**FLORIDA PUBLIC SERVICE COMMISSION**

 **Fletcher Building**

 **101 East Gaines Street**

 **Tallahassee, Florida 32399-0850**

 **M E M O R A N D U M**

 **SEPTEMBER 24, 1992**

**TO : DIRECTOR OF RECORDS AND REPORTING**

**FROM : DIVISION OF APPEALS (RULE)**

 **DIVISION OF AUDITING AND FINANCIAL ANALYSIS (MAILHOT, DOUD, WRIGHT)**

 **DIVISION OF RESEARCH AND REGULATORY REVIEW (MAHONEY)**

**RE : DOCKET NO. 920343-TP, PROPOSED AMENDMENT OF RULE 25-4.020, F.A.C., LOCATION AND PRESERVATION OF RECORDS.**

**AGENDA: OCTOBER 6, 1992 - CONTROVERSIAL AGENDA - PARTIES MAY PARTICIPATE**

**PANEL:FULL COMMISSION**

**CRITICAL DATES:NONE**

**SPECIAL INSTRUCTIONS: PLEASE PLACE ON AGENDA IMMEDIATELY BEFORE OR AFTER DOCKET NO. 920572-EI, PROPOSED AMENDMENT TO RULE 25-6.015, F.A.C., LOCATION AND PRESERVATION OF RECORDS.**

 **CASE BACKGROUND**

 This item was discussed at the September 1, 1992 agenda conference. Staff was instructed to revise the rule and the item was deferred. Additions to the recommendation and the rule are shaded and the form incorporated into the rule was revised. In all other respects, this recommendation is a duplicate of the earlier version.

 Rule 25-4.020, F.A.C., currently instructs telephone companies where and how long to keep required records. Staff recommends that the rule be amended to reduce the number of records which must be maintained, to specify that original source documents be kept for three years, to require utilities to maintain written procedures for converting documents to another medium, and to specify that documents converted to another medium be easy to search and read. A utility may obtain a waiver of the requirement that source documents be maintained for three years if it employs an optical disk imaging system with write-once-read-many capability, or a system that produces comparable results.

 **DISCUSSION OF ISSUES**

**ISSUE 1:** Should the Commission propose the attached amendments to Rule 25-4.020, Florida Administrative Code, Location and Preservation of Records?

**RECOMMENDATION:** Yes.

**STAFF ANALYSIS:** Rule 25-4.020, F.A.C., currently instructs telephone companies where and how long to keep required records. Staff recommends several changes to the rule:

 **Paragraph (2):** Telephone companies that obtain permission to keep records outside the state are generally required to reimburse the Commission for staff travel expense incurred during an out of state audit. However, companies that keep records a within a short distance of the state line are not required to reimburse for travel. South Georgia Telephone Company should be deleted from the utilities listed in the rule, as it no longer operates in Florida.

 **Paragraph (3):** The current rule requires records to be preserved according to Federal Communications Commission (FCC) rules in effect in 1976, when the rule was adopted. Staff believes that it is not necessary to retain all the records required by the 1976 FCC rules.[[1]](#footnote-1) Staff has therefore prepared a new Commission form entitled "Schedule of Records and Periods of Retention", which lists records to be retained, and which will be incorporated by reference into the rule. A copy of the form is attached.

 The schedule substantially reduces the number of records that must be retained. Most of the retention periods specified in the form are identical to those formerly in the FCC rules, although a few are shorter or longer.

 **Paragraph (3)(a):** This new paragraph requires retention of original source documents in their original form for a minimum of three years after the document was created or received by the utility. It does not require utilities to create paper copies of documents in order to comply with the rule. For example, utilities that enter customer data into their computer system and save those records directly on microfiche without making a paper copy could continue to do so.

 Legibility of microfilm and microfiche depends on the quality of photography & duplication process. Although newer imaging systems are available which make clear copies, frequently the microfilm or microfiche now available to staff auditors does not show handwritten notations on documents. Auditors must examine handwritten notational evidence to determine that transactions were authorized and processed in accordance with company policy and in compliance with Commission rules.

 For example, when an auditor reviews an invoice, he or she looks for handwritten initials which indicate that an accounting clerk checked the invoice for accuracy. Company procedures may require a senior clerk or manager to authorize payment by initialling the document. If staff auditors cannot see the initials on a microfilm, it is impossible to determine if the invoice was properly examined and approved. In those cases, the auditor is forced to rely on the word of company personnel that proper procedures were followed, which obviates the purpose of the audit.

 These problems occur in most audits in which staff must examine microfilm or microfiche documents. The handwritten notes are usually not visible. In some instances, they are visible but illegible. In fact, in many cases, the documents themselves have been poorly copied and are illegible. The legibility of documents varies widely among utilities and is largely dependent upon the age and specifications of their equipment. The attached copies of microfilmed documents, which were obtained from a utility during a staff audit, illustrate the problems. The quality of microfiche documents is slightly better.

