1.19 The materia SOUTHERN BELL TELEPHONE SURVEILLANCE AUDIT DKT# 920260-TL AFAD# 95-103-4-1 TPE DECEMBER 31, 1994 12 212 OCOTOBER 25, 1995 بر ر. در از 1. 1. 1. 1. S. and the second sec mine and states DOCUMENT NUMBER DATE te star 11435 NOV 16 # FPSC-RECORDS/REPORTING

COMPANY: SBT 17 TITLE: HEADQUARTERS ALLOCATIONS PERIOD: YEAR END 12/31/94 DATE: SEPTEMBER 6, 1995 AUDITOR: RKY

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The audit service request asks us to determine the reasonablenss of parent company (BST) allocations and allocation procedures insuring that businessacquisition and FCC lobbying costs are not passed through.

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This is divided into two parts.

WP NO.

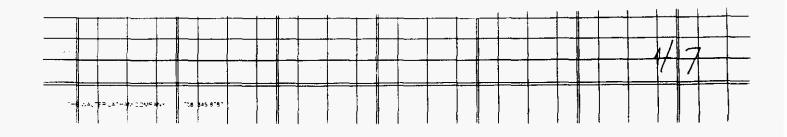
One, determine the reasonableness of parent co allocations. In conversation with Rick Wright , analyst in Tallahassee, We decided that the audit of the BST Hdg allocations is a complete audit in itself. Our review of C&L external audit workpapers provides an explanation of the CSAP system which is the allocation of state charges from BST HDQ on Wp 47-1, 47-2 AND 47-3, AND a description of terms used in the process.

As explained in WP46 there are ______Afferent allocators used for all the accounts. We decided that we would audit only one allocation % to Fl. We selected the corporate allocator which is .2645 to Florida WP 47-4.

The allocator was recalculated on 47-4 and traced to various company reports supporting the amounts used in the calculation. It would be possible to further document the substantiating reports, but staff decided to limit the scope to this point.

Two, if there are lobbying costs or business acquisitions costs in the sample Blected, we will describe them and disclose in WP 44. Also, WP 40-1/2-4 addressed the lobbying expenses that are removed from expense for surveillance purposes.

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HEADQUARTERS APPORTI Data: 02/1		C1230123DATAHOAP_REV \$4HOAP_94R WK1
COMPANY	BelSouth Telecom	nurskingens
STUDY DATE YEAR: RATE USAGE YEAR: EFFECTIVE DATE:	January-Dacember 1994 Jan 1994	1993

WORKSHEET 1

PREPARED BY VERIFIED BY APPROVED BY .

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	(a) ACCESS LINES -EOP AVERAGE		b) ARIES & WAGES	0	(c) DNSTRUCTION KPENLITURES		(d) ACCESS LINE ACTIMITY		(*)	
AREA	MUNIBER	FACTOR	DOLLARS	FACTOR	DOLLARS	FACTOR	# WE & OUT	FACTOR	TOTAL FACTORS	FACTOR E -
ALABAMA	1,843,083.42	G 0863	238,698,047.10	Q 0824	276,663,512.00	0 0950	561,239.00	0 0823	(L) 6696 0	0 0865
FLORIDA	6,003,329.56	0 2626 🕂	775,855,887 88	0 2878 1	716.479.818.00	0 2457 -	2,947,499.00	0 28 16		0 2645
GEORGIA	3,137,991.87	0.1647	495,921,066.31	0 1712	532,646,838.00	0 1827	1,826,864.00	0 1747	0 5933	0 1733
KENTUCKY	1,017,696.50	6.0534	152,482,538 82	0 0526	134,712,602.00	0 0482	491,319.00	0 0469	0 1992	0 0498
LOUISIANA	1,943,743.00	0.1020	286,348,629 69	0 0966	239, 106, 328.00	0 0820	1 030 121 00	0 0984	0 3613	D 0953
MISSISSIPPI	1,062,000 67	0.0556	162,148,740 45	0 0560	201,590,254 00	0 0691	570,077 00	0 0545	0 2353	0 0588
N CAROLINA	1,860,017.83	0.0978	273,249,572.15	0 0943	299.026.236.00	0 1026	960,694.00	0 09 18	0 385 (1)	0 0966
S. CAROLINA	1,167,244.00	9.0623	188, 178, 459 73	0 0653	173.264.939 00	0 0594	594.561.00	0 0568	0 2439	0 06 10
TENNESSEE	2.194,720.42	0.1152	323, 165, 840 61	0.1116	342.022,503 00	0 1173	1.181,308.00	0 1129	0 4569	0 1142
COMPANY	19,049,928.17 Hervice for study period. MR		2.297.048.782.75 7	10000 7	2.915,715,030 00 7	1 0000	10.465.662.00	1 0000	4 0000	10000

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Access Lines - EOP - Avg of Iolal in service for thidy period. MRI/7 (see worksheet IA) Selectes and Weges charged to final accounts excluding Construction and Cost of Remova for the period. (see Worksheet 18)

Construction Expanditures - MR21 (educted to an FR basis) (see Workpheet 1C) Access Line Activity - Cumulative activity for study period. MR87 (see Workpheet 1D)

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	(¢) General Allocator	TOTAL FACTORS		↓ 1.000 →	NE73.0	0.1966	0.3792	0.2420	0.3841	0.2431	0.4539										
Gen		FACTOR T	0.0623	0.2816	0.1747	0.0469	0.0964	0.0545	0.0918	0.0568	0.1129	1.0000									
MEPARED BY VERIFIED BY APPROVED BY Operations Mgr.	(d) Access Line Activity	Ø IN & GUT	861,239.00	2,947,499.00	1,826,864.00	491,319.00	1,030,121.00	570,077.00	960,694.00	594,561.00	1,181,306.00	10,465,662.00				-					
		FACTOR	0.1064	0.2460 N	0.1654	1940.0	0.0614	0.0767	0. 1018	0.0597	0.1161	1.0000	•			4551 ma	0				
	(c) Construction Expenditures	DOLLARS	334,254,206.62	772,673,359.55	519,369,787.24	145,658,017.76	255,625,299.03	240,954,133.87	319,763,255.91	187, 567, 197. 93	364,480,348.58	1,140,545,606.49				Revised in February 1994					
		FACTOR	0.0611	H- 242.0	0.1685	0.0518	0.0973	0.0551	0.0928	0.0643	0.1096	1.0000				kestied 1					
La construction de la construction La construction de la construction de	(b) sularies & wiccs	DOLLARS	236,698,047.10	821,779,887.89	15,951,066.31	152,462,538.82	206, 348, 629. 69	162, 148, 740.45	213,249,572.15	189, 178, 459. 73	323, 165, 840.61	2,942,943,782.75	APT (see worksheet 1) In and Cost of Remova	iioritaheet 1C) (see lioritaheet 10)		۰.					
c:/123/JePost/(Have_94.ukt) micst1ons 93		FACTOR	0.0865	0.2626	0.1647	0.0534	0.1020	0.0558	0.0976	0.0623	0.1152	1.0000	or study period. M cluding Constructio	n Fit basis). (see study period. MMF		Janian	0				
th Telecommu	(a) Access Lines -EOP Average	NUMBER	1,643,063.42	5,003,329.56	3, 137, 991.67	1,017,696.50	1,943,743.08	1,062,099.67	1,860,017.83	1, 187, 244.00	2, 194, 720.42	19,049,926.17	f total in service fo to final accounts exc Worksheet 18)	ME21 (adjusted to an lative activity for a		71012 Low January 1954		t r .	ht.		
HEADOLUARTERS APPORTIONNEWE FACTORS Date: 01/18/94 CONPANT: 01/18/94 STUDT DATE YEAR: January ANIE USACE YEAR: Jan 1994 EFFECTIVE DATE: Jan 1994 WORKSMEET 1		AUEA	ALABAUM	FLORIDA	GEORGIA	KENTUCKT	LOUIS1 ANA	1441SS1SS1M	N. CAROLINA	S. CAROLINA	TENNESSEE	COMPANY	Access times - ECP - Avg. of total in service for study period. NEAT (see worksheet 1A) Salaries and Usges charged to final accounts excluding Construction and Cost of Removal for the period. (see Montsheet 1B)	Construction Expenditures - MR21 (adjunted to an FR basis). (see Worksheet 1C) Access Line Activity - Cumulative activity for study period. MRA7 (see Worksheet 1D)		JAIL		(f) - (reme toot	H = Keceleulate	4 - 4004	
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STUDY DATE YEAR. RATE USAGE YEAR. EFFECTIVE DATE. 1961 UNC 1984 Tamary-December 1993 COMPANY BellSouth Telecommunications

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FPSC Staff Audit 1994 Surveillance Report Item No. 67 September 8, 1995 Page 1 of 1

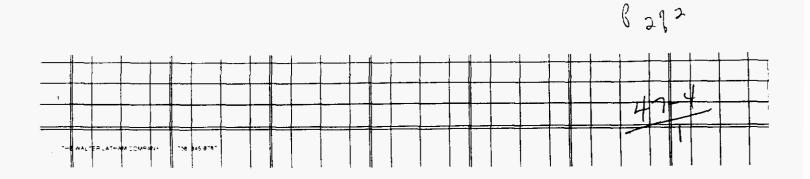
REQUEST: RE: BST HQ Apportionment Factors

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The attached was sent in response to Request 63. Provide MR 7 for access lines and Worksheet 1A. Provide Worksheet 1B for Salaries and Wages. Provide MR21 (adjusted for FR basis) and Worksheet 1C for Construction Expenditures. Provide MR 7 and Worksheet 1D for access line activity.

RESPONSE: Worksheets 1A, 1B, 1C, 1D and the December 1993 MR21 report are attached. Access lines and access line activity were based on a system extract. The access line data on this extract agreed to the Company's monthly MR7 report. A copy of the extract and the December 1993 MR7 report are attached.

This supporting data has been referenced to the calculation of the Florida HQ prorate factor.



September

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October HEADQUARTERS APPORTIONMENT FACTORS

COMPANY:	BellSouth Telecommunications
STUDY DATE YEAR:	January-December 1993

RATE USAGE YEAR: 1994 EFFECTIVE DATE: Jan 1994

WORKSHEET 1A - AVERAGE ACCESS LINES IN SERVICE GENERAL ALLOCATOR DATA SUMMARY (COL a)

AREAS	ALABAMA F	Lorida geo	DRGIA KEI	NTUCKY LOI	JISIANA	
January	0.00	0.00	0.00	0.00	0.00	0.00
February	0.00	0.00	0.00	0.00	0.00	0.00
March	0.00	0.00	0.00	0.00	0.00	0.00
April	0.00	0.00	0.00	0.00	0.00	0.00
Мау	0.00	0.00	0.00	0.00	0.00	0.00
June	0.00	0.00	0.00	0.00	0.00	0.00
July	0.00	0.00	0.00	0.00	0.00	0.00
August	0.00	0.00	0.00	0.00	0.00	0.00
September	0.00	0.00	0.00	0.00	0.00	0.00
October	0.00	0.00	0.00	0.00	0.00	0.00
November	0.00	47-4 0.00	0.00	0.00	0.00	0.00
December	19,717,001.00	1-T 60,039,955.00	37,655,900.00	12,212,358.00	23,324,917.00	152,950,131.00
TOTAL	19,717,001.00	60,039,955.00	37,655,900.00	12,212,358.00	23,324,917.00	152,950,131.00
EOP-Average (Total / # of mths in study period)	1,643,083.42	5,003,329.56Å	3,137,991.67	1,017,696 50	1,943,743.08	12,745,844.25
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October AREAS	MISSISSIPPI	N. CAROLINA	S. CAROLINA	TENNESSEE	0.00 COMPANY
January	0.0	0.00	0.00	0.00	0.00
February	0.00	0.00	0.00	0.00	0.00
March	0.00	0.00	0.00	0.00	0.00
April	0.00	0.00	0.00	0.00	0.00
Мау	0.00	0.00	0.00	0.00	0.00
June	0.00	0.00	0.00	0.00	0.00
July	0.00	0.00	0.00	0.00	0.00
August	0.00	0.00	0.00	0.00	0.00
September	0.00	0.00	0.00	0.00	0.00
October	0.00	0.00	0.00	0.00	0.00
November	0.00	0.00	0.00	0.00	0.00
December	12,745,196.00	22,320,214.00	14,246,928.00	26,336,645.00	228,599,114.00
TOTAL	12,745,196.00	22,320,214.00	14,246,928.00	26,336,645.00	228,599,114.00
EOP-Average (Total / # of mths in study period)	1,062,099.67	1,860,017.83	1, 187, 244.00	2,194,720.42	19,04 9,926.17

Source: MR7, Line 03450 (SBT) Total Access, "In Service End of Month" column.

