

MEMORANDUM

November 30, 1989

TO: DIVISION OF RECORDS AND REPORTING
FROM: DIVISION OF AUDIT AND FINANCE (DOUD) *J*
RE: DOCKET NO. 891008-TL -- GTE OF FLORIDA
REVIEW OF COST BENEFITS AND AUDIT PROCEDURES
EXPECTED FROM GTE RECORD RELOCATION

Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit findings disclose information that may influence the decision process.

The company response to Audit Disclosure #2 that "...The company has used..(a single contact to handle all questions and requests for documents)...to ensure the quality and accuracy of information provided to the commission staff...." suggests editing. In an audit context editing means that the auditee determines which documents will or will not be examined by the auditor.

This appears to be supported by the response on Page 4 of the November 28, 1989 GTE letter regarding the QUAD BLOCK AUDIT that, despite the fact that certain records were destroyed, "... numerous records exist to perform a meaningful audit...." This suggests that audit evidence provided was so strong and compelling that the auditor must accept it as truth.

An audit and judgement of past events must rely on a critical evaluation of gathered evidence as to: (1) Whether the material is genuine or not; (2) The degree of probability that the evidence is true; and (3) Whether the evidence is complete. The results of that evaluation alone determines the need for more or less evidence.

GTE's own action during the QUAD BLOCK AUDIT supports the need for this critical evaluation. After the audit exit conference the company found a document entitled "AGREEMENT FOR EXCHANGE OF REAL ESTATE" to refute audit findings on the price of property sold to LYKES BROS., INC. The contested audit finding was based on an analysis of documents earlier provided by the company and additional documents obtained from the official court house records. Were it not for the adverse finding the company might not have provided the sales agreement located after the audit was complete.

Time is a controlling factor in an audit because audit judgement must be made in a relative short time period. Any procedure, such as a review for quality and accuracy, that delays or prevents the gathering or examination of raw evidence by the auditor adversely affects the timely formation of an audit judgement and the quality of the audit.

DOCUMENT NUMBER-DATF

11667 DEC -1 1989

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GTE Florida, Inc.
November 30, 1989
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The above practices will exacerbate normal audit problems if GTE is authorized to relocate records from Florida without a strong audit support commitment from GTE and an order reinforced with a contingency to reverse that decision should the need arise.
Audit working papers are available for review on request.

Please forward a complete copy of this report to:

GTE Florida, Inc.
Attn: Beverly Y. Menard
Post Office Box 110 MC 616
Tampa, FL 33601-4003

FD/sp
Attachment

cc: Chairman Wilson
Commissioner Beard
Commissioner Gunter
Commissioner Herndon
Commissioner Easley
Bill Talbott, Deputy Executive Director/Technical
Legal Services (Crosby/Vandiver)
Division of Auditing and Financial Analysis (Devlin)
Division of Communications (D'Haeseleer/Hoiman)
Tampa District Office (Bouckaert)

State of Florida



Commissioners:
MICHAEL McK WILSON, CHAIRMAN
THOMAS M BEARD
BETTY EASLEY
GERALD L (JERRY) GUNTER
JOHN T HERNDON

TIMOTHY J DEVLIN, Director
Auditing & Financial Analysis Division
(904) 488-8147

Public Service Commission

December 1, 1989

GTE Florida, Inc.
Attn: Beverly Y. Menard
Post Office Box 110 MC 616
Tampa, FL 33601-4003

Dear Ms. Menard:

DOCKET NO. 891008-TL -- GTE OF FLORIDA
REVIEW OF COST BENEFITS AND AUDIT PROCEDURES
EXPECTED FROM GTE RECORD LOCATION

The enclosed report is forwarded for your review.

The audit report and any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

Steve Tribble

ST/FD/
Enclosure

NOV 29 11 41 AM '89

FINANCIAL ANALYSIS DIVISION

Florida Public Service Commission

Audit Report

As of November 28, 1989

Field Work Completed

November 27, 1989

GTE Florida

Tampa, Florida

Hillsborough County

Movement of Corporate Records

Docket Number 891008-TL

AUDIT CONTROL NUMBER 89-303-2-1

**ORIGINAL
FILE COPY**



S. Ronald Hayes
Audit Manager

Audit Staff Assigned

Lynn Whitehead

Minority Opinion

Yes _____ No Yes



Ann Bouckaert
Audit Supervisor

DOCUMENT NUMBER-DATE
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FPSC-RECORDS/REPORTING

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I. EXECUTIVE SUMMARY

AUDIT PURPOSE: We have applied the procedures described in Section II of this report to the information provided by GTE Florida in support of Docket 891008-TL to determine if such information is based on supportable facts and assumptions; and that facts which may influence the Commission decision process are disclosed.

