



GVNW CONSULTING, INC.

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August 1, 2016

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

RE: Docket No. 16-CSCZ-035-KSF
*In the Matter of the Audit of Consumer Cellular, Incorporated 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 Consumer Cellular, Incorporated (Consumer Cellular 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 Consumer Cellular'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. A public audit report is being filed; however, Attachment A to this report is confidential. Therefore enclosed is both a public and confidential audit report and confidential Attachment A.

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 "D. Winter", with a stylized flourish at the end.

David Winter
Senior Consultant

cc w/encl: Sandy Reams
DW/dc – Encl.

KANSAS UNIVERSAL SERVICE FUND AUDIT REPORT

Docket No: 16-CSCZ-035-KSF
Consumer Cellular, Incorporated

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: Jill Leonetti
Shane Bridges
Galina Shilyayeva

Date of On-Site Visit: March 30-31, 2016

Date Submitted to Company: July 20, 2016

Audit Summary

Based on the Kansas Universal Service Fund (KUSF) Carrier Review Procedures for Operating Year 18,¹ GVNW Consulting, Inc. (GVNW) identified four (4) KUSF reporting issues regarding Consumer Cellular, Incorporated (Consumer Cellular or Company), with an estimated net impact of an additional \$694.77 due to the KUSF:

- Finding No. 1: Consumer Cellular applied the KUSF surcharge to the Federal Universal Service Fund (USF) surcharge and Federal Communications Commission (FCC) regulatory fees, reported the revenues to the KUSF, and over-collected its assessment from consumers, for an estimated over-payment and over-collection of \$7,778.42 from customers for the period March 2014 through March 2016. The Company will correct the error effective with the August 2016 data to be reported in September 2016, thus, the impact to the KUSF and customers has not been calculated for the months of April through July 2016.
- Finding No. 2: The Company began allocating revenue to the KUSF, effective September 2014, using a company-specific traffic factor study. The Company has not submitted a pleading, including an affidavit from an officer of the Company, to the Kansas Corporation Commission (KCC or Commission) regarding its methodology to allocate Kansas revenue between the interstate and

¹ 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 (July 2015 Order).

intrastate jurisdictions or to verify that the Company is using this same methodology for both Federal and Kansas USF purposes.

- Finding No. 3: Consumer Cellular reported calculated revenues to the KUSF and has not filed quarterly or annual True-ups to reflect actual revenues per the Company's general ledger. The Company under-paid an estimated \$6,186.77 to the KUSF for the period March 2014 through March 2016. Consumer Cellular has agreed to file quarterly True-ups to report actual revenues to the KUSF. The impact to the KUSF has not been calculated for the months of April through July 2016, but should be reflected in the Audit True-ups submitted.
- Finding No. 4: The Company reported revenues to the KUSF net of discounts. Customer discounts are deducted for KUSF reporting purposes and for the period March 2014 through September 2015, the Company under-paid \$2,286.42 in KUSF assessments.

GVNW recommends that the Commission issue an Order to: (1) adopt the audit findings of this Audit Report; (2) direct Consumer Cellular to submit Audit True-ups for the period of March 2014 through July 2016 to reflect the audit findings in this Audit Report within 60 days of an Order; (3) submit a pleading, including an affidavit from an officer of Consumer Cellular, affirming its use of a company-specific traffic factor study to allocate revenue between the interstate and intrastate jurisdictions, the period(s) the methodology was applicable, the intrastate traffic factors applied, and verifying that the Company is using this methodology for both Federal and Kansas USF purposes; and (4) direct GVNW to submit a Compliance Report to the Commission upon completion of the ordered actions. For any final refunds determined, amounts due to the Company and owed by the Company should be netted together by the KUSF Administrator.

Current KUSF Obligations

Consumer Cellular is current with its KUSF obligations.²

Background

Consumer Cellular is a wireless service provider headquartered in Portland, Oregon. The Company is required to report its revenues and pay the related assessments to the KUSF on a monthly basis.³ Consumer Cellular is authorized to collect an amount equal to or less than its assessment from customers,⁴ and does so. GVNW advises the Commission that Consumer Cellular uses the stand-alone safe harbor when reporting bundled service revenue to the KUSF. Consumer Cellular recognizes an AARP⁵

² Confirmed on July 12, 2016 with the KUSF Administrator.

³ 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.

⁴ K.S.A. 66-2008.

⁵ AARP is a nonprofit organization for people age 50 or older.

discount provided to subscribers when reporting revenue for KUSF reporting purposes:
Audit Finding No. 4.

On July 30, 2015, the KCC or Commission issued Order No. 1 in Docket No. 16-035 directing GVNW to conduct an audit of Consumer Cellular for KUSF purposes.

On June 7, 2016, the Commission granted GVNW's request for an Enlargement of Time, with the due date of this Report extended from June 30, 2016 to August 1, 2016.