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Regulatory Jurisdiction	Code	Year To Date	January July	February August	Narch September	April October	Hay November	Decen
ALABANA	AL	19,717,001	1,616,765 1,640,031	1,625,552 1,645,548	1,631,318 1,655,275	1,635,520 1,659,545	1,637,223 1,664,496	1,636,
FLORIDA	FL -#(60,039,955) 4,926,545 4,994,053	4,953,723 5,013,508	4,964,109 5,033,896	4,970,264 5,050,447	4,981,287 5,071,894 (6,984, 5,096,
GEORGIA	GA	37,655,900	3,082,001 3,131,036	3,097,035 3,144,994	3,109,315 3,163,696	3,121,405 3,172,628	3,127,295 3,182,066	3,129, 3,194,
KENTUCKY	KY	12,212,358	1,003,534 1,017,588	1,007,719 1,020,074	1,011,230 1,023,291	1,014,168 1,025,805	1,015,921 1,027,514	1,016, 1,029,
LOUISIANA	LA	23,324,917	1,922,581 1,939,788	1,930,672 1,945,507	1,936,892 1,951,621	1,942,068 1,955,154	1,940,354 1,958,198	1,938, 1,963,
MISSISSIPPI	MS	12,745,196	1,044,544 1,059,887	1,052,333 1,064,955	1,057,391 1,067,547	1,059,456 1,071,606	1,058,786 1,073,755	1,058 1,076
NORTH CAROLINA	NC	22,320,214	1,828,262 1,853,740	1,836,776 1,869,640	1,842,431 1,879,055	1,847,644 1,885,071	1,843,403 1,890,602	1,847, 1,895,
SOUTH CAROLINA	SC	14,246,928	1,171,559 1,188,588	1,176,140 1,190,681	1,180,190 1,194,347	1,184,061 1,193,981	1,185,575 1,196,223	1,186 1,198
TENNESSEE	TN	26,336,645		2,168,077 2,200,966	2,176,179 2,211,406	2,181,237 2,217,994	2,184,824 2,225,846	2,185 2,236
REPORT TOTAL		228,599,114 () See page	19,015,483	19,095,873	19,180,134	19,232,231	18,974,668 19,290,594	18,984 19,359
EOP AVG.	FL - GA - KY - LA - MS - NC - SC -	1,643,083 5,003,31 3,137,99 1,017,694 1,943,74 1,062,09 1,860,01 1,187,24 2,194,72	9.58 1.67 5.50 3.08 9.67 7.83 4.08	۱				
TOTAL		9,049,93						

Data obtained from 1988-1991 history files does not reflect the organizational changes that were shown in MR/IBPS NOTICE : NOT FOR USE/DISCLOSURE OUTSIDE BELLSOUTH EXCEPT UNDER WRITTEN AGREEMENT



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September

October HEADQUARTERS APPORTIONMENT FACTORS

STUDY DATE YEAR:January-December 1993RATE USAGE YEAR:1994EFFECTIVE DATE:Jan 1994

WORKSHEET 1B - SALARES AND WAGES CHARGED FINAL ACCOUNTS (EXCLUDING CONSTRUCTION AND COST OF REMOVAL) GENERAL ALLOCATOR DATA SUMMARY (COL b)

	AREAS	ALABAMA	FLORIDA	GEORGIA	KENTUCKY	LOUISIANA	
	January	19,988,068.67	74,360,478.95	41,398,923.38	12,563,138.83	24,311,105.21	172,621,715.04
	February	17,793,601.32	67,497,443.46	37,331,740.90	11,596,489.08	21,248,491.57	155,467,766.33
	March	21,984,291.38	75,977,390.05	43,505,395.36	12,993,534.07	24,696,171.34	179,156,782.20
	April	20,136,704.39	71,223,505.24	41,591,150.56	12,543,463.69	23,871,780.64	169,366,604.52
	Мау	19,509,773.14	65,478,985.53	40,635,720.14	12,363,896.59	23,287,386.79	161,275,762.19
	June	20,099,545.22	67,259,564.22	41,947,081.10	13,484,881.21	24,038,584.55	166,829,656.30
	July	18,208,340.55	59,158,105.95	38,623,772.87	11,821,007.85	22,904,335.74	150,715,562.96
	August	20,447,228.35	66,851,294.49	43,047,936.95	13,242,745.06	24,652,815.31	168,242,020.16
~	September	19,881,931.30	65,726,472.19	41,264,564.88	12,682,149.22	23,612,676.37	163,167,793.96
	October	20,400,528.17	68,897,543.44	43,750,031.22	12,990,539.25	24,907,939.23	170,946,581.31
	November	19,246,801.91	66,969,547.46	40,251,282.99	12,479,385.17	23,307,292.25	162,254,309.78
Ŷ	December	21,001,232.70	72,370,556.91	42,573,465.96	13,721,308.80	25,510,050.69	175,176,615.06
	adjustment TOTAL	238,698,047.10	(45,915,000.00) 775,855,887.89	(B) <u>495,921,066.31</u>	152,482,538.82	286,348,629.69	1,949,306,169.81
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September					0.00
October AREAS	MISSISSIPPI	N. CAROLINA	S. CAROLINA	TENNESSEE	0.00 COMPANY
January	13,593,953.27	22,049,135.11	15,333,275.99	26,580,351.50	250,178,430.91
February	11,971,573.21	20,018,030.83	14,198,277.40	24,153,164.48	225,808,812.25
March	13,828,389.86	23,654,148.65	16,468,165.85	28,174,439.81	261,281,926.37
April	13,619,177.30	22,877,944.02	15,973,364.87	26,726,508.18	248,563,598.89
May	12,908,015.63	22,421,580.03	15,621,843.11	26,304,177.98	238,531,378.94
June	13,192,246.81	23,538,126.28	16,277,533.46	27,653,221.85	247,490,784.70
July	12,815,050.13	21,636,858.05	15,233,465.80	25,222,981.90	225,623,918.84
August	14,090,247.43	23,894,822.09	16,290,233.02	27,734,245.00	250,251,567.70
September	13,555,970.05	22,856,907.89	15,470,986.83	26,609,838.39	241,661,497.12
October	14,064,147.77	23,829,103.11	16,381,727.85	28,462,593.87	253,684,153.91
November	13,625,275.36	22,458,077.89	15,383,261.09	26,502,664.66	240,223,588.78
December	14,884,693.63	24,014,838.20	16,546,324.46	29,041,652.99	259,664,124.34
TOTAL	162,148,740.45	273,249,572.15	189,178,459.73	323,165,840.61	2,897,048,782.75

Source: Journal Entry Form MP5242, Salary and Wage column, Account Categories 4XXX, 5XXX, 6XXX, 7XXX.

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HEADQUARTERS APPORTIONMENT FACTORS

COMPANY: STUDY DATE YEAR: RATE USAGE YEAR: EFFECTIVE DATE:

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January-December 1993 1994 Jan 1994

BellSouth Telecommunications

PREPARED BY _____

VERIFIED BY

APPROVED BY _____ Operations Mgr.

WORKSHEET 1C - CONSTRUCTON EXPENDITURES - FR BASIS GENERAL ALLOCATOR DATA SUMMARY (COL c)

	AREAS	ALABAMA	FLORIDA	GEORGIA	KENTUCKY	LOUISIANA		
	TOTAL CONSTRUCTION EXPENDITURES 12 MONTHS IN STUDY PERIOD 1993	275,062,933.00	716,479,818.00	532,646,838.00	134,712,602.00	236,558,046.00	1,895,460,237.00	
FR AD)JUSTMENTS PLUS	1,800,579.00	0.00	0.00	0.00	2,550,282.00	4,350,861.00	
(ei	MINUS nter as negative -)		10844			****	0.00	
	CONSTRUCTION EXPENDITURES (FR BASIS)	276,863,512.00	41-4 <u>T-3</u> 716.479,818.0(()	532,646,838.00	134,712,602.00	239,108,328.00	1,899,811,098.00	
	@ MR 21 'Cons	truction Expenditur	ies and Returnment	s' Sheet lof 5				
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THIS PAGE(S) HAS BEEN REMOVED AS IT CONSISTS OF COMPETITIVE INTERESTS, THE DISCLOSURE OF WHICH WOULD IMPAIR THE COMPETITIVE BUSINESS AND IS THEREFORE PROPRIETARY INFORMATION

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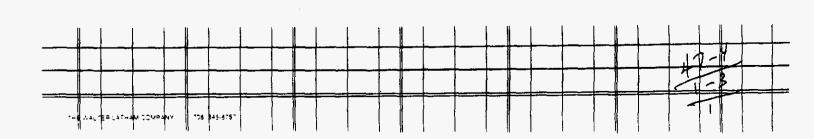
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	D See profe	861	861											1	ALABAMA
	201401 h	861,239.00	861,239.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	FLORIDA
	M see make and A of the RING According to put	2,947,499.00(D)	2,947,499.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	A GEORGIA
<u> </u>	- κ ψ - τ -	1,828,864.00	1,828,864.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	IA KENTUCKY
		491,319.00	491,319.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
		1,030,121.00	1,030,121.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
		00.740 801.7	00 CM 001 7		0.00	0.00	0.00	0.00	0.00		0.00	0.00	0,00		2

STUDY DATE YEAR: RATE USAGE YEAR: EFFECTIVE DATE: Jan 1994

January-December 1993 1994

BellSouth Telecommunications

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COMPANY:

October HEADQUARTERS APPORTIONMENT FACTORS

September

WORKSHEET 1D - ACCESS LINE ACTIVITY (IN/OUT) GENERAL ALLOCATOR DATA SUMMARY (COL d)

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October AREAS	MISSISSIPPI	N. CAROLINA	S. CAROLINA	TENNESSEE	0.00 COMPANY
January	0.00	0.00	0.00	0.00	0.00
February	0.00	0.00	0.00	0.00	0.00
March	0.00	0.00	0.00	0.00	0.00
April	0.00	0.00	0.00	0.00	0.00
Мау	0.00	0.00	0.00	0.00	0.00
June	0.00	0.00	0.00	0.00	0.00
July	0.00	0.00	0.00	0.00	0.00
August	0.00	0.00	0.00	0.00	0.00
September	0.00	0.00	0.00	0.00	0.00
October	0.00	0.00	0.00	0.00	0.00
November	0.00	0.00	0.00	0.00	0.00
December	570,077.00	960,694.00	594,561.00	1,181,308.00	10,465,682.00
TOTAL	570,077.00	960,694.00	594,561.00	1,181,308.00	10,465,682.00

MR7, Line 03450 Total Access, Sum of "Inward Movement " columns.

NOTE: SCB MR7 contains "Year-to-Date" data. Post the Year-to-Date data in the appropriate row for the study period.

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September

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£6Z ⁴ 77	77L'87	212'1S	265'67	202'29	991'25			
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135,817	975'271	811,821	606 991	280,181	761 191			
077'021	277,521	077 271	796'ISL	928'921	158,754	+ 858,864	CA CA	CEORGIA
127,625	292'872	067'872	602'272	227,085	261 252	- Lit)	
500,903	526,250	892'252	852'052	571'977	725'712	667'276'2	دr (<i>D</i>)	FLORIDA
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678'99	820'89	272 12	262'82	657'28	808'74			(20)
177'78	\$20'29	785'89	68,200	675'29	259'29	652,128	AL .	
December	November	1900120	September	isuguá	Ajne			\bigcirc
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Data obtained from 1988-1991 history files does not reflect the organizational changes that were shown in MR/18PS Notice : Not for use/Disclosure outside Bellsouth Except Under WRITTEN AGREEMENT

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Report Name: AWALTO Process Date: 01/14/94 Time	: 18:07	RTAP - Resourc		Analysis and al WLI	l Planning	(+2-4)	Ρ	age: 1
RCC : 00000000 WL1 : ALTO	Rounding : L Reorg : N	l	Year :	1993		RJ :		
Regulatory Jurisdiction	Code	Year To Date	January July	February Áugust	March September	April October	Nay November	June December
ALABAMA	AL	401,323	28, 73 7 35, 8 07	26,918 40,820	31,043 34,348	32,365 33,470	32,658 31,554	42,323 31,280
FLORIDA	FL	1,376,136	94,212 121,772	99,482 130,501	119,690 113,731	123,902 115,963	107,531 113,670	120,202 106,390 Z
GEORGIA	GA	846,464	57,315 77,316	60,933 83,688	69,491 73,891	66,817 74,359	68,199 69,229	84,127 61,099
KENTUCKY	ĸy	231,622	15,802 21,524	15,501 23,306	17,928 19,963	18,480 19,346	19,072 19,719	23,255 17,726
LOUISTANA	LA	492,508	36,017 44,501	34,595 48,183	40,025 40,764	39,259 39,622	41,789 39,726	50,185 37,842
MISSISSIPPI	MS	267,036	18, 7 92 22,654	18,056 26,599	20,268 22,469	20,351 27,601	22,355 21,452	26,201 20,238
NORTH CAROLINA	NC	442,206	30,599 39,907	31,056 42,997	35,293 35,576	34,577 37,160	44,912 36,226	42,086 31,817
SOUTH CAROLINA	sc	281,309	18,903 25,096	21,374 30,140	22,346 22,951	22,014 25,818	22,091 23,014	26,735 20,827
TENNESSEE	тн	548,743	39,856 50,421	37,929 52,586	43,947 45,756	45,472 45,800	45,543 44,967	53,963 42,503
REPORT TOTAL		4,887,347	340,233	345,844	400,031	403,237	404,150	478,167
			438,998	478,820	409,449	419,139	399,557	369,722

@ Scepage 3 of 13 of the MRT report.

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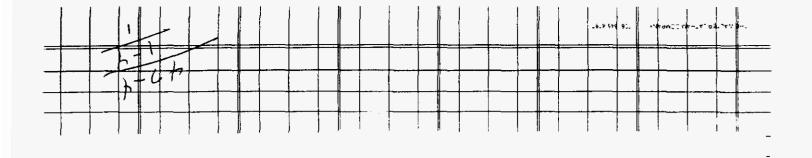
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COMPANY:SBTTITLE:GENERAL ALLOCATORPERIOD:YEAR END 12/31/94DATE:SEPTEMBER 6, 1995AUDITOR:RKY

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Km 10/10/95

WP NO.

The audit service request asked us to determine if the methodology used in calculating the general allocator used to allocate BellSouth Corporation HQ costs to Southe Bell Telephone is appropriate. Re: FCC Order 95-31, Southwestern Bell.

FCC Order 95-31, Adopted: January 26, 1995, Released: March 3, 1995 orders SWBT "... to show cause why certain expenses retained by SBC as retained expenses should not be included in the computation of the general allocator used to allocate residual costs to SWBT and SWBT affiliates pursuant to Section 64.901(b)(3)(iii)."

VS-1 The order states that the FCC rules mandate that "... this general allocator is to be computed by using a ratio based upon all expenses directly assigned or attributed to regulated and nonregulated activities." SQ *10 FCC auditors found that "... SPC did not include "...to be the set of the set of

FCC auditors found that "...SBC did not include "retained expenses" (i.e. certain expenses not passed on to affiliates, but retained on the books of SBC) in the base used for calculating its general allocator."

The FCC agrees with their auditors' description of how the general allocator should be included in that calculation. "Section 64.901(b){3}(iii) clearly provides that the general allocator must be computed by using '... the ratio of all expenses direcly assigned or attributed to regulated and non regulated activities.'..."

