 through June 30, 2010. Upon notification of the revised calculation method, XO immediately changed its discount calculation method for schools that receive the CTF discount from XO but do not receive federal E-Rate funding. The calculation changes were reflected beginning with the October 2012 customer invoices for the CTF Claim submitted in early November. Prior to that time, XO has no record of receiving Administrative Letter 10B from the CPUC and the claims forms that it had submitted did not indicate such revised calculation methodology was to be used.

XO has contacted the 14 current schools impacted by this change of policy. XO has explained to these customers why their CTF discount has been reduced and they have been encouraged to apply for federal E-Rate funding. Correspondence sent to these customers encourages them to contact XO with any questions.

Finding 2: CTF Claim Rate Reports

XO agrees that twelve (12) CTF monthly claim forms for 2009-10 did not include a Rate Report as required by the CPUC. As a consequence, XO did not provide a list of its detariffed services, nor did it provide a link to an online Guidebook. Upon notification by Crowe Horwath of Administrative Letter 17 regarding the Rate Report requirement for CTF Claims, XO reviewed the Administrative Letter and updated its monthly claim procedure to include the Rate Report tab on the Excel file sent to the CPUC.

XO has no record of receiving the Administrative Letter 17 Claims Guide, dated 12/5/08. XO had been using a prior version of the claim form, which did not include the Rate Report tab. Until XO became aware that the Rate Report tab was missing from its claim file template, XO submitted a monthly CTF Discount claim file to the CPUC without the Rate Report. No claims were ever denied by the CPUC due to absence of a Rate Report, nor did a representative from the CPUC ever contact XO to request a Rate Report before paying a claim.

Finding 3: Customer Reports

XO agrees that twelve (12) CTF monthly claim forms for the engagement period contained an outdated "Customer Type" format. XO used an older list of categories for some CTF-discount customers. However, XO has no record of receiving the Administrative Letter 17 Claims Guide, dated 12/5/08. Upon notification by Crowe Horwath of the requirements in Administrative Letter 17, XO has revised its CTF claim procedure guide to include the revised customer categories.

Although the 'Customer Reports' tab on XO's monthly CTF claim listed some CTF-discount customers under the old Customer Type categories (e.g. Non-Profit Private School), the 'Claim Form' and 'Service Report' tabs of XO's monthly CTF claim *correctly* listed all CTF-discount customers under the correct categories (e.g. 'Schools', 'Libraries', 'Community Based Organizations').

Prior to notification by a representative of Crowe Horwath that the 'Customer Reports' tab included incorrect or outdated categories, XO continued to submit a monthly CTF Discount claim file to the CPUC using some outdated categories on the 'Customer Reports' tab. No claims were ever denied by the CPUC due to incorrect customer categories, nor did a representative from the CPUC ever contact XO to require resubmission of a claim using the updated categories.

Finding 4: CTF Discount on Eligible Services not provided to Customers

XO agrees that some customers did not receive CTF discount on eligible services provided by XO. XO's data collection and analysis methods used to prepare the monthly CTF claim were updated in 2011. The new, updated methods provide more accurate visibility regarding monthly recurring charges and subsequent CTF discounts that are charged to CTF-eligible customers. Each month when the claim file is prepared, the CTF administrator analyzes each customer's discount amount, compares it to the amount of eligible monthly recurring charges, and determines if corrections are needed. Thus, data entry errors as illustrated in Finding Number 4 are captured and corrected as needed.

Finding 5: Ineligible Service claimed

XO agrees that it inadvertently claimed the CTF discount on an ineligible service, Auto Attendant for two customers. Upon notification that Auto Attendant was included in customers' CTF discount calculation, XO's IT billing group was notified immediately to correct the issue. IT billing confirmed that Auto Attendant was not currently included as an eligible service for the CTF discount in our billing systems. To the best of XO's knowledge, the inclusion of Auto Attendant was a temporary error that occurred for a limited period in or about 2009. During 2Q 2013, IT Billing provided a comprehensive list of products that are currently discounted by the CTF discount offer code. This list has been reviewed by the CTF Administrator to ensure that no items are included that are not considered eligible for CTF discount by the CPUC.

Finding 6: Customer Credits

XO agrees that it provided customer credits to eight (8) CTF customers after applying the CTF discount. The majority of the 8 customers that were found to have other discounts applied after the CTF discount were billed out of a legacy system that was updated sometime after the 2009 funding year to ensure that the CTF discount calculated only after all other discounts were calculated. The eight accounts that were found to have this issue received a rarely-used discount that has since been updated to calculate before the CTF discount. After Crowe Horwath's second onsite visit (in late January, 2013), the IT Billing group reviewed all active discounts in the XO billing systems and confirmed again that the system calculates the CTF discount only after all other applicable discounts are calculated.

Finding 7: Claimed Amounts not supported by Billing Records

XO agrees that eight (8) customers had an amount claimed on the CTF claim form that was different than amounts supported by the customers' detailed billing records. XO's key administrator of the CTF Discount changed in 2011. Beginning in 2011, more precise guidelines, calculation methods, record keeping and reconciliation processes were enacted to ensure that any amount on monthly claims can be matched back to supporting data. An up-to-date process document was recently created to outline each step of the CTF discount administration process.

Finding 8: Inaccurate Customer Classifications

XO agrees that four XO customers received inaccurate classification on the monthly CTF claim forms. A change in personnel has resulted in more precise guidelines, calculation methods, record keeping and reconciliation processes to ensure that existing customer data is correctly classified and that new customers are cross-referenced on the approved applicants' lists on the CPUC website. An up-to-date process document was recently created to outline each step of the CTF discount administration process, including the instruction to verify on the CPUC website the 'Customer Type' of each new or newly-approved CTF discount customer.

Finding 9: Improper Application of Customer Discounts

XO agrees that it inadvertently provided customer discounts to CTF customers after applying the CTF discount. Specifically, XO applied XOptions-related discounts after applying the CTF discount on 11 customer claims (5 unique customers). After Crowe Horwath's second onsite visit (in late January, 2013), XO's IT Billing group reviewed all active discounts in the XO billing systems to ensure that the system calculates the CTF discount only after all other applicable discounts are calculated. It appears that some of XO's legacy billing systems were initially not updated to implement this calculation method, but all systems have now been modified accordingly.