DISCLAIM PUBLIC USE: This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied on for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted audit standards and produce audited financial statements for public use.

OPINION: Based on information furnished and related discussions with Company personnel, it is our opinion that cost benefits associated with the movement of Corporate records are not supportable by underlying documentation and that the movement of records will result in additional time and expense of Commission personnel while performing audits that require the review of original source documents.

SUMMARY: See Section III for details.

The Company can not, with certainty, determine the cost benefits related to the relocation of accounting records. However, based on the fact that there are overall savings to the entire GTE operations, which in part include the movement of accounting records, it is probable that some savings will accrue to GTE Florida.

(Audit Disclosure No. 1)

The relocation of accounting records will result in additional time requirements for the Commission auditors, either by increased time in waiting on documents or people, or by increased time to travel to the remote locations or a combination of the two.

(Audit Disclosure No. 2)

The relocation of original source records to out of state sites will result in additional costs for audits that are performed by FPSC personnel.

(Audit Disclosures No. 3. & No. 4)

II. AUDIT SCOPE

This report is based on the audit work described below.

WORK PERFORMED:

Recomputed work papers supporting the cost benefits associated with the relocation of Accounting records.

Queried Company personnel and their representatives on the procedures that would be followed in the audit of out of state records.

Compared current FPSC audit procedures to procedures that would be in effect if records are relocated.

Investigated additional costs that would be incurred if records were relocated out of state.

III. DISCLOSURES

AUDIT DISCLOSURE NO. 1

SUBJECT: COST BENEFITS

STATEMENT OF FACTS: Pursuant to Rule 25-4.020 F.A.C., the Company has requested the authority to relocate records out of the State of Florida.

The records referred to are the Accounting records for the Company and will be relocated to various sites throughout the United States as detailed on the attached schedule.
(Attachment 1)

The Company does not have data available that separates the cost and benefits associated with the relocation of Accounting records from the overall cost and benefits associated with the high level study that resulted in expense savings for total Telops. (telephone operations)
Note: The study was a GTE plan to reduce overall costs throughout their telephone operations. The savings related to the relocation of accounting records are embedded within this plan.

The Company's original reply to the Commission of 8/25/89, Menard to D'Haeseleer, with reference to cost benefits, contained a math error. Total savings as stated by the Company was originally \$1.1 million over 4 years. The amount, using the Company's methodology and assumptions as recomputed by the auditor is \$9.5 million over 4 years. (Attachment 2)

As a result of conversations concerning the above differences the Company determined they had some invalid assumptions in their original estimate and submitted a revised calculation of estimated cost savings that resulted in an amount of \$1.4 million savings over 4 years. This calculation could not be verified by the auditor as it contained GTE Telops amounts that were not available at the audit site. (Attachment 2)

AUDIT OPINION AND CONCLUSION: The Company can not, with certainty, determine the cost benefits related to the relocation of accounting records. However, based on the fact that there are overall savings to the entire GTE operations which in part include the movement of accounting records, it is probable that some savings will accrue to GTE Florida.

COMPANY'S VERBATIM COMMENTS: See Exhibit I

ATTACHMENT 1

AUDIT DISCLOSURE NO. 1

SUBJECT: COST BENEFITS

PROPOSED LOCATIONS FOR GTE FLORIDA ACCOUNTING RECORDS

Westfield, Indiana

- Annual and Quarterly reports
- Trustee filing requirements
- Monthly operating reports and statistics
- General ledger
- Capital recovery (Financial portion)
- Tax accounting
- Working Capital, including material and supplies inventory

Durham, North Carolina

- Customer billing
- Central toll investigation

San Angelo, Texas

- Accounts payable

Irving, Texas

- FCC and FPSC reports

Bloomington, Illinois

- Payroll/labor records

Tampa, Florida

- Asset Management:
 - Work Orders
 - Continuing Property Records
 - Material placement, retirement, lap entries
 - Other accounts receivable entries
 - Furniture and fixtures retirements
 - Booth retirement entries
 - Amortization entries for items under \$500.
 - Retirement enties for COE, PABX, Land and buildings
 - Property held for future use entries
 - Miscellaneous adjustments and corrections

Everett, Washington

- Cost Accounting:
 - Primarily data from other companies mechanized systems and/or data bases.