The FCC auditors calculated that "... if the general allocator had been computed properly, SWBT's share of costs allocated through the general allocator would drop from almost 70 per cent to about 43 percent for 1992 alone."

COMPANY COMMENT:

VY-3 + 48-3

The Company's response to our request for information regarding this topic follows this Disclosure. PSC staff did not audit the Company's calculations.

		499625 u: Mint Tole
(FE)	Before the FEDERAL COMMUNICATIONS COMMIS Washington, D.C. 20554	SION
· · · · · ·		FCC 95-31
In the Matter of)	
Southwestern Bell) AAD 95-3	32 <u>2</u> : : : : : : : : : : : : : : : : : : :
Telephone Company)	÷.

ORDER TO SHOW CAUSE

Adopted: January 26, 1995

Released: March 3, 1995

By the Commission:

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I. Introduction

1. On May 19, 1994 we released a federal-state joint audit report ("Audit Report") that examined transactions between Southwestern Bell Telephone Company ("SWBT") and various SWBT affiliates, including its parent, Southwestern Bell Corporation ("SBC"), and Southwestern Bell Asset Management, Inc. ("AMI").¹ The audit report found various apparent violations of our rules in the accounting methodologies and practices employed by SWBT to book charges for services provided by affiliates to SWBT.² We directed the Common Carrier Bureau to review the report and propose appropriate Commission action. This Order directs SWBT to show cause why we should not find that certain SWBT and

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¹<u>Audit Release Order</u>, 9 FCC Red (1994) (Audit Release Order). Besides this Commission, the members of the joint audit task force included representatives of the telecommunications regulatory commissions of Arkansas, Kansas, Missouri, Oklahoma and Texas. The Joint Audit Report consists of the the auditors' findings ("Audit Report"), a reply to these findings by SWBT ("SWBT Analysis") and the auditors' response to that reply ("Audit Team Reply").

² The joint audit was a comprehensive audit of affiliate transactions between SWBT, which provides regulated telecommunications services within its franchise areas, and numerous affiliates. The Audit Report found apparent rule violations or accounting irregularities only in certain cases involving transactions flowing from SBC and AMI to SWBT. The Audit Report further concluded that, in other transactions involving SWBT and Southwestern Bell Technology Resources, Inc. (TRI), Southwestern Bell Telecommunications, Inc. (Telecom) and Southwestern Bell Mobile Systems, Inc. (SBMS), there was no evidence to indicate there had been Commission rule violations or that telephone ratepayers had been adversely affected by the investigated transactions.

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affiliate accounting practices, associated with the allocation of costs and recorded charges for affiliate transactions, violate Commission rules. We also order SWBT to show cause why this Commission should not, as a result of said findings, take appropriate enforcement action, including issuing a Notice of Apparent Liability for Forfeiture,³ and ordering SWBT to bring its accounting practices into conformity with Commission policies and rules governing affiliate transactions and associated cost accounting.

II. Background

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2. The joint audit of SWBT is one of several joint audits undertaken, or contemplated, with state regulatory commissions that share jurisdiction with the Commission over telecommunications common carriers under the Communications Act of 1934.⁴ The SWBT joint audit constitutes a notable first in that all of the jurisdictions that regulate a local exchange carrier's provision of telecommunications services participated. For purposes of the audit, this Commission's cost allocation and affiliate transactions rules were applied. The audit covered calendar years 1989 through 1992, during which period SWBT's affiliates billed it approximately \$880 million, while SWBT billed approximately \$129 million to the affiliates.⁵ When we authorized release of the Audit Report last May, we did so without accepting or affirming any of the report's analyses or conclusions. After reviewing the Audit Report, we conclude that it identified a number of significant anomalies in the accounting methodologies and practices used by SWBT and its affiliates. We find that these anomalies warrant further investigation by the Commission and may well require corrective action.

3. The affiliate transactions rules are part of the Uniform System of Accounts ("USOA") that the Commission promulgated so that carriers will record their costs and revenues in a uniform and systematic manner.⁶ Generally, that system requires carriers to record as costs and revenues the actual amounts they pay to, or receive from, their suppliers and customers. Such an approach, however, is inadequate to protect ratepayers when the transactions involve carriers dealing with affiliates rather than third parties. In such instances, we have found that the amounts paid to or received from affiliates for goods and services are not an accurate indication of the transaction's value.⁷ The Commission developed its affiliate transactions rules to provide a valuation methodology for transactions where regulated

- ³ See 47 C.F.R. § 1.80.
- ⁴ See 47 U.S.C. § 152.
- ⁵ Audit Report, at C-5.
- ⁶ Sec 47 C.F.R. § 32.1.

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⁷ See Amendments of Parts 32 and 64 of the Commission's Rules to Account for Transactions between Carriers and their Nonregulated Affiliates, Notice of Proposed Rulemaking, 8 FCC Red 8071, at 8071-8072 (1993).

carriers are not dealing at arm's length. These rules have become more important over the past few years as telecommunications carriers have diversified to offer a wide variety of regulated and nonregulated products and services.

4. The affiliate transactions rules were adopted in the <u>Joint Cost</u> proceeding, which also promulgated rules governing the apportionment of carriers' costs between regulated services and nonregulated activities.⁸ The carriers are required to apply these cost apportionment rules in developing their cost allocation manuals (CAMs) which describe in detail how costs are apportioned to regulated and nonregulated operations. The CAMs also identify each affiliate that engages in transactions with a carrier, and describe the nature, terms and frequency of those transactions.⁹

III. Issues Involving SWBT and SBC

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5. SBC is one of seven regional Bell holding companies. SBC and its subsidiaries provide, <u>inter alia</u>, telephone service, customer premises equipment (CPE), yellow pages advertising, printing and distribution of telephone directories, wireless communications services, as well as various product management and support services. SBC provides management services for the corporation, including present and future subsidiaries. SBC also pursues new business opportunities and manages corporate investments.¹⁰

6. The Audit Report alleges three apparent violations of the Commission's cost allocation rules associated with SBC's accounting for transactions with SWBT: (1) lack of supporting documentation for time charged by SBC employees; (2) use of an improper marketing allocator; and (3) improper use of the general allocator.

A. Lack of Supporting Documentation for SBC Employee Time Charging

7. The amounts that SWBT records in its USOA accounts for services obtained from SBC are determined by SBC's system for allocating costs between regulated and nonregulated operations. SBC's cost allocation system, in turn, is primarily driven by costs based on time charged by employees. Such costs are allocated between regulated and nonregulated services based on the relative amounts of time an employee spends on different activities that are assigned to regulated and nonregulated operations. Therefore, the accuracy

⁸ Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities, Report and Order, CC Docket No. 86-111, 2 FCC Red 1298 (Joint Cost Order), recon., 2 FCC Red 6283 (1987) (Joint Cost Reconsideration Order), further recon., 3 FCC Red 6701 (1988) (Further Reconsideration Order), <u>aff'd</u> <u>sub nom.</u> Southwestern Bell Corp. v. FCC, 896 F.2d 1378 (D.C. Cir. 1990).

⁹ 47 C.F.R. § 64.903(a). <u>See Affiliate Transactions Notice</u>, 8 FCC Red 8071, at para. 7. Only AT&T and those local exchange carriers (LECs) having annual revenues of \$100 million or more are required to file CAMs.

¹⁰ Audit Report, at D-14.

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of SBC's cost allocation system depends on whether employees are accurately recording their time spent on regulated and nonregulated activities and on whether SBC's cost assignments accurately reflect work time. The auditors discovered that, for 1989-1992, the factors that SBC used to allocate its costs could not be substantiated by any underlying documentation. For example, neither historical time studies nor any contemporaneous records exist to support \$23C's cost allocations to subsidiaries.¹¹ SWBT asserts that SBC relies on annual and periodic time reviews by employees and supervisors to verify that the employee's time is being spent according to cost categories and percentages which the employee must review at the time the employee reviews his or her time card.¹² SWBT argues that SBC trains its employees to take their time review obligations seriously, and that its periodic reviews render time studies unnecessary. The auditors maintain that, regardless of the specific reporting and review system employeed by SBC, they cannot meaningfully audit that system unless there are records such as time studies, or contemporaneous employee work records.¹³

8. SWBT counters that its employee time cards and explanations of its time review procedures, coupled with on-site employee interviews conducted by the auditors, should be sufficient to verify the accuracy of SBC's time charging practices.¹⁴ SWBT further states that, while it does not dispute the auditors' authority to examine the survey time reports SBC used to allocate its employees' time and associated costs between regulated telephone and nonregulated activities, it does challenge the power of the auditors, or this Commission, to impose documentation requirements on nonregulated affiliates without "due process."¹⁵

¹⁷ According to verbal information provided by SWBT to Commission staff, besides annual employee/supervisor review, the employee is instructed to review his or her semi-monthly time card and is directed to consult with the appropriate supervisor if actual time spent is at variance with the cost categories and percentages. According to SWBT, the time cards also provide for exception time reporting where the employee spends time on other projects not in the assigned work categories within the two week review period. The auditors, however, dispute that this information was contained on the time cards they were shown.

²³ Audit Report, at D-13.

¹⁴ In the absence of time studies, the task force auditors interviewed 43 SBC employees in order to ascertain whether some type of corroborative evidence existed theat might assist the auditors to review the accuracy of SBC time reporting. The survey time reports were not provided to the auditors and SBC explained that they were not retained and that, at one time, a four week time study had been performed. SBC has since revised its written procedures and now apparently requires each employee to provide the documentary support used to justify cost assignments and percentages.

15 SWBT Analysis, at E-5, n.5.

¹¹ Time studies provide a record of an employee's actual work-time spent within a defined period. The results are used to identify the work categories and the percentages of work time spent within those categories that will be the basis for allocating employee costs.

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9. SBC's argument misses the point; the auditors are not imposing new or unlawful documentation requirements on SBC, but, rather, seeking to evaluate the costs SWBT has entered on its books for its transactions with SBC. Consequently, the auditors properly requested contemporaneous documentation to analyze the work functions SBC had developed for its time reporting system, and documentation to evaluate the accuracy of individual employee time reports. Neither could be provided to the auditors. Moreover, the SBC employees interviewed by the auditors were unable to produce contemporaneous records documenting how they spent their time. In the absence of time studies or contemporaneous records, the auditors could not conclude that SBC employees were reporting their time accurately or that SWBT was complying with our rules in accounting for its transactions with SBC.

10. Our auditing of regulated carriers like SWBT is severely compromised if we cannot evaluate the cost inputs that form the basis of cost allocations to carrier operations. Accordingly, in the Joint Cost Order, we specifically imposed on local exchange carrier nonregulated operations those marketing personnel cost documentation requirements we had earlier imposed on AT&T in authorizing that company's nonregulated provision of customer premises equipment (CPE) and enhanced services.¹⁶ When the Common Carrier Bureau, acting on delegated authority, subsequently endorsed AT&T's cost allocation plan, it underscored the importance of auditing to ascertain whether AT&T's time reporting plan actually produced lawful cost allocations. Further, the Bureau explicitly concluded that only contemporaneous records, or other auditable data, could ensure an accurate audit.¹⁷ We also stated clearly in the Joint Cost Order that we generally expected carriers "[to] maintain a complete audit trail of all cost allocations and affiliate transactions."

11. In this case, it might be true that SBC's time reporting system can produce accurate time reporting, but there is no way for us to tell if the company has not performed periodic time studies or if the employees who are responsible for implementing that system do not prepare and retain contemporaneous documentation. Moreover, contrary to SWBT's assertion, an audit limited to examining the existing time reports would be useless. Although SBC's system apparently requires biweekly review by each employee of his or her work allocations as listed on time cards, it is unlikely that the employee's time would, in every two week period, exactly conform to those allocation percentages specified. Thus, it would appear to be the case that the employee must somehow "recollect" previous reports in order to verify that, over time, his or her reported time falls within the stated categories and

¹⁸ <u>Id.</u>, at para. 242.

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¹⁶ Joint Cost Order, 2 FCC Rcd 1298, at paras. 190, 207-208, 242. Sections 215, 218 and 219 of the Communications Act, 47 U.S.C. §§ 215, 218 and 219, authorize us to require production of this documentation.

¹⁷ Furnishing of Customer Premises Equipment and Enhanced Services by American Telephone & Telegraph Company, CC Docket 85-26, Mimeo no. 5652, at para.31, released July 11, 1986 (Common Carrier Bureau). The Commission extended the six month record retention requirement imposed on AT&T to 1 year for affected LECs in the Joint Cost Order. Joint Cost Order, 2 FCC Red 1298, at para. 208.

at the listed percentages. If that recollection is not based on auditable, contemporaneous documentation, it is reasonable to ask how accurate it can actually be. This inquiry, however, is not driven by any desire to impose an accounting system on SBC's nonregulated operations. It is driven, rather, by a legitimate need to evaluate SBC's system in order to determine whether SWBT is lawfully accounting for its transactions with SBC.

12. For the foregoing reasons, we order SWBT to show cause why the Commission should not find a violation of section 32.12(b)¹⁹ of the rules governing financial records and documentation. We also order SWBT to show cause why we should not take appropriate enforcement action, including issuing Notices of Apparent Liability for Forfeiture and ordering SWBT, pursuant to sections 215 and 218 of the Communications Act of 1934, as amended,²⁰ and section 32.12(b) of the rules to furnish contemporaneous SBC employee time charging records for the audit period, or otherwise conduct employee-specific time studies.

