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June 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-NTWZ-030-KSF
In the Matter of the Audit of Nex-Tech Wireless, 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 Nex-Tech Wireless, L.L.C. (NTW 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 NTW'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. NTW's audit does not require a separate confidential report; therefore, only the enclosed public audit report for NTW 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", 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-NTWZ-030-KSF
Nex-Tech Wireless, L.L.C.

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: Daron E. Jamison

Date of On-Site Visit: January 13, 2016

Date Submitted to Company: May 23, 2016

Audit Summary

Based on the Kansas Universal Service Fund (KUSF) Carrier Review Procedures for Operating Year 18,¹ GVNW Consulting, Inc. (GVNW) identified the following reporting deficiencies regarding Nex-Tech Wireless, L.L.C. (NTW or Company) with a net impact of an additional \$48,745.45 due to the KUSF and \$66,460.77 due to the Company's customers:

- Finding No. 1: NTW reported revenues to the KUSF net of discounts. The discount deduction reduced NTW's Kansas intrastate revenues reported to the KUSF and the Company under-paid the associated KUSF assessments by \$19,462.99, for the period of March 2014 through February 2015. The Company corrected this reporting deficiency effective with the March 2015 data reported in April 2015.
- Finding No. 2: For customers that purchased the Company's Freedom Plan, the billing system applied the KUSF surcharge as if the customer purchased the higher priced Smartphone II service plan: thereby over-collecting the KUSF surcharge from the Company's Freedom Plan customers in the amount of \$17,750.88. The Company corrected this reporting deficiency effective with the July 2015 data reported in August 2015.
- Finding No. 3: The prices of NTW's Freedom Plans were not properly recorded on the Company's general ledger that is used for KUSF reporting purposes. NTW under-reported revenues to the KUSF and under-paid its assessment by

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.

\$29,282.46. The Company discontinued this practice effective with the January 2016 data reported in February 2016.

- Finding No. 4: NTW collected more from its customers via the KUSF surcharge than what was paid to the KUSF. After correcting for the noted audit deficiencies, NTW still collected more in KUSF assessments than what was owed to the KUSF for the period March 2014 through December 2015. This has resulted in the Company over-collecting \$48,709.89 from its customers.

GVNW recommends that the Kansas Corporation Commission (KCC or Commission) issue an Order to: (1) adopt the findings of this audit report; (2) direct NTW to submit Audit True-ups for the period of March 2014 through December 2015 to correct the noted audit deficiencies within sixty (60) days of an Order and pay the related assessments to the KUSF; (3) direct NTW to issue a one-time equal billing credit to its current customers in the total amount of \$66,460.77 within 60 days from the date of the Commission's Order and to provide GVNW with a signed notarized affidavit attesting to the refund and copies of customer bills to substantiate that NTW issued the refunds; (4) submit a signed notarized affidavit confirming that the Company has implemented processes to stop the aforementioned practices; (5) direct that NTW be subject to an Operating Year 20 KUSF audit; and (6) require GVNW to submit a Compliance Report upon the submission of the Audit True-ups and the completion of the customer refund.

In the Company's prior KUSF audit in Docket No. 13-NTWZ-092-KSF (Docket 13-092), GVNW identified three (3) KUSF reporting deficiencies. GVNW affirms that NTW has modified its practices and is in compliance with the Docket 13-092 audit findings.

Current KUSF Obligations

NTW is current with its KUSF obligations.²

Background

NTW is a wireless service provider headquartered in Hays, Kansas. The Company is required to report its revenue and pay the related assessments to the KUSF on a monthly basis.³ NTW is authorized to collect an amount equal to or less than its assessment from customers.⁴ The Company uses the intrastate Safe Harbor rate (62.9%) to identify intrastate revenues.

On July 30, 2015, the Commission issued Order No. 1 in Docket No. 16-030 directing GVNW to conduct an audit for KUSF purposes.

² Confirmed on May 23, 2016 with the KUSF Administrator.

³ 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.

⁴ K.S.A. 66-2008.

GVNW advises the Commission that NTW does not offer traditional bundled services.⁵ To remain competitive with other wireless offerings, NTW offers a monthly access fee that includes voice and messaging services.⁶ The access fee is allocated to voice and text messaging services for KUSF reporting purposes.⁷ It is NTW's policy to report gross revenues to the KUSF, but the Company, per Audit Finding No. 1, erroneously reported net revenues to the KUSF.

