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April 26, 2016

Ms. Amy L. Gilbert  
Secretary to the Commission  
Kansas Corporation Commission  
1500 SW Arrowhead Road  
Topeka, KS 66604-4027

RE: Docket No. 16-MLTT-034-KSF  
*In the Matter of the Audit of McLeod USA Telecommunications Services, L.L.C.  
by the Kansas Universal Service Fund (KUSF) Administrator Pursuant to K.S.A.  
2014 Supp. 66-2010(b) for KUSF Operating Year 18, Fiscal Year March 2014-  
February 2015.*

Dear Ms. Gilbert:

In its July 30, 2015 order the Kansas Corporation Commission (KCC) directed GVNW to perform a KUSF carrier audit of McLeod USA Telecommunications Services, L.L.C. (McLeod USA or Company) to ensure that the data submitted to the KUSF via the KUSF CRWs, the assessments paid, and the calculation and application of the flow-through surcharge billed to and collected from McLeod USA's customers, if applicable, are appropriate and accurate.

The KCC directed GVNW to file two versions of the audit report with the KCC; one version containing confidential information and one version with the confidential data redacted for public disclosure. McLeod USA's audit does not require a separate confidential report; therefore, only the enclosed public audit report for McLeod USA is being filed.

Copies of the supporting documentation, including GVNW's audit work papers and information provided by the company, are not included with the audit report, but are available from GVNW upon request.

Sincerely,

A handwritten signature in black ink, appearing to read "DW", is written over a horizontal line.

David Winter  
Senior Consultant

cc w/encl: Sandy Reams  
DW/dc – Encl.

## KANSAS UNIVERSAL SERVICE FUND AUDIT REPORT

**Docket No:** 16-MLTT-034-KSF  
McLeod USA Telecommunications Services LLC

**Prepared For:** Kansas Corporation Commission  
Kansas Universal Service Fund

**Prepared By:** David Winter  
GVNW Consulting, Inc.

**Audit Period:** March 1, 2014 through February 28, 2015  
Kansas Operating Year 18 (Operating Year 18)

**Company Representatives:** Tim Loken

**Date of On-Site Visit:** March 9 and 10, 2016

**Date Submitted to Company:** April 21, 2016

### Audit Summary

Based on the Kansas Universal Service Fund (KUSF) Carrier Review Procedures for Operating Year 18,<sup>1</sup> GVNW Consulting, Inc. (GVNW) identified two (2) KUSF reporting issues regarding McLeod USA Telecommunications Services LLC (McLeod USA or Company), with no monetary impact to the KUSF.

- Finding No. 1: McLeod USA reported calculated revenues to the KUSF since it does not have an internal process in place to separately identify Kansas specific revenues in its general ledger. McLeod USA has stated it should have the necessary internal processes in place by the end of 2016 to be able to report actual revenues to the KUSF.
- Finding No. 2: The KUSF surcharge collected from customers was not separately identified, but included as a single line item charge identified as "State/County/Local Surcharges". McLeod has represented that it will make the necessary billing system changes by the end of the 2<sup>nd</sup> Quarter of 2016.

GVNW recommends that the Kansas Corporation Commission (KCC or Commission) issue an Order to: (1) adopt the findings of this audit report; (2) direct the Company to discontinue reporting calculated revenues by the end of 2016, and upon implementing processes to report actual revenues to the KUSF, the Company should be directed to file in this Docket an affidavit, executed by an officer of the Company, attesting that the Company has implemented such processes and identify the effective date of when it will begin reporting actual revenue to the KUSF; and (3) direct McLeod USA to provide

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<sup>1</sup> Docket No. 14-GIMT-105-GIT (Docket 14-105), July 7, 2015, Order Accepting GVNW's KUSF Year 18 Audit Selections, Proposed Revisions to Selection Criteria and Audit Review Procedures.

copies or screen images of customer bills to GVNW that clearly demonstrate the KUSF surcharge as a separate line item. Upon review, GVNW will submit a compliance report verifying the Company modified its billing system to identify the KUSF surcharge as a separate line item.

### **Current KUSF Obligations**

McLeod USA is current with its KUSF obligations.<sup>2</sup>

### **Background**

McLeod USA is a competitive local exchange carrier (CLEC) headquartered in Little Rock, Arkansas. The Company is required to report its revenues and pay the related assessments to the KUSF on a monthly basis.<sup>3</sup> McLeod USA is authorized to collect an amount equal to or less than its assessment from customers,<sup>4</sup> and does so. The Company only offers service to business customers; therefore, it does not participate in the Lifeline program.

On July 30, 2015, the KCC issued Order No. 1 in Docket No. 16-039 directing GVNW to conduct an audit for KUSF purposes.