Audit Findings

GVNW conducted the audit of Consumer Cellular in accordance with the KUSF Carrier Review Procedures adopted by the KCC.⁶ Based on these procedures, GVNW identified the following audit findings and recommendations:

Audit Finding No. 1

Standard: Pass-through charges, fees, assessments and taxes are excluded from KUSF assessments.⁷

Finding: Consumer Cellular applied the KUSF surcharge to the Federal USF surcharge and the Federal Communications Commission (FCC) regulatory fees and reported the related revenues to the KUSF for the period of March 2014 through July 2016. Consumer Cellular over-collected \$7,778.42 from its customers and over-paid this same amount to the KUSF for the period March 2014 through March 2016. The Company will correct the error effective with the August 2016 data to be reported in September 2016.

Recommendation: GVNW recommends that Consumer Cellular be directed to: 1) submit Audit True-ups for KUSF Operating Years 18, 19 (March 2015 – February 2016) and quarterly Audit True-ups for Operating Year 20 (March 2016 – July 2016) to correct this audit deficiency within 60 days of the issuance of an Order. Upon submission of the aforementioned Audit True-ups, GVNW will submit a Compliance Report to the KCC. This finding will require a refund from the KUSF and refunds from the Company to customers.

Audit Finding No. 2

Standard: Wireless carriers are to report their revenues to the KUSF Administrator using the same revenue identification methodology as that used for Federal USF

⁶ Docket 14-105, July 7, 2015, Order.

⁷ Kansas Universal Service Fund (KUSF) Carrier Remittance Worksheet (CRW) Instructions March 2014 - February 2015 (FY18), Reportable Revenues (Attachment E), page 5 of 5.

purposes.⁸ If a company identifies revenue using either a traffic study or direct assignment, the company is to submit a pleading advising the Commission of the methodology, provide the intrastate factor, if applicable, and relevant time period(s), and verify this same methodology is used for federal and KUSF purposes. An affidavit, signed by an officer of the company, is to accompany the pleading.

Finding: Since September 2014, Consumer Cellular has used a company-specific traffic study to determine the identification of intrastate and interstate revenues.⁹ The Company has not submitted a pleading to the KCC advising the Commission of this methodology, nor has it filed annual updates. Consumer Cellular has not provided an affidavit from an officer of Consumer Cellular to verify that the Company is using this same methodology for both Federal and Kansas USF purposes. This finding was discussed with Consumer Cellular during GVNW's site-visit.

Recommendation: The Commission should direct Consumer Cellular to submit a pleading, accompanied by an affidavit from an officer of the Company, requesting to use the traffic study methodology for KUSF purposes and that the Company shall apply the inverse of the Federal USF factor for KUSF reporting purposes. The Company should identify the factors used and the time period for each applicable factor. The Commission should direct the Company to submit annual updates in accordance with Commission Orders. The Commission may wish to consider the assessment of fines pursuant to K.S.A. 66-138 for non-compliance with Commission Orders.

Audit Finding No. 3

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

Finding: Consumer Cellular did not report actual intrastate revenues, as recorded in the Company's internal financial documentation, on its monthly Carrier Remittance Worksheets (CRWs).¹⁰ Instead, Consumer Cellular reported calculated revenues by dividing the total KUSF surcharge billed to customers by the approved KUSF assessment rate.¹¹ The Company has not filed quarterly or annual True-ups to report actual revenues. As a result, Consumer Cellular under-paid the KUSF by an estimated \$6,186.77 for the period March 2014 through March 2016. Consumer Cellular has agreed to report actual revenues via the KUSF True-up process.¹² The impact to the KUSF has not been calculated for the months of April through July 2016, but should be reflected in the Audit True-ups submitted.

⁸ Kansas Universal Service Fund (KUSF) Carrier Remittance Worksheet (CRW) Instructions March 2012-February 2013 (FY16), Page 5 of 13.

⁹ Source: Consumer Cellular response to Data Request (DR) No. 3 (D) (Attachment A).

¹⁰ Source: Consumer Cellular Response to DR No. 21 (Attachment B).

¹¹ *Ibid.*

¹² Email dated July 12, 2016 from Shane Bridges, Consumer Cellular, Incorporated to David Winter, GVNW Consulting Inc.

Recommendation: Consumer Cellular should be directed to report actual revenues to the KUSF and 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 reported its actual Kansas-specific revenues. GVNW also recommends that Consumer Cellular be directed to: 1) submit Audit True-ups for KUSF Operating Years 18 and 19 and quarterly True-Ups for March – July 2016 to correct this audit deficiency within 60 days of the issuance of an Order. Upon submission of the aforementioned Audit True-ups, GVNW will submit a Compliance Report to the KCC.

