

**WYOMING PUBLIC SERVICE COMMISSION**

Report on Agreed Upon Procedures for the  
Year Ended December 31, 2008

PUBLIC REPORT

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McBRIDE, LOCK & ASSOCIATES

**INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING  
AGREED-UPON PROCEDURES**

Wyoming Public Service Commission:

We have performed the prescribed procedures enumerated in the Contract established as a result of the Request for Proposal related to the Wyoming Public Service Commission Universal Service Fund which were agreed-upon by the Wyoming Public Service Commission, solely to assist the specified parties in assuring that the Wyoming Public Service Commission, the Wyoming Legislature, Wyoming telecommunications service providers, and Wyoming citizens;

- That the Wyoming Universal Service Fund Manager prudently and accurately performed his management responsibilities in accordance with Wyoming Statutes, Wyoming Public Service Commission Rules, Orders and Wyoming Universal Service Fund administrative guidelines in calculating the weighted statewide average and benchmark for Fiscal Year 2009-2010 and,
- The accuracy of line counts and rates provided by the carriers in developing that calculation.

The Wyoming Public Service Commission is responsible for compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

**PHASE I**

**A. Review of Statutes Creating Rules Governing the Wyoming Universal Service Fund (WUSF)**

1. Become familiar with the Wyoming Statutes, and Public Service Commission (PSC) Rules (Commission Rule 500), Orders and administrative procedures as they pertain to the operation and management of the WUSF. Coordinate initial planning with WUSF Manager.

*Work performed by auditor:* We reviewed the Wyoming Statutes and Rules related to WUSF. Additionally, applicable Orders and administrative procedures were reviewed. We discussed the initial planning with the WUSF Manager.

*Findings:* Obtained and reviewed the Wyoming Statutes and Rules related to WUSF. The PSC initiated the audit by sending a notification letter to each of the carriers under review. We followed up with planning questionnaires and a document request to each of the carriers.

*Recommendations:* None

- a. Review Wyoming Statutes, PSC Rules, Orders and administrative procedures to ascertain if there are any changes in them since the 2008 management audit was performed.

*Work Performed by Auditor:* We reviewed the Wyoming Statutes, PSC Rules, Orders and administrative procedures that were available during the 2008 management audit and compared them to the current documentation available.

*Findings:* There have been no significant changes since the 2008 management audit.

*Recommendations:* None

- b. Prepare and submit a list of reports and records the WUSF Manager should gather and have available for the beginning of field work.

*Work Performed by Auditor:* We were provided a copy of the Annual Local Exchange Carrier Proprietary Report (Annual Report) for the incumbent carriers and Annual Competitive Local Exchange Carrier Proprietary Report (Annual Report) for the competitive carriers for 2008 for each of the 31 service providers. Additionally, we were provided a contact list for each company to coordinate site visits.

*Findings:* Copies of Annual Reports and contact lists were provided to the audit team.

*Recommendations:* None

- c. Review the prior audit work papers and confidential report to ensure the audit team is familiar with critical issues from prior management audit.

*Work Performed by Auditor:* We reviewed the prior audit work papers and the confidential report to determine any critical issues from the prior management audit that would be applicable to this audit.

*Findings:* Any issues relevant from the prior audit were considered in the current year procedures.

*Recommendations:* None

- d. Meet with WUSF Administrator to discuss scope of the USF audit, any specific procedures to be performed and the timeline for the fieldwork and final report.

*Work Performed by Auditor:* An entrance conference was held with the WUSF Manager and Administrator on March 30, 2010.

*Findings:* We discussed the scope of the USF audit and outlined the anticipated procedures for each of the service providers to be performed. We also discussed the timeline for the field work and final report.

*Recommendations:* None

2. Interview WUSF Manager, Administrator, Attorney and others to gain understanding of the process, office procedures and practices employed by the WUSF Manager in his management of the WUSF and his implementation of Wyoming PSC Rules and Regulations regarding the WUSF.

*Work Performed by Auditor:* Discussion was held with the WUSF Manager and the Administrator to discuss the practices employed by the WUSF and the implementation of Wyoming PSC Rules and Regulations regarding the WUSF.

*Findings:* We primarily discussed the methodology of computing the statewide weighted average calculation and the benchmark rate. The WUSF incorporates the line count information and rates that are reported in the Annual Reports in order to complete the statewide calculation. The Annual Reports request the line counts and the rates as outlined in Commission Rule 500(g). A spreadsheet was created for use for each of the carriers that are required to be included in the statewide calculation.

The line counts are multiplied by the local service rates provided to determine the monthly revenues for each carrier. A summary sheet provides the total lines reported and total revenues calculated for each carrier. The WUSF then accounts for the FUSF incremental support for those carriers that embed FUSF in the tariff rates. This amount is netted with the total monthly revenues calculated. The sum of the revenues calculated with the FUSF incremental support is then divided by the total lines reported to determine the statewide weighted average rate. Then this rate is multiplied by 130% to determine the benchmark rate.

WUSF support is paid to carriers based on any local service rate found to be in excess of the 130% benchmark after taking into effect FUSF support payments.

