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July 22, 2016

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

RE: Docket No. 16-TWBC-036-KSF  
*In the Matter of the Audit of Time Warner Cable Business, LLC 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 Time Warner Cable Business LLC (TWC Business 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 TWC Business' 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. TWC Business' audit does not require a separate confidential report; therefore, only the enclosed public audit report for TWC Business 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 "David Winter", with a stylized flourish extending from the end.

David Winter  
Senior Consultant

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

## KANSAS UNIVERSAL SERVICE FUND AUDIT REPORT

**Docket No:** 16-TWBC-036-KSF  
Time Warner Cable Business 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:** Jerri McCain  
Mark Swan

**Date of On-Site Visit:** April 6 – 7, 2016

**Date Submitted to Company:** May 23, 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 the following reporting deficiencies regarding Time Warner Cable Business LLC (TWC Business or Company) with the a net impact of an additional \$12,322.08 owed to the KUSF:

- Finding No. 1: TWC Business reported calculated revenues to the KUSF and has not filed Quarterly True-ups to report actual revenues due to a service coding issue that incorrectly mapped intrastate revenues as interstate. The service coding issue was resolved as of February 2016 and TWC Business committed to the submission of Quarterly True-ups that reflects revenues booked to its general ledger.
- Finding No. 2: The Company did not report late payment charges related to its Metro E service to the KUSF. As a result, the Company under-reported revenues to the KUSF and underpaid its assessment by \$12,322.08. TWC Business corrected this reporting deficiency effective with the May 2016 late payment charges to be reported in June 2016. On June 21, 2016, the Company paid the \$12,322.08 to the KUSF and is now compliant with the audit finding.

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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.

GVNW recommends that the Kansas Corporation Commission (KCC or Commission) issue an Order to: (1) adopt the findings of this audit report; and (2) close this audit docket.

### **Current KUSF Obligations**

TWC Business is current with its KUSF obligations.<sup>2</sup>

### **Background**

TWC Business, headquartered in Charlotte, North Carolina, provides high-capacity point-to-point and point-to-multipoint telecommunications services to commercial and wholesale customers. The Company is required to report its retail revenue and pay the related assessments to the KUSF on a monthly basis.<sup>3</sup> GVNW advises the Commission that TWC Business only provides services to business customers in the state of Kansas and all of its services are provided via individual contracts.<sup>4</sup> TWC Business is authorized to collect an amount equal to or less than its assessment from customers,<sup>5</sup> and does so.

On July 30, 2015, the Commission issued Order No. 1 in Docket No. 16-027 directing GVNW to conduct an audit for KUSF purposes.

On May 26, 2015 Charter Communications and Time Warner Cable, Inc. (TWC) announced they entered into a merger agreement. The Federal Communications Commission and Department of Justice approved the proposed merger on April 25, 2016 and the merger closed on May 18, 2016.

### **Audit Findings**

GVNW conducted the audit of TWC Business 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:

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<sup>2</sup> Confirmed on May 23, 2016 with the KUSF Administrator.

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

<sup>4</sup> Source: TWC Business response to DR No. 15.

<sup>5</sup> K.S.A. 66-2008.

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

### **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.<sup>7</sup>

**Finding:** TWC Business did not report actual intrastate revenues as recorded in the Company's internal financial record to the KUSF. Instead, the Company reported calculated revenues by dividing the total KUSF surcharge billed to its customers by the approved KUSF assessment rate. TWC Business stated that it provides the surcharge collected from its customers to its third party vendor who, in-turn, calculates the revenues for the monthly Carrier Remittance Worksheet (CRW) submittal.<sup>8</sup> This procedure is allowable for monthly KUSF reporting as long as a quarterly True-up is submitted to report actual Kansas intrastate revenues.<sup>9</sup> The Company states it did not file quarterly True-ups due to a general ledger service code issue discovered in November 2013.<sup>10</sup> The service code incorrectly mapped intrastate revenues to an interstate account within the general ledger; consequently, the intrastate revenue in the general ledger is understated and implies that TWC Business over-collected the KUSF surcharge from its customers.<sup>11</sup> The Company states that the charge collected from its customer is correct;<sup>12</sup> therefore TWC Business did not file quarterly True-ups to reflect actual revenues to the KUSF. GVNW's audit indicated that there were no over-collections from TWC Business' customers thus, given the Company's representations; the calculated revenue reported appears to be more accurate than that recorded in the general ledger. The service code issue was resolved in February 2016.<sup>13</sup>

### **TWC Business Response**

TWC Business will confirm the accuracy of the revenues reported on its monthly CRW submissions by conducting quarterly True-ups that are based on revenues booked to its general ledger.<sup>14</sup>

**Recommendation:** GVNW recommends that the Commission remind the Company that it is to submit Quarterly True-ups within 45 days at the end of each KUSF quarter.

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<sup>7</sup> The Commission has addressed revenues to be reported to the KUSF in various Orders, including but not limited to: Docket No. 94-GIMT-478-GIT (94-478), December 27, 1996, Order; February 3, 1997, Order on Reconsideration; January 27, 1999, Order; and August 13, 1999, Order.

<sup>8</sup> Source: TWC Business response to DR No. 14.

<sup>9</sup> Docket No. 10-GIMT-188-GIT, January 13/2010, Order.

<sup>10</sup> *Ibid.*

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

<sup>12</sup> *Ibid.*

<sup>13</sup> *Ibid.*

<sup>14</sup> Email dated June 2, 2016 from Mark Swan, Senior Director of Transaction Tax, Time Warner Cable Business, LLC to David Winter, GVNW Consulting Inc.

## **Audit Finding No. 2**

**Standard:** Other miscellaneous charges, including non-recurring late payment charges, service initiation, activation, disconnection and early termination charges, return check charges, and other customer charges are to be included in assessable revenues reported to the KUSF.<sup>15</sup>

**Finding:** TWC Business did not report non-recurring late payment charge revenues associated with its Metro E service<sup>16</sup> to the KUSF, resulting in the Company under-reporting KUSF revenues, effective March 2014 and continuing through current 2016, to the KUSF. For the period of March 2014 through April 2016, the Company owes an additional \$12,322.08 to the KUSF. The Company started reporting non-recurring late payment charges to the KUSF with the May 2016 revenue reported in June 2016.

**Recommendation:** On June 2, 2016, TWC Business submitted the Audit True-ups for Operating Years 18 and 19 (March 2015 – February 2016) and a quarterly True-up for the months of March 2016 – May 2016 in KUSF Operating Year 20 (March 2016 – February 2017). On June 21, 2016, the Company paid the \$12,322.08 to the KUSF and is now compliant with the audit finding.

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<sup>15</sup> Kansas Universal Service Fund (KUSF) Carrier Remittance Worksheet (CRW) Instructions March 2014 – February 2015 (FY 18), page 11.

<sup>16</sup> Metro E is an Ethernet service.



## CERTIFICATE OF SERVICE

I hereby certify that on this 22<sup>nd</sup> day of July, 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