ATTACHMENT 2

AUDIT DISCLOSURE NO. 1

SUBJECT: COST BENEFITS

ESTIMATED SAVINGS AS A RESULT OF THE RELOCATION OF ACCOUNTING RECORDS

PER COMPANY'S ORIGINAL RESPONSE

Year	Finance Expense	% Savings	Gross Savings	Expenses	Net Savings
1988	\$ 4.6	Base year			
1989	4.6	11.39	\$.5	\$1.7	\$- 1.2
1990	4.6	13.12	.6	.7	- .1
1991	4.6	28.91	1.3	.3	1.0
1992	4.6	30.48	1.4	0	1.4
Total net savings					\$ 1.1

PER AUDIT

Year	Finance Expense	% Savings	Gross Savings	Expenses	Net Savings
1988	\$14.5	Base year			
1989	14.5	11.39	\$ 1.7	\$1.7	\$ 0
1990	14.5	13.12	1.9	.7	1.2
1991	14.5	28.91	4.2	.3	3.9
1992	14.5	30.48	4.4	0	4.4
Total net savings					\$9.5

PER COMPANY'S REVISION

Year	Telops Expense	% to GTEFL	Total GTEFL	GTEFL Base	Net Change	Expenses	Net Savings
1989	\$108.0	13.62	\$14.7	\$14.5	\$- .2	\$ 1.7	\$ -1.9
1990	102.4	13.62	14.0	14.5	.5	.7	- .2
1991	92.7	13.62	12.6	14.5	1.9	.3	1.6
1992	92.5	13.62	12.6	14.5	1.9	0	1.9
Total net savings							\$ 1.4

NOTE: All dollar amounts are in Millions

AUDIT DISCLOSURE NO. 2

SUBJECT: AUDIT PROCEDURES

STATEMENT OF FACTS: Prior to the consolidation of GTE Florida into the GTE South Area, Company procedures for answering document requests and questions from auditors were:

A single contact within the Company, the Regulatory Compliance staff, handled all questions. The contact routed all queries to the respective area of the Company that was responsible for the answer. That area returned the reply to the Company contact who in turn gave the response to the auditors. If there were problems with answers the Company contact arranged a meeting with all parties concerned to resolve the problem.

Since the consolidation into areas the Company has added a secondary contact, the Director of Regulatory Accounting - South Area, located in Irving, Texas. This individual will have the responsibility to answer all Accounting questions. The overall procedure remains as is described above except that the Company contact will forward all questions related to Accounting to the secondary contact. This individual will return the reply to the Company contact who will give it to the auditors.

Original source documents, when requested, will be forwarded via overnight mail to the audit site. (Note: Audit site is defined as Tampa unless otherwise noted.) (See Audit Disclosure No. 3.)

Other audit procedures will remain as they are currently with the exception that other source information such as copies of ledgers, computer printouts, etc., will be printed in Tampa or faxed from the remote location.

AUDIT OPINION: The dedication of one individual to handle all accounting related items will potentially add personnel to the audit procedure. However, it could create a funnel effect with all information going to one point. This creates the probability of delays in information. Although the secondary contact has a staff to aid him in replying, he is ultimately responsible for the reply to all Accounting questions regardless of the magnitude of the question.

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AUDIT DISCLOSURE NO. 2

SUBJECT: AUDIT PROCEDURES

Should it become necessary for the auditor to meet with the individual that is directly involved with the preparation of the source documents the relocation of Accounting records throughout the United States will make this difficult. Although the Company states that teleconferencing and video conferencing are viable means to accomplish this, the logistics of getting the various parties together at one time will be more complicated than if all parties were in one location.

Obtaining original source documents will take longer than is currently the case due to distance from the audit site and the possibility that the people at the remote site may feel that other responsibilities are more important.

It is likely that even with the Company providing information in a timely manner, that the Audit Manager will find requirements that will necessitate trips to one or more of the remote locations or the Company will have to transport specified individuals to the audit site to answer specific detail questions.

CONCLUSION: The relocation of accounting records will result in additional time requirements for the Commission auditors, either by increased time in waiting on documents or people, or by increased time to travel to the remote locations or a combination of the two.

