



GVNW CONSULTING, INC.

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June 13, 2014

Kim Christiansen, Executive Director
Kansas Corporation Commission
1500 SW Arrowhead Road
Topeka, KS 66604-4027

RE: Docket No. 14-GRTT-056-KSF, Granite Telecommunications, LLC

Dear Ms. Christiansen:

In its May 31, 2014, order the Kansas Corporation Commission (KCC) directed GVNW to perform a KUSF carrier audit of Granite Telecommunications, LLC (Granite) 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 Granite'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. Granite's audit does not require a separate confidential report; therefore, only the enclosed public audit report for Granite 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", written over a white background.

David Winter
Senior Consultant

cc w/encl: Sandy Reams

DW/dc – Encl.

KANSAS UNIVERSAL SERVICE FUND AUDIT REPORT

Docket No. 14-GRTT-056-KSF
Granite Telecommunications, LLC

Prepared For: Kansas Corporation Commission
Kansas Universal Service Fund

Prepared By: David Winter,
GVNW Consulting, Inc.

Audit Period: March 1, 2012 through February 28, 2013
Kansas Operating year 16 (Operating Year 16)

Company Representatives: Calvin Neztosie

Date of On-Site Visit: April 30, 2014

Date Submitted to Company: June 2, 2014

Audit Summary

Based on the Kansas Universal Service Fund (KUSF) Carrier Review Procedures for Operating Year 16,¹ GVNW Consulting, Inc. (GVNW) recommends that Granite Telecommunications, LLC (Granite or Company) be required to issue a refund of \$1,062.39 through one-time equal billing credits to its customers with the Kansas Universal Service Fund (KUSF) refunding the same amount to the Company to correct the following reporting deficiency:

- Finding No. 1: The Company applied the KUSF surcharge to non-assessable international calling service revenue. Granite paid \$275.07 in assessments to the KUSF and collected the same amount from its customers. The Company stopped applying the KUSF surcharge to international calling service revenue in May 2014.
- Finding No. 2: Granite applied the KUSF surcharge to a fee that is based on a customer's total net charges for interstate and international calling services. As a result, the Company over-reported revenues and over-paid and over-collected its KUSF assessment by \$787.32. Granite stopped applying the KUSF surcharge to this fee in May 2014.
- Granite reports calculated revenue instead of actual revenue each month to KUSF. The Company does not file a quarterly True-up; instead, it files an annual True-up that reflects actual revenues with the KUSF.

¹ Docket No. 12-GIMT-168-GIT (Docket 11-168), July 16, 2013, Order Accepting and Approving GVNW Selection Criteria (July 16, 2013, Order), provided in GVNW Consulting, Inc.'s letter dated June 27, 2013, Attachment B (Carrier Audit Review Procedure).

Granite should submit Audit True-ups for KUSF Years 16 and 17 and Quarterly True-ups for KUSF Year 18. Once GVNW has reviewed and verified the revisions, GVNW will submit the Audit True-ups and Quarterly True-ups to its administration personnel for processing and provide an update to the Commission.

The Company has indicated that it would be impractical and costly to adjust its billing systems in order to refund the over-payment to its customers. Therefore, Granite does not seek or claim a refund from the KUSF.

Background

Granite is a Competitive Local Exchange Carrier (CLEC) headquartered in Quincy, Massachusetts. The Company is required to report its revenues and pay the related assessments to the KUSF on a monthly basis.² Granite is authorized to collect an amount equal to or less than its assessment from customers,³ and does so.

On August 6, 2013, the Kansas Corporation Commission (KCC or Commission) issued Order No. 1 in Docket No. 14-GRTT-056-KSF (Docket 14-056) directing GVNW to conduct an audit for KUSF purposes.

Current KUSF Obligations

Granite is current with its KUSF obligations.⁴

Audit Findings

GVNW conducted the audit of Granite in accordance with the KUSF Carrier Review Procedures adopted by the KCC.⁵ Based on these procedures, GVNW identified the following audit findings and recommendations:

Audit Finding No. 1

Standard: International revenues are excluded from the calculation of the KUSF assessment.

Finding: The Company applied the KUSF surcharge to non-assessable international revenues and reported the related revenues to the KUSF.⁶ Granite collected \$787.32 in KUSF assessments from its customers for these revenues and paid this amount to the KUSF. The Company discontinued this practice in May 2014.

² 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.

³ K.S.A. 66-2008.

⁴ Confirmed on May 30, 2014 with the KUSF Administrator.

⁵ Docket 11-88, July 16, 2013, Order.

⁶ Source: Granite Response to Data Request (DR) No. 3.

Recommendation: Granite should be required to submit Audit True-ups for KUSF Years 16 and 17 and quarterly True-ups for March through April 2014 to correct this reporting deficiency. The Commission should direct the KUSF Administrator to refund \$787.32 to the Company and the Company should be required to issue the same amount in refunds to customers through one-time equal bill credits.

The KCC should direct the Company to complete the one-time refund of \$787.32 within sixty (60) days from the date of the Commission's Order and to provide GVNW with a signed affidavit attesting to the refund and copies of customer bills to substantiate that Granite issued the refund. If Granite is unable to complete the ordered refund within the sixty (60) day period, the Company should file, in Docket 14-056, an explanation explicitly outlining why Granite was unable to comply with the sixty (60) day refund requirement and the timeframe within which the Company expects the refund to be completed. Once GVNW has reviewed and verified the refund, it will provide an update to the Commission.

