

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Before Commissioners: Thomas E. Wright, Chairman
Ward Loyd

In the Matter of an Investigation to)
Determine the March 1, 2009 Assessment)
for the Thirteenth Kansas Universal Service) Docket No. 09-GIMT-272-GIT
Fund Year and the Affordable Local Service)
Rates for Rate-of-Return Regulated Carriers,)
Effective March 1, 2009.)

**ORDER ADOPTING YEAR 13 SELECTIONS FOR CARRIER REVIEWS AND
PROPOSED REVISED SELECTION CRITERIA AND AUDIT PROCEDURES**

The above-captioned matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and determination. Having examined its files and records and being fully advised in the premises, the Commission finds and concludes as follows:

1. On January 18, 2011, Commission staff (Staff) filed its report recommending the Commission adopt KUSF Year 13 selections for carrier reviews and proposed revised selection criteria and audit procedures as proposed by GVNW Consulting, Inc. (GVNW), the third-party KUSF administrator. The report was served on parties to the docket and, to date, no party has commented on any item contained in the Staff or the GVNW report.

2. Staff's report notes that GVNW sent a letter to the Commission in July 2010 identifying 16 companies selected for KUSF Year 13 audits; KUSF Year 13 spanned March 1, 2009, through February 28, 2010. In the letter, GVNW suggested the Commission modify the previously-adopted audit selection criteria as follows:

a. **Group 1 audit selection criteria:**

* **Current** – all companies are required to be audited at least once every three years. A company with material audit findings is subject to a follow up audit in two years. The number of companies in this group subject to an audit within any year is two to three.

* **Proposed** – all companies to be audited at least once every four years. A company with material audit findings to be subject to a follow up audit in three years. The number of companies in this group subject to an audit should be one to three.

b. **Group 2 audit selection criteria:**

* **Current** – all companies are required to be audited at least every four years. A company with material audit findings is subject to a follow up audit in two years. The number of companies in this group subject to an audit within any year is two to three.

* **Proposed** – all companies are required to be audited at least every five years. A company with material audit findings is subject to a follow up audit in three years. The number of companies in this group subject to an audit should be one to three.

c. **Group 3 audit selection criteria:**

* **Current** – based on company-specific data, or through a random selection process, eight to eleven companies are selected for an audit each year. A company with material audit findings is subject to a follow up audit in two years.

* **Proposed** – based on company-specific data, or through a random selection process, eight to thirteen companies selected each year. A company with material audit finding will be subject to a follow up audit in three years.

3. In addition, GVNW suggested that the Commission revise the written audit procedures to reflect prior Commission orders that modified the audit procedures, and to revise the written audit procedures to reflect the Year 13 KUSF assessment rate and per line surcharge rates adopted in the Year 13 docket. GVNW also suggested that the Commission clarify in its written audit procedures that some companies do not directly bill customers and instead use a third-party billing aggregator and in those instances GVNW will query the third-party billing aggregator to obtain a representative sample of customer bills. See KUSF audit procedures, attached to this order and adopted by reference, Section VII.D.7, p. 12.

4. The Commission finds that GVNW's recommendations on modifications to carrier selection beginning with KUSF Year 13 audits shall be approved. The Commission further finds that the attached KUSF audit procedures are adopted and shall be used by GVNW for audits of a carrier's reporting and remitting to the KUSF for KUSF Year 13.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

A. GVNW's recommendations modifying carrier selection procedures for Year 13 audits are approved. The Commission further adopts the attached KUSF Carrier Review Procedures for audits of KUSF Fiscal Year 13, from March 1, 2009, through February 28, 2010.

B. The parties have fifteen days, plus three days if service of this order is by mail, from the date this order was served in which to petition the Commission for reconsideration of any issue or issues decided herein. K.S.A. 66-118b; K.S.A. 2010 Supp. 77-529(a)(1).

C. The Commission retains jurisdiction over the subject matter and parties for the purpose of entering such further orders as it may deem necessary.

BY THE COMMISSION IT IS SO ORDERED.

Wright, Chmn.; Loyd, Com.

FEB 23 2011

Dated: _____

ORDERED MAILED

FEB 24 2011

 EXECUTIVE
DIRECTOR

Susan K. Duffy
Executive Director

crh

KANSAS UNIVERSAL SERVICE FUND CARRIER REVIEW PROCEDURES
For Fiscal Year 13 (March 1, 2009 through February 28, 2010)
(Revised July 1, 2010)

I. Objective.

The objective of the review is to provide an administrative control over all qualifying telecommunications public utilities, wireless providers, Interconnected Voice over Internet Protocol (VoIP), and other carriers receiving funds from or providing funds to the Kansas Universal Service Fund (KUSF) in accordance with K.S.A. 66-2010 and Kansas Corporation Commission (KCC) orders. The review program will be revised annually to reflect any changes in procedures adopted by the KCC. The obligation of each review is to verify the reviewed company's obligation of KUSF assessments reported and paid to the fund and that the company collected no more than an amount equal to or less than its assessment from customers, pursuant to K.S.A. 66-2008(b).

