



GVNW CONSULTING, INC.

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February 22, 2018

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

RE: Docket No. 18-COSC-045-KSF  
*In the Matter of the Audit of Consolidated Communications Enterprises Services, Inc. by the Kansas Universal Service Fund (KUSF) Administrator Pursuant to K.S.A 2015 Supp. 66-2010(b) for KUSF Operating Year 20, Fiscal Year March 2016-February 2017*

Dear Ms. Retz:

In its August 1, 2017 order the Kansas Corporation Commission (KCC) directed GVNW to perform a KUSF carrier audit of Consolidated Communications Enterprises Services, Inc. (CCES 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 CCES'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. A public audit report is filed; however Attachment A to this report is confidential. Therefore enclosed is both a public and confidential audit report and confidential Attachment A.

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 blue ink, appearing to be "DW", with a long horizontal line extending to the right.

David Winter  
Senior Consultant

cc w/encl: Sandy Reams

## CERTIFICATE OF SERVICE

I hereby certify that on this 22nd day of February 2018, 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:


Kansas Corporation Commission  
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Topeka, KS 66604

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David G. Winter

## KANSAS UNIVERSAL SERVICE FUND AUDIT REPORT

**Docket No:** 18-COSC-045-KSF  
Consolidated Communications Enterprise Services, Inc.

**Prepared For:** Kansas Corporation Commission  
Kansas Universal Service Fund

**Prepared By:** David Winter  
GVNW Consulting, Inc.

**Audit Period:** March 1, 2016 through February 28, 2017  
Kansas Operating Year 20 (Operating Year 20)

**Company Representatives:** Steve Rheams – Regulatory Analyst II  
Lance Casey – Senior Regulatory Relations Specialist

**Date of On-Site Visit:** January 9 – 10, 2018

**Date Submitted to Company:** January 22, 2018

### Audit Summary

Based on the Kansas Universal Service Fund (KUSF) Carrier Review Procedures for Operating Year 20,<sup>1</sup> GVNW Consulting, Inc. (GVNW) identified two (2) reporting deficiencies regarding Consolidated Communications Enterprise Services, Inc. (CCES or Company) with a net impact of an additional \$5,910.74 due to the KUSF.

- Finding No. 1: CCES reported revenues to the KUSF net of discounts for the period of March through June 2016 and underpaid \$5,910.74 in KUSF assessments.
- Finding No. 2: The Company failed to file updated VoIP traffic studies,<sup>2</sup> including an affidavit from an officer of CCES to verify that the Company is using this same methodology for both Federal Universal Service Fund (Federal USF) and KUSF purposes, since 2014.

GVNW recommends that the Commission issue an Order to: (1) adopt the audit findings; (2) direct the Company to submit Audit True-ups for the period of March 2016 through June 2016 and pay the associated \$5,910.74 of assessments to the KUSF within 30-days of the issuance of a Commission Order; (3) direct CCES to submit a pleading, including

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<sup>1</sup> Docket No. 16-GIMT-067-GIT (Docket 16-067), July 25, 2017 Order Accepting GVNW's KUSF Year 20 Audit Selections, Proposed Revisions to Selection Criteria and Audit Review Procedures (July 25, 2017 Order).

<sup>2</sup> Docket No. 14-GIMT-105-GIT (Docket 14-105), Aug. 13, 2014 Motion of SureWest Kansas, Inc., Motion of SureWest Kansas, Inc., to Modify the Way it Calculates Kansas Universal Service Assessment Consistent with the Capability of its New Billing System; Aug. 19, 2014 Order Approving Allocation Methodology for SureWest Kansas, Inc. (SureWest Motion and SureWest Order, respectively).



an affidavit from an officer of CCES, requesting to update its company-specific traffic factor, within 30-days of issuance of a Commission Order. The affidavit should affirm: (a) CCES uses a company-specific traffic factor study to allocate VoIP toll revenue between the interstate and intrastate jurisdictions; (b) the KUSF fiscal year or months the methodology applied; (c) the intrastate traffic factor used for KUSF purposes each period; and (d) that the Company used this methodology for both Federal and Kansas USF purposes. GVNW further states it will file a Compliance Report in this Docket within 60 days of issuance of an Order.

### **Current KUSF Obligations**

CCES is current with its KUSF obligations.<sup>3</sup>

### **Background**

CCES, formerly SureWest Kansas Licenses, LLC (SureWest), is a competitive local exchange carrier (CLEC) headquartered in Moline, Illinois. The Company is required to report its revenue and pay the related assessments to the KUSF on a monthly basis.<sup>4</sup> CCES is authorized to collect an amount equal to or less than its assessment from customers,<sup>5</sup> and does so. The Company has not been designated as an Eligible Telecommunications (ETC) in Kansas, therefore, it does not offer Lifeline service to its subscribers.

