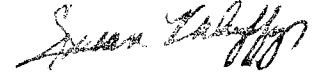


BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

STATE CORPORATION COMMISSION

NOV 20 2009



In the Matter of the Investigation to )  
Determine a New Affordable Rate for Rate )  
of Return Regulated Companies and the )  
March 1, 2007 Assessment for the Eleventh )  
Kansas Universal Service Fund Year. )

Docket No. 07-GIMT-276-GIT

**STAFF MOTION TO ACCEPT YEAR ELEVEN AUDIT REPORT**

COMES NOW the Staff of the State Corporation Commission of the State of Kansas  
(Staff and Commission, respectively) and for its Staff Motion to Accept Year Eleven Audit  
Report states as follows:

1. On October 6, 2009, the Commission received GVNW Consulting, Inc.'s  
(GVNW) annual report of the carrier audits performed for the Kansas Universal Service Fund  
(KUSF) fiscal year March 2007 – February 2008. The Report is attached to this motion. These  
audits are performed pursuant to K.S.A. 66-2010(b) to ascertain the accuracy of data submitted  
to GVNW by KUSF contributors. GVNW states sixteen carriers to the KUSF were selected for  
review in accordance with the selection criteria (attached to the report). GVNW listed various  
findings on pages two and three of its audit report.

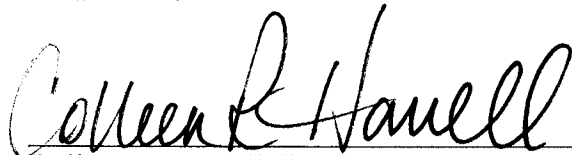
2. GVNW also made note of the current status of audits, as of September 30,  
2009, and made the following recommendations for future audits:

- a) increase the revenue threshold for companies eligible for a desk audit; and
- b) change the KUSF carrier review procedures by adding clarification  
(suggested by GVNW and provided in the audit report) that customer rates may be based  
on rate-range pricing, individual pricing, and contracts in addition to tariffs.

3 In conformance with past practice, Staff serves this motion by posting it on the Commission's web site. Staff will also direct GVNW to post the audit report on its web site. Staff recommends the Commission solicit comments on GVNW's recommendations in paragraph 2 above, and suggests the Commission set **Wednesday, December 30, 2009**, as the date by which any comments on GVNW's recommendations be filed. Staff recommends the order on Staff's motion be served on all contributors to the KUSF.

WHEREFORE Staff requests the Commission issue an order accepting the audit report for the 2007-2008 KUSF fiscal year, and for such other and further relief as the Commission deems just and proper.

Respectfully submitted,

A handwritten signature in black ink that reads "Colleen R. Harrell". The signature is written in a cursive style and is positioned above a horizontal line.


Colleen R. Harrell, #16121  
Litigation Counsel, Telecommunications  
1500 S.W. Arrowhead Road  
Topeka, KS 66604  
(785) 271-3110 phone  
(785) 271-3167 fax  
c.harrell@kcc.ks.gov

**VERIFICATION**

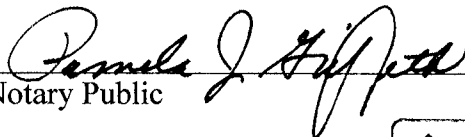
STATE OF KANSAS            )  
  )        SS:  
COUNTY OF SHAWNEE    )

Colleen R. Harrell, of lawful age being first duly sworn upon oath states:

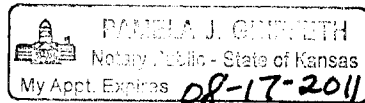
That she is the attorney for the Corporation Commission Staff in this matter; that she has read and is familiar with the foregoing Staff Motion and believes that the statements made therein are true and correct to the best of her information, knowledge and belief.

  
\_\_\_\_\_  
Colleen R. Harrell

Subscribed and sworn to before me this 20th day of November 2008.

  
\_\_\_\_\_  
Notary Public

My appointment expires:





GVNW CONSULTING, INC.

