

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

STATE CORPORATION COMMISSION

NOV 05 2010

Susan K. Duffy

In the Matter of the Proceeding to Conduct a)
Financial and Operational Audit of Kansas)
Relay Services, Inc.'s (KRSI) Administration)
Of the Dual Party Relay Service and)
Telecommunications Access Program (TAP)) Docket No. 07-KRST-143-KSF
To Determine that Costs Recovered Through)
The Kansas Universal Service Fund (KUSF))
For These Programs are reasonable and)
Accurate.)

COMMENTS OF KRSI TO STAFF REPORT AND
OBJECTION TO RECOMMENDATIONS

COMES NOW KRSI by and thorough its counsel Robert A. Fox, and hereby makes the following comments to the Staff Report filed October 25, 2010, in the above captioned docket and objection to Staff's Recommendation contained therewith. KRSI respectfully makes the following comments:

1. At page 2 of Staff's Report, halfway through the first full paragraph, Staff discusses the management agreement and supporting documentation. Staff does not state that the KRSI Board subcommittee developed the management contract and identified the common/joint costs. The subcommittee based the administrative fee on percentage of salary, prorated share of rent, equipment rental, postage, telephone expenses, etc. KRSI staff had to provide documentation to justify the figures used.
2. At page 2 of Staff's Report, in the second full paragraph, Staff makes its findings as a result of its audit. KRSI wants to make clear that KRSI was never advised as to what cost model it would be evaluated on until Staff

provided an advanced copy of its report a few weeks before its filing. KRSI checked with several telecommunication carriers and found that federal regulations require them to utilize a cost-based method and develop/provide a Cost Allocation Manual (CAM). This federal regulation does not apply to KRSI because it is not a telecommunications carrier. Even though KRSI is not a carrier subject to the federal regulation, a CAM has never been requested until now! Staff also states that current methodologies are based upon outdated information however, a lot has changed since 2006 when the audit began and KRSI met with Staff and provided it with updated explanations and supporting documentation in place of the “outdated information” but Staff did not reflect that in its report.

3. At page 2 of Staff’s report, in the third full paragraph, Staff cites a lack of documentation to support monthly fees and cost allocations. Staff fails to report that KRSI has been engaged in year long cost study which is in its fourth quarter.
4. At the end of page 2 going into the top of page 3, Staff notes an attachment A. In that attachment A, a comment is made regarding KRSI informing the KUSF administrator of its monthly financial needs rather than simply drawing one-twelfth of its yearly budget (footnote 29). This statement is inaccurate because KRSI is reimbursed for its actual expenses, not its Yearly budget! Further on in that paragraph Staff recites that the Commission required KRSI to enter into a contract with KTIA to establish a monthly fee for use of joint assets etc. As stated above, the KRSI Board subcommittee developed the

contract and identified the common/joint costs. The first contract was based upon estimated expenses because there was no history. The later contracts were based on historical data and expenses, which defined the administration fee and other unusual expenses. KRSI staff had to provide documentation to justify the figures used. In addition, KRSI wants to point out that from its inception, a member of the Commission Staff has had a permanent seat on the KRSI Board. In fact, for a period of time, Commission Chair Wine sat on the KRSI Board. These contracts were presented to the KRSI Board, and approved by it. Staff fully knew of the contracts and the information utilized to create them. Currently, KCC Staff member Sandy Reams sits on the KRSI Board. A representative from the KCC has always been a member of the KRSI Board to approve audits, budgets, and provide input on issues before it. NEVER, in its history, has Staff voted against these approvals and NEVER has that Staff member suggested what Staff now suggests in its recommendations!