COMPANY'S VERBATIM COMMENTS: See Exhibit I

AUDIT DISCLOSURE NO. 3

SUBJECT: SOURCE DOCUMENTS

STATEMENT OF FACTS: Pursuant to the official FPSC Document Request, the Company has to provide the requested information within 3 working days. The Company has electronic mail and facsimile capabilities to transport minimal amounts of document copies to the audit site (Tampa offices). In the event a large volume of documents is requested, shipping documents overnight to the audit site would take less than 24 hours. The Company states that if originals are necessary, they will bring them to the audit site. Company provided costs are on the attached schedule (Attachment 1).

AUDIT OPINION AND CONCLUSION: FPSC audits require the viewing of original documentation to avoid reliance on a potentially altered copy. In response to the question of providing original source documents, the Company originally failed to give a positive answer. Prior to the exit conference, Company verbally stated that the original response would be rewritten to state that original documentation would be furnished at the audit site if needed.

Audit hours may not increase, however elapsed time for the audit probably will.

COMPANY VERBATIM COMMENTS: See Exhibit I.

ATTACHMENT 1

AUDIT DISCLOSURE NO. 3

SUBJECT: SOURCE DOCUMENTS

PROPOSED COSTS FOR PRODUCTION OF DOCUMENTS

Electronic mail

Company provided no costs for this function

Facsimile

Rental	\$2.00 per day
Transmittal	\$0.25 per minute

Overnight mail

Letter	\$ 5.90
One Pound	6.40
Five Pounds	10.00
Ten Pounds	15.00
Fifteen Pounds	22.50
Twenty Pounds	28.40

AUDIT DISCLOSURE NO. 4

SUBJECT: TRAVEL REQUIREMENTS

STATEMENT OF FACTS: If records are relocated out of the State of Florida and at various locations throughout the United States (see Attachment 1 to Audit Disclosure No. 1), the Company has agreed to reimburse any valid travel expense associated with a proper audit.

In the event that out of state company personnel are needed at the audit site, the Company has submitted estimated costs that would be incurred traveling from Irving, Texas. (Attachment 1) Cost per trip to Tampa, assuming a one night stay would be approximately \$550.

In the event that contact by Commission staff with out of state Company personnel is necessary the Company has at its disposal teleconferencing and video conferencing. Estimated costs of using these are listed on the attached. (Attachment 1)

AUDITOR OPINION: In the course of any FPSC audit of the Company, it is possible that travel by Commission staff to the location of specific records or travel by Company personnel to the audit site would be necessary to perform the audit.

Either circumstance could increase audit time and would result in additional expenses for the audit.

RECOMMENDATION: Company be required to reimburse travel expenses associated with any FPSC audit.

COMPANY VERBATIM COMMENTS: See Exhibit I.

ATTACHMENT 1

AUDIT DISCLOSURE NO. 4

SUBJECT: TRAVEL REQUIREMENTS

PROPOSED COSTS FOR TRAVEL FROM IRVING, TEXAS TO TAMPA, FLORIDA

Travel from Irving, Texas to Tampa, Florida (1)

Airfare		\$400.00
Hotel		\$50.00 - \$95.00
Car Rental		\$31.00/day with unlimited mileage
Meals	Breakfast	\$10.00
	Lunch	\$10.00
	Dinner	\$25.00

(1) FPSC Document request specified from Irving, Texas to Tampa, Florida. Company provided the reverse. Auditor sees no significant difference.

PROPOSED COSTS FOR COMMUNICATION FROM IRVING, TEXAS TO TAMPA, FLORIDA

Teleconferencing	\$14.75/hour/each line on call
Video conferencing	No costs provided by company



**General Telephone Company
of Florida**

One Tampa City Center
Post Office Box 110
Tampa, Florida 33601-4003

November 27, 1989

Mr. S. Ron Mayes, Auditor
Florida Public Service Commission

Dear Mr. Mayes:

SUBJECT: GTEFL RESPONSES TO AUDIT DISCLOSURES

Attached is GTEFL's responses to Audit disclosures regarding GTEFL's petition to relocate records.

If we can be of further assistance, please contact Margo Hammar at (813) 224-4405.

Sincerely,

A handwritten signature in cursive script, appearing to read "B. Menard for", is written over the typed name.