II. Definitions.

- A. Review Period: KUSF Fiscal Year 13 (March 1, 2009 through February 28, 2010).
- B. The KUSF percentage assessment rate in effect during FY 13 was 5.03%.
- C. The local service Per Line Assessment for the Incumbent LECs in effect during FY 13 was:
- SWBT \$1.52
 - CenturyLink \$1.49
 - Rural LECs \$1.15

III. Pre-Audit and General Information.

- A. Obtain copies and review all relevant Kansas statutes¹ and KCC documentation related to administration of the KUSF, including KCC orders and correspondence to obtain an understanding of the KUSF process. Relevant documentation includes, but is not limited to:
1. K.S.A. 66-2006 (Lifeline) and 66-2008 through 66-2010.
 2. Lifeline eligibility and supporting documentation orders: K.S.A. 66-2006, December 27, 1996 Order, Docket No. 94-GIMT-478-GIT; January 21, 2003 Order, Docket No. 00-GIMT-910-GIT; May 19, 2005 Order, Docket

¹ Kansas Statutes, K.S.A. 66-2001- K.S.A. 66-2010 may be viewed at http://kslegislature.org/li/m/statute/066_000_0000_chapter/066_020_0000_article/index.html

05-GIMT-1039-GIT; and Docket No. 07-GIMT-1039-GIT. (*See also*, Additional Lifeline data Attachment A);

3. Orders creating the KUSF (*See* December 27, 1996 and February 3, 1997 Orders, Docket No. 94-GIMT-478-GIT);
4. Orders directing KUSF Administrator to perform the carrier audits (*See* October 30, 1998 and December 11, 1998 Orders, Docket No. 94-GIMT-478-GIT);
5. Order(s) listing reportable revenues (Reportable Revenues) for the Audit Period:
 - a. Each company is assessed on its own revenue: November 30, 1999 Order, Docket No. 99-GIMT-784-GIT;
 - b. Revenue from jurisdictionally-mixed services, recurring charges, bundled service plans; September 2, 2003 and October 9, 2003 Orders, Docket No. 03-GIMT-932-GIT;
 - c. Wireless, Cellular, Paging revenues: August 13, 1999 and September 27, 1999 Orders, Docket No. 94-GIMT-478-GIT; January 22, 2002 Order, Docket No. 02-GIMT-161-GIT; September 8, 2006 Order, Docket No. 06-GIMT-322-GIT and September 7, 2006 Order, Docket No. 06-GIMT-943-GIT. Effective March 1, 2006, wireless revenues are assessed based on customer's primary place of usage.
 - d. Interconnected Voice over Internet Protocol revenue reporting, September 22, 2008 Order, Docket No. 07-GIMT-432-GIT;
 - e. Treatment of uncollectibles: August 13, 1999 and September 27, 1999 Orders, Docket No. 94-GIMT-478-GIT; and April 14, 2000 Order, Docket No. 00-GIMT-236-GIT;
 - f. Carrier Remittance Worksheet Instructions for Review Period, including those related to period subject to follow-up audit and from audit fiscal year to current;
 - g. Order setting the KUSF assessment rates and per line flow-through for the Review Period: January 22, 2008 Order, Docket No. 08-GIMT-315-GIT);
 - h. Carrier Review Procedures and Selection Criteria;

- i. January 11, 2010 Order Accepting Audit Report (FY 07/08), Docket No. 07-GIMT-276-GIT.
 - ii. May 12, 2009 Order Accepting Audit Report (FY 06/07), Docket No. 09-GIMT-639-GIT;
 - iii. July 25, 2008 Order Accepting Audit Report (FY 05/06), Docket No. 08-GIMT-1045-GIT;
 - iv. September 10, 2007 Order Accepting Audit Report (FY 04/05), Docket No. 08-GIMT-1000-AUD);
 - v. December 9, 2005 Order Accepting Audit Recommendations (FY 03/04), Docket No. 06-GIMT-458-AUD;
 - vi. October 13, 2004 Order Accepting Audit Recommendations (FY 02/03), Docket No. 05-GIMT-003-AUD;
 - vii. November 3, 2003 Order Accepting Audit Recommendations (FY 01/02), Docket No. 04-GIMT-254-AUD;
 - viii. October 31, 2002 Order on Staff's Motion to Accept Audit Report and Consider Recommendations (FY 00/01), Docket No. 03-GIMT-281-AUD;
 - ix. September 18, 2001 Order Addressing Recommendations and Comments, and October 25, 2001 Order on Petition for Clarification and/or Reconsideration (FY 99/00), Docket No. 02-GIMT-116-AUD;
 - x. November 8, 2000 Order 2 on KUSF Audit Recommendations (FY 98/99, Docket No. 00-GIMT-1175-GIT; and
 - xi. October 15, 1999 Order Accepting NECA's Final Report and Recommendations (FY 97/98), Docket No. 94-GIMT-475-GIT;
- Annual Reports filed with the KCC, for the years ended December 31, 2008 and December 31, 2009.

Note: Wireless, paging, and interconnected VoIP providers are not required to file Annual Reports with the KCC.

