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August 25, 2017

Ms. Lynn M. Retz
Secretary to the Commission
Kansas Corporation Commission
1500 SW Arrowhead Road
Topeka, KS 66604-4027

RE: Docket No. 17-WSLC-019-KSF
*In the Matter of the Audit of New Cingular Wireless PCS, LLC dba AT&T Mobility by the
Kanas Universal Service Fund (KUSF) Administrator Pursuant to K.S.A 2015 Supp. 66-
2010(b) for KUSF Operating Year 19, Fiscal Year March 2015-February 2016*

Dear Ms. Retz:

In its August 2, 2016 order the Kansas Corporation Commission (KCC) directed GVNW to perform a KUSF carrier audit of New Cingular Wireless PCS, LLC d/b/a AT&T Mobility (AT&T Mobility 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 AT&T Mobility'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. AT&T Mobility's audit does not require a separate confidential report; therefore, only the enclosed public audit report for AT&T Mobility 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 horizontal line.

David Winter
Senior Consultant

cc w/encl: Sandy Reams
DW/dc – Encl.

KANSAS UNIVERSAL SERVICE FUND AUDIT REPORT

Docket No: 17-WSLC-019-KSF
New Cingular Mobility PCS, LLC d/b/a AT&T Mobility

Prepared For: Kansas Corporation Commission
Kansas Universal Service Fund

Prepared By: David Winter
GVNW Consulting, Inc.

Audit Period: March 1, 2015 through February 28, 2016
Kansas Operating Year 19

Company Representatives: Tiffany Porter

Date of On-Site Visit: March 21 - 23, 2017

Date Submitted to Company: August 16, 2017

Audit Summary

Based on the Kansas Universal Service Fund (KUSF) Carrier Review Procedures for Operating Year 19,¹ GVNW Consulting, Inc. (GVNW) identified three (3) Kansas Universal Fund (KUSF) reporting issues regarding New Cingular Mobility PCS, LLC d/b/a AT&T Mobility (AT&T Mobility or Company), with no revenue impact to the KUSF:

- Finding No. 1: The Company reported revenues to the KUSF after recognizing customer discounts. Due to the immateriality of the under-payment, \$34.37, GVNW believes no further action is required.
- Finding No. 2: AT&T Mobility did not report actual intrastate revenues on its monthly Carrier Remittance Worksheets (CRWs) for the period of March 2015 to present and did not remit Quarterly True-ups to report actual revenue.² Though AT&T submitted annual True-ups reflecting the same calculated revenue, GVNW's additional audit tests confirmed that the Company has met its KUSF obligations. Therefore, the Commission should direct AT&T Mobility that, as a monthly filer that reports estimated revenue, it is required to report its actual revenue by a Quarterly True-up within 45-days after the end of each KUSF fiscal year quarter.
- Finding No. 3: AT&T Mobility reported text and SMS revenues to the KUSF associated with its GoPhone prepaid wireless service, resulting in the Company over-paying \$341,714 in assessments to the KUSF for the period February 2013 through October 2015. The Company self-reported the error and notified the KCC

¹ Docket No. 15-GIMT-073-GIT (Docket 15-073), July 14, 2016 Order Accepting GVNW's KUSF Year 19 Audit Selections, Proposed Revisions to Selection Criteria and Audit Review Procedures (July 2016 Order).

² Docket No. 10-GIMT-188-GIT (Docket 10-188), January 13, 2010 Order.

Staff. AT&T Mobility submitted True-ups and the over-paid assessments were applied as an offset to the Company's KUSF assessments due. The Company stopped this reporting practice effective with the November 2015 data reported in December 2015.

GVNW recommends that the Kansas Corporation Commission (KCC or Commission) issue an Order to: (1) adopt the findings of this audit report; (2) direct AT&T to remit quarterly True-ups consistent with Commission order; and (3) close this Docket.

Current KUSF Obligations

AT&T Mobility is current with its KUSF obligations.³

Background

AT&T Mobility is a Commercial Mobile Radio Service (CMRS) provider headquartered in Atlanta, Georgia. The Company is required to report its revenues and pay the related assessments to the KUSF on a monthly basis.⁴ AT&T Mobility is authorized to collect an amount equal to or less than its assessment from customers,⁵ and does so. GVNW advises the Commission that AT&T Mobility only reports revenues associated with assessable services to the KUSF and reported net revenues, meaning revenues after recognizing customer discounts, to the KUSF for Operating Year 19. AT&T Mobility has not been designated an Eligible Telecommunications Carrier (ETC) in Kansas, therefore, does not offer Lifeline services to its subscribers.

On August 2, 2016, the KCC or Commission issued Order No. 1 in Docket No. 17-019 directing GVNW to conduct an audit of AT&T Mobility for KUSF purposes.

The Commission, on June 13, 2017, granted AT&T Mobility's Motion for Enlargement of Time and Amended Procedural Schedule.⁶

Audit Findings

GVNW conducted the audit of AT&T Mobility in accordance with the KUSF Carrier Review Procedures adopted by the KCC.⁷ Based on these procedures, GVNW identified the following audit findings and recommendations:

³ Confirmed on August 11, 2017 with the KUSF Administrator.