B. SBC's Marketing Allocator

13. SBC incurs two kinds of marketing costs. The first are direct marketing costs which are subsidiary-specific and which SBC charges directly to the subsidiary. The second kind of marketing costs are indirect costs, including image advertising, which SBC allocates among the subsidiaries. To do this, SBC uses an allocator that reflects both the direct-charged marketing costs it incurs and the direct-incurred marketing costs of each subsidiary. The auditors found that in 1992 there were no direct-charged marketing costs to SWBT. Nonetheless, nearly 50% of \$18.6 million of indirect marketing costs (approximately \$9.2 million) was allocated to SWBT. The auditors argue that application of SBC's allocator is improper in such cases because our rules for the apportionment of joint and common costs require, to the extent feasible, the apportionment of costs on the basis of direct assignment or cost causational attribution methods. The auditors concluded that SBC has not used the marketing allocator specified in the Joint Cost Order.²¹

14. SWBT acknowledges that we have ordered telephone companies to reflect marketing costs on a direct assignment basis in their CAMs, but contends that this requirement only applies to telephone company-specific marketing costs.²² SWBT argues that direct assignment is inappropriate here because the costs at issue are not indirect marketing costs in the usual sense. Rather, SWBT claims that SBC undertakes various projects at the

2º 47 U.S.C. §§ 215, 218.

²¹ Audit Report, at D-19, D-20, and D-21. The allocator is defined as the ratio of directly assigned and attributable costs to total marketing costs. Joint Cost Order, 2 FCC Red 1298, at para. 190.

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22 SWBT Analysis, at E-8.

¹⁹ 47 C.F.R. § 32.12(b).

request of affiliates, including image advertising, which are designed to benefit the entire corporation, according to SWBT, and not just the particular affiliate.²³ Thus, for example, if a charity or public service organization requested SWBT or another affiliate to sponsor an activity, the request would be passed on to SBC. Sponsorship would then be handled <u>typically</u> as a corporation-wide activity to benefit the parent and all affiliates. The allocation approach recommended by the auditors would actually misallocate real costs in such situations, according to SWBT, because a given activity would be allocated solely to the requesting affiliate even though all affiliates benefited.²⁴ Where, on the other hand, SBC decides to handle sponsorship as an affiliate-specific "event," associated costs are directly assigned to that affiliate.

15. In the Joint Cost Order we recognized the peculiar difficulty in allocating costs associated with the joint marketing of regulated and nonregulated products and services.²⁵ We abjured a pure direct assignment approach because joint marketing benefits both regulated and nonregulated activities. We also recognized that joint marketing benefits nonregulated services to a disproportionate degree, and such benefits (and associated costs) cannot be captured by direct assignment, or direct or indirect attribution, of costs.²⁶ In spite of that difficulty, we refused to limit carriers to those marketing efforts that could be directly assigned, or directly or indirectly attributed, because we recognized that regulated activities can legitimately generate so-called residual marketing costs. We specifically identified image advertising as such a residual cost,²⁷ and prescribed use of a marketing allocator. We clearly intended that all residual marketing costs, including image advertising costs, should be allocated using this approach.²⁸

16. Nevertheless, SWBT apparently has identified a significant problem if the marketing allocator prescribed by the <u>Joint Cost Order</u> were to be applied to the way SBC and its affiliates typically conduct marketing operations, including corporate-wide image advertising. SBC's allocation method is based on the advertising dollars spent by each SBC subsidiary, including advertising dollars spent on SBC subidiary-specific advertising "as an

23 Id.

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²⁵ Joint Cost Order, 2 FCC Rod 1298, at paras. 188-208.

- ²⁶ Id., at para. 196.
- ²⁷ <u>Id.</u>, n. 321.
- ²⁸ Id., at para. 190.

²⁴ SWBT points out that the auditors' approach would routinely missallocate costs if, for example, certain affiliates decided not to use SBC for their company-specific advertising needs but, instead, employed third parties. Notwithstanding that any SBC image advertising would benefit such affiliates, they would avoid paying for such benefits since the marketing allocator formula urged by the auditors would not recognize such advertising costs. SWBT Analysis, at E-9.

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indication of the importance of advertising to that line of business.^{*29} It is unclear to us how such an evaluation, unless modified, would take into account those predictable, disproportionate benefits which the <u>Joint Cost Order</u> found (and the auditors affirmed) could attach to nonregulated operations, especially start-up operations which are not otherwise well known in the marketplace.³⁰ On the other hand, the allocator devised by SBC may be generally consistent with cost causative principles insofar as it addresses the cost avoidance problem identified by SWBT.³¹ However, before we authorize use of such an approach, we think further inquiry is necessary. We conclude that further investigation of SBC's allocator method is warranted. In particular, we require a fuller description of the development of its allocator by SBC, including how its method takes into account the disproportionate benefits that nonregulated affiliates may receive from image advertising.

17. Accordingly, pursuant to section 64.901(b)(3) of the Commission's Rules, 47 C.F.R. §64.901 we order SWBT to show cause, why it should not be ordered to modify its cost allocation methodology for image advertising and related residual marketing costs³² to conform that methodology to the requirements imposed by the Commission's rules and policies.

C. SBC's Use of the General Allocator

18. SBC's system for allocating costs to its subsidiaries follows the cost allocation hierarchy mandated by our rules in that certain "residual" costs are allocated by use of a general allocator as a last resort.³³ The general allocator is employed only after all costs that can be directly assigned are directly assigned and other costs are attributed by use of an appropriate direct or indirect allocator.³⁴/Our rules mandate that this general allocator is to be computed by using a ratio based upon all expenses directly assigned or attributed to regulated

- 29 SWBT Analysis, at 9.
- ³⁰ Audit Team Reply, at F-7.
- 31 See para. 14, supra.

³² In conversations with Commission staff, SWBT indicated that some costs other than image advertising cost are included in those marketing costs subject to allocation by the marketing allocator. <u>See also</u> Audit Team Reply, at F-7. SWBT should include in its discussion a complete description of such other costs. SWBT also should include a complete description of how subsidiary-specific marketing costs are directly assigned and how these subsidiary-specific costs are identified and distinguisbed from corporate-wide marketing costs.

³³ See Joint Cost Order, 2 FCC Red 1298, at para. 152.

³⁴ See 47 C.F.R. § 64.901(b). Although joint marketing costs are residual costs, the <u>Joint Cost Order</u> mandates marketing cost allocation per application of the marketing allocator discussed in the previous section B of this Order.

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and nonregulated activities.³⁵/The auditors, however, discovered that certain costs retained by SBC were not reflected in the computation of the general allocator. Specifically, the auditors found that SBC did not include <u>*retained expenses</u> (i.e., certain expenses not passed on to affiliates, but retained on the books of SBC) in the base used for calculating its general allocator. The auditors calculate that if the general allocator had been computed properly, SWBT's share of costs allocated through the general allocator would drop from almost 70 per cent to about 43 per cent for 1992 alone.³⁶

19. SWBT counters that its computation of the general allocator properly excluded expenses retained by SBC and that the auditors are incorrect in treating such expenses as "directly assigned to [SBC] stockholders."³⁷ According to SWBT, "stockholders are not billed for expenses, they are paid dividends."³⁸ SWBT argues that it would be illogical to include retained expenses in the general allocator computation. First, expenses excluded for one purpose (retention) are included for another (allocation). Second, costs that are not assigned or attributed to subsidiaries are used to determine how costs should be allocated to these subsidiaries. Finally, this can produce "absurd" results such as allocating 43 per cent of SBC's general expenses and generally allocated costs to SWBT which represents 75 per cent of SBC's investment.³⁹ SWBT also notes that if the auditors' interpretation of the general allocator is correct, that would "likely force SBC to reevaluate its conservative retention policy," and directly assign more costs to subsidiaries like SWBT.⁴⁰

20. The auditors have correctly described how the general allocator should be computed. Further, we agree that the expenses retained by SBC should be included in that calculation. Section 64.901(b)(3)(iii) clearly provides that the general allocator must be computed by using "... the ratio of <u>all</u> expenses directly assigned or attributed to regulated and nonregulated activities.^{#41} The rules do not provide special treatment for expenses that are retained by an affiliate that happens, as a result of SBC's corporate organization, to be the parent of a telephone company subsidiary (SWBT). Stated another way, the general allocator devised in the <u>Joint Cost</u> proceeding was designed to specify how carriers would allocate residual costs, other than residual marketing expenses, between regulated and nonregulated activities. This same approach was adopted by the Commission to handle the

- ³⁶ Audit Report, at D-21, D-22.
- ³⁷ Id., at D-22. SWBT Analysis, at E-10.
- 38 Id.
- ³⁹ Id., # E-10, E-11.
- 40 Id., at E-11.

41 47 C.F.R. § 64.901(b)(3)(iii) (emphasis added).

³⁵ 47 C.F.R. § 64.901(b)(3)(iii).

costing of services provided by affiliates to other affiliates.⁴² For our purposes here, SBC is an affiliate like SWBT and the other affiliates, and certain costs that it has, in effect, assigned to itself as retained expenses must be included in the calculation of the general allocator.⁴³ SWBT's size within the corporation is less relevant in this context than the fact, pointed out by the auditors, that SWBT is direct-charged only 38% of total costs direct-charged to the operating subsidiaries.⁴⁴ As to the prospect that SBC might, as a result of our finding, reevaluate its cost retention policy, it can of course do so, subject to regulatory teview of the lawfulness of any resultant cost allocations and their impact on telephone ratepayers.

21. We therefore order SWBT to show cause why certain expenses retained by SBC as retained expenses should not be included in the computation of the general allocator used to allocate residual costs to SWBT and SWBT affiliates pursuant to section 64.901(b)(3)(iii).

IV. Issues Involving SWBT and AMI

22. The audit of AMI activities sought to determine whether AMI properly charged for services provided to SWBT and whether SWBT properly recorded those charges. AMI is a subsidiary of SBC which provides various services to SWBT and other affiliates, including employee home relocation services, commercial real estate brokerage services, design and architectural services, and office leasing services. With the exception of home relocation services, SBC also provides all these activities to third parties. AMI also has an ownership interest in Majestic Associates which, <u>inter alia</u>, owns and operates the Hotel Majestic in St. Louis, Missouri. The audit issues that concern us here derive from the charging of reserved hotel accomodations at the Hotel Majestic to SWBT.

A. Reserved Rooms at the Hotel Majestic

23. Majestic Associates owns the Hotel Majestic, a 96-room hotel located near SWBT headquarters in St. Louis, Missouri. Pursuant to a contract entered into by SBC with Majestic Associates, a reserved block of rooms at the hotel (40 for four days per week, 42 weeks per year, and another 10 for 365 days per year) is made available to guests of SWBT

44 Audit Team Reply to SWBT Analysis, at F-9.

⁴² See 47 C.F.R. § 32.27(d).

⁴³ The <u>loint Cost Order</u> specifically adopted a general allocator "based on total company expense," eliminating assets as a factor. <u>Joint Cost Order</u>, 2 FCC Red 1298, at paras. 156-159. If SWBT thinks that the real problem connected with its use of the general allocator is that SBC's corporate organization and operations present unique issues not addressed in our <u>Joint Cost</u> or <u>Affiliate Transactions</u> proceedings and, consequently, our rules, SWBT should file a rulemaking petition or otherwise seek appropriate remedy.

and other affiliates. The contract rate of \$80 per room per day is paid whether the rooms are occupied or not. While the contract states that SBC shall pay the charges for unoccupied rooms, the auditors found that the hotel instead bills SWBT the contract rate. SWBT records the contract charges in Account 6720, General and Administrative Expense, and a portion of them in its regulated expenses. If a guest employed by any affiliate other than SWBT occupies the room, the hotel charges a weekday rate of \$65 and a weekend rate of \$49 to the guest's company (e.g., SBC). The difference between these rates and the \$80 contract rate was, until recently, paid by SWBT.⁴⁵

24. The auditors concluded that, while a portion of the \$80 daily contract charge for unoccupied rooms could be properly allocated to SWBT, the fact that SWBT affiliates also could use these rooms means that those affiliates should also be allocated a portion of the contract charge. The hotel could furnish no invoices or other information identifying when rooms were occupied by SWBT employees or by employees of the affiliates, and the auditors therefore could not readily determine the portion allocable to SWBT. The auditors also found that, since a substantial third party market exists for room rentals, and since the hotel's regular weekend room rate was \$49 per day, the \$80 per day contract rate could not be fully allocable to SWBT under the affiliate transactions rules which only allow the prevailing company price in such cases.⁴⁶

25. SWBT counters that it is the true beneficiary of contract because the hotel is located near SWBT headquarters and the rooms are frequently occupied by SWBT guests. SWBT concludes, therefore, that the contract charges should be allocated to SWBT. SWBT rejects the auditors' finding about application of a \$49 per day weekend market rate because this \$49 rate is not standard, and that actual weekend rates vary based on the hotel's anticipated occupancy rate. As a result, SWBT contends, a market price cannot be calculated and the fully distributed cost-based contract rate is authorized under our rules. SWBT says that hotel invoices are not required because, as noted in its CAM, all hotel room charges are based on (and have been established to be below) fully distributed costs, while other charges such as food and beverage are charged at prevailing price.⁴⁷

26. Since SBC effectively reserves more than 50 per cent of the Hotel Majestic's capacity for 42 weeks each year, it appears that a market rate cannot be used as the allocation benchmark. The relevant market consists of blocs of rooms reserved for corporate use and there simply is not enough capacity at the hotel for additional bloc reservations of

⁴⁵ Audit Report, at D-29, D-30. SWBT says this practice has been discontinued. SWBT Analysis, at E-13.

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47 SWBT Analysis, at E-12, E-13, and E-14.

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⁴⁶ 47 C.F.R. § 32.27(d). The auditors determined that the weekday market rate was \$135 per day, and so concluded that the rules did not prohibit allocating the lower \$80 per day contract rate for the weekday set-asides. Audit Report, at D-30.

the order of magnitude provided to SWBT. However, this fact is not dispositive as to whether or not a market rate can be developed. Such a determination could only be made if it were shown that capacity was not available at other local hotels to support similar contracts. We order SWBT to show cause that a market rate cannot be developed.

27. We also order SWBT to show cause why it should not discontinue the practice of paying room rate differentials if this practice has not, in fact, already been discontinued. Moreover, the fact that SWBT affiliates uniformly paid the \$49 weekend rate seems to undercut SWBT's assertions that such a rate does not reflect true costs for service. This, in turn, raises doubts as to whether the \$80 reservation rate is appropriately based on fully distributed costs.⁴⁴ Accordingly, we also order SWBT to explain in detail the development of the \$80 contract rate and how it reflects our fully distributed costing requirements.