- B. After the sample of companies is selected (*See Attachment A*), KUSF administration personnel will verify that each selected company is currently reporting to the KUSF and included in the Master Files. If the selected company is no longer listed in the current KUSF files, if necessary, administration personnel will work with KCC Staff to determine if the company has ceased doing business, merged with another company, changed company names, etc. *Note: If the selected company has merged with another company, changed names, etc., the audit will cover the selected sample company's, or, if applicable, the successor or merged company's books for the audit period.* It may be

necessary to call the contact person of current company to determine where the notification letter should be sent.

- C. Obtain copies of the selected company's FY 13 monthly Carrier Remittance Worksheets (CRWs), including revised CRWs and True-up forms filed with the KUSF administrator. Select a 3 month sample from the Review Period.
- D. Obtain copies of the selected company's FY 14 CRWs filed to date, including revisions. Review and compare the FY 13 to FY 14 data to determine if the reported revenues and contributions are similar or if significant variances exist. Receive confirmation from administration personnel regarding whether the company is current with its KUSF obligations (CRWs, balances, Attachment B, etc.). If any outstanding CRWs, account balance, etc., request summary information from administration personnel. Include follow-up with company regarding summary information from administration personnel. Include follow-up with company regarding outstanding issues and variances and advise company that any outstanding KUSF obligation at the time the audit report is filed will be identified in the audit report.
- E. Obtain and review copies of the company's most recent KUSF carrier audit report, KCC orders, and other official pleadings related to the most recent audit to gain an understanding of prior issues that will need to be reviewed for compliance. Review revised CRWs or audit True-ups resulting from the audit and a sample of CRWs filed between the end of the prior audit and the current audit period. If the recommendations were not implemented, obtain an understanding as to why they were not. Written confirmation regarding whether the recommendations were implemented should be obtained. The written confirmation may be in the form of documentation filed with the KCC or a verification letter from the company. Any recommendations adopted by the Commission in an audit within the past two years will need to be addressed within the current audit report. If the company over-collected from customers in prior audit, review a sample of customer bills issued between prior audit through current period to determine if this practice ceased or continued and the amount of refunds that may be due to customers, if applicable. If the company underpaid or overpaid assessments, review company documentation to verify that the company corrected the reporting process and whether additional assessments are owed or refunds owed to company
- F. Obtain and review copies of the selected company's Annual Report filed with the KCC during the past two years either from the selected company or the KCC for comparative analysis. Obtain an explanation for material variances between Annual Reports. *Note: Wireless, paging, and VoIP providers are not required to file Annual Reports with the KCC; therefore, this data is unavailable.*
- G. Prepare and send the Initial Audit Packet to selected company. Initial Audit Packet includes:

1. Opening notification letter (appropriate on-site or desk-review letter);
2. KUSF audit questionnaire (Attachment A);
3. Data Request No. 1 (Attachment A, DR1);
4. Revenue reportable to the KUSF by category (Attachment B);
5. Confidential Material Information (Attachment C); and
6. Identification of the company's contact on file with GVNW, with a request for the company to provide any necessary updates.

The audit packet should be sent to the company's KUSF contact and the designated company representatives on the Docket Service list. The company's response to the questionnaire must be confirmed in writing, with verification signed by the appropriate company personnel responsible for such data. The Initial Audit Packet letter should advise that whenever any requested information cannot be provided by the due date, the company should inform the auditor as to why not and when such information will be available.

- H. Any audit information, including the audit packet, may be provided via e-mail, US Postal Service, or overnight delivery, unless otherwise specified by the Commission and/or Staff (e.g. certified mail). GVNW should maintain a copy of the written documentation support receipt of the information by the company. (e.g., delivery of audit packet via e-mail will be accompanied by a "Read or Receipt Notification," from company, delivery confirmation for overnight delivery, etc.
- I. Obtain written confirmation regarding the information and the timing of the information to be provided or of the receipt of such information through a follow-up DR. Substantive information or material relied on for audit findings should be confirmed in writing in a DR, with the DR verified and signed by the appropriate company personnel.
- J. For any documentation requested, if the company does not provide the data by the stated due date, the company should be requesting an extension from the auditor. If the company has missed the deadline and has not requested an extension, the auditor should contact the company to remind them that the information is overdue. The auditor should ask the company to provide a firm date of receipt or offer a limited extension. The auditor should advise the company that if the data is not provided by the extended deadline, the auditor will submit a Motion to Compel to the Commission. Follow-up with an email or letter to identify the agreed-upon or stated deadline and that the company has been advised a Motion to Compel will be filed if the deadline is not met. If the company does not provide the data by the extended deadline, a draft Motion to Compel should be provided to Staff and/or the Staff attorney assigned to GVNW.
- K. Arrange to contact the appropriate party(ies) to plan the timing of the on-site visit, if required. KUSF Administration personnel's role with respect to the audit

should be limited to providing the audit division with a list of carriers for random sample selections and pre-selected carriers to be audited, providing CRWs and any information relevant to the audit, current status, providing the applicable True-up forms or CRWs to allow company to file carrier related to the audit will be made by GVNW's audit division. The auditors need to ensure that Administrative personnel are apprised of any issues that will affect the company's KUSF obligations, including refunds, True-ups, and other follow-up issues.

