



CALIFORNIA TELECONNECT FUND PROGRAM PERFORMANCE AUDIT

Crown Castle Fiber, LLC
(U-6190-C)

July 1, 2022, through June 30, 2023

Utility Audits, Risk and Compliance Division
Utility Audits Branch
July 15, 2024



MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

Sharmin Wellington, Program and Project Supervisor

Cheryl Livingston, Lead

Tristesse Gaian, Staff

A digital copy of this report can be found at:

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You can contact our office at:

**California Public Utilities Commission
Utility Audits, Risk and Compliance Division
400 R Street, Suite 221
Sacramento, CA 95811**

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

July 15, 2024

Mary O'Connell, Managing Counsel
Crown Castle Fiber, LLC
4545 East River Road
West Henrietta, NY 14586

Dear Mary O'Connell:

Final Report Transmittal Letter—Audit of Crown Castle Fiber, LLC's California Teleconnect Fund Program for the period of July 1, 2022, through June 30, 2023

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the California Teleconnect Fund program's claims reported by Crown Castle Fiber, LLC (Crown Castle) for the period of July 1, 2022, through June 30, 2023. The final audit report is enclosed.

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

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

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: Jacquelyn Conroy, Manager Billing and Cash Application, Crown Castle
Ryan Ignatz, Assistant Controller-Network Revenue, Crown Castle
Rachel Peterson, Executive Director, CPUC
Kristin Stauffacher, Deputy Executive Director, Office of the Commission, CPUC
Robert Osborn, Director, Communications Division, CPUC
Lina Khoury, Program and Project Supervisor, Communications Division, CPUC
Masha Vorobyova, Assistant Director, UAB, CPUC
Sharmin Wellington, Program and Project Supervisor, UAB, CPUC
Cheryl Livingston, Senior Management Auditor, UAB, CPUC
Tristesse Gaian, Associate Management Auditor, UAB, CPUC

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EXECUTIVE SUMMARY

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

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

Based on the procedures performed, samples tested, and evidence gathered, we found that Crown Castle's CTF program claims were in compliance with applicable PU Code sections, CPUC decisions, resolutions, and applicable criteria as outlined in this report for the audit period of July 1, 2022, through June 30, 2023.

AUDIT REPORT

Background

California Teleconnect Fund Program

The California Public Utilities Commission (CPUC) implemented the California Teleconnect Fund (CTF) in 1996 pursuant to Public Utilities (PU) Code section 280(a). CPUC D.96-10-066 created the CTF program to promote innovation in the delivery and use of advanced communication services, encourage the diversity of choices among services and providers, and ensure affordable and widespread access to California's broadband networks and technology. 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 California¹.

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

Crown Castle Fiber, LLC (Crown Castle)

Crown Castle Fiber, LLC is a subsidiary of Crown Castle Inc., which is headquartered in Houston, Texas. Crown Castle Inc. was formed in 1997 with the merger of Pittsburgh-based Crown Communications and Houston-based Castle Tower. Both companies owned, operated, and built cell towers. Crown Castle Inc. is incorporated in New York with offices in Texas, Pennsylvania, and California. The company provides internet service including broadband, ethernet, and fiber to schools, libraries, hospitals, health clinics, and CBOs throughout the United States.

Crown Castle claimed \$5,125,543 but was reimbursed \$5,040,503 in subsidy from the CTF during the audit period of July 1, 2022, through June 30, 2023, due to prior year adjustments of \$85,040. Crown Castle had approximately 120 participants per month, of which some participants had services at multiple locations. Claims for reimbursement are summarized in Table 1 below:

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

Table 1. Claims

Claim Period	Claimed Amount	Reimbursed Amount
July 2022	\$ 422,069	\$ 422,069
August 2022	419,034	419,034
September 2022	417,764	417,764
October 2022	416,795	416,795
November 2022	491,941	407,441
December 2022	418,388	417,848
January 2023	411,112	411,112
February 2023	416,330	416,330
March 2023	417,588	417,588
April 2023	425,281	425,281
May 2023	436,337	436,337
June 2023	432,904	432,904
Total	<u>\$ 5,125,543</u>	<u>\$ 5,040,503</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 Crown Castle's claims from the CTF were accurate, properly supported, incurred for eligible participants, services and activities; and to determine whether Crown Castle 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 Crown Castle's claims from the CTF totaling \$5,125,543 for the audit period of July 1, 2022, through June 30, 2023.