5. On page 4 of Staff's Report, the second full paragraph discusses an informal financial review. KRSI wants to make clear that the audit in 2006 was informal and NO formal requests for information were issued, however KRSI took the initiative to provide KCC Staff with an organized book of information KRSI thought would be useful.
6. On page 4 of Staff's Report, under the Audit Findings (A), KRSI points out that for EVERY activity KTIA provides its members, a registration fee is charged to cover the cost of the event. Membership dues and sponsorships pay

staff salaries and KTIA's share of the rent and expenses. Staff also references the initial agreement dated May of 1991. KRSI points out, that the initial agreement was created and entered into 19 years ago. Cost allocations are reviewed by KRSI staff on an annual basis. KRSI's annual budget is approved by its Board, which includes a KCC Staff member. A revised administrative fee, which was approved by KRSI's Board in 2006, was submitted to the KCC for approval. No action on that request has ever been taken by the KCC, even though a KCC Staff KRSI Board member was in the meeting at the time the new proposal was presented to and adopted by the KRSI Board. Staff has never said anything to KRSI as to why no feedback has been provided on the document presented to them 4 years ago, until Staff filed its Report.

7. On page 6 of Staff's Report beginning with the second full paragraph, Staff states the "annual 5% increase in cost is not documented". However, KRSI has stated that the annual 5% increase covers increases in rent, postage, phones, general office supplies, salaries, employee benefits, all of which are costs of doing business. Does Staff propose that there is no "Basic Fee" for administering a program? No one is going to administer these programs for FREE, not a State Agency and not an independent management company.
8. On page 6 of Staff's Report under the heading of Cost Allocation Manual, for some reason Staff fails to acknowledge that KRSI has in place written internal controls. In addition, Staff fails to address the serious issue that Staff could have requested KRSI develop a CAM at any time since KRSI's inception. KRSI could and can develop one easily. Curiously, KRSI is not aware of any

non-profit organization or state agency that has a CAM but is more than able and willing to develop one that meets KCC expectations.

9. On the top of page 7 of Staff's Report, in the first full paragraph, Staff suggests there currently is no documentation specifying the process for cost allocation. As in other areas, Staff is wrong. KRSI does have documentation, and KTIA, KRSI, and TAP all have their own accounts. Expenses are separated and reviewed monthly.
10. In the second full paragraph on page 7, Staff discusses an "outdated time study". For some reason, Staff does not discuss the fact that when KRSI staff met with KCC Staff well over a year ago, the KCC Staff requested a new time study be conducted. KRSI staff complied with that request, as it always does, and a new time study has been underway since January 1, 2010. KRSI is in the final quarter of that study.
11. In the third full paragraph on page 7 of Staff's Report, staff discusses time allocations and its inability to determine allocation percentages derived from the 2005 time study. That time study only covered four months and the derived percentages were averaged out through the rest of the year
12. . KRSI must ask, is a spot check of time allocation percentages considered reasonable as opposed to tracking time on a daily basis as KRSI currently does? As Staff noted it reviewed the current KRSI time sheets completed by each KRSI employee for the first half of 2010 and calculated time allocation percentages quite different from the time allocations on the Cost Allocation Spreadsheet. KRSI replies that of course it is different, Staff is comparing

2010 percentages to the previous year spreadsheet! Again, Staff appears to not understand the business and operation of KRSI.

13. On page 7 of Staff's Report, in the final full paragraph, Staff suggests that budgets were developed by trial and error. KRSI is disappointed by this negative and accusatory statement. Budgets were not developed by trial and error to receive the desired result. Expenses from the previous year are reviewed, projections for the new year are based upon last year increases or decreases and trends from the aggregate equipment selection data. A new budget is presented to the KRSI Board, which includes a Staff member, is justified and voted on. This method is hardly trial and error. It is the same process utilized by hundreds of businesses each year.
14. At page 8 of its Report, in the second full paragraph, Staff states that no significant problems have been reported regarding Hamilton's services. Staff can make this accurate statement because KRSI has kept Staff fully apprised of any service disruptions and issues experienced by the TRS vendors.
15. At page 8, under TAP, Staff discusses its limited understanding of the TAP service. While Staff's recitation is partially accurate, there are a lot of issues affecting TRS and TAP in which KRSI is involved. Staff's apparent lack of understanding of the TAP issues is underscored at the top of page 9 wherein Staff claims TAP previously received applications by fax. Of course TAP has never practiced receiving applications by fax. In fact, the KCC order addressing the TAP program requires TAP to have original signatures, so applications have to be mailed in or hand delivered to the TAP office. In the