2270 LA MONTANA WAY (80918)  
P.O. BOX 25969 (80936)  
COLORADO SPRINGS, CO  
TEL 719.594.5800  
FAX 719.594.5803  
www.gvnw.com

October 1, 2009

2009.10.06 10:16:46  
Kansas Corporation Commission  
/S/ Susan K. Duffy

Ms. Susan Duffy, Executive Director  
Kansas Corporation Commission  
1500 SW Arrowhead Road  
Topeka, KS 66604-4027

STATE CORPORATION COMMISSION

OCT 06 2009

Subject: Fiscal Year 11 Final Report  
Kansas Universal Service Fund Carrier Reviews

Dear Ms. Duffy:

The enclosed Final Report summarizes the sixteen carrier Kansas Universal Service Fund (KUSF or Fund) audits conducted for the period March 2007 through February 2008 (Fiscal Year 11). Kansas Statute K.S.A. 66-2010(b) requires GVNW, as Administrator of the KUSF, to conduct audits of contributors to ensure that the data submitted to the KUSF Administrator and the calculation and collection of the KUSF assessment from the carriers' customers are complete and accurate.

If you should have any questions or need further information, please do not hesitate to contact me by phone at 719.594.5810 or by email at [dwinter@gvnw.com](mailto:dwinter@gvnw.com).

Sincerely,

David Winter  
Senior Consultant  
GVNW Consulting, Inc.

Enclosures

**Kansas Universal Service Fund Final Audit Report  
March 2007 – February 2008 (Fiscal Year 11)  
October 1, 2009**

**Summary**

Sixteen carrier Kansas Universal Service Fund (KUSF or Fund) audits were conducted for the period March 2007 through February 2008 (Fiscal Year 11). Kansas Statute K.S.A. 66-2010(b) requires GVNW, as Administrator of the KUSF, to conduct audits of contributors to ensure that the data submitted to the KUSF Administrator and the calculation and collection of the KUSF assessment from the carriers' customers are complete and accurate. The carrier audits were conducted in accordance with the KUSF Carrier Review Procedures<sup>1</sup> adopted by the Kansas Corporation Commission (KCC or Commission) in Docket No. 08-GIMT-1045-GIT (Docket 1045).

The sixteen carrier audits for Fiscal Year 11 resulted in the following financial impact to the KUSF and customers:

- \$876,418 of assessments were refunded to companies, comprised of \$199,692 to Topeka Cellular Telephone Company, Inc.; \$672,376 to Alltel Communications, Inc.; and \$4,350 to NuVox.
- \$872,068 of assessments was refunded to customers, comprised of \$199,692 for Topeka Cellular Telephone Company, Inc.'s customers<sup>2</sup> and \$672,376 for Alltel Communications, Inc.'s customers.
- \$12,739 of additional assessments was paid to the KUSF as a result of Cox Kansas Telecom LLC, Business Network Long Distance, Matrix Telecom, Inc. and Cunningham Communications under-paying their assessments to the Fund.

**Background**

Based on the KUSF Selection Criteria for Retail Revenue Reviews Fiscal Year 2007/2008 in Docket 1045, the following carriers were selected for KUSF carrier audits:

- Alltel Communications, Inc. (Alltel)
- New Cingular Wireless (Cingular)
- Topeka Cellular Telephone Co., Inc. (Topeka Cellular)
- SBC Long Distance, Inc. (SBCLD)
- Cox Kansas Telecom, LLC (Cox)
- Sunflower Telecom Company, Inc. (Sunflower)

---

<sup>1</sup> Carrier Review Procedures for Fiscal Year 11 (March 1, 2007, through February 29, 2008)

<sup>2</sup> Refunds of \$1,202,724 to Verizon Wireless' customers occurred concurrently with the refunds to Topeka Cellular's customers. The refund for Verizon Wireless' customers was authorized in Docket No. 08-VERZ-044-KSF.

- AT&T Communications of the Southwest (AT&T SW)
- Ionex Communications, Inc. (Ionex)
- Matrix Telecom, Inc.(Matrix)
- Cunningham Communications (Cunningham)
- MegaPath, Inc. (MegaPath)
- Movida Communications (Movida)
- Business Network Long Distance (BNLD)
- Talk America, Inc. (Talk)
- NuVox Communications of Kansas, Inc. (NuVox)
- DCT Telecom Group, Inc. (DCT)

GVNW filed Motions for Extensions of Time with the KCC in the dockets for AT&T SW, Talk, NuVox, Cox, Cingular, and Movida. Four companies filed written responses to the audit reports.

#### **Audit Findings**

Of the sixteen companies selected for review, DCT did not have any findings. One company, Movida, had filed for Chapter 11 bankruptcy after the audit period and its assets were sold to Cozac Wireless, LLC. Thus, GVNW was unable to conduct a KUSF audit of the company due to the bankruptcy and liquidation of the company. The remaining fourteen companies had the following findings:

#### **A. Revenues and Assessments:**

- Three did not report actual monthly revenues, but instead reported calculated revenues by dividing the total assessment collected from customers by the KUSF assessment rate. Two of these companies did not comply with previous audit recommendations adopted by the Commission to report actual, not calculated, revenues.
- One did not impute or report revenue from bundled services on a stand-alone basis.
- Four companies did not report all of the appropriate revenues to the KUSF.
- Four reported monthly revenue one month in arrears.