Audit Findings

GVNW conducted the audit of NTW in accordance with the KUSF Carrier Review Procedures adopted by the KCC.⁸ Based on these procedures, GVNW identified the following audit finding and recommendation:

Audit Finding No. 1

Standard: Carriers contributing to the KUSF are to report gross revenues prior to any service discounts for KUSF reporting purposes.⁹

Finding: NTW inadvertently reported revenues to the KUSF net of discounts. The Company reports to the KUSF based on its general ledger, and as part of the NTW's KUSF reportable revenues calculation, mistakenly deducted an array of discounts¹⁰ from revenues for the period March 2014 through February 2015.¹¹ Any discounts offered to NTW's customers are to be applied against non-assessable revenues and not reported to the KUSF.¹² The reporting error was detected internally by NTW and the Company ceased this practice effective with the March 2015 data reported in April 2015.¹³ NTW did not file Quarterly or an Annual True-ups to correct the reporting error for the March 2014 – February 2015 Operating Year. In total, by recognizing discounts, NTW reported less Kansas intrastate revenues to the KUSF and the Company underpaid its KUSF assessments by \$19,462.99.

⁵ Source: NTW response to DR No. 3.E.

⁶ *Ibid.*

⁷ *Ibid.*

⁸ Docket 14-105, July 7, 2015, Order.

⁹ Docket No. 14-GIMT-105-GIT, January 23, 2014, Order Adopting KUSF Assessment Rate for Year Eighteen of KUSF Operations.

¹⁰ Source: NTW response to DR No. 7. The types of discounts offered include service activation (Credit for activation fee charged in error), promotional (promotions to acquire new subscribers; renewal promotions to retain existing subscribers) agent (discounts offered for consolidating NTW invoice with partner CLEC), business (affinity discounts for businesses and/or business employees), B2B (special discounts offered to acquire large business customers) and miscellaneous (one-time flat fee for referral, paperless billing and/or enabling auto pay).

¹¹ For the period May 2014 through February 2015 promotional discounts were incorrectly added to KUSF reportable revenues instead of being deducted as a discount. Source: NTW response to DR No. 10.

¹² Source: NTW response to DR No. 8.

¹³ *Ibid.*

Recommendation: GVNW recommends that NTW be directed to: 1) submit Audit True-ups for KUSF Operating Years 18 to correct this audit deficiency within sixty (60) days of the issuance of an Order. After GVNW has reviewed the Company's submission, and NTW has paid \$19,462.99 to the KUSF, GVNW will submit a Compliance Report.

Audit Finding No. 2

Standard: A company is authorized to collect an amount equal to or less than its assessment from customers.¹⁴

Finding: For customers that purchased the Freedom Plan, the billing system applied the KUSF surcharge as if the customer purchased the higher priced Smartphone II service plan.¹⁵ This pricing error occurred because the tax module in the Company's billing system did not recognize the new Freedom Plan pricing, thus, the KUSF assessment to the customer was not correct. This resulted in an over-collection of the KUSF surcharge from the Company's Freedom Plan customers in the amount of \$17,750.88. The Company corrected this reporting deficiency effective with the July 2015 data reported in August 2015.

Recommendation: NTW should be required to issue \$17,750.88 in refunds to its current customers through one-time equal billing credits. The KCC should direct the Company to complete the one-time refund within 60 days from the date of the Commission's Order and to provide GVNW with a signed affidavit attesting to the refund. NTW should also be directed to provide copies of customer bills to substantiate that NTW issued the refunds to GVNW within the 60 day period. If NTW is unable to complete the ordered refunds within the 60 day period, the Company should file, in Docket 16-030, an explanation explicitly outlining why the Company is unable to comply with the 60 day refund requirement and the timeframe within which the Company expects the refund to be completed. Once GVNW has reviewed and verified the refunds, it will provide a Compliance Report to the Commission.

Audit Finding No. 3

Standard: Carriers are required to report actual revenues, and may report uncollectible revenue written off, to determine their KUSF assessment obligations.¹⁶

Finding: The price of NTW's Freedom Plan was not properly recorded in the Company's general ledger used for KUSF reporting purposes. This issue stemmed from the billing system reporting the difference in pricing between NTW's Smartphone II service plan and the Freedom Plan instead of the higher assessable Freedom Plan

¹⁴ K.S.A. 2009 Supp. 66-2008(a).

¹⁵ Source: NTW response to DR No. 16. The Smartphone Plan II is an unlimited text and voice plan.