The accuracy of the statewide calculation was reviewed in Phase VI.F.18 through Phase VI.F.18.b.

*Recommendations:* See recommendations in Phase VI.F.18 through Phase VI.F.18.b.

- a. Review prior management audit recommendations from the 2008 management audit report with WUSF manager to ascertain what changes and improvements were implemented.

*Work Performed by Auditor:* We reviewed the prior management audit recommendations that were applicable to this engagement. The prior management audit covered the internal controls of the WUSF, compliance with the Rules and Regulations in regards to the statewide weighted average calculation and benchmark rate and review of the integrity of the Q-Fund.

*Findings:* A summary of those prior audit items that are applicable to our review are as follows:

1. The WUSF staff does not validate the monthly or quarterly revenue requested for the WUSF assessment.

*Current Status* – Through this review the monthly or quarterly revenue as reported on the revenue and assessment forms is being validated for the 31 essential service providers.

2. The statewide calculation incorrectly used projected tariff rates and did not subtract the unapplied credits from the monthly support payments.

*Current Status* – The methodology used by the WUSF Manager in the calculation of the statewide weighted average rate is in compliance with the Rules and Regulations. However, there were inconsistencies found in the use of embedded FUSF support payments or FUSF support credited to customers in the statewide calculation.

*Recommendations:* See current recommendations in Phase VI.F.18 through Phase VI.F.18.b.

- b. Interview the current WUSF Manager and WUSF Administrator and Attorney and ascertain what changes were made in WUSF operations subsequent to the issuance of the prior audit report.

*Work Performed by Auditor:* We discussed with the WUSF Manager, Administrator and Attorney to determine what changes have been made in WUSF operations subsequent to the issuance of the prior audit report.

*Findings:* The WUSF Manager stated that the calculation for the statewide weighted average price was modified to correct some of the errors noted in the prior audit. It was noted that there were errors in calculations and input data not properly linking to the appropriate places. Based on the inputs of the statewide calculation the issues found in the previous audit have been corrected. We did find consistency issues in the application of the incremental FUSF amounts determined from the carriers receiving FUSF support. It was determined that there were two companies included in the calculation that provide credits to their customers to offset the high tariff rates. There was also another company in which they do not credit or embed FUSF in their rates. Other companies with similar practices were not included in this calculation.

*Recommendations:* We recommend that the WUSF Manager ensure that the FUSF incremental dollar amounts be accurately reflected in the adjustment to local service revenues in the calculation of the statewide weighted average calculation.

- c. Investigate, if any, changes in procedures were implemented during the audit period to comply with any Wyoming PSC Rule changes.

*Work Performed by Auditor:* We reviewed the current Wyoming PSC Rules and compared them to those that were current in the previous audit period. We reviewed the Wyoming PSC board minutes to determine if there were any Rule changes since the previous audit.

*Findings:* There were no Rule changes that were found that were applicable to this review.

*Recommendations:* None

- d. Confirm that the WUSF Manager has mailed Annual Reports to each Wyoming telecommunications service provider.

*Work Performed by Auditor:* We confirmed that the WUSF Manager mailed Annual Reports to each of the Wyoming telecommunications service provider.

*Findings:* We found that each of the required telecommunications service providers received and submitted Annual Reports for 2008.

*Recommendations:* None

- e. Determine accuracy of the WUSF Manager's list of telecommunications service providers that are subject to the provisions of the WUSF.

*Work Performed by Auditor:* We obtained a list of telecommunications service providers and compared to the list of service providers on USAC's website. Additionally, we reviewed information on the Wyoming State PSC's website for additional providers.

*Findings:* The list of telecommunications service providers was determined to be accurate.

*Recommendations:* None

- f. Ensure that WUSF reporting forms require telecommunication service providers to report revenue for all services subject to assessment.

*Work Performed by Auditor:* We reviewed the Telecommunication Company Revenue and Assessment Report for the Wyoming Universal Service Fund for Fiscal Year 2009-2010.

*Findings:* The form outlines the retail revenue for the various services provided.

*Recommendations:* None

3. Review the carriers' Annual Reports to the WUSF to understand the nature and character of the information presented to the administrators of the fund.

*Work Performed by Auditor:* We reviewed the Annual Reports for 2008 for each of the 31 carriers.

*Findings:* The data represented in the Annual Report was compared to the data in the statewide calculation and also compared to support documentation provided by the carriers as described in subsequent phases.

*Recommendations:* None

## PHASE II

### **B. Review the Rules on the Method of Calculation Required Under Rule 500(g)**

4. Review and understand Commission Rule 500(g) to establish appropriate compliance requirements pertaining to the line counts and rates to be used by carriers in their submissions to the WUSF.

*Work Performed by Auditor:* We reviewed the Commission Rule 500(g). The Rule requires that the statewide weighted average local service rate shall be computed by multiplying the number of residential and business service lines that meet the definition of essential services by the rate applicable to each line or subscriber. The rate to be used shall include all standard charges associated with each telecommunication company's local service. Such charges include, but are not limited to: the local service rate, whether flat or measured; touch-tone; as well as zone and mileage charges. Therefore, the carriers should report the quantity of residential and business service lines and the local service rates for each customer group.