Beverly L. Menard
Area Regulatory and Industry Affairs Director

bym/mbh

GTEFL's response to Audit disclosure #1

GTEFL agrees with the audit opinion and conclusion that the company does not have detailed data available which separates the costs and benefits associated with the relocation of accounting records on a stand alone basis. In addition, GTEFL agrees with the audit conclusion that it is probable that savings will accrue to GTEFL as a result of the relocation of accounting records.

The reason that the company does not have Florida specific information associated with the books and records petition is that the movement of books and records is a sub-part to the overall consolidation of Financial department personnel. The savings associated with the consolidation of the Financial department come from the efficient utilization of finance department employees. The efficiencies obtained come through proper placement and consolidation of functions which is largely irrelevant to the actual physical location of the books and records. However, if the books and records are not physically located with the new financial department structure, the overall savings and efficiencies will be reduced to some extent.

Attachment I is an analysis which reconciles GTEFL's \$1.4 million savings to the staff's recalculated \$9.5 million amount. The differences are created by the revised headcount numbers when including total Finance instead of only the controller function (Please note the controller numbers used originally omit customer accounting which has significant headcount requirements) and the rest of the difference comes from using allocated dollars based on total Telops Finance instead of using GTEFL's Finance expenses as a base.

GTEFL's response to Audit disclosure #2

GTEFL disagrees with the auditor's opinion that a "funnel" effect will be created through the company's procedure for establishing a regulatory accounting contact and coordination point. First, the regulatory accounting staff responsible for Florida has sufficient resources to handle any demands placed upon it for information requests from this commission. Second, audit disclosure two seems to give the overall impression that there will be a change in procedure by the company. The company disagrees with this impression. The company's utilization of specific contact and coordination personnel has been in effect for an extended period of time and has been successful. The company has utilized this procedure to insure the quality and accuracy of information provided to the commission staff. The alleged probability of delays in receiving information has not been a problem in the past, in the company's opinion, and the company does not perceive that there will be a problem in the future. The company is dedicated to providing all requested information to the commission staff in a timely manner in the form requested, where possible. Third, the company disagrees with the assertion that there will be delays in the provision of information. The company believes that overnight mail, FAX, videxconferencing and other such tools can be utilized to provide timely responses.

GTEPL's response to Audit disclosure #2 continued

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The company is of the opinion that to the extent that there are any minor inconveniences associated with the movement of books and records that such operational defects can be readily alleviated through experience. Furthermore, the company is of the opinion that the efficiencies and savings associated with the books and records petition more than overrides any small inconveniences or implementation problems that will be experienced by the commission staff in the short term.

GTEPL's response to Audit disclosure #3

The company disagrees with the assertion that the company failed to give a positive answer in response to providing original documents upon the request of commission staff. The company views its answer as positive and responsive to the audit request. Furthermore, the company hereby reasserts that it will provide all original documentation at the request of the commission staff.

GTEPL's response to Audit disclosure #4

The company agrees with the recommendation that it be required to reimburse the commission for all reasonable expenses associated with a valid off site audit. However, the company wishes to point out that it believes that the issue of travel outside of Tampa and the costs associated therewith have been dwelled on to a much larger extent than necessary in this audit. The company makes the foregoing statement because it is the company's intent to satisfy all information requests in Tampa. The company does not envision any commission staff travel in the ordinary course of business. All documentation, personnel and other matters will be provided to the commission staff in Tampa, or provided through the utilization of telephone conferencing, videoconferencing, etc. Therefore, travel and the time associated therewith, should not be a major concern.

GTE FLORIDA
COST-BENEFIT ANALYSIS RECONCILIATION
REORGANIZATION OF FINANCE DEPARTMENT
(Dollars in Millions)

<u>Year</u>	<u>Headcount Reduction Controller Dept.</u>	<u>Headcount Reduction Finance Dept.</u>	<u>Diff.</u>	<u>Impact From Changed Headcount</u>	<u>Impact From Allocation Changes</u>
1988					
1989	11.39%	4.34%	7.05%	\$1.0	\$0.8
1990	13.12%	9.27%	3.85%	0.6	0.8
1991	28.91%	17.90%	11.01%	1.6	0.7
1992	30.48%	18.04%	12.44%	<u>1.8</u>	<u>0.7</u>
				<u>\$5.0</u>	<u>\$3.1</u>
Impact From Revised Headcounts					\$5.0
Impact from Recognition of Allocation Changes					3.1
Projected Savings - Company revised study					<u>1.4</u>
Staff Recalculated Savings					<u>\$9.5</u>