¹⁶ August 13, 1999 Order, Docket No. 94-GIMT-478-GIT and November 2, 2006 Order, Docket 180.

charges to the KUSF.¹⁷ Consequently, NTW under-reported revenues and under-paid its assessment to the KUSF by \$29,282.46. The Company discontinued this practice effective with the January 2016 data reported in February 2016.

Recommendation: GVNW recommends that NTW be directed to: 1) submit Audit True-ups for KUSF Operating Years 18 and 19 (March 2015 - February 2016) to correct this audit deficiency. GVNW recommends that the Company be directed to submit its True-ups within 60 days of the issuance of an Order. After GVNW has reviewed the Company's submission, and NTW has paid \$29,282.46 to the KUSF GVNW will submit a Compliance Report.

Audit Finding No. 4

Standard: A company is authorized to collect an amount equal to or less than its assessment from customers.¹⁸

Finding: NTW collected more from its customers via the KUSF surcharge than what was paid to the KUSF.¹⁹ After correcting for the noted audit deficiencies, NTW still collected \$48,709.89 more in KUSF assessments than what it owed to the KUSF for the period March 2014 through December 2015.²⁰ GVNW's audit work did confirm that there were no other over-collections from NTW's customers and additional audit steps that proved to be inconclusive were also conducted. The Company has worked diligently with its billing vendor to correct the audit findings and represents that "after correcting errors in discounts, Freedom Plan assessments and GL (general ledger) issues, NTW was no longer over-collecting from customers."²¹

To verify NTW's assertion, GVNW expanded its audit work to encompass the months of January 2016 through April 2016. Per the monthly Carrier Remittance Worksheets (CRW) submitted to the KUSF Administrator, the Company over-collected the KUSF surcharge from its customers for the months of January and March 2016 by \$1,605.34. Conversely, the Company under-collected the KUSF surcharge for the months of February and April 2016 by \$6,824.95. In total, NTW collected \$5,219.61 less from customers than what it owed to the KUSF. The additional audit work by GVNW demonstrates the fluctuations of the KUSF surcharge collected from the Company's customers versus the amount owed to the KUSF. Due to these variations, GVNW cannot affirm NTW's assertions.

Recommendation: NTW should be ordered to: (1) refund \$48,709.89 to its current customers through one-time equal bill credits within 60 days from the date of the Commission's Order; (2) provide GVNW with a signed affidavit attesting to the

¹⁷ Source: NTW response to DR No. 22.

¹⁸ K.S.A. 2009 Supp. 66-2008(a).

¹⁹ Source: NTW response to DR No. 22.

²⁰ *Ibid.*

²¹ *Ibid.*

completion of the refunds and amount of refunds; and (3) provide GVNW with copies of customer bills to substantiate that NTW issued the refunds. If NTW is unable to complete the ordered refunds within the 60 day period, the Company should file, in Docket 16-030, an explanation explicitly outlining why the Company is unable to comply within the 60 days and the timeframe within which the Company expects the refund to be completed. The Commission should also direct the Company to file in this Docket an affidavit, executed by an officer of the Company, attesting that the Company has implemented processes to stop the aforementioned practice and will continue to monitor NTW's monthly CRW filing for customer over-collections. Once GVNW has reviewed and verified the refund, it will provide a Compliance Report to the Commission. GVNW also recommends that NTW be subject to an Operating Year 20 (March 2016 – February 2017) KUSF audit.

Follow-up Docket 13-092 Audit Compliance

The following findings were adopted by the Commission in Docket 13-092:

Finding No. 1: NTW reported Federal USF revenues to the KUSF.

Audit Finding Compliance: GVNW confirms that NTW no longer reports Federal USF revenues to the KUSF.

Finding No. 2: The Company applied the KUSF surcharge to non-assessable international airtime and roaming revenues and reported the related revenues to the KUSF.

Audit Finding Compliance: NTW did not apply the KUSF surcharge to international airtime and roaming revenues or report the associated revenues to the KUSF.

Finding No. 3: NTW reported voicemail revenues to the KUSF.

Audit Finding Compliance: GVNW affirms that NTW does not report voicemail revenues to the KUSF.

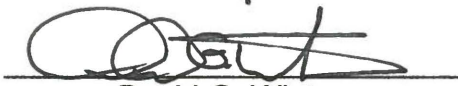
CERTIFICATE OF SERVICE

I hereby certify that on this 1st day of June, 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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