28. Finally, we find SWBT has not established that all of the costs of reserved, unoccupied rooms should be allocated to SWBT. Other affiliates also can use these rooms and are encouraged to do so. SWBT has not shown why other affiliates should not be allocated some of the contract-established costs. Apparently, it will be difficult to establish SWBT's relative use of the hotel given the hotel's invoice procedures, but this difficulty cannot be used to avoid an equitable allocation of cost. Accordingly, we order SWBT to show cause what its lawful allocation of the contract costs should be.

V. Conclusion and Ordering Clauses

29. For the reasons set forth in this Order to Show Cause, we find that the federal state joint audit of SWBT has uncovered accounting practices by SWBT and its affiliates, associated with their allocation of costs and recorded charges and revenues for affiliate transactions, that are apparently inconsistent with Commission rules.

30. Accordingly, IT IS ORDERED, pursuant to Sections 4(i), 4(j), 215, 217-219, and 220 of the Communications Act of 1934, as amended, 47 U.S.C. §§154(i), 154(j), 215, 217-19, and 220, and Sections 1.80, 1.701, 32.12, 32.27, and 64.901 of the Commission's rules, 47 C.F.R. §§ 1.80, 1.701, 32.12, 32.27, and 64.901, that Southwestern Bell Telephone Company SHALL SHOW CAUSE within sixty (60) days of the release date of this Order to Show Cause why the Commission should not conclude that those SWBT and affiliate accounting and cost allocation practices, identified in paragraphs 12, 17, 21, 26, 27 and 28 of this Order, violate Commission rules so that the Commission should take appropriate enforcement action, including but not limited to, issuing Notices of Apparent Liability for Forfeiture and ordering SWBT to improve its internal accounting and cost allocation practices so as to bring those practices into compliance with Commission rules

⁴⁸ Additionally, it would seem that what a botel charges for its rooms on any given night would be, in part, affected by anticipated occupany rates. The risk of low occupancy rates is considerably mitigated where, as here, a large percentage of total occupany is guaranteed.



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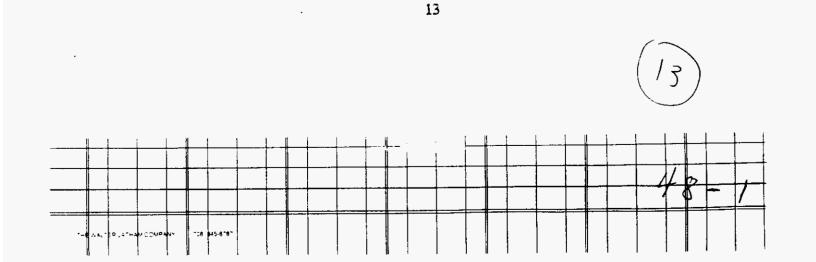
31. IT IS FURTHER ORDERED that the Secretary shall send by certified mail a copy of this Order to Show Cause to Southwestern Bell Telephone Company at One Bell Center, St. Louis, Missouri, 63101.

FCC

FEDERAL COMMUNICATIONS COMMISSION

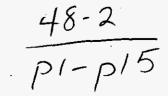
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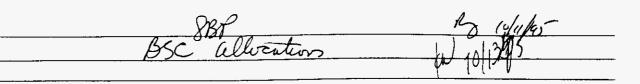
William F. Caton Acting Secretary



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FPSC Staff Audit 1994 Surveillance Report Item No. 65 (Supplemental) September 6, 1995 Page 1 of 1

REQUEST (1): Please explain why there are different prorates from BST HQ for the month of January 1994 and the rest of the year.

RESPONSE (1): [Provided 9/20/95]

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REQUEST (2): Please explain how you calculated the BST general allocator provided in answer to request 63 (formula and numbers).

RESPONSE (2): [Provided 9/20/95]

REQUEST (3): See attached questions re: FCC Order 95-31 about the general allocator at BSC. REQUEST (3): FCC Order no. 95-31 re SWBT (attached), orders..."SWBT to show cause why certain expenses retained by SBC as retained expenses should not be included in the computation of the general allocator used to allocate residual costs to SWBT and SWBT affiliates pursuant to Section 64.901(b)(3)(iii)."

(a): What was the result of this show cause? Did BSC calculate the general allocator as prescribed by the FCC in order no. 95-31 for SBT in 1994. If not, why not? If not, please recalculate using the prescribed formula from the FCC in 95-31. Also, show formula and amounts in the methodology used by BSC in 1994. Show the differences.

(b): Also attached are workpapers obtained from C&L audit re BSC allocations. If BSC did not calculate the general allocator per FCC, show how the % on page 12 and 13 would be changed if the general allocator was calculated per the FCC.

PROPRIETARY

RESPONSE (3): Attached is the response furnished by BellSouth Corporation.

BellSouth Corporation Florida PSC Audit of 1994 Surveillance Report September 11, 1995 Item No. 65 Page 1 of 2 Í

REQUEST:

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FCC Order No. 95-31 re. SWBT (attached) orders"SWBT to show cause why certain expenses retained by SBC as retained expenses should not be included in the computation of the general allocator used to allocate residual costs to SWBT and SWBT affiliates pursuant to Section 64-901(b)(3)(iii)."

a. What was the result of this show cause?

Did BSC calculate the general allocator as prescribed by the FCC in Order No. 95-31 for SBT in 1994. If not, why not? If not, please recalculate using the prescribed formula from the FCC in 95-31. Also, show formula and amounts in the methodology used by BSC in 1994. Show the differences.

b. Also attached are workpapers obtained from C&L audit re. BSC allocations. If BSC did not calculate the general allocator per FCC, show how the % on Page 12 and 13 would be changed if the general allocator was calculated per the FCC.

RESPONSE:

BellSouth Corporation objects to the Florida Public Service Commission's request that BSC recalculate its general allocator to include retained expenses in order to comply with FCC Order No. 95-31 in the matter of Southwestern Bell Telephone Company (SWBT). The request is immaterial, irrelevant and beyond the scope of an audit of the 1994 Surveillance Report.

BSC's general allocator was calculated consistent with the existing FCC's Joint Cost Order and related rules-- section 64.901(b)(3)(iii) in allocating applicable costs to SBT in 1994. BSC's cost allocation process has been reviewed as part of the annual FCC's ARMIS Joint Cost Report 43-03 compliance audits. None of these audits has resulted in adverse findings or audit exceptions in this area.

FCC Order No. 95-31, Order to Show Cause, is neither final nor binding upon BSC. SWBT has complied with the Order by filing a response which is currently under review before the FCC. SWBT is the only party subject to the Order's authority. Furthermore, the Order is inapplicable in the immediate proceeding due to factual differences between the SWBT matter and the immediate audit.

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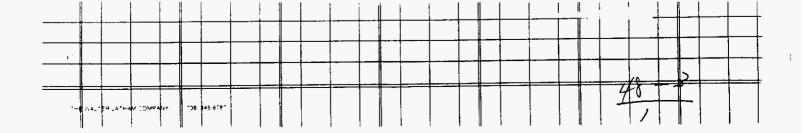
Since BSC's current method of calculating the general allocator is consistent with the existing FCC's affiliate transaction rules and FCC Order No. 95-31 is neither final nor binding upon BSC, it does not ordinarily perform the calculation prescribed within the terms of the abovereferenced Order. However, notwithstanding and subject to the foregoing objection, as a matter of comity and for purposes of the immediate proceeding only, BSC has re-calculated the general allocator to include retained expenses in this computation.

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In a representative month, this calculation would have resulted in a percentage change in BST's allocation factor of .41% (from 80.36% to 79.95%), a relatively insignificant change. According to BSC's re-calculation, the impact to Florida intrastate operations would have been a reduction of allocation of approximately \$34,000 for 1994. The information provided herein is the proprietary and confidential property of BellSouth Corporation. However, the nature of this information and this proceeding permits BSC to provide this data in hard copy.





COMPANY: SBT J TITLE: J PERIOD: 4 DATE: 5 AUDITOR: BELLCORE ADJ YEAR END 12/31/94 AUG 25, 1995 8KY 6 WP NO. 49

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- 7 REQUEST 49
- 9 1. CAM AUDIT 9 BINDER 7 - AFFIL

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9 BINDER 7 - AFFILIATED TRANSACTIONS 10 T

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QO Did BST book this adjustment? If not, why not? Q| If so, what is the amount for F1? F1 Intrastate? Provide documentation QQ for entry. How is this handled in the surveillance report?

23 ANSWER IS ON WP NO 49-1 + 49-2 A along with PSC auditor conclusion

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1/13/95 Belle / FPSC Staff Audit ✤ 1994 Surveillance Report 98C 3 Item No. 49 4 August 21, 1995 S Page 1 of 1 & REQUEST: Please answer the attached. RE: C&L audit workpapers. 7 REQUEST (1): CAM Audit Binder 7 - Affiliated Transactions
 9 11 12 13 14 . 15 רו Did BST book this adjustment? If not, why not? R Is so, what is the amount for FL? FL intrastate? Provide documentation for entry. How is this handled in 19 20 the surveillance report? RESPONSE (1): The C&L adjustment referenced was recorded on C&Ls summary of unadjusted 32 differences for ARMIS report purposes. Since the aggregate total of the entries on the summary of 23 unadjusted differences did not fall within the dollar limit requiring an adjustment, this entry was not A made. In addition, this entry was not brought to the Company's attention for consideration. 25 If made, this adjustment would have minimal impact on the surveillance report. BST records BellCore 2(e dividends as a credit to income account 7360.3000, and makes an intrastate revenue adjustment on the Supreillance report. Florida 1994 BellCore dividends were \$888,110 and intrastate BellCore dividends 1-8 28 were \$671,524 An adjustment for these dividends is made on page 2A; 1 of 3; line 21 of the December 29 1994 surveillance report. 29 1994 surveillance report.

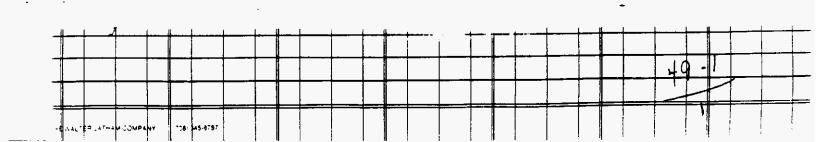
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30 For impact of the any 31 See 49-2

91345 Belline &

THIS PAGE WAS A COPY OF EXTERNAL AUDITORS' WORKPAPERS

REMOVED AS PROPRIETARY AND CONFIDENTIAL DATA



- FPSC Staff Audit
- 2 1994 Surveillance Report
- 3 Request No. 58 (Revised)
- 4 August 28, 1995
- S Page 1 of 2

© REQUEST: Further, to request 49, please provide the Florida amounts of the \$3,036,612 and the

7 Florida intrastate amounts. Show how it would impact page 2A; 1 of 3; line 21 of December, $\frac{9}{1994}$ Surveillance Report.

RESPONSE: Assuming a Bellcore dividend of \$3,036,612, the Florida amount would be
\$732,431 (using the average net investment prorate factor of 24.12%) and the Florida intrastate
amount would be \$553,811 (intrastate average net investment factor of 75.6127%). However,
these total dividends differ from our Surveillance Report adjustment as follows:

	3 BST	Florida
14 Per General Ledger:	\$3,079,467.57	\$742,911.92
5 Transposition error	(9.00)	
10 Less January true-up of 3rd 11 quarter 1993 accrual		
18 (on 1993 Surv. Rept)	<u>19,483,86</u>	<u>4.741.55</u>
Amount per Response No. 52 20 Less True-up of Dec 1993	\$3,059,974.71	\$738,170.37
↓ accrual	23.370.86	<u>5.677.16</u>
22 Sub-Total	<u>\$3.036.603.85</u>	<u>\$732.493.21</u>
23 '	*******	******
Amount per Response No. 52	\$3,059,974.71	\$738,170.37 15-1
25 Plus Accrual for 4th Qtr 1994 26 (documentation attached)		149.940.00 P
27 Total for Proforma Adjustment		\$888,110.37
19 Intrastate (75.6127%)		\$671,524 40-1

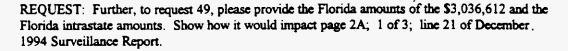
 \mathscr{P}_{1} Using the amounts per C&L, the credit to Account 6724 would by

This does not match the dividend reduction of \$553,411 because the Florida, regulated and intrastate percents are all different for the commendation of \$553,411 because the Florida, regulated and intrastate percents are all different for the commendation of \$553,411 because the Florida, regulated and intrastate percents are all different for the commendation of \$553,411 because the Florida, regulated and intrastate percents are all different for the commendation of \$553,411 because the Florida, regulated and intrastate percents are all different for the the sequence account versus the dividend account. Furthermore, the taxability of dividends is different than the taxability of the expenses. Only 30% of the dividend is taxable; whereas, 100% of the commendation would result in \$121,178 less net 3(a income (after tax) as illustrated below:

	Florida	Florida	Net Income	Reduced
	Dividends	Expenses	Impact	Sharing
3] Reduced Inc/Expense 40 Net of Tax	(\$553,411) (\$489,368)	(\$599,414) (\$368,190)	(\$121,178)	(\$72,707)

Pg 182

FPSC Staff Audit 1994 Surveillance Report Request No. 58 - (Revised) August 28, 1995 Page 1 of 2



RESPONSE: Assuming a Bellcore dividend of \$3,036,612, the Florida amount would be \$732,431 (using the average net investment prorate factor of 24.12%) and the Florida intrastate amount would be \$553,811 (intrastate average net investment factor of 75.6127%). However, these total dividends differ from our Surveillance Report adjustment as follows:

	BST	Florida
Per General Ledger:	\$3,079,467.57	\$7 42,911.92
Transposition error	(9.00)	
Less January true-up of 3rd		
quarter 1993 accrual		
(on 1993 Surv. Rept)	<u>19,483.86</u>	4.741.55
Amount per Response No. 52	\$3,059,974.71	\$738,170.37
Less True-up of Dec 1993		·
accrual	23,370.86	<u>5.677.16</u>
Sub-Total	<u>\$3.036.603.85</u>	<u>\$732,493,21</u>
Per C&L	3,036,612.00	
	******	*********
Amount per Response No. 52	\$3,059,974.71	\$738,170.37
Plus Accrual for 4th Qtr 1994		19 1-E
(documentation attached)	630.000.00	149,940.00
Total for Proforma Adjustment	\$3,689,974.71	\$888,110.37
Intrastate (75.6127%)		\$671,524 (40-1)
, <i>,</i> ,		

Using the amounts per C&L, the credit to Account 6724 would be 26.45% Florida (\$803,184), 94.48% regulated (\$758,848) and 78.99% intrastate (\$599,414). This does not match the dividend reduction of \$553,411 because the Florida, regulated and autrastate percents are all different for the expense account versus the dividend account. Furthermore, the taxability of dividends is different than the taxability of the expenses. Only 30% of the dividend is taxable; whereas, 100% of the expense is deductible. Therefore, to net the income against the expense and then apply a statutory tax rate would not be appropriate. The C&L recommendation would result in \$121,178 less net income (after tax) as illustrated below:

	Florida	Florida	Net Income	Reduced
	Dividends	Expenses	Impact	Sharing
Reduced Inc/Expense Net of Tax	(\$553,411) (\$489,368)	(\$599,414) (\$368,190)	(\$121,178)	(\$ 72,707)

Pg 11/2

5.