Audit Finding No. 4

Standard: Carriers contributing to the KUSF are to report gross revenues prior to any customer discounts for KUSF reporting purposes.¹³

Finding: Consumer Cellular reports revenues to the KUSF after deducting AARP customer discounts.¹⁴ The Company under-paid \$2,286.42 in assessments to the KUSF for the period of March 2014 through September 2015.

Recommendations: The Commission should direct Consumer Cellular to submit Audit True-ups for March 2014 through September 2015 to correct this audit deficiency within 60 days of the issuance of an Order. After GVNW reviews the Company's submission and Consumer Cellular pays the \$2,286.42 to the KUSF, GVNW will submit a Compliance Report.

Due to pending litigation and the Court of Appeal's Stay and Remand regarding the Commission's October and December 2015 Orders¹⁵, GVNW recommends that the KCC use its discretion regarding the adoption of GVNW's recommendations and the submission of Audit True-ups, effective October 2015.

¹³ Docket No. 14-GIMT-105-GIT, January 23, 2014, Order Adopting KUSF Assessment Rate for Year Eighteen of KUSF Operations.

¹⁴ *Ibid.* Footnote No. 5.

¹⁵ Docket No. 14-GIMT-105-GIT, October 20, 2015, and December 3, 2015, Orders.

Docket No. 16-CSCZ-035-KSF

Confidential

Attachment A

To Kansas Universal Service Fund Audit Report

Dated August 1, 2016

Data Request No. 3

Submitted By: David Winter
Submitted To: Consumer Cellular, Inc
Request Date: August 3, 2015
Due Date: September 2, 2015

Attachment A
KUSF Data Requests Nos 1-6
KUSF Operating Year 18

RE: Company Accounting Systems – Revenues

- A. Does your company provide service via its own facilities (through company ownership or purchase through Unbundled Network Elements (UNEs), or Local Wholesale Complete (LWC)), or does your company resale another provider's services?

[REDACTED]

- B. Does your company use the cash or accrual method of accounting?

[REDACTED]

- C. Provide an overview of when revenue is recognized and recorded on the company's official accounting records (i.e. are revenues recorded when earned or when received)?

[REDACTED]

- D. For each revenue category reported by your company on the Carrier Remittance Worksheet (CRW) (i.e. local service, toll, miscellaneous revenue, uncollectible, etc.) explain how your revenue is classified within each category and the methodology used. Include a detailed description of how the Company classifies revenue between the intrastate and interstate jurisdiction; assignment or allocation of revenue as local, intrastate toll/long distance, interstate long distance, etc.

[REDACTED]

- E. If your company offers calling plans that include bundled services (i.e. local, vertical, long-distance, Internet, TV, and/or data services), please explain how your Company identifies the revenue assigned and/or allocated to the different bundled services to determine the Kansas intrastate retail revenue subject to the KUSF.³

[REDACTED]

- F. Describe how the company identifies revenues that are excluded from the revenue reported to the KUSF or the assessment collected from the Company's customers. Revenue categories exempt from the KUSF include:

³ Docket No. 03-GIMT-932-GIT (03-932), September 2, 2003, Order, In the Matter of a General Investigation Into Procedures for Recording and Reporting Kansas Universal Service Fund Revenues for Assessment Purposes.

KUSF Carrier Audit Information Request

Request No. 21

Submitted By: David Winter
Submitted To: Galina Shilyayeva
Company Name: Consumer Cellular, Incorporated
Docket Number: 16-CSCZ-035-KSF
Request Date: April 4, 2016

Date Information Needed: April 15, 2016

RE: Calculated Revenues

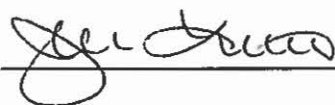
Please Provide the Following Information:

- a. Confirm that Consumer Cellular reports calculated revenues to the KUSF. This statement is correct.
- b. For the period March 2014 through present, please provide a reconciliation of actual revenues per the Company's IT Tax Data versus what was reported to the KUSF. This information has been requested from IT and we will provide once complete.
- c. Confirm when Consumer Cellular plans to start reporting actual revenues to the KUSF. Consumer Cellular is working with our IT and KPMG to determine our next steps.

NOTE: If for some reason, the above information cannot be provided by the date requested, please provide a written explanation of those reasons.

Verification of Response

I have read the foregoing Data Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to GVNW's auditor any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Data Request.

Signed: 

Date: 04/14/2016

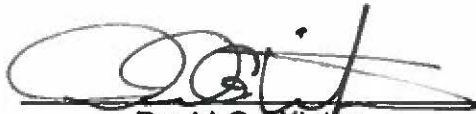
CERTIFICATE OF SERVICE

I hereby certify that on this 1st day of August, 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:

Kansas Corporation Commission
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Topeka, KS 66604

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David G. Winter