*Findings:* The line counts and rates reported by the carriers will be analyzed to ensure that only the lines that meet the criteria of essential service lines and that the rates reported only reflect the local service line.

*Recommendations:* None

## PHASE III

### **C. A Review and Understanding of the Line Counts and Rates Submitted by Each of the Carriers in Their 2008 Annual Reports to the WUSF Manager**

5. Obtain and review the:
  - Annual Local Exchange Carrier Proprietary Report (Incumbent Carriers)
  - Annual Competitive Local Exchange Carrier Proprietary Report (Competitor)

For each of the carriers pertaining to the line counts and rates reported for the fiscal year ended June 30, 2010.

*Work Performed by Auditor:* We obtained the Annual Reports as filed for each of the 31 carriers. We evaluated the statewide calculation to determine if the output from the Annual Reports were accurately reflected. Additionally, we evaluated the line counts and rates included in the annual reports by reviewing the supporting documentation provided by each of the carriers.

*Findings:* There were various issues noted in regards to the line counts and rates reported and the use of the information to compile the statewide calculation. Those items are identified in more detail in Phase IV through Phase VI.

*Recommendations:* See recommendations in Phase IV through Phase VI.

## PHASE IV

### **D. A Validation of the Line Counts and Rates by Auditing the Carriers' Billing Records, Sampling Plant Records and Tariffs**

6. Obtain primary contact points for each of the carriers. Obtain their email, phone and addresses for this individual and for the maintenance of records.

*Work Performed by Auditor:* We obtained a list of primary contact points for each of the 31 carriers from the Wyoming PSC.

*Findings:* A full listing of contacts was provided.

*Recommendations:* None

7. Have the WUSF Administrator contact all carriers to provide authorization for the audit team to review all necessary records to support their line count and rate submissions.

*Work Performed by Auditor:* We were provided a copy of the notification that was sent by the Wyoming PSC to each of the carriers under review.

*Findings:* The notification identified McBride, Lock & Associates as having authorization to review all necessary records to support their line count and rate submissions for the 2008 Annual Report.

*Recommendations:* None

8. Coordinate a schedule to visit all carriers who submitted line counts and rates for the computation of the FY 2009-2010 weighted statewide average and benchmark calculation.

*Work Performed by Auditor:* We provided each carrier with a planning questionnaire that requested available times to conduct site visits. Additionally, a document request was provided to each carrier for initial information to be provided prior to the site visit.

*Findings:* Once initial documentation was provided by the carrier. The audit team scheduled carriers for site visits based on availability.

*Recommendations:* None

9. Interview personnel to obtain an understanding of the processes and records used to develop reporting data to the WUSF.

*Work Performed by Auditor:* We requested written processes used to develop reporting data to the WUSF. Additionally, we interviewed personnel involved in the development of the data reported to the WUSF for each carrier.

*Findings:* We found that there were various issues in the reporting of the line counts and tariff rates for the Annual Reports filed with the WUSF Manager. See Phase IV.D.11 through Phase IV.D.14 findings. We additionally found that there were issues with the assessment of the customer and the remittance to the WUSF. See Phase V.E.15 and Phase V.E.16 findings.

*Recommendations:* See recommendations for Phase IV.D.11 through Phase IV.D.14, Phase V.E.15 and Phase V.E.16.

10. Obtain support records for the data submission for the FY 2009-10 WUSF calculations.

*Work Performed by Auditor:* We requested customer databases to support the customers as of December 31, 2008 and the applicable tariffs or price guides to support the rates used in the FY 2009-10 WUSF statewide calculations.

*Findings:* Support records were provided for the lines reported and rates reported to the WUSF. See Phase IV.D.11 through Phase IV.D.13 for specific issues found in the data submissions.

*Recommendations:* See Phase IV.D.11 through Phase IV.D.13

11. Reconcile the data submission to the support records. Document and determine the cause of any differences.

*Work Performed by Auditor:* We analyzed the customer databases provided to support the line counts reported for each carrier. We inquired of the carrier the cause of any discrepancies.

*Findings:* We found various issues with the line count databases when compared to what was reported in the annual reports. They are as follows:

- The initial analysis compared the raw data line counts provided to the reported line counts. There were 16 carriers that provided either more or less lines than was reported. During this analysis it was determined that the databases supported 77 lines less than what was reported for all 31 carriers.
- The audit analysis also found that there were carriers that reported customers that were not serviced in Wyoming. There were two carriers who reported a total of 189 customers that were serviced in states other than Wyoming.
- A duplicate phone number test was performed to determine if there was any phone numbers reported twice. This issue was found in eleven carrier databases and resulted in a total of 550 phone lines that were duplicated. The majority of the duplicated lines were

caused by the customer having an off premise extension and therefore having two phone lines with the same phone number. Only one phone line is defined as an essential service line. There were 159 customers of the 550 duplicates that were duplicated on the annual report for one carrier. The customers were reported both in a base zone and an outside zone.