FPSC Staff Audit 1994 Surveillance Report Request No. 58 - (Revised) August 28, 1995 Page 1 of 2

6 212

The Company does not believe such a netting of dividends against expense is appropriate. We have contracted with Bellcore to perform certain services for us, an activity which is independent of our minority stock ownership. Even if the stock were sold and we no longer received dividend income, we could still contract with Bellcore to perform services for us. Furthermore, dividends are paid based on our percent of ownership, not our percent of services purchased. The character of the income and the expense are not the same and, therefore, should remain separate.

Beller

In addition, we have consistently reported the Bellcore dividends as dividend income (not as credits to expense). To change this method of accounting on the Surveillance Report would violate the consistency provisions of the Stipulation and Agreement (copy provided in response to Audit Request No. 35).

also if dividend were netter agreed expense, the unestruct would still home to be an adj te Rate Base Theofore, the difference in methods I am't are impotend & pres

ORDER NO. PSC-94-0172-FOF-TL PAGE 3 OF 17 DOCKET NOS. 920260-TL, 910163-TL, 910727-TL, 900960-TL, 911034-TL PAGE 13

and revenue requirements, including but not limited to accounting adjustments and affiliated transactions. To the extent that the FPSC shall, during the term of this STIPULATION AND AGREEMENT, change any accounting rules, practices, interpretations or procedures that could have been considered by the FPSC as a result of its having been part of an issue in the Rate Case, any such change shall have no effect on the calculation of SOUTHERN BELL's earnings nor for any other purpose including, but not limited to, the sharing and after-sharing cap points as described in Paragraph 15 below.

3. The PARTIES agree that, unless otherwise set forth in this STHPULATION AND AGREEMENT, SOUTHERN BELL shall continue to account for its financial results as ordered by the FPSC under the terms and conditions set forth and adopted by the FPSC in Order No. 20162, issued October 13, 1988, in FPSC Docket No. 830069-TL, as modified by subsequent orders issued in that same docket or in Docket No. 920260-TL, the successor docket to Docket No. 880069-TL (hereinafter collectively referred to as the "Order"). Accordingly, unless otherwise modified herein, it is the OPC's and SOUTHERN BELL's intent that SOUTHERN BELL shall continue to record its operations for regulatory purposes and to make the reports required of it by the FPSC using the same format, standards and guidelines adopted by the FPSC in the Order and subsequently used by SOUTHERN BELL in filing its surveillance reports since October of 1988.

4. The PARTIES agree that for Calendar Year 1993, SOUTHERN

line Southern Bell Abandoned Projects THE 12/31/94

FPSC Staff Audit 1994 Surveillance Report Item No. 35 July 20, 1995 Page 1 of 1

REQUEST: QUESTIONS REGARDING THE ABANDONED PROJECTS ADJUSTMENT TO NET OPERATING INCOME:

1. Please provide a copy of the FPSC Order whereby the Commission approves this adjustment.

RESPONSE: The Commission has not specifically approved or disapproved this adjustment. Whereas other items booked below-the-line to Account 7370 per Part 32 accounting are specifically disallowed (social and service memberships, contributions, lobbying, etc), abandoned projects have not been disallowed by the FPSC. Therefore, since 1988, we have made an adjustment to include this expense in regulated operations on the Surveillance Report.

> Enclosed is a copy of FPSC Order No. PSC-94-0172-FOF-TL, dated February 11, 1994, approving the Stipulation and Implementation Agreement in Docket 920260-TL. The Stipulation and Agreement, page 3, paragraph 3, provides that "Southern Bell shall continue to record its operations for regulatory purposes and to make the reports required of it by the FPSC using the same format, standards and guidelines adopted by the FPSC in the Order [No. 20162, 10/13/88] and subsequently used by Southern Bell in filing its surveillance reports since October of 1988." Therefore, since our 1994 treatment of Abandoned Projects is consistent with that applied in previous years, we are following the terms of the Stipulation and Agreement.

Belle

Daniel Retter /AL, BRHM06 9/1/95 12:39 MESSAGE Subject: BellCore Dividend Creator: Daniel E. Retter / AL, BRHM06 PHONE-1=404 529-6263;

Part 1

TO: YVETTE DAVIE / BRIDGE (TKNDJNJ@UOS1) PHONE-1=(404) 529-6265; Amos Mitchim / AL, BRHM07 JOHN YELVINGTON / BRIDGE (BYPWPQQ@UOS1) PHONE-1=(404) 529-6786;

Part 2

As information, I have recently inquired of the status of BellCore Dividends for 1995. As you may recall, during 1994 and preceeding years, BST had been recognizing an estimated BellCore dividned receivable (and income) at the end of each quarter and performing a true-up of the related income at the time the dividend was actually paid to us. However, BellCore did not declare an estimated dividend at the end of 1994, and Dell Coleman in Accounting Policy and Compliance indicated to me that we should be recognizing the Bellcore Dividend when received by BST rather than when declared by BellCore.

According to Sandy Rhodes in Regualtory and External Affairs, Bellcore has paid the following dividends to BST in 1995

April 12, 1995 \$629,412.43 Related to 4th quarter 1994 May 10, 1995 \$900,204.00 Related to 1st quarter 1995

Both of these amounts were recognized in Account 7360.3000 - BellCore Income in May 1995 business.

Sandy Rhodes also imformed me that we should expect to recieve a dividend paymet from Bellcore of \$1,021,228.72 on August 9, 1995.

Yvette, please ensure that this amount is credited to Account 7360.3000 in August business. In the past, we had instructed Treasury to credit Account 1210.2100 - BellCore Dividends receivable on the cash book since we had been accruing the dividend at the end of the quarter. Please be sure that Treaury knows that account 7360.3000 should be credited, or that Celeste Cooper changes the account before the cash book is input to

the Financial Processor.

Thanks.



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- Iten B Page 1

Dated: 07/25/95 at 11:26 Contents: 2

10/10/10/15 10/18/95

AUDIT EXCEPTION NO.

SUBJECT: OUT OF PERIOD EXPENSES

STATEMENT OF FACT: The company adjusted the Surveillance Report for out of period revenues and expenses. They increased revenues by \$5,438,428.62 and increased expenses by \$19,409,973. This had the net effect on net operating income of a decrease of \$13,971,545. \$1,724,401.14 of the revenue adjustment and \$11,973,357 of the expense adjustment relates to 1993. \$(29,903) of the expense adjustment relates to 1995. \mathcal{E}_{f} 3,174,390 -

The remaining out of period revenues of \$3.714,027 and expenses of \$4,292,129 are for periods prior to 1993 for which the surveillance reports have already been closed. The net decrease to 1994 net operating income for these periods is \$578,102.

Through the audit of the sample, staff noted the following expenses which were out of period in 1994 but not included in the company's adjustment of out of period.

1. A journal entry debiting Account 6121 in the amount of \$241,414.80. This amount was a direct state journal entry. The Company explained that this was to correct a 1990 entry that was in error.

2. A journal entry debiting Account 6121 in the amount of \$175,700.00. This amount was a direct state journal entry. The Company explained that this is a correction for a 1991 item.

3. Included in Account 6712, Planning, is an invoice from Comshare, Inc. in the amount of \$97,610 for Consultant fees for the month of October, 1993. The amount allocated to Florida is .6724, or \$26,100.94.

The company has provided a Tevised 1993 summary of the Surveillance report adjusting for the 1993 adjustments booked in 1994. This schedule shows a return on equity of 10.36 which is under the sharing range. The company schedule follows.

OPINION: In preparing a rate case it is necessary to remove out of period items to establish a test year that is representative of future periods. In preparing a surveillance report, the company is reporting on actual earnings for a period. Generally accepted accounting principles requires recording at the time the revenue, expense, or liability becomes known. If it is for future periods it will go to a prepaid or a deferred account. If it is for past periods net operating income which are closed it is to be recorded in the year it becomes known.

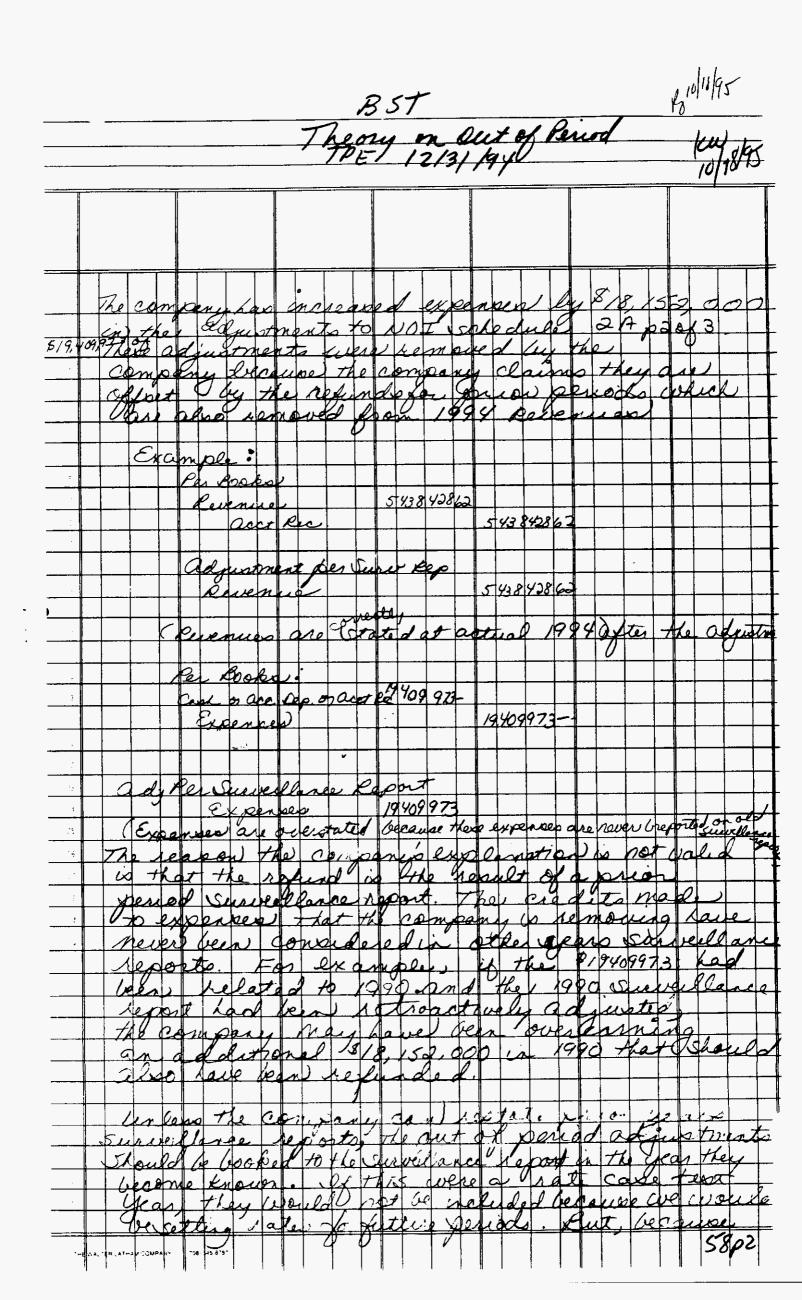
The company has already closed the surveillance reports for years prior to 1993 and therefore cannot go back and adjust them for increases to net operating income for those years. The increase may have put the company in an overearnings situation for those years. Since the effect of the adjustments is not taken into consideration in prior years, they should be recorded in the year they were discovered, 1994.