IV. For the selected months.

- A. Review the company's internal written KUSF reporting policies or instructions, if available. If written procedures do not exist, ask the company if it can write-down its process for the review period. Compare these instructions to the KUSF Remittance Worksheet Instructions and KCC Orders for the KUSF Year 13 Review Period to determine if discrepancies exist. For discrepancies, discuss with the company items it may need to update or change to ensure correct compliance reporting. If the company does not have any internal written KUSF procedures, recommend that the company develop procedures.
- B. Review the monthly billing summaries and journals, and sample bills for the selected three months.
- C. Trace retail revenues to the KUSF Administrator to details provided in the company's records (i.e., billing summaries, journals, ledgers, etc.).
 1. Ensure that the intrastate retail revenues reported to the Administrator include all the following revenues billed for the three months:
 - a. Intrastate local services, intrastate vertical services, mobile services, intrastate private line services, intrastate presubscribed IXC change charges, directory assistance and directory listings, tariffed access lines, and intrastate calls made through credit cards, third-party billing, and collect calls. Flat-rate monthly service charges and combined plan revenues should be reviewed to determine the revenues are reported in accordance with the KCC's September and October 2003 Orders, Docket No. 03-GIMT-932-GIT (*See Attachments E and F*);
 - b. Intrastate long distance service and inter-city special access billed to end users;
 - c. Miscellaneous charges, including late payment charges, customer fees, non-recurring, and installation;
 - d. All other revenues listed on the approved Revenues Reportable to the KUSF for the review period;

- e. Wireless companies, including paging: Revenues from comparable services billed by wireless providers to Kansas customers; including monthly, usage and roaming charges billed to the customer, and intrastate long distance charges. Wireless customers are billed the KUSF assessment based on their primary place of usage. (September 7, 2006 Order, Docket 06-GIMT-943-GIT). For the audit period, the wireless carrier safe harbor was 62.9% intrastate. The Safe Harbor for paging was 88% and for analog SMR providers, 99%. Companies may directly assign revenue or use a company-specific traffic factor, provided these are filed with the KCC. (September 8, 2006 Order, Docket No. 06-GIMT-332-GIT and January 27, 2003 Order, Docket No. 04-GIMT-331-GIT, Attachment G); and
 - f. Interconnected VoIP providers: Revenues from all VoIP services billed to a Kansas customer with a primary location in Kansas (as identified by customer) allocated to the KUSF. For the audit period, the interconnected VoIP provider safe harbor was 35.1% intrastate. Companies may direct assign revenue or use a company-specific traffic factor, provided these are filed with the KCC. (September 22, 2008 Order, Docket 07-GIMT-432-GIT). If a customer uses either direct assignment or a company specific traffic factor it must submit a pleading to the KCC to state which method is used and an affidavit to verify this same method is used for Federal USF purposes. Companies were required to begin reporting the December 2008 revenues by January 15, 2009.
- D. If not specifically identified above, verify that all revenues listed on the Reportable Revenues Schedules or specifically identified in KCC orders are treated pursuant to the applicable KCC orders . (See Section VII).
- E. Verify rates charged are on file with the Commission: (Note: Wireless, Paging, and VoIP do not file rates with KCC).
- 1. Tariffs: Review tariffs to determine that rates charged are consistent with filed tariffs. Tariffs are available to public generally; however, exceptions to filed tariffs in docket systems are as follows:
 - a. Promotional Offerings: Pursuant to K.S.A. 66-2005(1), a local exchange carrier may offer promotions within an exchange or group of exchanges, with the promotion provided to the Commission and cannot be unjust, unreasonably discriminatory or unduly preferential. When offering a promotion, the company submits a copy to the KCC, but the offering is not docketed into the Commission's system. Promotions typically should be for a

period not to exceed 90-days, and should be tariffed if the offering will be in effect longer than 90-days, to prevent circumvention of price offerings for resale services. However, there is no set timeframe in between when a promotion can be offered (i.e., end today, not offered one day, and then reoffered for another 90-day period).