very next paragraph, Staff discusses that TAP personnel do not independently verify information in the applications. Staff's statements are false. While the KCC has never required verification of residency or income, KRSI staff took the initiative to add to the applications the following language: "I verify under penalty of perjury that the above information is true and correct". KRSI randomly checks the phone numbers and residence addresses and has the right to request proof of income. Refusal to provide the information results in a denial of the application. KRSI has even had applicants withdraw their application when told of the possibility of income proof requirement.

16. In the third full paragraph on page 9, last sentence, Staff claims that if TAP orders the equipment, the voucher stays with TAP and the vendor bills TAP for the amount of the equipment. Actually, when TAP orders the equipment, the voucher is still sent to the vendor so that the equipment and voucher match. Vendors are still required to fill out the voucher with the make, model, serial number, and amount of the equipment.
17. At the end of page 9 of Staff's Report it lists numbers for vouchers for the years 2003 through 2006. KRSI must ask why go back to 2003 and end at 2006? There has been a significant increase in the number of Kansans served since 2006. Why does Staff want to keep that information from the Commission? Of course data years will be inconsistent, but why not audit KRSI in all areas from 2003 to 2009 to be consistent?
18. On page 10 of Staff's Report at the end of the second full paragraph, Staff talks about the appearance of a conflict of interest but having no evidence of

this, but suggests KRSI has not researched the issue. Again Staff is incorrect. KRSI staff researches and reviews its vendors for fraud. As a result of this ongoing process TAP has dismissed several vendors from its approved vendor list. In some of these investigations, KRSI staff contacted several applicants to verify if they picked up their equipment or it was shipped to them. KRSI staff was able to determine that several vendors were charging for shipping even though the applicant actually picked up the equipment from the vendor. KRSI has recovered several thousand dollars from vendors due to this fraudulent billing for shipping.

19. At the end of the paragraph on page 10, just before the heading “Other Research” Staff discusses the focus of the TAP coordinator. For clarification purposes, KRSI points out that there is a higher incidence of hearing/vision loss than other disabilities which is reflected in the numbers, not that TAP just focuses on them and ignores the rest. TAP and KRSI work to educate the other disability groups (such as speech impairment) about the resources, but they are harder to reach due to the group size.
20. At page 10 of Staff’s Report under “Other Research”, staff discusses other state programs. KRSI states that many states only service deaf or low vision groups. Kansas services all disabilities. Each state has its own method of funding and determines if it will be a voucher or a loan program, or if it will service all or only some disabilities. One of the latest issues for states with loan programs is that ALL phones returned must be repaired, sold or stored. It was found that no one will purchase a used phone from surplus warehouse.

Some states have reported returned phones with buttons or wiring missing, and roach infestation. Of course one of the disadvantages of purchasing in bulk is the need to store equipment in a warehouse, and processing outdated equipment since the equipment is updated frequently on a regular basis. A voucher program such as Kansas has, allows the individuals to receive the most up to date equipment available at the time of application.