CCES bundles assessable and non-assessable services and reports the related revenues to the KUSF based on the service price of the assessable service. The revenues are reported net of discounts, meaning revenues are reduced to recognize customer discounts. CCES uses the same bundled service and discount methodologies to identify, report, and allocate revenue to the KUSF and the Federal USF.<sup>6</sup>

On August 1, 2017, the Commission issued Order No. 1 in Docket 18-045 directing GVNW to conduct an audit for KUSF purposes.

This audit also requires a review of the Company's compliance with the recommendations adopted by the KCC in Docket 13-091.<sup>7</sup>

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<sup>3</sup> Confirmed on January 22, 2018 with the KUSF Administrator.

<sup>4</sup> 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.

<sup>5</sup> K.S.A. 66-2008.

<sup>6</sup> Effective July 1, 2016, pursuant to K.S.A. 66-2008(a): "The commission shall not require any provider to contribute to the KUSF under a different contribution methodology than such provider uses for purposes of the federal universal service fund, including for bundled offerings."

<sup>7</sup> Docket No. 13-EVMT-091-KSF (Docket 13-091), July 9, 2013 Order Adopting Audit Report and Closing Docket.

## **Audit Findings**

GVNW identified the following audit findings and proposes the following recommendations:

### **Audit Finding No. 1**

**Standard:** Carriers are to report gross revenues prior to recognizing any customer discounts for KUSF reporting purposes through June 30, 2016.<sup>8</sup> Effective July 1, 2016, companies are authorized to report revenues to the KUSF net of customer discounts.

**Finding:** CCES reported revenues to the KUSF after deducting discounts to customers.<sup>9</sup> The discounts reduced CCES's Kansas intrastate revenues reported to the KUSF, resulting in the Company under-paying its KUSF assessments by \$5,910.74 for the period of March through June 2016.

**Recommendation:** The Company should be directed to submit Audit True-ups for the period March through June 2016 and pay the additional \$5,910.74 to the KUSF within 30 days of the Commission's issuance of an Order in this Docket.

### **Audit Finding No. 2**

**Standard:** VoIP providers are to report their revenues to the KUSF Administrator using the same revenue identification methodology as that used for Federal USF purposes.<sup>10</sup> If a company identifies revenue using either a traffic study or direct assignment, the company is to submit a pleading, updated at least annually, advising the Commission of the methodology; provide the intrastate factor, if applicable, and relevant time period(s) for each factor; and verify this same methodology is used for federal and KUSF purposes. An affidavit, signed by an officer of the company is to accompany the pleading.

**Finding:** The Company has not submitted an annual update to the KCC or the required affidavit signed by an officer of CCES to verify that the Company is using this same methodology to allocate its VoIP toll service revenues<sup>11</sup> for both Federal and Kansas USF purposes, since 2014.<sup>12</sup> On August 13, 2014, CCES the parent company of SureWest filed, in Docket 14-105,<sup>13</sup> a Motion, accompanied by an affidavit signed by an officer of the Company, requesting the Commission authorize the Company to modify its current KUSF allocation for VoIP/Local/Toll consistent with the capabilities of its new billing

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<sup>8</sup> Docket No. 14-GIMT-105-GIT (14-105), January 23, 2014 Order Adopting KUSF Assessment Rate for Year Eighteen of KUSF Operations.

<sup>9</sup> Source: CCES response to DR No. 14. (Confidential Attachment A).

<sup>10</sup> Kansas Universal Service Fund (KUSF) Carrier Remittance Worksheet (CRW) Instructions March 2016-February 2017 (FY 17), Page 5.

<sup>11</sup> VoIP toll is a service offering by CCES to its subscribers.

<sup>12</sup> Source: CCES response to DR No. 13 (Attachment B)

<sup>13</sup> Docket 14-105, SureWest Motion. .

system. The Commission granted SureWest's request<sup>14</sup> and directed the Company to "provide updates to its traffic factors derived from such methodology on an *annual basis* in the KUSF assessment docket for which the factors apply. (Emphasis added).

The Company began using an annual traffic study in April 2015 after a billing conversion made it possible to identify VoIP toll revenues by jurisdiction.<sup>15</sup> Due to personnel changes, a pleading was not made.<sup>16</sup> Therefore, CCES has failed to submit its required annual pleading accompanied by an affidavit, signed by an officer of the Company, for the periods of April 2015 through February 2016; March 2016 through February 2017; and March 2017 through current 2018, 34 months total. This finding was discussed with CCES during GVNW's site-visit.

**Recommendation:** The Commission should direct CCES to submit a pleading, accompanied by an affidavit executed by an officer of the Company, to update its traffic study methodology and intrastate factors for KUSF purposes for the periods of April 2015 through current 2018. The Company should verify that it applies the inverse of the Federal USF factor for KUSF reporting purposes and identify the time period for each applicable factor. The Commission should remind the Company to submit annual updates in accordance with Commission Orders. The Commission may wish to consider the assessment of fines pursuant to K.S.A. 66-138 for non-compliance with Commission Orders.