- b. Rate-Range Pricing/Individual Customer Pricing: K.S.A. 66-2005(o) required the Commission to adopt guidelines and procedures for a local exchange carrier to request rate range pricing. The prices within the rate range are tariffed and apply to all customers in a nondiscriminatory manner in an exchange or group of exchanges. Since competitive LECs and IXC are price-deregulated, they may also implement rate-range pricing. This often results in the company having contracts with individual customers, with the contract rate falling within the tariffed rate range. The Commission adopted the rate range procedures in its December 27, 1996 Order, Docket No. 190, 492-U (94-GMT-478-GIT), Rate-range pricing allows all similarly-situated customers to opt in to the same rates. *See* <http://www.kcc.state.ks.us/scan/199612/19961227124828.pdf>. The Commission adopted Individual Customer Pricing (ICP) procedures in Docket No. 02-GIMT-555-GIT. (8/11/2004 Order – <http://www.kcc.state.ks.us/scan/200408/20040811080345.pdf>)
- F. Contracts: Pursuant to K.S.A. 66-1,189 and 66-1,190, all rates, services, charges, etc., shall be just and reasonable and companies are required to file contracts with the Commission.
- G. Verify that the uncollectibles written off and reflected in the KUSF reporting agree with company records, and that the methodology used is in compliance with KUSF and KCC approved guidelines. If a company has not reported uncollectibles, verify that the company understands that effective January 27, 1999, companies are allowed to report net revenues for assessment purposes.
- H. If the selected company claimed Lifeline credits during the Year 13 KUSF Review Period, or indicates that it should have claimed such credits, review a sample of at least 3 Lifeline customers' eligibility documentation for each of the 3 sample selection months. If the selected company is an incumbent LEC, the supporting data should include a total of all access lines sold to other companies at the discounted Lifeline rate, as stated in the relevant interconnection agreement.
- I. **For LECS only:** Verify the access line counts reported on the monthly CRW through a comparison to source documents since a LEC's KUSF assessment is based on the number of lines reported times the maximum per line assessment amount approved by the KCC. Note: a company is authorized, but not required to collect all, or any, of its assessments from Customers.

- J. Review the company's billing system and sample customer invoices to determine what customer revenues the company assesses and collects the KUSF surcharge from.
- V. General Principals for Reviewing Company Revenue Data and Remittance Worksheets.
- A. Retail revenues (*See Reportable Revenues Schedules, Attachment H*) do not include revenues derived from the following sources:
1. Franchise tax pass-on charges.
 2. Local, state, or federal taxes.
 3. Interstate revenues, including PIC charges, long distance, special access services, and Federal End-User Line Charges.
 4. State or federal USF payments.
 5. Intrastate revenues derived from wholesale operations, such as UNE revenues.
 6. Wireline deregulated revenues, such as terminal equipment and inside wire maintenance, and comparable wireless/paging/VoIP revenues (roadside assistance, text messaging, Internet Broadband only services, etc.).
- B. Companies are to report gross revenues, uncollectibles, and net revenues on their CRWs. However, a company using the cash basis of accounting would not recognize revenue until cash is received and, thus, would also not recognize any uncollectibles.
- C. For wireline providers, the local calling area takes precedence over state and intrastate jurisdiction. For example, calls from Kansas City, KS to Kansas City, MO within the LECs local calling area are considered local and should be included as KUSF reportable revenues.
- D. For wireline providers, long distance revenues are considered intrastate revenues when both parties are within Kansas, regardless of call routing.
- E. KUSF assessments due to the KUSF are to be calculated on the selected company's actual net revenues. For CLECs, verify that the assessment paid was not based on a per line assessment calculated for a specific Incumbent LEC. Verify that the revenues reported on the Remittance Worksheets are the same as those booked. *Note: Some companies incorrectly "back" into the revenues they report by determining the KUSF assessment collected and then dividing that amount by the assessment rate to arrive at reportable revenues. This is a finding. The auditor should attempt to determine the actual revenue that should have been reported, and provide the overall impact on the KUSF in the Audit Report. If the "calculated" revenue and assessments exceeds the amounts actually owed, the*

company likely collected more in assessments from customers than it owes, and a refund would be due to both the company and customers.

VI. KUSF Assessment Collected from Customers.

- A. K.S.A. 66-2008(b) authorizes, but does not require, a company to collect its assessment from customers. The company may collect an amount equal to, or lesser than, its assessment.
1. Review the company's CRWs to determine whether the company reported any KUSF surcharge collected from customers in "Box D." If an amount reported in Box D equals the actual assessment calculated on the CRW(s), the company is likely backing into revenues.
 2. Review customer bills to verify the company collected its KUSF surcharge through a separate line item.
 3. Recalculated and verify that the total amount billed to/collected from customers equals or is less than the monthly assessment calculated and paid based on reported revenues.
 4. Verify the account to which the company records the total monthly KUSF collected from customers.
 5. Discuss variances with company. If the variance is due to the company collecting more from its customers than it remitted to the KUSF, a refund, via an equal bill credit to affected customers, is appropriate. *See* August 13, 1999 and September 27, 1999 Orders, Docket No. 94-GIMT-478-GIT; and April 14, 2000 Order, Docket No. 00-GIMT-236-GIT, Attachments I, J and K. If the auditor is unsure as to whether a credit should be recommended, he/she should discuss this with KCC Staff personnel.

VII. On-Site Review Procedures.

- A. Conduct an opening meeting with the appropriate company personnel and discuss the objectives and scope of the on-site review. The discussion should include a description of the review process, identification of company personnel who should be available during the review, discussion of how questions and findings will be handled, and the procedures for issuing the final audit report.
- B. Prior to the on-site visit, review the documentation and materials requested in the opening letter and determine the source and location of any additional information necessary to complete the review. All substantive information or material relied on for audit findings should be confirmed in writing, with verification signed by the appropriate company personnel. This should be done through follow-up DRs.