#### **B. Customer Surcharges**

- Three companies collected their KUSF assessments from customers by applying the surcharge to non-assessable revenues.

- One collected the KUSF surcharge based on the assessment rate effective on the date of each call, not the rate in effect when the bill was issued.

C. Reporting Issues

- Two wireless carriers directly assigned revenues to the applicable jurisdiction, but had not filed a pleading with the KCC. During the audit, the carriers filed a pleading, accompanied by an affidavit signed by an officer of the company, identifying the method used for KUSF purposes and verifying this same method is used for Federal Universal Service Fund purposes.

D. Other Issues

- One did not have written internal reporting procedures.
- One company was classified as an Internet Service Provider (ISP) as defined by § 66.02011 and not subject to the KUSF reporting requirements.

**Current Status, as of September 30, 2009:**

- Eleven audit dockets have been closed by the KCC.
- GVNW filed the audit report for Cox on September 30, 2009.
- One audit docket is waiting for a KCC order to close the docket.
- Three dockets remain open for compliance issues:

**Alltel:** Company provided GVNW the amount to be refund to its customers (\$672,376) and is in the process of completing and submitting revised true-ups to GVNW. Upon submission to GVNW of the true-ups and supporting documentation, GVNW will provide the Commission with an update.

**Matrix:** Matrix has submitted final initial true-ups, CRWs and supporting data to GVNW. Matrix is currently in the process of submitting these documents and the amount owed to the KUSF Administrator.

**NuVox:** The Company submitted revised true-ups and supporting documentation to GVNW. Revised CRWs for March 2009 – July 2009 have not been submitted due to the remapping of Kansas transactions to the general ledger that occurred subsequent to February 2009 generated incorrect results. NuVox is still working on its Kansas revenue mapping program and will provide an update to GVNW in the near future. The Company filed on September 17, 2009, a pleading accompanied by an affidavit of an officer of the Company confirming that NuVox uses the direct assignment method for allocating non-bundled VoIP service intrastate revenues for KUSF assessment reporting purposes.

### **Recommendations for Future Audits**

1. Increase the revenue threshold for companies eligible for a desk audit of \$100,000 (\$5,000 of assessments) in annual Kansas retail revenues to \$250,000 (\$12,500 of assessments). This will allow GVNW to conduct an on-site visit if one is needed, but will allow GVNW to decrease travel time and related expenses associated with reviewing the KUSF obligations for smaller carriers and help minimize the costs for the carriers.
2. Change the KUSF Carrier Review Procedures (Attachment A) by adding the following clarification that customer rates may be based on rate-range pricing, individual pricing, and contracts:

Under Section III.G, add the following subsections:

6. Identification of the company's contact on file with GVNW, with a request for the company to provide any necessary updates. 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 supporting 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 conformation for overnight delivery, etc.

Under Section V.5., add the following subsections:

a. Tariffs: Review tariffs to determine that rates charged are consistent with filed tariffs. Tariffs are generally available to the public; however, exceptions to filed tariffs in docket systems are as follows:

b. Promotional Offerings: Pursuant to K.S.A. 66-2005(l), 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 time frame in between when a promotion can be offered (i.e., end today, not offered one day, and then reoffered for another 90-day period)

c. 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-GIMT-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>).

d. Contracts: Pursuant to K.S.A. 66-1,189 and 66-1,190, all rates, services, charges, etc. to have just and reasonable rates and companies are required to file contracts with the Commission.

Under Section V.B.1., add the following subsections:

f. Interconnected VoIP provider: 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 company 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.

Add a new section, Section VIII. 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.

## KANSAS UNIVERSAL SERVICE FUND CARRIER REVIEW PROCEDURES

For Fiscal Year 12 (March 1, 2008 through February 28, 2009)

(Revised September 24, 2009)

**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 objective 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 12 (March 1, 2008 through February 28, 2009).

