

Kansas Universal Service Fund (KUSF) Audit Scope

HB 2201 (2013 Session) directed the Telecommunications Study Committee to determine the scope of the audit of the KUSF. The bill specified the audit would examine the overall efficiency and effectiveness of the KUSF, and included a list of metrics that might be included. The Committee is to receive the final audit report on KUSF on or before November 1, 2014.

Scope Proposal

In addition to such other measures as the auditors deem appropriate for determining the overall efficiency and effectiveness of the Fund, the audit should address broad oversight and structural questions, as well as detailed analysis of actual revenue, spending and operations of KUSF recipients (per recipient and per program). A detailed review of the Kan-Ed program is not necessary – a January 2012 audit by Legislative Post Audit that evaluated the effects of eliminating Kan-Ed addressed operations and effectiveness of the program, and a January 2013 needs assessment contracted by the Kansas Department of Commerce entitled “Building the Broadband Future” also contained an assessment of Kan-Ed outcomes.

Oversight and Structure Assessments

- The adequacy of applicable Kansas statutes and governmental review processes to ensure that excessive amounts of KUSF moneys are not disbursed to recipients, including the possible need to redefine the types of expenditures eligible for reimbursement under the KUSF;
- Identification of the quantifiable benefits of the KUSF programs. (What has the program achieved, and what impact has it had on local rates?);
- Comparison of the KUSF programs to state-level universal service programs in other states (Why does Kansas have a state-level USF when many states do not? Are other states accomplishing the same thing in a different way? Are any other states in the process of changing their USF program?);
- Comparison of Federal Universal Service Fund (FUSF) distributions to states, including analysis of the basis for Kansas' share. (Why is Kansas one of the largest recipients of FUSF, and given that Kansas receives substantial federal assistance, why is there a need for additional aid in the form of KUSF?)

Detailed Revenue/Expenditure/Operations Analysis

Specific metrics to be included in the report, to the extent they do not involve proprietary information and are not, in the auditor's opinion, unduly burdensome to collect, include the following:

- Historical information on which companies have received KUSF and in what amounts, including calculation of annual per line support;
- Total amount of rural utilities service debt or other debt, by recipient or related entity;

- Capital expenditures on technology by type;
- Affiliate transactions and transfers;
- Expenditure assessment to ensure the KUSF is not being used to subsidize services not authorized by Kansas statutes;
- Compensation received by the recipient's executives, partners, members and board;
- Number of telephone competitors in exchanges supported by KUSF compared with exchanges that receive no KUSF support;
- Economic assessment per county, i.e. how do the revenues paid into the KUSF from each county compare with benefits each county receives from KUSF;
- Number of unused access lines in KUSF support areas (a measure of whether the KUSF is being used to pay for stranded or unused investment); and
- Detailed review of the companies with the highest KUSF support per line, to identify the factors that contribute to this level of support.

Note: To the extent a KUSF recipient is part of a regional or national company, the analysis of spending and operations should focus on Kansas operations.

In addition, the report should include descriptive information that helps place the audit findings in context, such as:

- Historical background including when the KUSF was created and for what purpose, statutory changes that have taken place and why, and how the total size of the Fund and the assessment rates have changed over time; and
- "Process" information describing the factors that determine how much KUSF support a company receives (including an explanation of how the cost of delivering two-way voice communication is separated out from costs of other services a company might provide, such as broadband or TV), the role of the third-party administrator vs the role of the KCC, the process for requesting and receiving support, and an explanation of KUSF accounting processes for rate of return carriers, including depreciation of assets.

The audit report should include proposals for legislative consideration and action.