- C. Obtain copies of the Kansas tariffs in effect during the three months to verify the correct KUSF assessment rates were billed. *Note: A company is authorized, but not mandated, to collect an amount up to the approved assessment from its customers. A company may choose to collect an amount less than that approved or may choose not to collect any KUSF assessment from its customers; however, the company must pay the calculated assessment. (K.S.A. 2006 Supp. 66-2008(b)).*
- D. Obtain an understanding of the company's billing system and accounting processes, including:
1. Determine if the company uses the cash or accrual method of accounting.
 2. Gain an understanding of when and how revenues are received and recorded, when journal entries occur, and if the books reflect revenues received, billed, or earned (adjusted to monthly calendar period). Review how revenue is accrued and collected for billing cycles that are not on a calendar basis. Review the Billing System to determine how Intrastate and Interstate revenues are classified and treated in billing summaries.
 3. Review the company's KUSF revenue reporting procedures, if available, to gain assurance that all reportable revenues were reported in accordance with those procedures, including all USOC codes the company includes in its reportable revenues. Compare the USOCs used by the company to the KCC approved Reportable Revenues to determine if any discrepancies may exist. If the KCC approved reportable revenues were modified at any time during the Review Period, verify with company personnel that they were aware of the change and that the change had been implemented in accordance with the Order(s).
 4. Gain an understanding of the company's write-off/bad debt procedures for KUSF purposes (i.e., is the uncollectible amount listed on the KUSF worksheet the actual write-offs taken during that month or are they associated with previous month's activities?), and request a written copy of the company's policy. If a written policy does not exist, ask for written confirmation of the auditor's understanding of the general policy. Request a copy of the company's aging of accounts, if applicable.
 5. Gain an understanding of the company's billing process, including the number of billing cycles, and by business and residence if available, the number of monthly bills issued to Kansas customers.
 6. Review the company's internal controls to ensure reporting of Kansas intrastate retail revenues, KUSF flow-through assessments, and uncollectible;

- a. Examine computer batch total reviews, supervisory reviews and approvals, internal policies and written procedures.
 - b. Examine controls in the accounting process (i.e. preparing and booking journal entries, recording revenues and write-offs, etc.) that ensure correct reporting to the Administrator.
7. For each sample month reviewed, select a representative sample of at least 10 residential and 10 business customer bills to use in evaluating billing summaries and verifying rates applied (20 bills/sample month x 3 month sample = total of 60 bills).
 - a. Many telecommunications service providers, especially resellers, use a billing aggregator for billing and collection purpose and claim they cannot provide the KUSF auditor with customer bills.
 - b. When GVNW receives a response of this nature from a company, the following procedures will be followed:
 - i. For companies stating they have an agreement with CenturyLink, GVNW will issue a follow-up DR to the company and copy CenturyLink on the DR. CenturyLink's point of contact is John Idoux, john.idoux@CenturyLink.com.
 - ii. For companies stating they have an agreement with AT&T, GVNW will issue a follow-up DR to the company and copy AT&T on the DR. AT&T's point of contact is Ms. Janet Arnold, js0746@att.com.
 - iii. In each of these situations, Staff of the KCC should be copied.
8. Review the KUSF assessment billed to Kansas customers and verify that the per line assessment (for Incumbent LECs only) or the percent billed to the customers is equal to or less than the rate approved by the KCC. Companies should be line itemizing the KUSF assessment on its bills. Gain an understanding of the company's calculations to arrive at the billed surcharge.
9. Review the company's KUSF billing matrix to determine if the company is properly charging KUSF surcharge for the appropriate services.

VIII. Lifeline. All wireline carriers are required to advertise and offer Lifeline service to customers. All wireless ETCs must advertise and offer Lifeline to customers. Only

carriers that provide service using their own facilities, including Local Wholesale Complete (LWC) and Unbundled Network Elements (UNEs), are eligible to receive Lifeline credits directly from the KUSF. If the company resells another carrier's service, the reselling company purchases lines at a discounted Lifeline rate from the underlying carrier and is not eligible for Lifeline credits on its Carrier Remittance Worksheet. Instead, the underlying company (wholesaler) treats the lines as its own and receives the Lifeline credit on its CRW. For example, a competitive LEC purchases resale service from Southwestern Bell and resells the service to its customers. SWBT is the wholesale carrier and is the company eligible to receive the Lifeline credit from the KUSF. In turn, SWBT flows the Lifeline credit through to the reseller through a discount on the Lifeline line rate.

IX. Desk Audits.

- A. If the selected company is a Group 3 or 4 company it may be eligible for a "Desk Audit." The Commission allows carriers with annual retail revenue of \$50,000 or less or report on a quarterly, semi-annual, or annual basis. These carriers should be included as "desk audits," unless further information comes to the auditor's attention, indicating that an on-site review is necessary. For carriers with more than \$50,001, but less than \$250,000 in annual retail revenue, consideration should be given to the carrier's payment and reporting history when considering if a desk is appropriate. The following information should be requested from the company:
1. For a company reporting zero revenues:
 - a. Inquire as to whether the company has ever or is currently doing business in the state of Kansas. If the company is not doing business in the state, the auditor should inform the company that instead of filing monthly Remittance Worksheets, it has the option to submit a management letter to GVNW's administrative personnel stating that the company is not yet doing business in the state of Kansas and provide the company with GVNW administrative personnel contact information. A notarized Affidavit from an officer of the company stating that the company did not have any Kansas intrastate retail revenues during the specific Review Period;
 - b. Billing Records and/or any other applicable records the company is able to provide to ensure that no Kansas customers are contained within the company's billing records.
 2. For other Companies subject to a desk audit:
 - a. Review detailed data comparable to what would be reviewed if the review were performed on-site.