B. The KUSF percentage assessment rate in effect during FY 12 was 4.65%.

C. The local service Per Line Assessment for the Incumbent LECs in effect during FY 12 were:

SWBT - \$1.37

Embarq - \$1.36

Rural LECs \$1.01

### III. Pre-Audit and General Information:

A. Obtain copies and review all relevant Kansas statutes<sup>1</sup> 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. Orders creating the KUSF (*See* December 27, 1996 and February 3, 1997 Orders, Docket No. 94-GIMT-478-GIT);

3. Orders directing KUSF Administrator to perform the carrier audits (*See* October 30, 1998 and December 11, 1998 Orders, Docket No. 94-GIMT-478-GIT);

4. Order(s) listing reportable revenues (Reportable Revenues) for the Audit Period:

- Each company is assessed on its own revenue: November 30, 1999 Order, Docket No. 99-GIMT-784-GIT;
- Revenue from jurisdictionally-mixed services, recurring charges, bundled service plans: September 2, 2003 and October 9, 2003 Orders, Docket No. 03-GIMT-932-

---

<sup>1</sup> Kansas Statutes, K.S.A. 66-2001-K.S.A. 66-2010 may be viewed at: <http://www.kslegislature.org/legsrv-statutes/getStatuteInfo.do>

GIT;

- 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-332-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;
- Interconnected Voice over Internet Protocol revenue reporting, September 22, 2008 Order, Docket No. 07-GIMT-432-GIT;
- 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.;
- Supplemental funding procedures: May 25, 2000 Order Approving Procedures for Supplemental KUSF Funding, Docket No. 00-GIMT-842-GIT;
- Carrier Remittance Worksheet Instructions for Review Period;
- 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 05-GIMT-1039-GIT; and Docket No. 07-GIMT-1039-GIT. (See also Additional Lifeline data Attachment A);
- 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);
- Carrier Review Procedures and Selection Criteria
  - i. October 15, 1999 Order Accepting NECA's Final Report and Recommendations (FY 97/98), Docket No. 94-GIMT-478-GIT;
  - ii. November 8, 2000 Order 2 on KUSF Audit Recommendations (FY 98/99), Docket No. 00-GIMT-1175-GIT;
  - iii. 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;
  - iv. October 31, 2002 Order on Staff's Motion to Accept Audit Report and Consider Recommendations (FY 00/01), Docket No. 03-GIMT-281-AUD;
  - v. November 3, 2003 Order Accepting Audit Recommendations (FY 01/02), Docket No. 04-GIMT-254-AUD;
  - vi. October 13, 2004 Order Accepting Audit Recommendations (FY 02/03), Docket No. 05-GIMT-003-AUD;
  - vii. December 9, 2005 Order Accepting Audit Recommendations (FY 03/04), Docket No. 06-GIMT-458-AUD;
  - viii. September 10, 2007 Order Accepting Audit Report (FY 04/05), Docket No. 08-GIMT-100-AUD); and
  - ix. July 25, 2008 Order Accepting Audit Report (FY 05/06), Docket No. 08-GIMT-1045-GIT.

- Annual Reports filed with the KCC, for the years-ended December 31, 2007 and December 31, 2008.

*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 1), 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 12 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 13 CRWs filed to date, including revisions. Review and compare the FY 13 to FY 12 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 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. 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.
- 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), and
  5. Confidential Material information (Attachment C)
  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 supporting 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 conformation 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. Substantive information or material relied on for audit findings should be confirmed in writing, with verification signed by the appropriate company personnel.
- J. 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 revisions per the audit report, and reviewing the draft audit report. All contact with the 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:**

1. 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 12 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.

2. Review the monthly billing summaries and journals, and sample bills for the selected three months.
3. Trace retail revenues reported to the KUSF Administrator to details provided in the company's records (i.e. billing summaries, journals, ledgers, etc.).
  - a. Ensure that the intrastate retail revenues reported to the Administrator include all the following revenues billed for the three months:
    - i. 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),
    - ii. Intrastate long distance service and inter-city special access billed to end users,
    - iii. Miscellaneous charges, including: late payment charges, customer fees, non-recurring, and installation,
    - iv. All other revenues listed on the approved Revenues Reportable to the KUSF for the review period,
    - v. 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)
    - vi. 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 company 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.

4. 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)
5. Verify rates charged are on file with the Commission: (Note: Wireless, Paging, and VoIP do not file rates with KCC).
  - a. 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:
  - b. Promotional Offerings: Pursuant to K.S.A. 66-2005(l), 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)
  - c. 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's 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-GIMT-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>)
  - d. Contracts: Pursuant to K.S.A. 66-1,189 and 66-1,190, all rates, services, charges, etc. to have just and reasonable rates and companies are required to file contracts with the Commission.