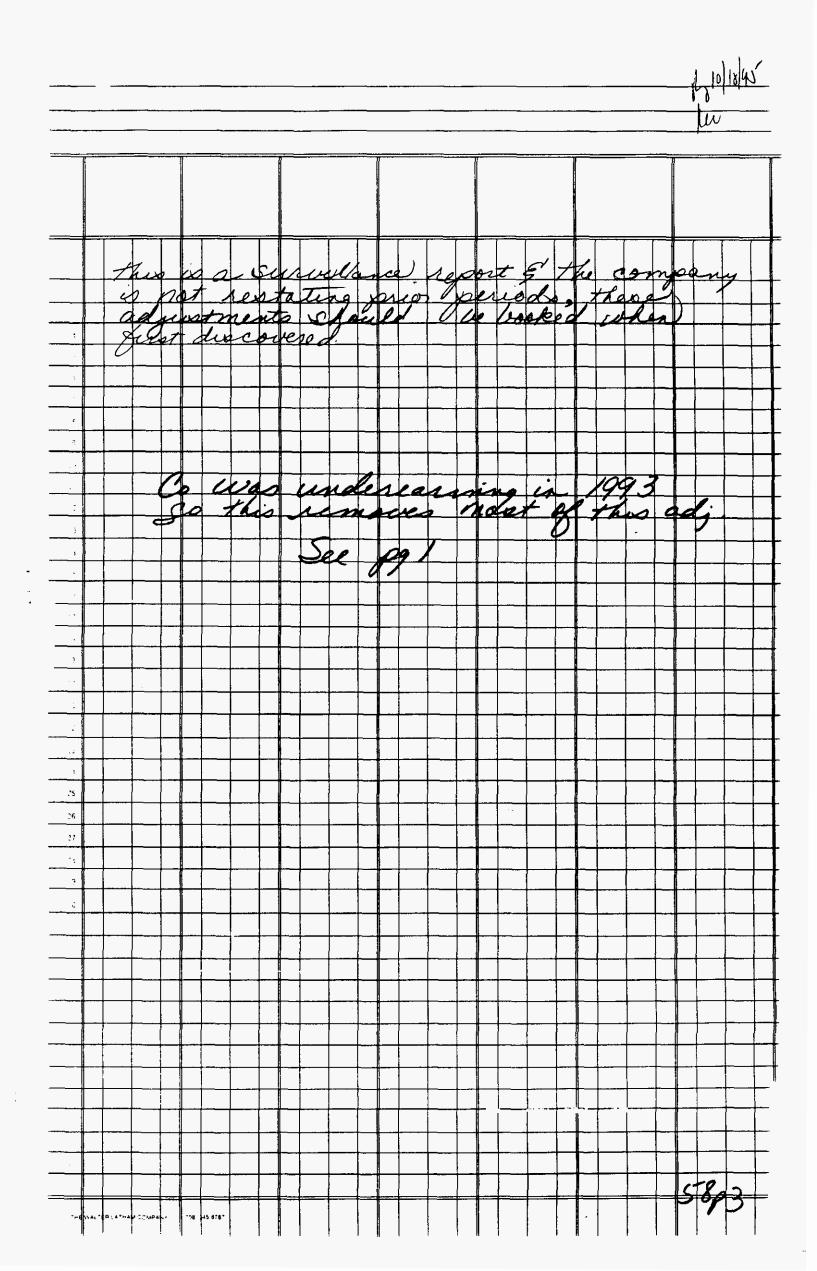
RECOMMENDATION: Increase net operating income in 1994 by \$578,102 to remove out of period adjustments or increase net operating income in 1994 by \$443,215.74 for additional out of period items not recorded in Surveillance report.

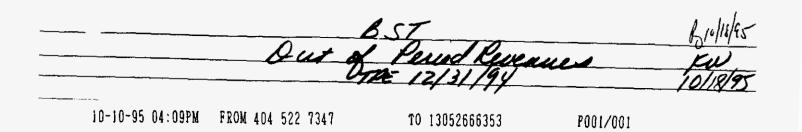
Discovered an additional out of period revenue adjustment of \$ 5740,000 \$1,746,000 related to 1993. This incluse decreases

A94 N.OI. Not used - Use only (A) above

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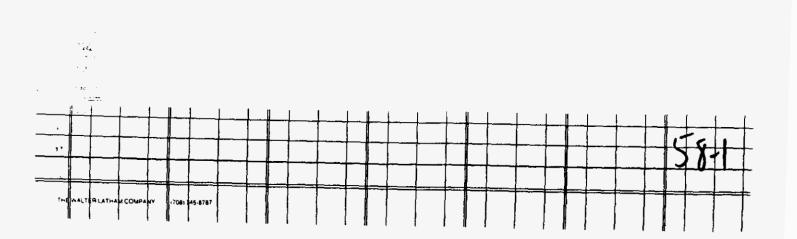
REFUNDS BOOKED IN 1994

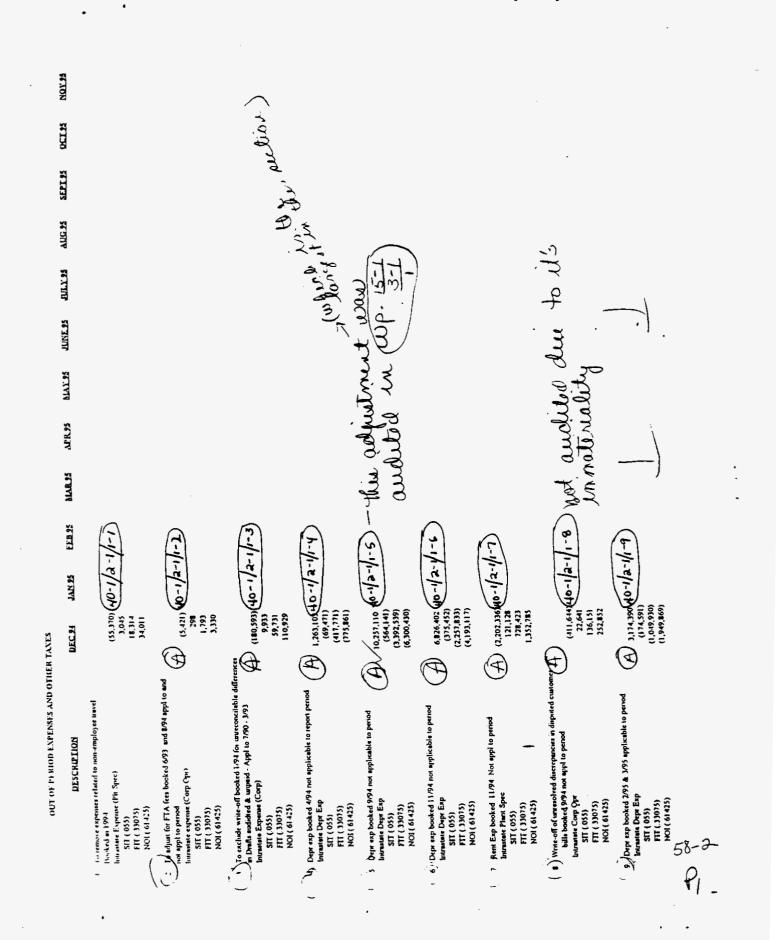
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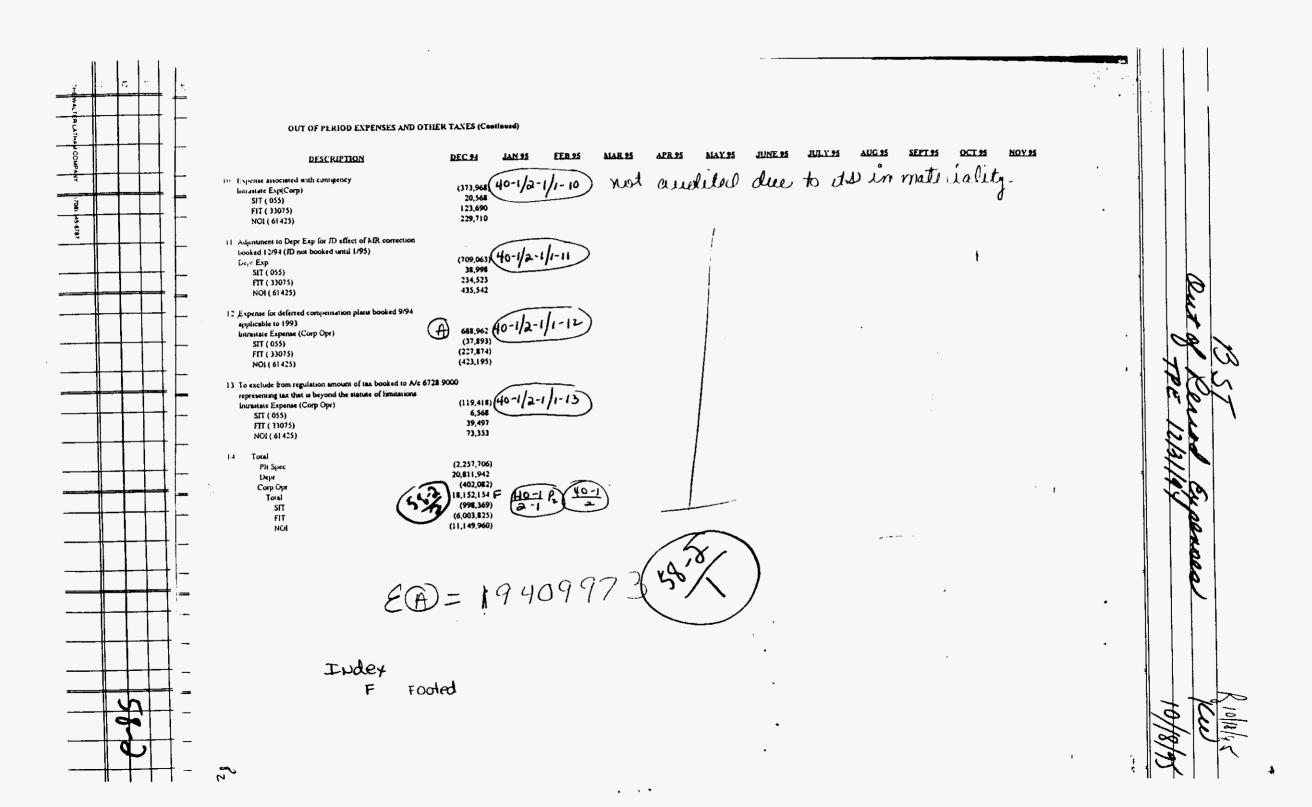
APPL TO:	93 & Prior	1993	1992	1991	1990	Prior to 1990
Booked 1/94	(259,812.69)	(70,873.01)	(50,434.00)	(33,076.94)	(27,823.52)	(77,605.22)
Booked 2/94	v(231,052.35)	(72,134.78)	(43.917.61)	(31,913.92)	(24,702.01)	(58,384.03)
Booked 3/94	(366,132.20)	(134,994.36)	(82,862.91)	(40,502.78)	(30,822.20)	(96,949.95)
Booked 4/94	(317,437.56)	(111,595.33)	(71,384.00)	(43,804.95)	(25,839.10)	(64,814.18)
Bocked 5/94	(359,067.97)	(146,362.46)	(76,623.21)	(44,838.52)	(25,789.56)	(65,454.22)
Booked 6/94	√(466,367.37)	(149,956.30)	(117,662.93)	(61,299.60)	(42,475.09)	(94,973.45)
Booked 7/94	J(422,602.52)	(109,721.38)	(89,764.84)	(62,670.35)	· (42,001.96)	(118,443.99)
Booked 8/94	(619,179.27)	(181,270.67)	(126,994.15)	(74,285.25)	(51,992.27)	(184,636.93)
Booked 9/94	(859,125.21)	(219,664.74)	(173,589.98)	(139,351.60)	(108,478.65)	(218,040.24)
Booked 10/94	(866,563.30)	(296,793.90)	(194,244.96)	(127,575.92)	(63,191.40)	(184,757.12)
Booked 11/94	(378,710.97)	(133,874.09)	(101,440.67)	(49,943.48)	(30,969.32)	(62,483.41)
Booked 12/94	(292,377.21)	(97,160.12)	(61,882.57)	(38,449.45)	(27,098.84)	(87,786.23)
TOTAL	(5,438,428.62)(1,724,401.14)(1,170,801.83)	(747,712.76)	(501,183.92)((1,294,328.97)

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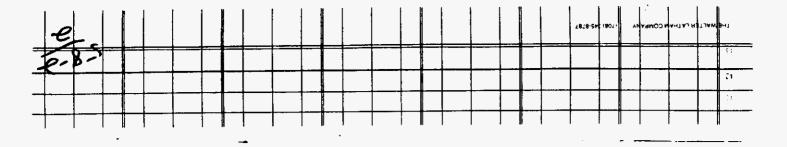






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Attachated 1	2	(12*5)	(857381)	1,261,105	10,257,110	6,836,402	(955-2007.2)	(+++)	3174300	55C H19	14,409,973
And	1947						(527'621)				(saren)
						OCT SMC	(902)(308)				(945 6611)
	8			(252615)		696'50*	(172,981)				(21(723)
E74,00	0661		(568,02)	(2187952)		504,116	(900'089)				(D-5'57#)
LUDED IN \$19,4	1661		(85,678)	(12,42)		10° 10	(51 5'601)				(136'999)
RTRASTATE EXPENSE ITEMS INCLUDED IN \$19,409,973	2661		(013,23)	(602742)	2368,040	2104012	1,461,623				
RASTATE EXPE	5661	239 YK	(16,418)	2,306,617	050,998,7	2,732,106	(001'662'1)	(117 1)		206789	5 - 2 - 2 - 2 - 2 - 2 - 2 - 2 - 2 - 2 -
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13			т F								1 12 - 12 - 25 (11:48 AM
THEWALTER LATHAA COMPANY	(708) 145-8787										



Note: The canualty expense proforms is no longer included due to the FPSC approval of a canualty reserve.

25. Total Achieved Intratate Expense	2117278	066 2025	2254122	212 1803	911'6925	(156715)	1.849.144
boveideA exercited	(25'50)	915	122'025	215	(\$60'1\$)	(///'is)	298'515
24. Total Accounting Adjustments.							
23. Other Regulatory Adjustments						(+292)	(5'9'7)
33'							
21. Belloore Dividends							0
20. Abandoned brojects						\$0L	\$04
19. Corporate Advertising Expense					(511)		(\$11)
18. Lobying Expense					(138)		(82)
17.							
16. Interest Imputation							0
noitailionoosy menanti . 51							0
i.4. Income Related to Temp Cash Inv							0
13. Gains on Sales of Property						Z#1	Z+1
12. Yellow Page Profile						-	0
11. Other Reg/Nonseg Adjustments	55	97	69	21	(051)	0	00
10. Bond Refinancing		-				-	0
9. Net Sharing Adjustment						-	0
.8							
·L							•
.9							
5. Other Out of Failed Revenue							0
4. MR & FR Taxes							0
3. Expenses	(852"2)		218'02		(*05)		251'81
2. Rev & Sett (Ind Co)							05
OUT OF PERIOD ADJUSTMENTS:							-

INTRASTATE ACHIEVED ADRUSTMENTS

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ω	(9)	(3)	(+)	(c)	(2)	(1)	
							12 Months Endso : Docember 31, 1994
2 of Page 2.						Tel. Co.	Company : Southern Bell Tel. &
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FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REQUEST NO 94

REQUEST: Question 1

Provide the \$19,409,973 of out of period expense items by year they relate to.