21. At page 11 of Staff's Report beginning under "Recommendations", Staff claims KRSI financial records are not sufficient. KRSI maintains that if its financial records are not sufficient, how was it able to provide Staff with every report, statement, check stub, invoice and so on, requested? Staff stated this was an informal audit and KRSI provided every item requested and even some not requested!
22. In that same paragraph Staff inexplicably concludes that "it is no longer essential that KRSI have a connection to the telecommunications industry". Such a conclusion merely serves to underscore Staff's disconnect with KRSI and its history. The relationship between KRSI, TAP and KTIA ILECs is essential:
 - a) The KRSI bylaws approved by the KCC calls for representatives from the telecommunications industry to sit on the Board (AT&T, CenturyLink, rural ILECs, wireless, CLECs etc.).
 - b) On an annual basis, the KRSI staff provides KTIA members with updated directory information on how to contact the KRC, place a call, etc. This information is placed in all telephone directories in the state.

- c) Each year, TAP requests all ILECs to include a palm card advertising TAP services in their monthly customer bills. TAP always receives a great response and the ILECs bear the expense of the additional postage, if any, caused by inclusion of the palm cards.
- d) Some of the ILECs are vendors for TAP, especially in very rural areas. They not only provide the applicants with a phone, they also install and train the customer on how to use the phone. If a problem is reported, the ILEC dispatches a technician to troubleshoot and repair the phone or connection.

KRSI'S OBJECTION TO STAFF'S RECOMMENDATIONS:

1. KRSI is shocked and frankly insulted by Staff's recommendations. The tone and content of Staff's Report impugns KTIA's integrity and displays how little Staff seems to know about KTIA or its programs. From its inception KTIA has attempted to work closely with Staff and has always taken a proactive role in problem solving and being more efficient. Integrity has been its hallmark. As pointed out above, from its inception, a KCC Staff member has sat as a Board member of KTIA. Staff has always been fully aware of the actions being taken by KTIA and in all of its existence, the KCC has never required any changes from it.
2. Staff undertook its "informal" audit in 2006. In the four (4) years it has taken Staff to complete the audit, KRSI has cooperated fully, providing all the information asked of and even providing information not requested which KRSI thought helpful. The audit has stopped several times, auditors have

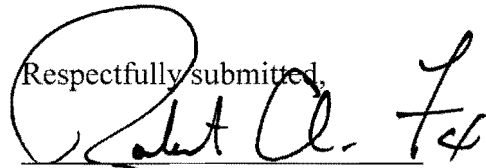
changed several times, KRSI has made a filing at the KCC during that time which has never been addressed. Surely in all of this time, Staff could have requested KRSI conduct a cost study and prep a CAM . Only in 2009 did Staff request a cost study be conducted, which KRSI gladly undertook beginning January 1, 2010. No CAM was requested until Staff provided its Report. One could have been fully completed and in force by now.

3. Instead of working with KRSI to address its concerns, which could have been fully addressed in the 4 years the audit has taken, Staff recommends a costly, time consuming, and nonsensical approach. It recommends KRSI sever its ties with the telecommunications industry and take the time and expense to prepare a RFP, screen candidates and pick someone to fix an unbroken program. And if that isn't enough, Staff recommends this process be taken every 3 to 5 years, almost surely assuring that no one will send in a proposal because just when they get the program running smoothly they risk losing it. Staff's recommendations are unnecessary, unreasonable, costly, time consuming, and most of all, do not have any assurance of providing a better service than KRSI. KRSI objects to these unjustified, unreasonable recommendations.
4. KRSI has always worked hard to keep staff advised and fully aware of KRSI practices and compliances. Staff has never before requested a cost study of a CAM and that is why they are not in place. KRSI is most happy to provide both and track costs and allocations as required. That is all the Commission needs to order, and Staff's concerns will be addressed. Maybe through that

process, Staff can reengage with KRSI, become again educated regarding KRSI and related programs, and hopefully, want to work with KRSI instead against it as Staff's recommendations appear to do.

KRSI respectfully objects to Staff's recommendations regarding RFPs and disassociation with the telecommunications industry. KRSI has undertaken and almost completed a cost study and a CAM will be easily attainable. Hopefully Staff will want to work with KRSI to fulfill Staff's concerns.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I certify that on this 5th day of November, I hand delivered a copy of the foregoing document to:

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