6. 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.
7. If the selected company claimed Lifeline credits during the Year 12 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.
8. **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 (modified language as company is not required to collect all, or any, of its assessment from "Customers").
9. Review the company's billing system and sample customer invoices to determine what customer revenues the company assesses and collects the KUSF surcharge from.

**VI. General Principles 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 interstate 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.*

**KUSF Assessment Collected from Customers:**

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.

- A. 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.
- B. Review customer bills to verify the company collected its KUSF surcharge through a separate line item.
- C. Recalculate 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.
- D. Verify the account to which the company records the total monthly KUSF collected from customers.
- E. 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

**V. 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 booked revenues 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 month 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 uncollectible 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).
  8. Review the KUSF assessment billed to Kansas customers and verify that the per line assessment (for Incumbent LECs only) or the % 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 the KUSF surcharge for the appropriate services.

#### **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.

#### **VII. 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 to 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 audit 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.
- b. 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;
- c. 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.

**VIII. 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.

**IX. Treatment of Preliminary Review Findings:**

- A. If the review findings indicate 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 auditor, 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.

## **X. 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. 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 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 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.) No. 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 any unresolved issues at the time the audit report is filed with the KCC will be included in the audit report.

## **Y. Post-On-Site Procedures:**

- 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.

## **XI. 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. The Report summary should contain bulleted findings plus the net impact of the findings.
- C. The Report should include a “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.
- D. 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, 2009, 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 the 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).
- E. 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).
- F. 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.

## **XII. 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 cover 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. Seven copies of 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 both a confidential and a redacted copy of the Report are filed, only the original copy of the redacted report will be filed with the 7 copies of the confidential report. 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.



GVNW CONSULTING, INC.

2270 LA MONTANA WAY (80918)  
P.O. BOX 25969 (80936)  
COLORADO SPRINGS, CO  
TEL 719.594.5800  
FAX 719.594.5803  
[www.gvnw.com](http://www.gvnw.com)

October 1, 2009

Ms. Susan Duffy, Executive Director  
Kansas Corporation Commission  
1500 SW Arrowhead Road  
Topeka, KS 66604-4027

Subject: Fiscal Year 11 Final Report  
Kansas Universal Service Fund Carrier Reviews

Dear Ms. Duffy:

The enclosed Final Report summarizes the sixteen carrier Kansas Universal Service Fund (KUSF or Fund) audits conducted for the period March 2007 through February 2008 (Fiscal Year 11). Kansas Statute K.S.A. 66-2010(b) requires GVNW, as Administrator of the KUSF, to conduct audits of contributors to ensure that the data submitted to the KUSF Administrator and the calculation and collection of the KUSF assessment from the carriers' customers are complete and accurate.

If you should have any questions or need further information, please do not hesitate to contact me by phone at 719.594.5810 or by email at [dwinter@gvnw.com](mailto:dwinter@gvnw.com).

Sincerely,

A handwritten signature in black ink, appearing to read "D. Winter", with a long horizontal flourish extending to the right.

David Winter  
Senior Consultant  
GVNW Consulting, Inc.

Enclosures



**Kansas Universal Service Fund Final Audit Report**  
**March 2007 – February 2008 (Fiscal Year 11)**  
**October 1, 2009**

**Summary**

Sixteen carrier Kansas Universal Service Fund (KUSF or Fund) audits were conducted for the period March 2007 through February 2008 (Fiscal Year 11). Kansas Statute K.S.A. 66-2010(b) requires GVNW, as Administrator of the KUSF, to conduct audits of contributors to ensure that the data submitted to the KUSF Administrator and the calculation and collection of the KUSF assessment from the carriers' customers are complete and accurate. The carrier audits were conducted in accordance with the KUSF Carrier Review Procedures<sup>1</sup> adopted by the Kansas Corporation Commission (KCC or Commission) in Docket No. 08-GIMT-1045-GIT (Docket 1045).

The sixteen carrier audits for Fiscal Year 11 resulted in the following financial impact to the KUSF and customers:

- \$876,418 of assessments were refunded to companies, comprised of \$199,692 to Topeka Cellular Telephone Company, Inc.; \$672,376 to Alltel Communications, Inc.; and \$4,350 to NuVox.
- \$872,068 of assessments was refunded to customers, comprised of \$199,692 for Topeka Cellular Telephone Company, Inc.'s customers<sup>2</sup> and \$672,376 for Alltel Communications, Inc.'s customers.
- \$12,739 of additional assessments was paid to the KUSF as a result of Cox Kansas Telecom LLC, Business Network Long Distance, Matrix Telecom, Inc. and Cunningham Communications under-paying their assessments to the Fund.

