

**THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

Before Commissioners: Pat Apple, Chairman
Shari Feist Albrecht
Jay Scott Emler

In the Matter of the Audit of TracFone Wireless, Inc.)
by the Kansas Universal Service Fund (KUSF))
Administrator Pursuant to K.S.A. 2015 Supp. 66-2010(b)) Docket No. 17-TFWZ-022-KSF
for KUSF Operating Year 19, Fiscal Year March 2015-)
February 2016.)

**ORDER ACCEPTING AND ADOPTING GVNW CONSULTING, INC.'s
AUDIT REPORT AND RECOMMENDATIONS**

The above-captioned matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and determination. Having examined its files and record, and being duly advised in the premises, the Commission finds and concludes as follows:

1. On August 2, 2016, the Commission directed GVNW Consulting, Inc. (GVNW) to perform an audit of TracFone Wireless, Inc. (TracFone) for Kansas Universal Service Fund (KUSF) purposes.

2. On June 1, 2017, GVNW filed its Audit Report dated May 31, 2017, covering GVNW's audit of TracFone stating that the company is current with its KUSF obligations. GVNW's Audit Report identifies and describes in detail one reporting deficiency, including the applicable reporting standard, resulting in the following audit finding and recommendations:

Audit Finding No. 1:

Standard: For Lifeline customers, the total gross intrastate customer charge prior to any Federal or State Lifeline credit or discount reimbursements are to be reported to the KUSF.¹

Finding: TracFone did not report the gross monthly recurring charge prior to recognizing federal or state Lifeline credits. The company, instead, netted the \$9.25 Federal Lifeline

¹ Kansas Universal Service Fund (KUSF) Carrier Remittance Worksheet Instructions, dated February 3, 2015, effective March 2015-February 2016 (FY 19).

voice support with the \$7.77 Kansas Lifeline Service Program (KLSP) credit² and multiplied the resulting \$1.48 by a non-voice factor³ to account for the data portion of the company's bundled Lifeline offerings. The net result was then allocated to the intrastate jurisdiction by the company's intrastate direct assignment factor,⁴ with the amount reported to the KUSF for the period January 2013 through November 2016. A company, even one that is an ETC for KLSP purposes, should not reduce its revenue for the \$7.77 KLSP credit. Furthermore, prior to the FCC Lifeline Modernization Order effective December 2, 2016,⁵ the \$9.25 Federal Lifeline subsidy solely supported voice service⁶ and; therefore, the Federal Lifeline credit should not be reduced by a factor to allocate a portion for data. For December 2016 and January 2017, TracFone should not have reduced its revenues for the \$7.77 KLSP credit; however, it was authorized to allocate a portion for data as the \$9.25 Federal Lifeline credit supports voice *and* data.⁷ As a result, TracFone under-reported revenues and owes an estimated \$374,000⁸ in additional assessments to the KUSF.⁹ TracFone discontinued this Lifeline reporting practice effective with the March 2017¹⁰ data reported in April 2017.

Recommendation: The Commission should direct TracFone to submit Audit True-ups for January 2013 through February 2017 to correct this audit deficiency and pay the related assessments owed to the KUSF within 60 days of the issuance of an Order. After GVNW reviews the submission and TracFone pays the additional assessment to the KUSF, GVNW will submit a Compliance Report.

Follow-up Docket No. 13-TFWZ-093-KSF Audit Compliance:

Finding No. 1: The Company did not file quarterly True-ups to reflect changes to monthly voice revenues as the result of the use of a quarterly voice/non-voice services factor.

Audit Finding Compliance: The Company has changed its KUSF reporting procedures and does make the required quarterly True-up submittal to reflect the use of quarterly voice/non-voice services factors.

² TracFone Response to DR No. 18 (Attachment A).

³ *Ibid.*

⁴ Docket No. 16-GIMT-067-GIT (Docket 16-067)), March 14, 2017 Order.

⁵ See FCC 16-38, Lifeline Modernization Order, adopted March 31, 2016, effective December 2, 2016, Third Report and Order, and Order on Reconsideration, available for viewing at: https://apps.fcc.gov/edocs_public/attachmatch/FCC-16-38A1.pdf.

⁶ See FCC 12-11, Lifeline Reform Order, rel. January 31, 2012, available for viewing at: https://apps.fcc.gov/edocs_public/attachmatch/FCC-12-11A1.pdf. See also, 47 C.F.R. §54.101, prior to Dec. 2, 2016 revision.

⁷ Lifeline Modernization Order.

⁸ TracFone Responses to DR No. 22. TracFone has advised GVNW that this is an estimate and the exact amount will not be determined until the actual Audit True-ups are completed.

⁹ GVNW provided guidance on reporting Lifeline revenues to the KUSF in the Audit in Docket No. 13-TFWZ-093-KSF.

¹⁰ Attachment A.

Finding No. 2: TracFone does not have an internal process to separately identify Kansas intrastate voice mail revenues.

Audit Finding Compliance: Net intrastate retail revenues reported to the KUSF does not exclude voice mail revenue.¹¹ Voice mail is included in the wireless service free of charge.¹²

3. The Commission has reviewed GVNW's KUSF Audit Report filed in this matter on June 1, 2017, and finds that it should accept the Audit Report and adopt GVNW's recommendations.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

A. The Commission accepts and adopts GVNW Consulting, Inc.'s KUSF Audit Report and recommendations for TracFone Wireless, Inc., filed in this docket on June 1, 2017.

B. In accord with GVNW's recommendation with respect to Audit Finding No. 1, as set forth in paragraph 2 above, TracFone is directed to submit Audit True-ups for January 2013 through February 2017 in order to correct this Audit deficiency and pay the related assessments owed to the KUSF. TracFone is further directed to submit the required True-ups and pay the additional assessments to the KUSF within sixty (60) days from the date of this Order. Upon GVNW's receipt, review, and acceptance of TracFone's Audit True-ups and the company's payment of the related assessments to the KUSF, GVNW is directed to submit a Compliance Report in this docket.

C. The parties have fifteen (15) days, plus three (3) days if service of this Order is by mail, from the date this Order was served in which to petition the Commission for reconsideration of any issue or issues decided herein. K.S.A. 66-118b; K.S.A. 2016 Supp. 77-529.

¹¹ TracFone Response to DR No. 7.

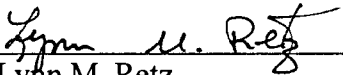
¹² Id., Other features include caller identification and call waiting.

D. The Commission retains jurisdiction over TracFone Wireless, Inc. and the subject matter of this docket for the purpose of issuing such additional orders as it may deem necessary.

BY THE COMMISSION IT IS SO ORDERED.

Apple, Chairman; Albrecht, Commissioner; Emler, Commissioner

Dated: JUN 22 2017


Lynn M. Retz
Secretary to the Commission

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Order Mailed Date

JUN 23 2017

CERTIFICATE OF SERVICE

17-TFWZ-022-KSF

I, the undersigned, certify that the true copy of the attached Order has been served to the following parties by means of first class mail/hand delivered on JUN 22 2017.

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Order Mailed Date

JUN 23 2017