GVNW advises the Commission that McLeod USA only provides services to business customers in Kansas and a majority of its services are provided via individual contracts.<sup>5</sup>

### **Audit Findings**

GVNW conducted the audit of McLeod USA in accordance with the KUSF Carrier Review Procedures adopted by the KCC.<sup>6</sup> Based on these procedures, GVNW identified the following audit findings and recommendations:

#### **Audit Finding No. 1**

**Standard:** Carriers are required to report actual revenues, and may report uncollectible revenue written off, to determine their KUSF assessment obligation.

**Finding:** McLeod USA reports calculated revenues to the KUSF. The Company was purchased by Windstream Communications (Windstream) in 2011 and has continued to use the same legacy billing system.<sup>7</sup> When McLeod USA's billing information was

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<sup>2</sup> Confirmed on April 21, 2016 with the KUSF Administrator.

<sup>3</sup> Docket No. 06-GIMT-332-GIT (Docket 06-332), January 23, 2006, Order Setting the Kansas Universal Service Fund Assessment Rate For Year Ten and Establishing Reporting Requirements.

<sup>4</sup> K.S.A. 66-2008.

<sup>5</sup> Source: McLeod USA response to DR No. 14(A).

<sup>6</sup> Docket 14-105, July 7, 2015, Order.

<sup>7</sup> Source: McLeod Response to DR No. 15.

mapped to Windstream's revenue accounts, it was not necessarily mapped to a specific revenue account that is either assessed or not assessed to the KUSF surcharge. Therefore, if Windstream utilized the revenue accounting booking, the Company would have to apply a percentage for a given account.<sup>8</sup> The difference between the Company's general ledger revenues and the revenue reported is minimal; however, the Company erred on the side of caution & reported the higher of the two amounts. GVNW affirms that McLeod USA assesses the KUSF surcharge correctly and does not have any additional KUSF revenue reporting issues. McLeod USA intends to be able to specifically identify assessable and non-assessable revenues per its general ledger and report actual revenues to the KUSF by the end of 2016.

**Recommendation:** McLeod USA should be directed to discontinue the reporting of calculated revenues to the KUSF no later than the end of calendar year 2016. The Company should be reminded that while it reports calculated revenue, it is responsible for ensuring that the assessment owed and paid to the KUSF is no less than it would be if the Company identified and reported Kansas-specific revenues. Once the Company implements processes to report actual revenues to the KUSF, the Company should be directed to file an affidavit, executed by an officer of the Company, in this Docket, attesting that the Company has implemented such processes and identify the effective date of when it will begin reporting actual revenue to the KUSF.

## **Audit Finding No. 2**

**Standard:** Any federal, state, local government and/or regulatory taxes, fees and/or surcharges, shall be itemized on a subscriber's bill and shall be clearly identified.<sup>9</sup>

**Finding:** The KUSF surcharge collected from customers was not separately identified, but included as a single line item charge identified as "State/County/Local Surcharges".<sup>10</sup> Billing fees and surcharges are to be detailed and plainly listed on a customer's bill. McLeod USA stated it will be able to implement the necessary changes to clearly identify the KUSF surcharge in the 2<sup>nd</sup> Quarter of 2016.<sup>11</sup>

**Recommendation:** McLeod USA should be directed to provide copies or screen images of customer bills to GVNW that clearly demonstrate the KUSF surcharge as a separate line item within 45 days of the end of the 2<sup>nd</sup> Quarter. Once GVNW has received and reviewed the sample customer bills, GVNW will submit a Compliance Report to the Commission.

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<sup>8</sup> *Ibid.*

<sup>9</sup> Billing Standards Order Section I.A.3.c. Docket No. 06-GIMT-187-GIT (06-187), July 16, 2010, Final Order (adopting new Billing Standards). Effective July 1, 2013, HB 2201 eliminated the Commission's Billing Standards; however, carriers must still comply with the Federal Communications Commission's (FCC) Truth In Billing Standards (47 CFR 64.2401) and the FCC's rules regarding recovery of FUSF fees (47 C.F.R. §54.712(a)).

<sup>10</sup> Source: McLeod Response to DR No. 14.

<sup>11</sup> *Ibid.*



## CERTIFICATE OF SERVICE

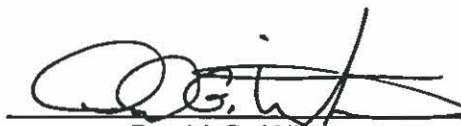
I hereby certify that on this 26th day of April, 2016, the above Kansas Universal Service Fund Audit Report was e-filed with the Kansas Corporation Commission and a copy was sent via electronic mail and/or U.S. Mail to:

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David G. Winter