- X. Current KUSF Status. Contact KUSF Administration personnel to determine if the company is current with all CRWs and payments or has other outstanding account issues. Include a “Current Outstanding Issues” in the draft audit report.

- XI. Treatment of Preliminary Review Findings.
 - A. If the review findings a material discrepancy between items reported and/or assessed, (i.e., a company reported revenues that were “backed into” versus actual company revenues), additional sample months should be reviewed to allow a greater degree of confidence regarding the actual balance due to the KUSF or the credit owed to the company. When the review is expanded, the auditor should use his/her professional judgment to select another 3 months of information to be reviewed. The auditor may determine it is appropriate to review items subsequent to the audit period to determine if the company implemented corrections it stated it made. If the review of these 3 months’ data shows a discernible pattern of material discrepancies, the review may need to be expanded to the entire Review Period.
 - B. If the review is expanded, determine what additional information is needed, when it will be provided to the author, and obtain written verification that the information was requested and provided (if applicable).
 - C. Review findings should be annualized to estimate any balance owed or credit due. The company must file revised worksheets with the Administrator for the review period, to claim credits due from or submit balances owed to the KUSF.

- XII. Exit Interview.
 - A. Review any additional information the company has agreed to provide to the reviewer, and when such data will be provided. Follow-up with written confirmation through a DR. Inform the company that written confirmation regarding substantive information or materials relied on for audit findings will be needed, and determine a timeline for such confirmation.
 - B. Review preliminary review results and recommendations with the appropriate company personnel.
 - C. If preliminary findings include the company needing to file revisions, advise company that the auditor will request the Administration personnel to send a True-up form to the company for the applicable period(s).
 - D. Inform the company that it will need to provide written management responses for any findings where the management disagrees to be incorporated into the Final Review Report. Remind company personnel that the Order opening the docket states the company has 10 days from the date the Report is filed with the

Commission in which to file a response to the Report. Ask the company to send written confirmation of who is to receive a copy of the Draft Report and a copy of the Final Report. Such written confirmation may be via e-mail.

- E. Provide a general description of information contained in the Review Report and that only a Public Report will be issued unless the company designates specific information, such as revenues, as proprietary or confidential. Discuss with company personnel what information they deem to be proprietary or confidential. Inform the company that the overall net balance due/credit owed to the KUSF will be included in the Public Review Report. Inform the company that documentation deemed to be confidential must be in compliance with Kansas Administrative Regulation (K.A.R.) 82-1-221a, (*See Attachment L*), and request that the company provide a written explanation stating what information is “Confidential” and why. If the auditor believes the company has not appropriately designated information as confidential, the auditor should work with KCC Staff and/or Legal division to determine what information may appropriately qualify for confidential treatment and work with the company to resolve any issues.
- F. Advise company of any current outstanding issues (i.e., delinquent CRWs, payments, etc.) and advise that the unresolved issues at the time the audit report is filed with the KCC will be included in the audit report.

XIII. Documentation Procedures for On-Site and Desk Audits.

- A. Issue follow-up DRs for additional data needed or to confirm understanding of data provided on-site (especially data provided verbally).
- B. If report recommendations include company filing revised true-ups and/or CRWs, ask administration personnel to populate a true-up form for the applicable periods. Administration personnel can provide the populated form to the auditor for the auditor to provide to the appropriate company personnel.
- C. Review additional data, draft report.

XIV. Report Review.

- A. If the company has appropriately designated information as proprietary or confidential, both a Public Review Report and a Confidential Review Report will be drafted. The Confidential Report will contain all information, including that designated as proprietary or confidential by the selected company. The Public Report will contain the same information, except that any specific information designated as proprietary or confidential will be denoted as “**Confidential**”.
- B. Audit Dates: Include the “Date Report Sent to Company.” If an on-site audit occurred, separately identify and list the date(s) of the on-site audit.

