

**THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

Before Commissioners: John Wine, Chair
 Cynthia L. Claus
 Brian J. Moline

In the Matter of Filing the Audit Report)
for the Kansas Universal Service Fund) Docket No. 03-GIMT-281-AUD
Fiscal Year 2000/2001 and Providing)
Recommendations for Future Audits.)

**ORDER ON STAFF'S MOTION
TO ACCEPT AUDIT REPORT AND CONSIDER RECOMMENDATIONS**

The above-captioned matter comes before the State Corporation Commission of the State of Kansas (Commission) for a decision. Being familiar with its files and records and fully advised in the premises, the Commission finds and concludes as follows:

1. On October 4, 2002, Staff filed a Motion to Accept Audit Report and Consider Recommendations in this docket. Staff explained that the National Exchange Carrier Association (NECA), which administers the Kansas Universal Service Fund (KUSF), had filed its report on the audits performed annually to ascertain the accuracy of the reporting by contributors to the KUSF for fiscal year 2000/2001, pursuant to K.S.A. 66-2010(b), and that NECA had also provided certain recommendations for future audits. NECA's Report was attached to Staff's Motion. As in previous years Staff's Motion was served by posting it to the Commission's web site.

2. NECA audited 16 contributors to the KUSF and filed separate audit reports in the company-specific audit dockets. However, NECA's Report and Staff's Motion explained that NECA has experienced delays in obtaining the necessary data from MCI/Worldcom Network Services Telecom Group, so it has not yet been concluded. The Motion conveyed that NECA

had ascertained that information provided to NECA by the audited contributors to a great extent was accurate and complete. However, six companies had findings that resulted in additional payments to the KUSF in an aggregate amount of \$248,816. NECA also observed that WWC License LLC had not responded to the initial audit findings and that findings for some of the companies could not be quantified. Issues relating to specific companies are addressed in the company-specific dockets.

3. NECA provided three recommendations for future KUSF audits. They are:
 - a. Audit only two months of data instead of three.
 - b. Continue to permit desk audits.
 - c. Negotiate the audit agreement and select the sample of companies to be audited immediately after the end of the fiscal year.

NECA states in its Report that it recommended auditing only two months last year also, but the Commission decided to continue the requirement to audit three months and asked NECA to address this issue again. NECA states, “Nearly all of the findings uncovered in the fourth year audits affected all months in the audit period. Thus, examining three months rather than two did not produce any additional results and simply increased audit costs charged to the KCC.”

Recommendation # 1. Staff observed in its Motion that the Commission’s September 19, 2001 Order in Docket No. 02-GIMT-116-AUD, at ¶ 6, required NECA to “specifically address whether the audit of only two months of data instead of three would have resulted in any differences in findings for the audited companies.” Staff expressed concern that NECA’s language did not contain the specificity requested by the Commission in that it stated that “nearly all the findings affected all months....” Staff recommended the Commission require NECA to specify whether in all audits performed this year an audit of two months of data would have resulted in the same findings for all the audited companies as the audit of three months of data

did. Staff recommended that the Commission issue an Order approving the Audit Report and soliciting comments from interested parties on NECA's recommendations.

4. The Commission will not set out the two additional recommendations in detail, but attaches NECA's Audit Report to this Order so as to permit all parties to review and address the three issues. NECA also advised the Commission of its intent to make two administrative changes: to clarify the affidavit for companies that have no intrastate retail revenues or Kansas customers; and, to clarify the Remittance Worksheet that intrastate revenues from non-taxable entities are subject to KUSF assessment.

5. The Commission finds that NECA's Audit Report shall be approved. To the extent issues remain outstanding with respect to some of the audited companies, those issues will be addressed in each company's specific docket. However, to the extent Western Wireless has not yet responded to the initial audit findings, the Commission directs it to do so within fifteen days of this order.

6. The Commission requests that interested parties file comments on NECA's Audit Report on or before November 6, 2002. This Order will be served on all contributors to the KUSF. The final Order in this docket will be posted on the Commission's web page: <http://www.kcc.state.ks.us/> Any decisions made in this docket by the Commission regarding future audits will also be included in the Commission's Order in Docket No. 03-GIMT-284-GIT, *In the Matter of Investigation to Determine the March 1, 2003 assessment for the Seventh Kansas Universal Service Fund Year*. This order will be issued some time in the second half of January, 2003. Any party who wants to be served with the final Order by mail, may so notify the Commission no later than November 15, 2002. Staff shall compile a service list for the final Order based on such notifications.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

- A. NECA's Audit Report for the 2000/2001 KUSF fiscal year is approved.
- B. The Commission requests that interested parties file comments on NECA's recommendations for future audits on or before November 6, 2002.
- C. Parties wanting service of the final Order in this docket by mail, shall so notify the Commission no later than November 15, 2002.
- D. The parties have fifteen days, plus three days if service of this Order is by mail, from the date of service of this Order in which to request rehearing on any matter decided herein.
- E. The Commission retains jurisdiction over the subject matter and the parties for the purpose of entering such further order or orders as it may deem necessary.

