

Supplementary Information to the California Teleconnect Fund Compliance Examination of CallTower Inc. dated April 8, 2014

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



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January 27, 2015

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Transmittal Letter

California Public Utilities Commission
San Francisco, California

Please find attached Crowe Horwath LLP's (Crowe) consulting report on the potential subsequent impact of certain findings reported in an examination report, dated April 8, 2014, on CallTower Inc.'s (CallTower's) compliance with the rules, regulations, and requirements of the California Teleconnect Fund (CTF) Program solely related to program costs and cost related activities for the program year ended June 30, 2010. This consulting report addresses the potential impact of these findings on the CTF program for the program years ended June 30, 2011 and June 30, 2012.

Based on Crowe's analysis:

1. CallTower failed to demonstrate compliance with Resolution T-16742, Senate Bill 1102, Decision 08-06-020, and Resolution T-17314. Specifically, CallTower submitted CTF claims to the CPUC in excess of what was allowed under the applicable CTF rules.

Due to the non-compliance noted above, \$119,913 of over payments were made by the CTF program for the program year ended June 30, 2011, and \$19,153 of under payments were made for the program year ended June 30, 2012.

A summary of the over/under payments by program year is provided in Attachment A of this report. Crowe recommends that CallTower refund the net amount of \$100,760 to the CTF program.

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

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



Crowe Horwath LLP

Executive Summary

As a result of the following non-compliance, CallTower, Inc. (CallTower) was reimbursed for over-claimed California Teleconnect Fund (CTF) program costs by \$119,913 for the program year ended June 30, 2011, and under-claimed CTF program costs of \$19,153 for the program year ended June 30, 2012.

1. CallTower failed to demonstrate compliance with Resolution T-16742, Senate Bill 1102, Decision 08-06-020, and Resolution T-17314. Specifically, CallTower submitted CTF claims to the CPUC in excess of what was allowed under the applicable CTF rules.

Accordingly, CallTower should refund to the CTF program the net amount of \$100,760 for the over claimed amounts.

Brief Background

The California Public Utilities Commission (CPUC) contracted with Crowe Horwath LLP (Crowe) to conduct an examination on CallTower's compliance with the rules, regulations, and requirements of the CTF Program solely related to program costs and cost related activities related to services provided (herein referred to as the examination report) for the program year ended June 30, 2010 (herein referred to as the examination period). Crowe examined CallTower's compliance with the applicable requirements of the CTF program solely related to program costs and cost related activities associated to services provided during the program year ended June 30, 2010. On April 8, 2014, Crowe issued its examination report regarding CallTower's compliance. This report contains the results of consulting services performed by Crowe to determine the monetary impact of the findings noted in the examination report to the program years ended June 30, 2011 and June 30, 2012.

Scope

The examination report noted a total of seven (7) findings related to CallTower's compliance with the CTF program requirements for the program year ended June 30, 2010. Three (3) of these findings had monetary impacts to the CTF program. Per the CPUC's request, Crowe analyzed these three findings (as shown below) for the program years ended June 30, 2011 and June 30, 2012.

1. CallTower failed to demonstrate compliance with Resolution T-16742, Senate Bill 1102, Decision 08-06-020, and Resolution T-17314. Specifically, CallTower submitted CTF claims to the CPUC for the period July 1, 2009 to June 30, 2010 in excess of amounts that should have been claimed under the applicable CTF rules.
2. CallTower failed to demonstrate compliance with Decision 96-10-066. CallTower claimed the CTF discount on an ineligible service, "Conference Phone."
3. CallTower failed to demonstrate compliance with Resolution T-16763. Specifically, CallTower claimed CTF discounts in excess of the amount of the discount actually provided to one of its school customers.

Objectives

Crowe's objectives in analyzing the findings are to:

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

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

Methodology

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

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

- 'Compiled Post Billings 2010-2012', which contains CTF customer service quantities and service prices, E-rates, CPUC User Fees, and recalculated CTF discounts for each CTF customer across the respective years;
- 'Compiled CTF Claims 2010-2012', which contains the CTF monthly claims submitted by the carrier over the two fiscal years;
- 'CTF reimbursements and recalculations', which compare the recalculated CTF discounts for each customer against the CTF reimbursements claimed on the CTF monthly claims and then summarize the overclaims.

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

1. A random selection of sixteen (16) CTF customer invoices spanning both program years, as well as a random selection of four (4) CTF customer invoices for a single customer (Application #6924) pertaining to Finding 3 under the "Scope" section above from CallTower;
2. Copies of CallTower's CTF monthly claims from the CPUC.

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

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

1. For each invoice selected for testing, Crowe tested services and service prices by comparing the amount billed for eligible services to those used in the datafiles.
2. Crowe tested the Excel formulas that CallTower used to recalculate the CTF discounts, looking to identify anomalies that might indicate problems with CallTower's data and/or errors in CallTower's methodology.
3. Crowe tested that the CTF claim amounts that CallTower used in calculating the CTF over claims were the same as those in the CTF monthly claims provided by the CPUC.