- C. The “Audit Summary” of the Report should contain bulleted findings plus the net impact of the findings.
- D. Findings: For each initial finding, send a confirming DR to the company to verify the auditor has understood the information relied on to identify the finding. For each finding included in the final audit report, include a cite to the reference where the “Standard” was established. For minor findings (e.g., lack of written internal procedures), include a cite to the documentation (DR No.) the auditor relied on to validate the finding. For material findings and any finding with which the Company disagrees, include a copy of the documentation the auditor relied on to validate the finding.
- E. For each finding, include a recommendation for the company to come into compliance with KUSF obligations. Identify the specific time frame impacted and when the company implemented new procedures or corrected the deficiency, if known. Review documentation to verify, if available.
- F. For each finding, include the management’s response or action taken to come into compliance with the finding. This may include the company filing revised CRWs and audit true-ups, providing documentation to verify a change in billing systems or reporting methodologies, etc.
- G. Follow-Up Compliance: Include a section to address the prior audit findings, as well as the company’s compliance with such findings. Identify the audit docket, each finding and recommendation, as well as the company’s compliance. Include cites to documentation the auditor relied on to determine the company has or has not complied with the Commission-adopted recommendations.
- H. The Report should include “Current Outstanding Issues” section to address any outstanding KUSF issues at the time the draft report is sent to company and/or filed with the KCC. This section should include a listing of any delinquent CRWs, outstanding balance, etc.
- I. Provide a copy of the draft report(s), via e-mail or fax to the KCC Staff and via mail or e-mail to the company, summarizing the review work performed and any findings noted. The draft(s) should be provided to Staff and the requested company within 60 days of review completion, but no later than June 15, 2011, to allow ample time for revisions, should any concerns arise. The draft audit report will be sent to the company’s primary audit contact(s), and the designated company representatives on a Docket Service list. The company must provide written confirmation that a Draft Report was provided to the company. Provide a written reminder to the company that it needs to provide written management responses for any findings the company does not agree with. Request that the company provide these to the auditor within a set time period (i.e., 2 weeks, 30 days, etc., based on auditor’s schedule).

- J. Discuss with KCC Staff and/or the company any revisions or concerns regarding the review. If necessary, request that the company provide any additional information that may be needed. Finalize the Draft Report(s).
- K. If it is determined that the Audit Report cannot be filed by the time specified by the Commission, GVNW must file a “Motion for Extension of Time” with the KCC, substantiating the need for an extension of time and requesting the length of the extension. Note: If at any time the auditor is having problems getting information, the auditor should notify both KUSF Administrative personnel and KCC Staff. A “Motion Requesting Commission Assistance” may need to be filed with the Commission if the company is not providing the requested information or is not providing such information in a timely manner. If the Company informs the auditor that it does not have time for the audit, the Company is responsible for asking the Commission for Reconsideration of its Order Opening the docket. KUSF Administration or Audit Personnel, as well as Staff, do not have the authority to waive the audit.

XV. Filing of Report.

- A. Each Final Review Report will have an attached cover letter, which shall clearly designate the Report as either the Public or Confidential version. If no proprietary or confidential information is contained within the Report, only a Public Report should be filed with the KCC. In this instance, the attached over letter should clearly state that no proprietary or confidential information is contained within the Report; therefore, no Confidential Report will be filed. If a Confidential Report is filed, the Company must provide a statement to the auditor to file with the Final Report, stating what information is deemed “Confidential” and why. (*See* Kansas Administrative Regulation (K.A.R.) No. 82-1-221a), (*See* Attachment L).
- B. Each Report should be filed with the KCC. The Original report should not be stapled, but paper-clipped together. GVNW is responsible for providing a copy of each Filed Report, Motion, or other pleading filed with the Commission to the Company. If only a redacted report is filed, original and 3 copies will be filed with the Commission. If both a confidential and a redacted copy of the Report are filed, the original redacted report, the original confidential report, and 3 copies of the confidential report will be filed. The final audit report will be sent to the company’s primary audit contact(s) and the designated company representatives on the Docket Service list. The “Service List” for each docket is located within each docket on the KCC’s website. Obtain documentation supporting that a copy of each pleading was provided to the appropriate company personnel.

PLEASE FORWARD THE ATTACHED DOCUMENT (S) ISSUED IN THE ABOVE-REFERENCED DOCKET TO THE FOLLOWING:

NAME AND ADDRESS	NO. CERT. COPIES	NO. PLAIN COPIES
THOMAS E GLEASON JR, ATTORNEY GLEASON & DOTY CHTD PO BOX 6 LAWRENCE, KS 66044-0006		
COLLEEN HARRELL, LITIGATION COUNSEL KANSAS CORPORATION COMMISSION 1500 SW ARROWHEAD ROAD TOPEKA, KS 66604-4027 ***Hand Delivered***		
BRUCE A. NEY, ATTORNEY, ROOM 515 SOUTHWESTERN BELL TELEPHONE CO. D/B/A AT&T 220 EAST SIXTH STREET TOPEKA, KS 66603		
C. STEVEN RARRICK, ATTORNEY CITIZENS' UTILITY RATEPAYER BOARD 1500 SW ARROWHEAD ROAD TOPEKA, KS 66604 ***Hand Delivered***		
TORRY SOMERS, ATTORNEY AT LAW/NVLSVBO207 UNITED TELEPHONE CO. OF KANSAS D/B/A CENTURYLINK 330 S VALLEY VIEW BLVD LAS VEGAS, NV 89107		

ORDER MAILED **FEB 24 2011**

The Docket Room hereby certified that on this _____ day of _____, 20_____, it caused a true and correct copy of the attached ORDER to be deposited in the United States Mail, postage prepaid, and addressed to the above persons.