- The audit analysis also identified several instances in which phone lines were reported that were not essential service lines. They are as follows:
  - One carrier reported nine customers that were resale customers from the incumbent. The carrier only provided the customer service to those customers.
  - Ten carriers reported company official lines or test lines, which are not essential service lines. It was noted that there were three carriers that reported the company official lines as a separate customer group in the annual report. The total official lines reported were 885.
  - Five carriers reported Centrex systems in the annual report. It was found that there were 386 total Centrex systems reported.
  - Two carriers reported Direct Inward Dialing phone lines. It was found that there were 249 total lines reported that were DIDs.
  - Two carriers reported remote call forwarding services as phone lines. It was found that there were 13 lines reported.
  - Two carriers reported circuits associated with T-1 trunks that did not have actual phone numbers. It was found that there were 1,336 circuits reported.
  - One carrier reported two customers that were 911 emergency uses only.
- Further analysis of two carriers noted that lifeline customers were not reported in the Annual Report. There were 120 lifeline customers that were not reported.
- Through the bill test work it was determined that there were four customers that could not be supported by customer bills. There was one customer identified at two different carriers and two identified at another carrier.
- Through the bill test work it was determined that there were four phone numbers that were supported by the customer bill reviewed. The database provided disclosed that the customer only had one phone number. This occurred for one carrier.

The line count analysis also indicated that there were six companies that had additional variances based on the quantity of customers for a particular classification. These variances would result in a different amount for monthly revenues in the statewide calculation.

All the issues above amount to 3,577 lines that was included in the Annual Reports and on the statewide calculation that could not be supported or were not essential service lines. See Appendix 2 for a summary for each carrier.

*Recommendations:* We recommend that there be further guidance provided by the WUSF Manager on what is required from the carrier in order to provide for an accurate statewide calculation. The carriers should be required to maintain an accurate archived copy of those customers that are reported in the Annual Reports.

12. Select a representative sample of lines included in the support data. Trace these lines to customer billings to ensure the propriety of the line. Additionally, determine that the customer was billed the correct amount in accordance with the established rate for the service provided in that zone, exchange, or band. Also determine that the customer was properly credited/billed in accordance with the WUSF support.

*Work Performed by Auditor:* A representative sample was selected for each carrier from the customer database that was provided in order to ensure the propriety of the line. We determined that the customer was charged the correct amount in accordance with the established rate. We also ensured those carriers who elected to receive WUSF support credited their customers the appropriate amount.

*Findings:* The subscriber bills sampled for review indicated that the lines included in the subscriber line counts were valid customers. There were four instances found in which the carrier could not provide a subscriber bill to substantiate the customer in the database.

The review of one carrier indicated that customers with a DSL package were being charged at a rate lower than the tariff rate for the local service line. The customers were getting credits for FUSF and WUSF to get the net local service rate to the benchmark rate as set for FY 2008-2009. All other customers were charged a higher local service rate and a higher credit with the end result was a net charge equal to the benchmark rate.

It was found that customers were being charged at the incorrect tariff rate for two carriers. One carrier was found charging their customers at the tariff rate of their customers serviced in a different state. It was also found that some customers were charged the same tariff rate of their CLEC. The other carrier was found charging their customers the same tariff rate as their ILEC.

We reviewed 40 customer bills for one carrier and found that only one customer was charged at the tariff rate as reported. The carrier stated that some of the customers are legacy customers from another company in which they never adjusted the prices in order to maintain the business relationship. Other customers are often negotiated below the tariff rate in order to obtain business. Of the 40 tested there were 30 customers identified in outside zones. The tariff indicates zone incremental charges for those customers. These were not identified on the subscriber bills. The carrier reported the line counts in the base and outside zones and each tariff rate included in zones were above the benchmark rate. They did elect to receive WUSF support but there was no indication that the support was being credited to the customer. However, it was noted that there was only one customer selected that was charged in excess of the benchmark rate of \$33.61 that was established.

It was noted that one of the customers for a carrier receiving WUSF support did not get credited correctly for December 2008. The customer had seven service lines indicated on their bill and received a WUSF credit for only one of their lines. They should have been credited for the other six.

The review of the subscriber bills did indicate for those companies electing to receive WUSF support did credit the customer appropriately except as noted above.

*Recommendations:* We recommend that the carriers be instructed to ensure that customers are being appropriately charged in accordance with the tariff. Those carriers receiving WUSF support should ensure that the support received is being credited appropriately to the customers.

13. Review the carrier's rates for consistency with the WUSF Proprietary Reports (Incumbent/Competitor)

*Work Performed by Auditor:* We reviewed the carrier's rates as reported on the WUSF Proprietary Reports with the applicable tariff or published price listing and with the rates indicated in the customer database provided and the selected subscriber bills.

*Findings:* It was found that there were three Annual Reports where the reported rate for local service could not be verified by the tariff or price listing available. One carrier provided rates of \$31.75 and \$22.75 for business and residential customers, respectively. The most recent tariff available supported \$33.50 and \$27.75 for business and residential, respectively. Another carrier reported a stand-alone rate of \$26.95 and the tariff provided indicated a rate of \$23.10. Lastly, the tariff provided for one of the companies did not have any prices listed for the local service rate. The area where the rates were to be located was covered with a disclaimer "Subject to Litigation See Chief Counsel". The carrier could not provide any further information.