Granite Management Response: The Company has determined that it would be impractical and costly to adjust its billing systems in order to refund the over-payment to its customers.⁷ Therefore, Granite does not seek or claim a refund from the KUSF.

Audit Finding No.2

Standard: Interstate and international charges are not applicable to the KUSF surcharge.

Finding: The Company applied the KUSF surcharge to a fee⁸ passed on by an underlying carrier. The fee, based on a customer's total net charges for interstate and international calling services, was collected from the Company's customers and paid to the KUSF for the period of March 2012 through May 2014. As a result, Granite over-paid \$275.07 in assessments and over-collected the same amount from its customers. The Company discontinued this practice in May 2014.

Recommendation: Granite should be directed by the Commission to submit Audit True-ups for KUSF Years 16 and 17 and quarterly True-ups for March through May 2014 to correct this reporting deficiency. The Commission should direct the KUSF Administrator to refund \$275.07 to the Company and the Company should be required to issue the same amount in refunds to customers through one-time equal bill credits.

Granite Management Response: The Company has determined that it would be impractical and costly to adjust its billing systems in order to refund the over-payment to its customers.⁹ Therefore, Granite does not seek or claim a refund from the KUSF.

⁷ Source: Email from Mr. Robert Schlakman to David Winter, GVNW, dated May 28, 2014 (Attachment A).

⁸ Source: Granite Response to Data Request No. 4. Property Tax Allotment Charge is a fee passed on the Granite by another carrier. The fee is designed to recover the state and local property taxes imposed by local jurisdictions on the equipment and facilities used by the carrier to provide telecommunications services.

⁹ Source: Email dated May 28, 2014 (Attachment A).

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.¹⁰ The Gross KUSF Assessment owed by the carrier is determined by multiplying the net intrastate retail revenues by the approved KUSF assessment rate. In Docket No. 10-GIMT-188-GIT (Docket 10-188), the Commission directed that carriers that are required to report and pay their KUSF obligations on a monthly basis, but due to internal processes are unable to report actual revenues by the due date, are to submit quarterly True-ups to report their actual revenues.¹¹

Finding: Granite did not report actual revenues, as recorded in the Company's internal financial documentation, on the monthly CRWs. Instead, Granite reported calculated revenues by dividing the total KUSF surcharge billed to customers by the approved KUSF assessment rate. Due to its internal accounting process (e.g., month-end close, year-end close, etc.), the Company is unable to report actual data by the due date. However, Granite does file annual True-ups that reflect actual revenues.

Recommendations: This practice is not consistent with the Commission directive that the Company is to file Quarterly True-ups to report actual revenues¹². GVNW suggests that the KCC direct Granite to comply with its orders on a going-forward basis.

¹⁰ Docket No. 94-GIMT-478-GIT, August 13, 1999, Order and Docket No. 10-188, November 2, 2006, Order.

¹¹ Docket No.10-188, January 13, 2010, Order.

¹² Docket No. 10-GIMT-188-GIT (Docket 10-188), January 13, 2010, Order Setting the Kansas Universal Service Fund Assessment Rate for Year 14 and Canceling January 20, 2010 Technical Hearing.

Dave Winter

From: Robert Schlakman <RSchlakman@granitenet.com>
Sent: Wednesday, May 28, 2014 3:10 PM
To: Dave Winter
Cc: Scott Smith; Calvin Neztosie
Subject: RE: Kansas USF Audit

Mr. Winter –

Thank you for your suggestions. We discussed your proposals with senior management and have concluded that it would be impractical and costly for us to adjust our billing systems in order to redistribute the overpayment to customers.

As Calvin noted, we therefore respectfully have to reject the refund.

Thank you for assistance during the examination.
Robert

Robert M. Schlakman
Tax Manager
Granite Telecommunications, LLC
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Quincy, MA 02171
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617-933-7304
866-433-5892 (fax)

From: Dave Winter [mailto:dwinter@gvnw.com]
Sent: Tuesday, May 27, 2014 3:33 PM
To: Robert Schlakman
Cc: Scott Smith; Calvin Neztosie
Subject: FW: Kansas USF Audit

Mr. Schlakman:
Can you me with the status?

This report has to be filed by June 30th. With the required KCC procedural schedule this is going to be tight.

Thanks for your help.

Dave

David Winter
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From: Dave Winter [mailto:dwinter@gvnw.com]
Sent: Wednesday, May 21, 2014 11:20 AM
To: 'Calvin Neztosie'
Cc: Scott Smith; 'Robert Schlakman'
Subject: RE: Kansas USF Audit

Calvin:

GVNW understands the Company may not be able to identify the specific customers, or their portion, of the refund. GVNW, therefore, is recommending that the refunds be issued to all customers, through an equal credit on the bill, to all current customers. For example, if the company has 4,000 customers then the \$1,062.39 credit would be spread evenly across these customers, with each customer receiving a credit of \$.26 on their bill.

Can Granite's operating systems provide an equal credit to all of its current customers as outlined in the example above?

Thanks for your help.
Dave

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CERTIFICATE OF SERVICE

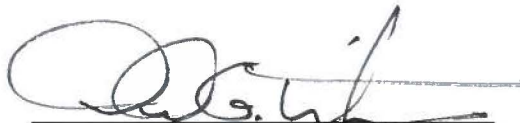
I hereby certify that on this 13th day of June, 2014, the above Kansas Universal Service Fund Audit Report was e-filed with the Kansas Corporation Commission and a copy was sent via electronic mail and/or U.S. Mail to:

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David G. Winter