 When companies transfer records to microfilm or microfiche, the original documents are almost always destroyed. Thus, the audit evidence is lost.

 Staff believes that there are only two ways to solve this problem. Companies could either keep original documents or could upgrade their duplicating equipment. Both methods can be costly. Some utilities keep originals. Others routinely duplicate documents and destroy originals anywhere from two weeks to two years after they receive them.

 Optical disk imaging with write-once-read-many capability would adequately preserve documents for audit purposes. Staff believes that searching documents in this medium may be superior to searching original documents. Some of the larger utilities are investigating this equipment. The rule allows the Commission to waive the original document retention requirement for utilities that adopt this imaging system or its equivalent. However, at present, staff believes that the duplication capability of most utilities is inadequate for audit purposes, and that the utilities should be required to keep original documents for three years. Most audits do not go back farther than three years.

 **Paragraph (3)(b):** This new paragraph requires utilities to maintain written procedures governing conversion of source documents. A well-managed utility should have written procedures governing all of its important policies, including the preservation of records. The requirement is included in the rule to ensure that auditors have access to complete records to perform audits. Further, given the problems staff encounters with microfilm and microfiche records, the paragraph requires that these records be complete, authentic, easy to search, and easy to read.

 **Economic Impact:**

 Costs to the Commission and other state or local government entities: No direct costs to the Commission are anticipated, but some benefits should be realized due to increased ease of access to necessary records. State and local government entities should not be affected by the rule amendment.

 Costs and benefits to parties directly affected by the rule amendments: Of the eleven telephone companies that responded to a staff data request, five estimated no economic impact, four expect some impact but were unable to provide a cost estimate, and two companies responded with cost estimates. The compliance cost to each company would be largely dependent upon the process the utility now employs. No companies acknowledged any benefits from the rule amendments. However, Staff notes that the amended rule would require utilities to keep fewer records than does the present rule.

 United Telephone Company estimated economic impact of $252,000 annually: $16,000 for administration, $152,000 for additional labor, $5,000 for archive boxes, and $79,000 for additional storage space. Centel estimated costs of $13,000 to $34,000 annually for additional storage space and storage containers required to keep the documents in their original form for the three year time period.

 United indicated its belief that repair records, customer correspondence, and employee time reports must be maintained as original source documents. However, repair records and customer correspondence are not required to be retained under the rule. The estimate may be somewhat high if it includes the cost of keeping records not required by the rule.

 Reasonable alternative methods: Staff does not believe that less costly or intrusive methods exist at this time to achieve the purposes of the rule. As stated above, staff believes the problem could be solved by requiring companies to keep originals for the length of time staff will need them, or requiring them to upgrade their duplicating equipment. Both methods can be costly, but staff believes that purchasing more sophisticated equipment is more expensive. Although the rule does not require the purchase of new equipment, it allows the Commission to waive the original record retention requirement for utilities that purchase optical disk imaging equipment or its equivalent.

 Staff believes that three years is the optimum time for retention of original records. A reduction in the retention period could decrease costs somewhat for those companies that identified a cost associated with record retention, but would not solve the problem.

 An economic impact statement is attached.

**ISSUE 2:** Should the revised rule be filed with the Secretary of State and the docket closed if there are no comments or requests for hearing?

**RECOMMENDATION:** Yes.

**STAFF ANALYSIS:** If no comments or requests for hearing are timely filed, the revised rule should be filed for adoption with the Secretary of State and this docket should be closed.

 **25‑4.020 Location and Preservation of Records.**

 (1) All records that a utility is required to keep, by reason of these or other rules prescribed by the Commission, shall be kept at the office or offices of the company within the State unless otherwise authorized by the Commission.

 (2) Any company who obtains permission to keep its required records outside the State shall reimburse the Commission for the reasonable travel expense of the Commission's representative during any out of State audit, except those companies who keep their records outside the State but within a reasonable short distance from the Florida State line, i.e., Florala Telephone Company~~, South~~ ~~Georgia Telephone Company~~ and Southland Telephone Company.

 (3) All records shall be preserved for the period of time specified in ~~the current edition of Part 42 of the Rules and~~ ~~Regulations of the Federal Communications Commission entitled "Preservation of Records of Communication Common Carriers."~~ Form PSC/AFA/17 ( / ), Entitled "Schedule of Records and Periods of Retention" which is incorporated by reference into this rule, and may be obtained from the Director, Division of Auditing and Financial Analysis, Florida Public Service Commission.

 (a) However, all original source documents retained as required by 25-4.020(3) shall be maintained in their original form for a minimum of three years after the date the document was created or received by the utility. The Commission may waive the requirement that documents be retained in their original form upon a showing by a utility that it employs an optical disk imaging system with write-once-read-many capability, or a system that produces comparable results.