It was noted that the reporting of employee lines and lifelines were not consistently reported in the Annual Reports. There were a few companies that were identifying those customers separately on the Annual Report and the applicable rate since it varied from the tariff rate. There were four carriers that included employee lines at the tariff rate on the Annual Report. In each instance the employee charged rate was lower than the tariff rate reported. There was also one carrier who reported employee lines separately at \$0.00. However, there were a few part-time employees who received discounted local service with rates of either \$1.62 or \$3.25 a month. There were several carriers who had customers eligible for lifeline or TAP. These lines were not identified separately in the Annual Report, except for three carriers who identified separately the lifeline customers. Also, there were two carriers that did not include the lifeline customers in the Annual Report.

It was noted that carriers often negotiate rates with customers to obtain business. These rates were found to be below what is reported in the Annual Report or what was verified with the available tariff or price list. This occurred with two carriers.

A review of the customer databases and subscriber bills indicated customer groups that were reported in the line counts that would not be associated with the tariff rate reported. Analysis found that one carrier reported pay stations as business customers at the business customer rate. The pay stations were charged at a lower rate and should have been identified separately in the Annual Report. Another carrier had a customer with four lines that was at a lower rate than the normal customer. This was supported by the price list provided but should have been reported separately. One carrier has multiple tariff rates and grandfathered rates based on length of contract and when service was initiated. The carrier should provide a breakdown of

the number of customers at the different tariff rates. Lastly, a carrier had customers that were provided additional lines where the rates of those additional lines were less than what was reported. This should also be reported separately.

There were two carriers who did not accurately report mileage charges for customers outside the base zone. One carrier had an additional charge for two customers, which should have been identified separately. The other carrier had several customers with mileage charges. The customer was assessed a cost based on location of service. For Annual Report purposes the carrier averaged the mileage costs for each exchange and reported that plus the tariff amount for the local service rate. There were variances found in the averaging based on the analysis of the database provided. The variance could be attributable to lines not supported.

There was one carrier in which there was a Local Line Price Adjustment of \$4.00 that was assessed on customers within an area in which a particular incumbent served. This cost appears to be charges that could be included in the gross rate for the Annual Report.

*Recommendations:* We recommend that the carriers be given further guidance on the rates that should be reported in the Annual Report to ensure the accuracy of the statewide calculation. The carriers should be made to be more compliant with currently available guidance.

14. Determine the carrier's essential service rates and line counts reviewed with respect to how the carrier would price the service on a standalone basis.

*Work Performed by Auditor:* A review was performed on the carrier essential service rates as indicated on the tariff and as reported on the Annual Report. Inquiry was made to those carriers with bundled services what the pricing would be on a standalone basis.

*Findings:* The review of the Annual Reports indicated two companies that reported the bundled package rates. The first carrier had a tariff rate for local service at \$36.00, which was not reported on the Annual Report. All customers reported had a higher rate than the \$36.00 except for one customer which had a negotiated rate below the \$36.00 due to volume of services. The second carrier did identify for WUSF assessment and tax purposes the amount of the bundled services that would be identified for the essential service rate. This amount was determined through traffic studies performed by the carrier.

There was one carrier that identified a standalone price of \$12.40 for the bundled package customers. Through inquiry it was discovered that the local service of \$12.40 was broken down as \$10.95 as local service and \$1.45 for class features.

All other carriers with bundled services were able to support the standalone rate for local service.

*Recommendations:* We recommend that the WUSF ensures, and that the carrier accurately reflects, the standalone cost of the local service line when compiling the Annual Reports.

## PHASE V

### **E. Validation that the Carrier is Assessing the Appropriate WUSF Surcharge on Customer Bills and Remitting Assessed Amounts to WUSF**

15. In reviewing the billing records in Phase IV, ensure that the WUSF surcharge has been appropriately applied in 2008.

*Work Performed by Auditor:* We validated that the WUSF surcharge was assessed appropriately on each of the subscribers bills sampled from the customer database.

*Findings:* We found multiple instances where the carrier was not assessing the customer correctly. There were also instances in which the carrier assessed the customer at a rate other than one percent as ordered by the Wyoming PSC. Of the 31 carriers reviewed there was one carrier that did not assess the customer the WUSF surcharge. Additionally, due to documentation retention issues we reviewed the December 2009 WUSF surcharges for one carrier. We noted the following revenues that were not correctly assessed:

- The customer was being assessed on directory related charges; directory listings, non-listed or unpublished numbers. This occurred in 13 of the carriers reviewed.
- The customer was being assessed on long distance calling plans, which allows both intrastate and interstate calls. The calling plan was either a separate add on charge to the customer or included in a bundled package. The total charge of the calling plan was assessed the WUSF surcharge. The carrier should determine an allocation of the calling plans that would be attributed to interstate and intrastate and only the intrastate portion should be assessed. This occurred in nine of the carriers reviewed.
- The customer was being assessed on regulatory charges that include the following:
  - Facilities charge
  - Local Number Portability charge
  - Interexchange Carrier surcharge
  - Primary Inter-Exchange Carrier charge
  - Subscriber Line Charge
  - Carrier Cost Recovery Fee
  - FUSF Tax
  - FCC Regulatory Fee
  - Linebacker Charge
  - Access Recovery Charge
  - Regulatory Access Surcharge
  - Extended Area Service
  - E-911 surcharge
  - Telecom Relay Service Fund

We found that this occurred in 11 of the carriers reviewed.