RESPONSE: Question 1

See Attachment 1 for the breakdown of the \$19,409,973 by year.

REQUEST: Question 2

Provide proof that the \$1,724,401.14 of revenue adj & the 1993 adj to expense in 1 above has been recorded in an adjusted 1993 Surveillance Report.

RESPONSE: Question 2

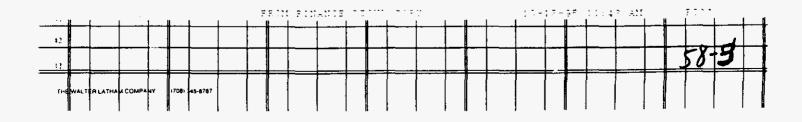
At this time an adjusted 1993 Surveillance Report has not been filed. \$70,893 of the \$1,724,401 was used on the December 31, 1993 Surveillance Report as filed on March 15, 1994. This \$70,893 was used as a decrease to 1993 revenues for refunds booked in 1/94 applicable to 1993. See Attachment 2, Pages 1 through 3 for proof of the 1/94 portion of refunds included in the 1993 Surveillance Report. Using the difference between these two amounts and (\$12,927,108) of depreciation expense booked in 1994 applicable to 1993, adjusted achieved ROE would be 10.69%. However, Attachment 3 is a summary of all known changes to 1993 as of 2/95. Due to the insignificant change of 3 basis points in ROE, this report was not filed but a copy was provided to the FPSC staff.

REQUEST: Question 3

Provide proof that the \$5,438,428 of revenue refunds booked did not relate to an ordered refund.

RESPONSE: Question 3

The \$5,438,428.62 for refunds booked in 1994, that were applicable to 1993 and prior, were for overbilling, BRU, ESSX BRU, services removed, vertical services, etc. These refunds were made for billing errors determined by the Company from analysis of records and for items that customers stated they did not request. Backup for these refunds was provided in reponse to Audit Request No. 7, Part 2.





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Attachment 2 Page 3

REFUNDS BOOKED – FLORIDA

Booked Jan 94 - OVERBILLING

STATE TOTAL	Appl to 1993
5001 - 5069	(36.175.59)
5100 - 5169	(796.05)
5230 - 5270	(1.937.36)
TOTAL	(38,909.00)

Booked Jan 94 - BRU REFUNDS

STATE TOTAL	
5001 - 5069	(1,143.90)
5230 - 5270	0.00
TOTAL	(1,143.90)

Booked Jan 94 - SERVICES REMOVED

STATE TOTAL	
5001 - 5069	
5230 - 5270	
TOTAL	

Booked Jan 94 - VERTICAL SERVICES

(23,928.02) (14.40) (23,942.42)

STATE TOTAL	
5001 - 5069	(6,897.79)
5230 - 5270	0.00
TOTAL	(6,897.79)

Total Refunds Booked 1/94 Appl to 1993

STATE TOTAL	
5001 - 5069	(68,145.30)
5100 - 5169	(796.05)
5230 - 5270	(1,951.76)
TOTAL	(70,893.11)
	58-3

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B10/1495 ady to NOT-Levenue **7**77 773 attachment 2 -----Page 2 5, Oversilling (end. BRU Refundo) Broked 4/93 appl to 924Prise - Socal (1,296.36)(124,377,42) Booked 5/93-8/93 appl to 92+ Prim - Secal (4,070.66)-seu (5,087,59) - muc. (76,538.43) Booked 9/93 - 12/93 appl. to 12+ Prior - Socal (6,386.49)-Sall (3,082,98) -mice, 6. COCOTS Booked 3/93 Appl to 1992+Prine - Socal (124,260.00) 11 8/93 11 11 - Socal (213,636.00) 7. Summary of Revenues Refunded in 1993 Appl. to Prior year 50 Enclude : 5,077,369.34 Increase Sacal 12,234,49 " Jal ____223,192.79 mise 5,312,796.62 Jotal -> 8. Refundo Backed 1/14 appl. to 1993 (68,145.30) Oureane Social 11 Jell (796.05)-----(1,951.76)£1 mise (10,893,11) (See Attachment 2 193) " Jotal 58-4 والمحاد المراجعة والمراجع ومراجع فراجو فالمراجع المراجع والمراجع والمراجع والمراجع والمراجع والمراجع TTR-CCS 9. Net amount of Refunded 5,009,223,94+313,514,18 = 5,302,738.12 Oncrease Secol " Jell " Mise 221,241.03 5,241,913,51+313,514.18=5555,417.69 Jotal and the second -pz ------. FROM FINANCE RETTO DIST 10-12-25 11:4° AM PCCE

7 99.2 2 Meth 12/3/ SECCEPTIALE REGILATER 2002/002 :_;7 13052034603 • attachment 3 REVISED DECEMBER 31, 1993 SURVEILLANCE REPORT CHANGES FROM PREVIOUSLY FILED REPORT \$4.114.256 1. Per Books Intrastate Rate Base (Original Report) (6,456) a) Adjustment to Intrastate Cash Working Capital 4 107 800 b) Revised Per Books Intrastate Rate Base 3,184 2. Adjustments to Intrastate Rate Base (Original Report) (160) a) Change in WECO for Actual 1993 Data b) Change in Other Rate Base Adjustment for Additional Depreciation Booked in 1994 Applicable to 1993 10,432 13,456 13.456 c) Revised Adjustments to Intrastate Rate Base \$4.121.256 3. Revised Adjusted Achieved Intrastate Rate Base \$327,879 4. Per Books Intrastate Net Operating Income (Original Report) (13,499) 5. Adjustments to Intrastate Net Operating Income (Original Report) a) Change in Out of Period Rev & Sett (Ind Co) for Additional Amounts Booked in 1994 Applicable to 1993 (1,056) (1,746)b) Change in Out of Period Expenses: 1) Change in amount of expense to be removed for non 10 employee travel(Original amount was estimated) 1,220 2) Additional rent expense booked in 1994 applicable to 1993 3) Additional depreciation expense booked in 1994 applicable (12.927)to 1993(Booked 4/94, 9/94 & 11/94) Write-off of discrepancies in disputed customer bills 4) 403 booked 9/94 applicable to 1993(Corp Opr Exp) 5) Write-off of unreconcliable difference in drafts audited but 16 unpaid booked 1/94 applicable to 1993 58-2/11973) (11,278) 6.928 6) Total changes to out of period expenses c) Change in Out of Period Taxes: 410 1) Change in percents used in allocating taxes(FIT & SIT) io (1,306) 2) R & D Credit Booked 9/94 Applicable to 1993 (APPA) 3) Annual Tax true-ups booked 11/94 Applicable to 1993 3,744 (3) 4) Change in other taxes 5) Total Change in Taxes (2.845)2.845 d) Change in Other Out of Period Revenues: 1) Moved Centel adjustment to Out of Period Rev & Sett 825 2) To record revenues not billed to AT & T within prescribed 125 time limits booked 4/94 & 5/94 applicable to 1993 Is refunds booked in 1994 applicable to 1993 3) Va. 🖉 (1,363) a) Local b) Toll (194) (50) c) disc pen 58-1 (1724) (1,607) <u>1</u> 1 ve ene d) (otal Refunds (209) (525) <u>a</u>+ 4) Net o. adjustments to Uncoll booked 9/94 & 11/94 (866) 5) Total change in Revenues e) Change in Other Reg/Nonreg Adjustment: 1) Change in amount of C & L Audit Payments for CAM (103) 2) Change in separations of shift from non-reg to reg of (46) current taxes booked 3/93 3) Additional shift from non-reg to reg of current taxes (3, 162)3.271 booked 4/94 applicable to 1993 (26) 26 f) Change in Interest Reconciliation (1) g) Change in Interest Imputation (26)h) Change 1 Other Regulatory Adjustment i) Revised 1 Pustments to Net Operating Income (14, 172)313,707 6. Revised Adju and Achieved Intrastate Net Operating Income 2195 7.61% 7. Revised Arth Achieved Return on Rate Base 2115 10.36% d Achieved Return on Equity 2195 8. Revised /



10/23/95 Roll La С

COMPANY:	SBT
TITLE:	BST VISA CARD
PERIOD:	TYE 12/31/94
DATE:	OCTOBER 23, 1995
AUDITOR:	RKY
WP nO	59

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59-1

In the October 10 edition of the Miami Herald, there was an article stating that BellSouth will be offering a Visa card. The Company stated that this is in conjunction with Prudential Bank. SQ - 2

The article stated "In the age of competition, we're looking for better way to serve cusotmers" said Capton. (Canton is a SBT spokesman).

According to the information supplied by the Company BST is coordinating the BellSouth Visa/Calling card program.\ "The Ballsouth Visa/Callng card is not only a credit card, but a BellSouth calling card. The prupose of the card is to retain and increase regulated toll revenues. Based on this, the costs associated with the venture are being accounted for as part of regulated operations. Credit card revenues will be retianed by The Prudential Bank."

This statement appers to be a contradiction to the statement in the Miami Herald.

The Company says all the expenses are charged to BST regulated operations. S9-2. There were no expenses in 1994 and the expenses in 1995 are on 59-3/1.

When the surveillance report is audited for 1995, this issue should be addressed. 59-3

P.5/12 OCT 11 '95 07:45AM REGULATORY SERVICES

MIAMI HERALD

BellSouth offers calling card and credit card in one

By MINE WHITEFIELD Hersid Business Writer

BellSouth is going plastic.

The local phone company is sending out letters this month to several million out letters this month to several million of its highest volume customers, inviting them to try its new combination calling card and Visa credit card, "There's been a lot of demand for something like this," said Spero Canton, a BellSouth spokesman, "We've had

a beliabuth spokesman, we ve had very good success with our calling cards.
This takes it a step further:" BellSouth has joined forces with Prudential Bank to offer the Visa cards. The move comes as BellSouth pre-

pares for competition next year in the local calling market. "In the the age of competition, we're

looking for better ways to serve custom-ers," said Canton. "As time goes by, telecommunications companies will become one-stop shops, trying to provide as many services as possible to customers.



OCT 10 1995

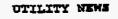
This fits in with that process."

Loss fits in with that process." Customers, who use the BellSouth Visa card for their calling-card calls will receive a 20 percent discount. If they transfer billing of their monthly phone bills to their BellSouth Visa accounts, they'll get an additional two percent of the total back.

Among the other inducements Bell-South is offering those who opt for the combo credit/calling card:

■ One percent cash back on pur-chases when the card is used as a credit card, and a one percent rebate on transferred balances.

II No annual fee and a special introductory credit card rate of 7.65 percent for the first six months.



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FPSC Staff Audit 1994 Surveillance Report Request No. 96 October 18, 1995 Page 1 of 1

REQUEST (1): What Company is handling the new Visa Credit Cards?

RESPONSE (1): BST is coordinating the BellSouth Visa/Calling card program. The BellSouth Visa/Calling card will be issued by The Frudential Bank.

REQUEST (2): Did the allocation of expenses from BSC take into account this new company or division?

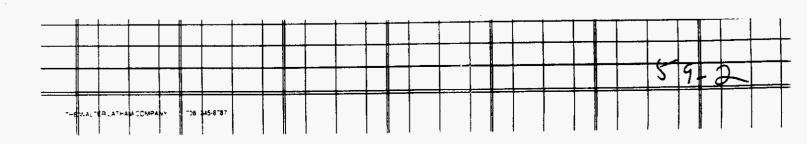
RESPONSE (2): This is not applicable since this is a BST venture.

REQUEST (3): Have the costs incurred (including salary) to develop this new line of business been segregated?

RESPONSE (3): The BellSouth Visa/Calling card is not only a credit card, but a BellSouth calling card. The purpose of the card is to retain and increase regulated toll revenues. Based on this, the costs associated with the venture are being accounted for as part of regulated operations. Credit card revenues will be retained by The Prudential Bank.

REQUEST (4): Are the costs charged to BSC accounts and allocated to BST?

RESPONSE (4): The costs associated with the BellSouth Visa/Calling card are charged as BST expense. They are not allocated by BSC. See response (3) above.



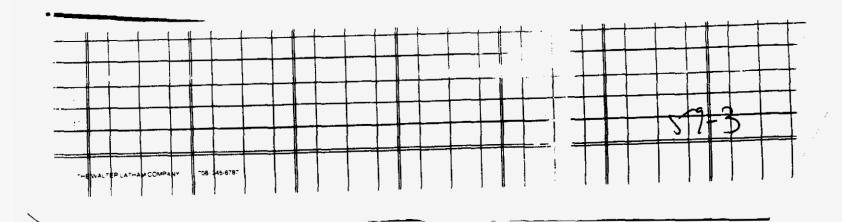
FPSC Staff Audit 1994 Surveillance Report Request No. 97 October 19, 1995 Page 1 of 1

REQUEST: Re: BellSouth Visa Card

Detail all expenses by account, by year incurred (including salary) for the BellSouth Visa Calling Card for 1994 & 1995 to date.

RESPONSE: Expenses associated with the BellSouth Visa/Calling Card were incurred during 1995. There were no expenses incurred during 1994. Year-to-date expenses, by account, are detailed on the attached worksheet.

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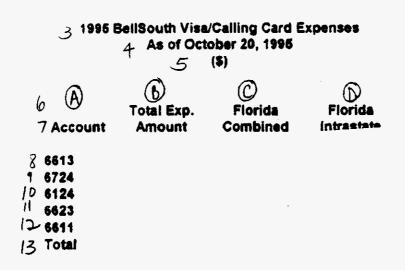
/ Request 97 → Attachment

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