**Background**

Based on the KUSF Selection Criteria for Retail Revenue Reviews Fiscal Year 2007/2008 in Docket 1045, the following carriers were selected for KUSF carrier audits:

- Alltel Communications, Inc. (Alltel)
- New Cingular Wireless (Cingular)
- Topeka Cellular Telephone Co., Inc. (Topeka Cellular)
- SBC Long Distance, Inc. (SBCLD)
- Cox Kansas Telecom, LLC (Cox)
- Sunflower Telecom Company, Inc. (Sunflower)

---

<sup>1</sup> Carrier Review Procedures for Fiscal Year 11 (March 1, 2007, through February 29, 2008)

<sup>2</sup> Refunds of \$1,202,724 to Verizon Wireless' customers occurred concurrently with the refunds to Topeka Cellular's customers. The refund for Verizon Wireless' customers was authorized in Docket No. 08-VERZ-044-KSF.

- AT&T Communications of the Southwest (AT&T SW)
- Ionex Communications, Inc. (Ionex)
- Matrix Telecom, Inc.(Matrix)
- Cunningham Communications (Cunningham)
- MegaPath, Inc. (MegaPath)
- Movida Communications (Movida)
- Business Network Long Distance (BNLD)
- Talk America, Inc. (Talk)
- NuVox Communications of Kansas, Inc. (NuVox)
- DCT Telecom Group, Inc. (DCT)

GVNW filed Motions for Extensions of Time with the KCC in the dockets for AT&T SW, Talk, NuVox, Cox, Cingular, and Movida. Four companies filed written responses to the audit reports.

#### **Audit Findings**

Of the sixteen companies selected for review, DCT did not have any findings. One company, Movida, had filed for Chapter 11 bankruptcy after the audit period and its assets were sold to Cozac Wireless, LLC. Thus, GVNW was unable to conduct a KUSF audit of the company due to the bankruptcy and liquidation of the company. The remaining fourteen companies had the following findings:

#### **A. Revenues and Assessments:**

- Three did not report actual monthly revenues, but instead reported calculated revenues by dividing the total assessment collected from customers by the KUSF assessment rate. Two of these companies did not comply with previous audit recommendations adopted by the Commission to report actual, not calculated, revenues.
- One did not impute or report revenue from bundled services on a stand-alone basis.
- Four companies did not report all of the appropriate revenues to the KUSF.
- Four reported monthly revenue one month in arrears.

#### **B. Customer Surcharges**

- Three companies collected their KUSF assessments from customers by applying the surcharge to non-assessable revenues.

- One collected the KUSF surcharge based on the assessment rate effective on the date of each call, not the rate in effect when the bill was issued.

C. Reporting Issues

- Two wireless carriers directly assigned revenues to the applicable jurisdiction, but had not filed a pleading with the KCC. During the audit, the carriers filed a pleading, accompanied by an affidavit signed by an officer of the company, identifying the method used for KUSF purposes and verifying this same method is used for Federal Universal Service Fund purposes.

D. Other Issues

- One did not have written internal reporting procedures.
- One company was classified as an Internet Service Provider (ISP) as defined by § 66.02011 and not subject to the KUSF reporting requirements.

**Current Status, as of September 30, 2009:**

- Eleven audit dockets have been closed by the KCC.
- GVNW filed the audit report for Cox on September 30, 2009.
- One audit docket is waiting for a KCC order to close the docket.
- Three dockets remain open for compliance issues:

**Alltel:** Company provided GVNW the amount to be refund to its customers (\$672,376) and is in the process of completing and submitting revised true-ups to GVNW. Upon submission to GVNW of the true-ups and supporting documentation, GVNW will provide the Commission with an update.

**Matrix:** Matrix has submitted final initial true-ups, CRWs and supporting data to GVNW. Matrix is currently in the process of submitting these documents and the amount owed to the KUSF Administrator.

**NuVox:** The Company submitted revised true-ups and supporting documentation to GVNW. Revised CRWs for March 2009 – July 2009 have not been submitted due to the remapping of Kansas transactions to the general ledger that occurred subsequent to February 2009 generated incorrect results. NuVox is still working on its Kansas revenue mapping program and will provide an update to GVNW in the near future. The Company filed on September 17, 2009, a pleading accompanied by an affidavit of an officer of the Company confirming that NuVox uses the direct assignment method for allocating non-bundled VoIP service intrastate revenues for KUSF assessment reporting purposes.