#### **Follow-up Docket 13-091 Audit Compliance**

The following findings were adopted by the Commission in Docket 13-091:

**Finding No. 1:** The Company applied the KUSF surcharge to the Federal USF surcharge collected from its digital service customers and reported these as assessable revenues to the KUSF.

**Audit Finding Compliance:** GVNW confirms that this reporting practice has been discontinued.

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<sup>14</sup> Docket 14-105, SureWest Order.

<sup>15</sup> Ibid, 10.

<sup>16</sup> Ibid. 10.

**Docket No. 18-COSC-045-KSF**

**CONFIDENTIAL\***

**Attachment A**

**to Kansas Universal Service Fund Audit Report**

**Dated February 21, 2018**

**KUSF Carrier Audit Information Request**

**Submitted By:** David Winter  
**Submitted To:** Steve Rheams and Lance Casey  
**Company Name:** Consolidated Communications Enterprise Services, Inc.  
**Docket Number:** 18-COSC-045-KSF  
**Request Date:** September 21, 2017  
**Date Information Needed:** October 5, 2017

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**Request No. 14****RE:** Discounts

- a. Confirm whether Consolidated reported revenues to the KUSF net of discounts.

Yes Consolidated reported revenues net of discounts.

- b. Does Consolidated offer 90-day promotional discounts? If yes, were these discounts "netted" against KUSF reportable revenues only for the initial 90-day period, after which, the full service revenue were reported?

Consolidated offers various discount programs normally associated with bundled service offerings or long-term service commitments. However, during the time period in question Consolidated did not offer any 90-day promotional discounts.

- c. If Consolidated did report revenue net discounts to the KUSF: provide, by month for period March 2016 through June 2016, the revenues associated with the discounts not reported to the KUSF. This should also include the intrastate factor for the aforementioned period.

**Discounted Revenues by Month**

March – 2016		
April – 2016		
May – 2016		
June – 2016		





**KUSF Carrier Audit Information Request**

Attachment A-CONFIDENTIAL

Docket No. 18-COSC-045-KSF

Page 2 of 2

**NOTE:** If for some reason, the above information cannot be provided by the date requested, please submit a Request for Additional Time (see Attachment A).

**Verification of Response**

I have read the foregoing Data Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to GVNW's auditor any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Data Request.

Signed:  \_\_\_\_\_

Date: 10/5/2017 \_\_\_\_\_

**KUSF Carrier Audit Information Request**

Attachment B  
Docket No. 18-COSC-045-KSF  
Page 1 of 2

**Request No. 13 (Consolidated)**

**Submitted By:** David Winter  
**Submitted To:** Steve Rheams and Lance Casey  
**Company Name:** Consolidated Communications Enterprise Services, Inc.  
**Docket Number:** 18-COSC-045-KSF  
**Request Date:** September 21, 2017  
**Date Information Needed:** October 5, 2017

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**Request No. 13**

**RE: VoIP Toll Revenues**



4-2016 KUSF  
Revenue - Attachment

- a. Please confirm whether Consolidated considers its VoIP Toll IA an Interconnected VoIP Service.

Consolidated considers the VoIP Toll IA an Interconnected VoIP Service.

- b. How does Consolidated identify intrastate VoIP Toll revenues (VoIP safe harbor, company specific traffic study or direct assignment of revenues)? If intrastate VoIP Toll revenues are identified through the use of a company specific traffic study or direct assignment has Consolidated submitted a pleading and affidavit notifying the Kansas Corporation Commission of its use of a traffic study or direct assignment and any changes to the percentages allocated to the interstate and intrastate jurisdiction. If so, please provide a copy of the pleading and affidavit.

Consolidated has used an annual traffic study since April 2015 after a billing conversion made it possible to identify toll revenues by jurisdiction. Due to personnel changes, a pleading was not made.

- c. If Consolidated has not allocated its reportable intrastate VoIP Toll revenues through the use of the VoIP safe harbor, company specific traffic study or direct assignment of revenues, please provide the VoIP revenues reported to the KUSF per month for the period March 2016 to present when the Company stops reporting 100% of VoIP revenues to the KUSF.

**NOTE:** If for some reason, the above information cannot be provided by the date requested, please submit a Request for Additional Time (see Attachment A).

**KUSF Carrier Audit Information Request**

Attachment B  
Docket No. 18-COSC-045-KSF  
Page 2 of 2

**Request No. 13 (Consolidated)**

**Verification of Response**

I have read the foregoing Data Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to GVNW's auditor any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Data Request.

Signed: \_\_\_\_\_

Date: \_\_\_\_\_