- The customer was assessed on inside wire maintenance charges. This occurred in three of the carriers reviewed.
- The customer was assessed on connection charges for video and fiber services. A portion of this could be attributable to intrastate and should be reasonably estimated by the carrier.
- The customer was assessed on other non intrastate revenues such as internet services, modem monthly charges, billing statement fees, report charges, etc. This occurred in four of the carriers reviewed.
- The customer was assessed more than one percent on the local intrastate revenues. There were instances where the prior year assessment level 1.05% was assessed and there were other instances where the rates just varied and could not be explained. Additionally, there were instances where the carrier provided bundled services and a percentage was used to determine the local portion of the telephone services included in the bundle. It was found that the percentage that was allocated to the intrastate portion was incorrect. Overall, five carriers were found that inaccurately assessed the customer.
- The customer was not being assessed on separate local toll charges in review of two carriers. We also noted two carriers who assessed the customer twice on the separate local toll charges.
- The customer was not being assessed on the late fee charges indicated on the customer bill. This occurred in five of the carriers reviewed.
- The customer was not being assessed on enhance features or directory assistance usage that would be considered local revenues. These features included voicemail, caller ID and call forwarding. This occurred in four of the carriers reviewed.
- The customer was assessed on net local intrastate revenues after factoring in credits from Lifeline or the Telephone Assistance Program. Additionally, there were instances in which the carrier provided discounts for services. Lastly, credits associated with WUSF and/or FUSF were netted with local revenues to determine the revenues for the WUSF assessment. This occurred in nine of the carriers reviewed.

It was disclosed that there were instances in which a customer was determined to be tax exempt or set up incorrectly in the billing system and was not assessed the WUSF surcharge. A customer being tax exempt would not preclude them from being assessed the WUSF surcharge. In these instances the carrier would need to ensure that the revenues of these customers are included in the revenues reported for the WUSF remittance.

Lastly, we noted that the subscribers at one of the carriers were treated differently for the WUSF assessment. We found two different customers with the same service rate that were assessed differently. One customer was based on the full tariff service rate and the other customer only a portion of the rate was attributed to local service and assessed. The review of the tariff did not indicate that the rate included services that should not have been assessed.

*Recommendations:* We recommend that the WUSF Manager instruct the carriers on how to appropriately assess customers for WUSF purposes. The carrier should ensure that the customer is not overcharged and if credits or assessments are waived for customers that the carrier pay to the WUSF those monies owed but not collected from the end user.

16. Review and conclude that the carrier's application of rates and remittance of the assessment to the WUSF.

*Work Performed by Auditor:* We reviewed the WUSF assessment on subscriber bills sampled and determined whether the amount that was assessed to the customer was then remitted to the WUSF.

*Findings:* A reconciliation of the remittances as submitted to the WUSF with the amount of assessment applied to the customers was performed. It was found that the amounts assessed were generally remitted on a monthly or quarterly basis. However, there were several instances as noted in Phase V.E.15 where the carrier inaccurately assessed the customer.

It was noted that three companies that were able to support some of the revenues reported but could not support all of the revenues. It was found that the revenue reported was adjusted to ensure that the calculation for the remittance equaled the amount that was assessed on the customer bills.

Additionally, two remittances were reviewed that could not be reconciled to what was assessed. In the first instance an analysis was performed by the carrier to compare the remittance and assessment for the calendar year 2008. It was found that the amount remitted was more than what was assessed. It could not be determined what the cause of the variance was. However, it was determined that some of variance is a result of timing of collections and remittance. In the second instance it could not reasonably be determined from the assessment on the subscriber bills what was remitted.

One of the companies reviewed did not assess the customer, but did remit money to the WUSF. The revenues reported were based on the local revenues from the billing registers. It was found that the company did include non-assessable revenues on the remittance form. They are as follows:

- DSL Add-on to Pots
- DSL Add-on to Pots credit
- Additional Call Feature Discounts
- Premium Package Business
- Premium Package Credit
- Access Charges
- E911 Surcharge
- Wyoming Universal Service Fund Credit
- Federal Universal Service Fund Credit
- Extended Area Service
- Wyoming Relay Service Fund

One carrier's remittance form reported more in local service revenues than what was verified as those assessed to the customer. The carrier did not support the excess revenues. Additionally, there was one carrier that remitted less than was assessed to the customer, which could not be explained by the carrier. Further, there was one carrier who did not provide supporting documentation for the remittance form requested. The analysis of the database provided and the amount of WUSF remitted disclosed that the December 2008 local revenues approximated one third of the revenues reported to the WUSF.

Another carrier's remittance was done on a quarterly basis. The compilation of the revenues is based on a month in arrears. The review of the 4<sup>th</sup> quarter 2008 remittance indicated that it was based on September through November 2008. However, the November 2008 was a projected number based on October 2008. The amount on the remittance was reasonable when compared to the actual revenues incurred for that reporting period.