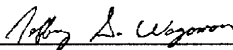
BY THE COMMISSION IT IS SO ORDERED.

Wine, Chr.; Claus, Com.; Moline, Com.

Dated: OCT 31 2002

ORDER MAILED

NOV 01 2002



Jeffrey S. Wagaman
Executive Director

EP

FY 2000 / 2001

**KANSAS UNIVERSAL SERVICE FUND CARRIER AUDITS
FINAL REPORT**

Background:

The Kansas Corporation Commission (KCC) has required that audits be conducted of contributors to the Kansas Universal Service Fund (KUSF). The KCC, in its October 30, 1998 order, clarified that Kansas Statute 66-2010(b) requires that NECA, as administrator of the fund, conduct the audits. The purpose of these audits is to ensure that the data contributors provide to NECA on the monthly KUSF Carrier Remittance Worksheets is appropriate and accurate.

Audits were conducted by NECA according to the audit plan as agreed to between the KCC and NECA. The audits were performed on the following sampling of contributors:

- Liberty Cellular, Inc. d/b/a Alltel
- Verizon Wireless LLC
- Voicestream PCS II License Corp.
- MCI/WorldCom Network Services Telecomm. Group*
- WWC License LLC
- Craw-Kan Telephone Coop Inc.
- APT Kansas City (Voicestream)
- Topeka SMSA d/b/a Cingular Wireless
- RCN Telecom Services
- Ohio RSA #1 d/b/a Kansas RSA #15
- Vartec Telecom Inc.
- LCI International Telecom Group
- IONEX Communications
- Telephone Company of Central Florida, Inc.
- Satelink Paging, LLC
- LD Exchange.com

Results:

To a great degree, the information contributors provide to NECA on the monthly KUSF Carrier Remittance Worksheets is complete and accurate. There were no findings discovered during the audit process that significantly impact contributions to the KUSF.

Many of the findings were procedural in nature and didn't result in any changes in KUSF reporting. However, six companies had findings that affected their KUSF reporting. These findings, in aggregate, resulted in \$248,816 more paid into the KUSF**. Individual reports for each company audited have been provided to the KCC under separate cover.

* Information from the MCI/WorldCom audit is not included in this summary due to delays in obtaining the required data from the company.

** These figures do not include results for WWC License LLC, which has not responded to the initial audit findings. In addition, some findings from other companies could not be quantified.

Recommendations:

1. Last year's report recommended that the requirement to examine three months of data rather than two should be evaluated. While the Commission declined to reduce the number of months for the fourth year, it asked that NECA address this issue again. Nearly all of the findings uncovered in the fourth year audits affected all months in the audit period. Thus, examining three months rather than two did not produce any additional results and simply increased audit costs charged to the KCC. NECA therefore recommends that the number of audit months be reduced from three to two.
2. NECA had also recommended the use of desk audits on small contributors to help control costs. While allowing these desks audits, the Commission requested that NECA document any problems encountered in auditing without going on-site. In the fourth year, desk audits were performed on the three "zero-contributor" companies and also on one other small contributor. No problems were encountered in these audits. Thus, NECA recommends that desk audits continue to be permitted.
3. The fifth audit year will examine the data months of March 2001 through February 2002. If past history holds true, the audit agreement and sample selection won't be finalized until late 2002 or early 2003. Audits won't actually be conducted until the spring of 2003. This schedule places a burden on companies by requiring them to produce accounting records and customer bills that may be over two years old. Occasionally, when this data is archived, it is not saved in the detail required to do the audit. If the audit agreement and sample selection occurred immediately after the end of the audit period, audits could commence sooner and some of these problems may be avoided.

Although administrative issues, NECA is using this opportunity to apprise the Commission that it intends to make the following changes:

4. Audit step IV.A.1. will be clarified so that the affidavit ~~should state that the company had no Kansas intrastate retail revenues~~ or Kansas customers during the audit period.
5. The KUSF Remittance Worksheet instructions will be revised to clarify that intrastate revenues from non-taxable entities are to be assessed for KUSF.

-- August 8, 2002