⁴ Docket No. 06-GIMT-332-GIT, 2006, Order Setting the Kansas Universal Service Fund Assessment Rate For Year Ten and Establishing Reporting Requirements.

⁵ K.S.A. 66-2008.

⁶ Docket No. 17-034, June 13, 2017 Order Granting Motion for Enlargement of Time.

⁷ Docket 15-073, July 14, 2016 Order.

Audit Finding No. 1

Standard: Carriers contributing to the KUSF are to report gross revenues prior to recognizing any customer discounts for KUSF reporting purposes.⁸

Finding: AT&T Mobility reported revenues to the KUSF after deducting customer discounts.⁹ The discount deduction reduced AT&T Mobility's Kansas intrastate revenues reported to the KUSF and the Company under-paid the associated KUSF assessments by \$34.37 for the period of March through September 2015.

AT&T Mobility Response to Audit Finding No. 1

AT&T Mobility accepts this finding.

Recommendations: Due to the Commission's July 2016 Order, and the amendment of K.S.A. 66-2008, GVNW recommends that the KCC use its discretion regarding the submission of Audit True-ups, effective October 2015. Given the immateriality of this finding, GVNW does not believe any further action is required.

Audit Finding No. 2

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

Finding: AT&T Mobility did not report actual intrastate revenues on its monthly CRWs.¹⁰ Instead, the Company reported calculated revenues by dividing the total KUSF surcharge billed to customers by the approved KUSF assessment rate.¹¹ The Company did not file Quarterly True-ups, but did file an Annual True-up for Operating Year 19 that showed no changes to the revenues reported to the KUSF. This practice is inconsistent with the Commission's directive that the Company is to file Quarterly True-ups to report actual revenues.¹² GVNW tested the revenue of AT&T Mobility for the audit test months and the ratio of reported revenue versus the actual revenue recorded on the Company's books ratio was .0096 percent: meaning AT&T reported more revenue to the KUSF than that recorded on its books and records. GVNW attributes this variance to normal billing system adjustments/churn and rounding differences. Tests of subscriber bills and other work related to this issue noted no discrepancies.

⁸ Docket No. 14-GIMT-105-GIT, January 23, 2014, Order Adopting KUSF Assessment Rate for Year Eighteen of KUSF Operations.

⁹Source: AT&T Mobility response to DR No. 7 (Attachment A).

¹⁰ Source: AT&T Mobility response to DR No. 10 (Attachment B).

¹¹ *Ibid.*

¹² Docket 10-188, January 13, 2010 Order.

AT&T Mobility Response to Audit Finding No. 2

AT&T Mobility disagrees with this finding as the compliance process employed by the Company results in the reporting of actual intrastate revenue on its monthly filing. Quarterly true ups are filed only when an adjustment is necessary. In fact, as confirmed in the audit findings, AT&T Mobility reported more revenue than was verified during audit period (an immaterial variance of .0096%.)

Recommendation: AT&T Mobility should be directed that, as a monthly filer that reports estimated revenue, it is required to report its actual revenue by a Quarterly True-up within 45-days after the end of each KUSF fiscal year quarter. The Company should also be reminded that while it reports calculated revenue, AT&T Mobility 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.

Audit Finding No. 3

Standard: For wireless services, non-Voice service revenue, including Optional Ring-Tones, Standard Messaging Services (text messaging, emails), Media Messaging Services (pictures, video, games), and Digitized Media Services (wallpaper, backgrounds, etc.) are not required to be reported as assessable revenues.¹³

Finding: AT&T Mobility reported text and SMS revenues to the KUSF associated with its GoPhone¹⁴ prepaid wireless service. This resulted in AT&T Mobility over-reporting revenues to the KUSF for the period February 2013 through October 2015.¹⁵ The Company self-corrected the error in October 2015 and notified the KCC Staff in December 2015. As a result, the Company over-paid \$341,714¹⁶ in KUSF assessments. AT&T Mobility submitted the required True-ups on January 6, 2016 and applied the over-payment to the Company's December 2015 monthly KUSF filing that was due January 15, 2016. The Company stopped this reporting practice effective with the November 2015 data reported in December 2015.

AT&T Mobility Response to Audit Finding No. 3

AT&T Mobility accepts this finding.

Recommendation: AT&T Mobility corrected this error; therefore, no further action on the part of the Company is required.

¹³ Docket No. 06-GIMT-943-GIT, September 7, 2006 Order Granting Requests of Joint Petitioners.

¹⁴ On July 12, 2017, AT&T announced that GoPhone would be rebranded as AT&T Prepaid.

¹⁵ October 2015 revenues were reported to the KUSF in November 2015.

¹⁶ AT&T Mobility over-paid \$225,617.09 in Operating Year 19 KUSF assessments associated with this finding.

CERTIFICATE OF SERVICE

I hereby certify that on this 25th day of August 2017, 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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