Lastly, a carrier reduced from the local revenues the FUSF monies credited to the customer. This was also done with the assessment to the customer along with crediting the WUSF credits. The WUSF credits were not used by the carrier in reducing the local service revenues on the remittance form.

*Recommendations:* The carriers should be instructed, and the carriers apply, appropriate revenues to include on the WUSF remittance form and which revenues would be excludable.

17. When both wire line and wireless services are provided by the same carrier, ensure that the carrier has properly applied the billing assessment and remittance to the WUSF.

*Work Performed by Auditor:* We reviewed the remittance forms applicable to the billing period for the subscriber bills sampled. We determined what services were included in the remittance forms.

*Findings:* We found that the remittances for the wire line services were typically done separately from the wireless services. We did not find issues other than those mentioned previously in regards to the billing assessment and remittance to the WUSF.

*Recommendations:* None

## PHASE VI

### F. A Review and Evaluation of Fiscal Year 2009-10 WUSF Calculations

18. Conduct an examination to determine whether the line count information provided by service providers to WUSF Manager is being used accurately.

*Work Performed by Auditor:* We reviewed the Annual Reports that were provided to the WUSF Manager for use in the statewide calculation and determined whether the line counts provided by the carrier were used appropriately in determining the statewide average.

*Findings:* The line counts that were provided by the carrier were used in most instances in the statewide calculation. It was noted in one instance that the annual report provided 2,554

business and 1,098 residential customers for a total of 3,652 lines. For the statewide calculation this same total was identified as 3,487 business and 165 residential customers. The tariff rates for each business and residential customer was different.

Additionally, the Annual Report for one carrier also included five additional customers as outside zone flat rate residential customers that were not disclosed in the statewide calculation.

Finally, in review of the Annual Reports filed for three carriers they identified a total of 254 company lines in the line count information. This was also reflected in the statewide calculation. Company lines do not qualify as an essential service line. Therefore, they should not be included in the statewide calculation.

*Recommendations:* The WUSF Manager should ensure that the line count information as presented by the Annual Reports be reflected in the statewide calculation. If the carrier identifies non-essential service lines they should not be included in the calculation.

- a. Determine if WUSF Manager's statewide weighted average service rate is calculated correctly using reported line count and appropriate rates for each distinct rate group in the provider's serving area.

*Work Performed by Auditor:* We reviewed the Annual Reports that were provided to the WUSF Manager for use in the statewide calculation and determined whether the line counts and rates for each distinct rate group provided by the carrier were used appropriately in determining the statewide average.

*Findings:* In addition to the line count issues mentioned in the previous step we noted the following discrepancies between what was reported by the carrier and what was used in the calculation of the statewide weighted average:

- The Annual Report for one carrier reported a standalone featureless business and residential line as \$15.20 and \$14.99, respectively. The WUSF Manager determined that the cost structure of this company is different than other telecommunication carriers and the base rate of the incumbent (\$23.10) should be used in the calculation as opposed to a percentage of the bundled package for the local service rate.
- Two carriers provided in their Annual Reports different rates for those customers having flat or measured services. Neither carrier provided a breakdown of total customers that were attributed to flat or measured services. In both instances the WUSF allocated the lines to the flat service rate, which was the higher rate.
- One carrier provided two different rates for their customers but did not provide the quantity of lines associated with that rate. In this instance the WUSF allocated the lines to the lower rate reported.
- We found two carriers who reported the rates of their bundled services offered to their customers and then not provide the portion of the bundled service that would be associated with the local service line. The statewide calculation used the lowest rate available for each distinct group.

- We found one carrier provided a breakdown of customers by rate groups and the local service cost for each group. The statewide calculation included all customers at one rate, which was the highest rate provided in the Annual Report.
- The statewide calculation included in the net rate for one carrier the \$7.34 WUSF support payment for all customers in the base zone. The carrier reported the tariff rate and included the WUSF credit provided to the customers. The Rules state that the local service rate shall exclude bill credits related to prior period Wyoming Universal Service Fund receipts.
- The statewide calculation, for one carrier, did not take into effect the FUSF credits provided to the customers as reported in the Annual Report. The carrier identified that the tariff rates were \$26.12, \$34.86 and \$70.82 for the various exchanges. These were the amounts that were included in the statewide calculation. The FUSF credits that were given to the customers were \$0.00, \$1.25 and \$19.68 for those same exchanges, which should have been reduced from the gross rate to determine the net rate for the statewide weighted average calculation.

An Order issued March 16, 2010 was approved to correct the Wyoming USF support payments. The company identified the error and determined an amount to pay back to the Fund. The company recalculated the support that should have been paid from the Fund based on the rate disclosed in the tariff less the FUSF credits to customers for FY 2009-2010. The credit amounts were \$2.29 and \$20.21 for the applicable exchanges. These credits were \$1.04 and \$0.53 more than the actual credits provided during calendar 2008. Additionally, no consideration was given for the incremental FUSF support from calendar year 2008. This would indicate that the carrier reimbursed \$101.38 per month less than what was owed to the Fund.