Methodology

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

We conducted a risk assessment, including evaluating whether Crown Castle's key internal controls relevant to our audit objectives were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, observing processes, and/or performing walkthroughs, and testing transactions. Deficiencies in internal controls, if identified during our audit and determined to be significant within the context of our audit objectives, would have been included in this report.

Additionally, we assessed the reliability of the data extracted from Crown Castle’s participant billing system, and E-rate and invoicing trackers. 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 Crown Castle’s background information including its policies and procedures to gain an understanding of the nature of the utility and its responsibility over CTF program.
- Assessed significance by performing analyses of reimbursement claims data and evaluating program requirements.
- Obtained an understanding of Crown Castle’s key internal controls relevant to CTF program, such as reviewing its processes over reimbursement claims, and participant billing/ invoices 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 Crown Castle’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 November 2022 and May 2023 claims totaling \$491,941 and \$436,337 respectively, and selected the same 15 participants from each month to perform testing procedures, as shown in Table 2 below:

Table 2. Testing

Months Selected	Claimed Amount	Percent of Total Claims	Participants Selected	Percent of Total Participants
November 2022	\$ 491,941	9.6%	15	12.4%
May 2023	436,337	8.5%	15	12.4%
Total Sampled	<u>\$ 928,278</u>	<u>18.1%</u>		
Total Claimed*	<u><u>\$5,125,543</u></u>		<u><u>121</u></u>	

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

- For the selected samples identified above, performed substantive testing procedures including the following:
 - Verifying claims were accurately computed
 - obtained the E-rate Funding Commitment Decision Letters (FCDL) for eligible participants to identify the approved federal discount amounts;
 - reconciled E-rate participants' E-rate support amounts on the FCDLs to the reimbursement claims to verify the correct E-rate discounts were applied;
 - recalculated the CTF amounts claimed for the selected participants to verify the claimed amounts were accurate; and
 - recalculated the total monthly CTF amounts claimed for reimbursement to verify the claimed amounts were accurate.
 - Ensuring discounts (E-rate and CTF) were properly applied
 - verified Crown Castle's claims did not include any participants in the RHCP to verify that the discount was applied accurately;
 - compared the approved E-rates to the reimbursement claims to identify any disparity in the percentages;
 - recalculated the E-rate discount on the participants' billing invoices to verify the discounts reconciled to the FCDLs; and
 - recalculated the CTF discount on the participants' billing invoices to verify that the correct discount was applied.
 - Verifying eligible services and participants were claimed
 - obtained and reviewed Crown Castle'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 list to verify the participants were approved for the CTF program; and
 - verified the participants eligibility start and end dates on the CTF participant list, to assess whether the participants were eligible for the CTF discount during the audit period.

We did not audit Crown Castle's financial statements. Our audit scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance that Crown Castle's claims from CTF program were accurate, properly supported, incurred for eligible participants, services, and activities; and whether Crown Castle 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 Crown Castle's internal controls only to the extent necessary to plan the audit and achieve our audit objectives.

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

Conclusion

Based on the procedures performed, samples tested, and evidence gathered, we found that Crown Castle's CTF program claims were in compliance with applicable PU Code sections, CPUC decisions, and applicable criteria as outlined in this report for the audit period July 1, 2022, through June 30, 2023.

Follow-up on Prior Audit Findings

We have not conducted an audit of Crown Castle's California Teleconnect Fund program claims within the last ten years. Furthermore, Crown Castle did not identify any prior engagements that were significant within the context of our audit objectives that would require us to determine if appropriate corrective actions have been taken to address potential findings and recommendations.

Views of Responsible Officials

We discussed the audit results with Crown Castle's representatives at an exit conference held on June 14, 2024. At the exit conference, we stated that the final report will include the views of responsible officials. Because there were no audit findings requiring a response, we are issuing the report as final.

Restricted Use

This audit report is intended solely for the information and use of Crown Castle 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

Angie Williams, Director
Utility Audits, Risk and Compliance Division