 (b) The utility shall maintain written procedures governing the conversion of source documents to another medium such as microfilm or microfiche, which procedures ensure the authenticity of documents and the completeness of records. Use of the new medium must not inhibit the audit process. Records maintained in the new medium must be easy to search and easy to read.

**Specific Authority: 364.17, 364.20, F.S.**

**Law Implemented: 364.17, 364.20, F.S.**

**History: Revised 12/1/68, Amended 3/31/76, formerly 25‑4.20.**

locrec2.mer

 M E M O R A N D U M

 July 21, 1992

TO: DIVISION OF APPEALS (RULE)

FROM: DIVISION OF RESEARCH AND REGULATORY REVIEW (MAHONEY)

SUBJECT: ECONOMIC IMPACT STATEMENT FOR DOCKET NO. 920343-TP, REVISIONS OF RULE 25-4.020, FAC, LOCATION AND PRESERVATION OF RECORDS

SUMMARY OF THE RULE

 Rule 25-4.020 requires that all records maintained by a local exchange telephone company in compliance with rules of this Commission be kept within this state unless the utility is specifically granted permission to keep records outside the state. The rule also gives additional conditions which may apply if a utility is granted permission to keep its records outside the state. In addition the rule requires the utility to preserve its records in accordance with the Florida Public Service Commission's Form PSC/f/17 ( / ), entitled "Schedule of Records and Periods of Retention."

 The revisions to the rule add the requirement that all "original source documents" retained, as required by the above Florida Public Service Commission Form, be maintained in their original form for a minimum period of three years. The revisions also require the utility to maintain written procedures ensuring the authenticity of documents and completeness of records when source documents are converted to another medium. The records maintained

in this new medium must be easy to search and easy to read.

DIRECT COSTS TO THE AGENCY AND OTHER STATE OR LOCAL GOVERNMENT ENTITIES

 Staff foresees no direct costs being incurred by the agency as a result of these revisions. As a consequence of these revisions, some benefits will most likely be realized due to increased ease of access to necessary records during the audit process.

 No direct costs or revenue effects on other state and local government entities were identified since those entities should not be affected by the proposed rule revisions.

COSTS AND BENEFITS TO THOSE PARTIES DIRECTLY AFFECTED BY THE RULE

 Eleven telephone companies responded to a staff data request for information on the estimated economic impact of the proposed rule revisions. Of the eleven respondents, five estimated no economic impact as a result of the rule revisions, four expect some impact but are unable to quantify an estimate at this time, and two companies quantified their estimated impact. The two companies providing a quantified estimate, United and Centel, placed their estimated impacts at $252,000 and approximately $13,000 to $34,000 annually, respectively.

 United, as well as some of the other companies, indicated its belief that records such as repair reports, customer correspondence, and employee time reports are included in source documents. Staff of the Division of Auditing and Financial Analysis maintain that the contemplated original source documents referenced in the revisions refer primarily to vouchers; and documents such as those cited by United are not contemplated in the requirements of the rule. It appears that a definitive position should be taken on which original source documents are to be maintained for three years. This determination could have a significant effect on the companies' estimated economic impacts.

 None of the companies acknowledged any benefits accruing to them as a result of these rule revisions.

REASONABLE ALTERNATIVE METHODS

 Several alternatives to the proposed revisions were examined, all of them being less stringent plans of retaining original source documents. No associated costs were quantified. Staff of the Division of Auditing and Financial Analysis, however, asserts that anything other than the requirements defined in the rule revisions will be inadequate.

IMPACT ON SMALL BUSINESSES

 No direct impact on small businesses is foreseen as none of the utilities affected qualify as a small business as defined in Section 288.703(1), Florida Statutes (1991).

IMPACT ON COMPETITION

 No impact on competition is foreseen as the proposed revisions do not affect any facet of the utilities' business subject to competition.

IMPACT ON EMPLOYMENT

 No impact on Commission employment is foreseen. Two utilities estimate seven additional in-house positions (six at United and one at Southland) will be created as a direct result of the proposed revisions. However, these seven additional positions are predicated upon the apparently mistaken conclusion that the rule revisions will require retention of all documents for three years, including customer correspondence, employee time sheets, trouble reports, and other items not contemplated by Commission staff when drafting the rule.

METHODOLOGY

 Discussions were held with the staff of the Division of Appeals and the Division of Auditing and Financial Analysis. A data request was sent to the local exchange telephone companies and follow-up telephone conversations were made for the purpose of clarification.

PEM:jn/e-loctel

1. The FCC has implemented price cap regulation rather than rate base regulation so its current rules do not require utilities to keep many cost-related documents. Therefore, staff does not recommend amending this rule to incorporate the current FCC rules. [↑](#footnote-ref-1)