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

Results of Procedures

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

- 1) CallTower over claimed \$119,913 in reimbursements from the CTF Program for FY 2010-11; and
- 2) CallTower under claimed \$19,153 in reimbursements from the CTF Program for FY 2011-12.

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

Finding 1: Pervasive Errors in CTF Claims

Examination Report - CallTower submitted CTF claims to the CPUC for the examination period in excess of amounts that should have been claimed under the applicable CTF rules and regulations. Specifically, during our testing of CTF claims, Crowe noted numerous differences between the amount of CTF discount claimed by CallTower and the amount of CTF discount that was calculated based on the rules and regulations of the CTF program. Due to the large amount of unexplained differences, Crowe requested that CallTower recalculate 100 percent of its CTF customer discounts during the examination period.

2011 and 2012 Analysis - CallTower agreed that errors in the CTF claims also existed during the program years 2011 and 2012. Crowe's analysis shows that a recalculation of 100 percent of CallTower's CTF customer discounts resulted in an over claim of \$119,912.57 for FY 2010-11 and an under claim of \$19,152.52 for FY 2011-12.

CallTower recalculated its CTF claims and summarized over claims for program years 2011 and 2012 in a 'Compiled Post Billings 2010-2012' file and a 'CTF reimbursements and recalculations' file. The 'Compiled Post Billings 2010-2012' file contained recalculations of each customer's CTF monthly discount using CallTower's service quantities, service prices, and E-rate discounts. The 'CTF reimbursements and recalculations' file contained the total over-claimed amounts by comparing the CTF calculated monthly discounts from the 'Compiled Post Billings 2010-2012' file to what CallTower actually claimed in CTF reimbursements from the CPUC.

Crowe selected a sample of customer invoices to test the accuracy of the service quantities, service prices and E-rates. Crowe also tested the Excel formulas that CallTower used to recalculate the CTF discounts. For the 'CTF reimbursements and recalculations' file, Crowe checked that the CTF monthly claim amounts were the same as those in the CTF monthly claims provided by the CPUC.

Finding 2: Ineligible Service Claimed

Examination Report - Crowe's testing of the recalculated claim files provided by CallTower for the examination year indicated that the carrier claimed the CTF discount on an ineligible service during the examination year. This ineligible service was "Conference Phone."

2011 and 2012 Analysis - Crowe's analysis of the 'Compiled Post Billings 2010-2012' file provided by CallTower did not show any customer receiving the service "Conference Phone" for program years 2011 and 2012. Consequently, no CTF reimbursements were claimed by the carrier for this service.

Finding 3: CTF Claim in Excess of Discount Provided

Examination Report - Crowe's testing of the recalculated claim files provided by CallTower for the examination year indicated that for one customer (CTF application #6924) the carrier claimed CTF discounts in excess of the amount of the discount actually provided to the customer. Any claim submitted by CallTower is limited to the amount of discount actually provided to the customer.

2011 and 2012 Analysis – Crowe selected a sample of four invoices for this customer to test the accuracy of the service quantities, service prices and E-rates contained in the 'Compiled Post Billings 2010-2012' file. Crowe checked that the CTF monthly discounts for the customer in the file were the same as those on the invoices and in the CTF monthly claims provided by the CPUC. Crowe found no discrepancies with the invoices tested.

California Teleconnect Fund
CallTower, Inc.

Attachment A – CTF Over Payments by Program Year

Examination Report Findings			CTF Over Payments		
No.	Title	Description	Examination Period	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2012
1	Pervasive Errors in CTF Claims	The CTF program discount was not accurately applied to eligible services provided	\$ 231,033	\$ 119,913	\$ (19,153)
2	Mathematical Accuracy of Variance Reports*	Variance Reports submitted by CallTower were not mathematically accurate	\$ -	\$ -	\$ -
3	CTF Claim Rate Reports*	Rate Reports submitted by CallTower did not include all required information	\$ -	\$ -	\$ -
4	Incomplete Customer Data*	Customer identification data on certain CTF claim forms was incomplete	\$ -	\$ -	\$ -
5	Ineligible Service Claimed	CallTower claimed CTF discounts on an ineligible service	\$ 36	\$ -	\$ -
6	CTF Claim in Excess of Discount Provided	CallTower claimed CTF discounts in excess of that actually provided to customers	\$ 223	\$ -	\$ -
7	Omission of 3 CTF Eligible Organizations*	Customer Reports attributed the discounts provided to 3 schools with their parent organization	\$ -	\$ -	\$ -
Total Over Payments			\$ 231,292	\$ 119,913	\$ (19,153)

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