### **Recommendations for Future Audits**

1. Increase the revenue threshold for companies eligible for a desk audit of \$100,000 (\$5,000 of assessments) in annual Kansas retail revenues to \$250,000 (\$12,500 of assessments). This will allow GVNW to conduct an on-site visit if one is needed, but will allow GVNW to decrease travel time and related expenses associated with reviewing the KUSF obligations for smaller carriers and help minimize the costs for the carriers.
2. Change the KUSF Carrier Review Procedures (Attachment A) by adding the following clarification that customer rates may be based on rate-range pricing, individual pricing, and contracts:

Under Section III.G, add the following subsections:

6. Identification of the company's contact on file with GVNW, with a request for the company to provide any necessary updates. 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 supporting 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 conformation for overnight delivery, etc.

Under Section V.5., add the following subsections:

a. Tariffs: Review tariffs to determine that rates charged are consistent with filed tariffs. Tariffs are generally available to the public; however, exceptions to filed tariffs in docket systems are as follows:

b. 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 time frame in between when a promotion can be offered (i.e., end today, not offered one day, and then reoffered for another 90-day period)

c. 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-GIMT-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>).

d. Contracts: Pursuant to K.S.A. 66-1,189 and 66-1,190, all rates, services, charges, etc. to have just and reasonable rates and companies are required to file contracts with the Commission.

Under Section V.B.1., add the following subsections:

f. Interconnected VoIP provider: 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 company 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.

Add a new section, Section VIII. 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.

## KANSAS UNIVERSAL SERVICE FUND CARRIER REVIEW PROCEDURES

For Fiscal Year 12 (March 1, 2008 through February 28, 2009)

(Revised September 24, 2009)

**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 objective 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 12 (March 1, 2008 through February 28, 2009).
- B. The KUSF percentage assessment rate in effect during FY 12 was 4.65%.
- C. The local service Per Line Assessment for the Incumbent LECs in effect during FY 12 were:
  - SWBT - \$1.37
  - Embarq - \$1.36
  - Rural LECs \$1.01

### III. Pre-Audit and General Information:

- A. Obtain copies and review all relevant Kansas statutes<sup>1</sup> 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. Orders creating the KUSF (*See* December 27, 1996 and February 3, 1997 Orders, Docket No. 94-GIMT-478-GIT);
  - 3. Orders directing KUSF Administrator to perform the carrier audits (*See* October 30, 1998 and December 11, 1998 Orders, Docket No. 94-GIMT-478-GIT);
  - 4. Order(s) listing reportable revenues (Reportable Revenues) for the Audit Period:
    - Each company is assessed on its own revenue: November 30, 1999 Order, Docket No. 99-GIMT-784-GIT;
    - Revenue from jurisdictionally-mixed services, recurring charges, bundled service plans: September 2, 2003 and October 9, 2003 Orders, Docket No. 03-GIMT-932-

---

<sup>1</sup> Kansas Statutes, K.S.A. 66-2001-K.S.A. 66-2010 may be viewed at: <http://www.kslegislature.org/legsrv-statutes/getStatuteInfo.do>

GIT;

- 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-332-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;
- Interconnected Voice over Internet Protocol revenue reporting, September 22, 2008 Order, Docket No. 07-GIMT-432-GIT;
- 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.;
- Supplemental funding procedures: May 25, 2000 Order Approving Procedures for Supplemental KUSF Funding, Docket No. 00-GIMT-842-GIT;
- Carrier Remittance Worksheet Instructions for Review Period;
- 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 05-GIMT-1039-GIT; and Docket No. 07-GIMT-1039-GIT. (See also Additional Lifeline data Attachment A);
- 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);
- Carrier Review Procedures and Selection Criteria
  - i. October 15, 1999 Order Accepting NECA's Final Report and Recommendations (FY 97/98), Docket No. 94-GIMT-478-GIT;
  - ii. November 8, 2000 Order 2 on KUSF Audit Recommendations (FY 98/99), Docket No. 00-GIMT-1175-GIT;
  - iii. 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;
  - iv. October 31, 2002 Order on Staff's Motion to Accept Audit Report and Consider Recommendations (FY 00/01), Docket No. 03-GIMT-281-AUD;
  - v. November 3, 2003 Order Accepting Audit Recommendations (FY 01/02), Docket No. 04-GIMT-254-AUD;
  - vi. October 13, 2004 Order Accepting Audit Recommendations (FY 02/03), Docket No. 05-GIMT-003-AUD;
  - vii. December 9, 2005 Order Accepting Audit Recommendations (FY 03/04), Docket No. 06-GIMT-458-AUD;
  - viii. September 10, 2007 Order Accepting Audit Report (FY 04/05), Docket No. 08-GIMT-100-AUD); and
  - ix. July 25, 2008 Order Accepting Audit Report (FY 05/06), Docket No. 08-GIMT-1045-GIT.