- The statewide calculation provided did not incorporate changes made by one of the carriers. It was noted that they had erroneously understated three customer groups in the Annual Report.

*Recommendations:* The WUSF Manager should ensure that the statewide calculations reflect what is included in the Annual Report. If there are discrepancies noted than they should contact the carrier for further information to ensure the accuracy of the calculation or document the reason why an alternative rate was used. Additionally, when FUSF credits are provided they should be included to determine the net rates for each of the applicable customer groups. Further, the calculation should not include in its calculation any WUSF credits provided to customers based on the prior period Wyoming Universal Service Fund receipts.

- b. Examine accuracy of the 130% benchmark calculation based upon the WUSF Manager's calculated weighted average rates for the fiscal year.

*Work Performed by Auditor:* We examined the accuracy of the 130% benchmark calculation based upon the weighted average calculation. We also reviewed the propriety of the WUSF support payments based on the 130% benchmark calculation.

*Findings:* Our review of the 130% benchmark calculation was found to be accurate. However, as noted in the preceding step, there were various issues found in the calculation of the weighted average rate. The discrepancies found in those calculations would lead to an erroneous 130% benchmark calculation.

We reviewed the FUSF calculation that was used for those carriers that embedded federal support monies in their tariff rate. The statewide calculation indicated that there were 11 carriers that embedded rates in their calculation. Supporting documentation was provided for all carriers. It was noted that the statewide calculation identified an embedded rate of \$22.00 per line for one of the carriers. However, the supporting documentation identified \$22.05. Additionally, the support for one carrier identified an embedded rate of \$21.41 and the statewide calculation disclosed a rate of \$16.15.

The WUSF determines the incremental support differential for each of the carriers that embed federal support into their tariffs. The incremental support is derived from the amount of FUSF embedded in their rates as compared to the amount of FUSF received during 2008. This difference is netted together for those carriers and then added to the monthly revenue determined by the statewide calculation for each of the 31 carriers and then divided by the total customer line counts reported to calculate the statewide weighted average.

We reviewed the calculation for the incremental FUSF performed by the WUSF Manager and determined that there were three carriers included in the list that did not embed rates but did provide credits to their customers for the FUSF. We also noted that two of the companies that did embed rates also provided credits to the customer for FUSF support. The credits provided were not included to determine the incremental difference.

We also verified the FUSF payments as reported by the carrier and used in the statewide calculation to the support payment register on USAC's website. We noted some discrepancies as follows:

- One company did not report any FUSF in their Annual Report and when we reviewed the FUSF disbursements it was found that they did receive some FUSF support. The majority of their customers are serviced in a different state but the portion of customers in Wyoming should have been allocated support. They did previously report a portion of the FUSF support in the 2007 annual report.
- There were variances noted between what was reported in the Annual Report and what was used in the statewide calculation for one carrier. The carrier provides service to customers in different states and allocated 88% of total FUSF to Wyoming based on customer base. The WUSF Manager used the full amount received in the statewide calculation.
- There were four carriers reviewed in which the amount reported for FUSF did not agree with the USAC support payments. One company overstated the revenues by \$43,406. Additionally, there was a small \$1,175 variance noted for another company. Finally, two companies that are both under the same study area for FUSF purposes overstated FUSF support. The disbursements are allocated to each company based on

an internal cost study performed several years ago. When the support received was added for each company the total was more than the total FUSF disbursements.

In review of the incremental FUSF support determined by the WUSF Manager we found some inconsistencies in the application of the incremental difference in the calculation of the WUSF support payments for the individual companies. Specifically, in one carrier's calculation the FUSF incremental was a negative number and for other carriers this number was added to customers that were over the benchmark which would increase the WUSF support payment. The opposite was done on this carrier; the negative number was netted with the amount that was over the benchmark which would then reduce the amount of WUSF support owed to the carrier.

Additionally, in review of one carrier it was noted that the carrier embedded FUSF into the tariff, which made the tariff rate below the benchmark rate. We noted on other carriers if the amount of FUSF embedded into the rate was in excess of what was received the WUSF supplemented that deficit. Since this carrier was below the benchmark rate they were not provided WUSF support. If the company did not embed any FUSF they would have been over the 130% benchmark.

*Recommendations:* We recommend that the WUSF Manager consistently treat the FUSF incremental differences for each of the carriers. A review should be done on the FUSF support payments as identified from USAC to compare to the accuracy of the amounts reported. If these amounts differ the carrier should provide more information. Lastly, the embedded rates should be supported by the company in order to ensure the accuracy of the statewide calculation.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the:

- Wyoming Universal Service Fund Manager prudently and accurately performed his management responsibilities in accordance with Wyoming Statutes, Wyoming Public Service Commission Rules, Orders and Wyoming Universal Service Fund administrative guidelines in calculating the weighted statewide average and benchmark for Fiscal Year 2009 - 2010 and,
- The accuracy of line counts and rates provided by the carriers in developing that calculation.

Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Wyoming Public Service Commission and is not intended to be and should not be used by anyone other than this specified party.

*McBride, Lock & Associates*

McBride, Lock & Associates  
August 30, 2010