- Annual Reports filed with the KCC, for the years-ended December 31, 2007 and December 31, 2008.

*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 1), 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 12 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 13 CRWs filed to date, including revisions. Review and compare the FY 13 to FY 12 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 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. 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.
- 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), and
5. Confidential Material information (Attachment C)
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 supporting 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 conformation 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. Substantive information or material relied on for audit findings should be confirmed in writing, with verification signed by the appropriate company personnel.

J. 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 revisions per the audit report, and reviewing the draft audit report. All contact with the 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:**

1. 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 12 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.

2. Review the monthly billing summaries and journals, and sample bills for the selected three months.
3. Trace retail revenues reported to the KUSF Administrator to details provided in the company's records (i.e. billing summaries, journals, ledgers, etc.).
  - a. Ensure that the intrastate retail revenues reported to the Administrator include all the following revenues billed for the three months:
    - i. 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),
    - ii. Intrastate long distance service and inter-city special access billed to end users,
    - iii. Miscellaneous charges, including: late payment charges, customer fees, non-recurring, and installation,
    - iv. All other revenues listed on the approved Revenues Reportable to the KUSF for the review period,
    - v. 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)
    - vi. 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 company 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.

4. 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)
5. Verify rates charged are on file with the Commission: (Note: Wireless, Paging, and VoIP do not file rates with KCC).
  - a. 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:
  - b. Promotional Offerings: Pursuant to K.S.A. 66-2005(l), 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)
  - c. 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 IXCs 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-GIMT-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>)
  - d. Contracts: Pursuant to K.S.A. 66-1,189 and 66-1,190, all rates, services, charges, etc. to have just and reasonable rates and companies are required to file contracts with the Commission.

6. 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.
7. If the selected company claimed Lifeline credits during the Year 12 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.
8. **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 (modified language as company is not required to collect all, or any, of its assessment from "Customers").
9. Review the company's billing system and sample customer invoices to determine what customer revenues the company assesses and collects the KUSF surcharge from.

**VI. General Principles 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 interstate 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.*

**KUSF Assessment Collected from Customers:**

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.

- A. 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.
- B. Review customer bills to verify the company collected its KUSF surcharge through a separate line item.
- C. Recalculate 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.
- D. Verify the account to which the company records the total monthly KUSF collected from customers.
- E. 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

**V. 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 booked revenues 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 month 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 uncollectible 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).
  8. Review the KUSF assessment billed to Kansas customers and verify that the per line assessment (for Incumbent LECs only) or the % 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 the KUSF surcharge for the appropriate services.

#### **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.

#### **VII. 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 to 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 audit 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.
  - b. 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;
  - c. 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.

#### **VIII. 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.

#### **IX. Treatment of Preliminary Review Findings:**

- A. If the review findings indicate 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 auditor, 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.



## **X. 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. 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 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 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.) No. 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 any unresolved issues at the time the audit report is filed with the KCC will be included in the audit report.

## **Y. Post-On-Site Procedures:**

- 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.

## **XI. 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. The Report summary should contain bulleted findings plus the net impact of the findings.
- C. The Report should include a “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.
- D. 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, 2009, 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 the 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).
- E. 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).
- F. 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.

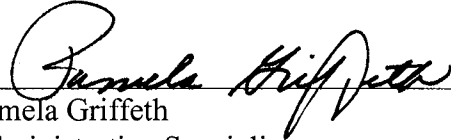
## **XII. Filing of Report**

- 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 cover 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. Seven copies of 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 both a confidential and a redacted copy of the Report are filed, only the original copy of the redacted report will be filed with the 7 copies of the confidential report. 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.

**CERTIFICATE OF SERVICE**

(07-GIMT-276-GIT)

On this 20<sup>th</sup> day of November, 2009, the above and foregoing *Staff Motion To Accept Year Eleven Audit Report* was served by posting it on the Commission's web site:  
www.kcc.ks.gov.

A handwritten signature in cursive script, reading "Pamela Griffeth", is written over a horizontal line.

Pamela Griffeth  
Administrative Specialist