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FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building  
101 East Gaines Street  
Tallahassee, Florida 32399-0850

M E M O R A N D U M

January 21, 1993

TO : DIRECTOR OF RECORDS AND REPORTING

FROM : DIVISION OF AUDITING AND FINANCIAL ANALYSIS (DEVLIN) *FD*  
DIVISION OF LEGAL SERVICES (HATCH) *Fl*

RE : DOCKET NO. 920260-TL-COMPREHENSIVE REVIEW OF THE REVENUE  
REQUIREMENTS AND RATE STABILIZATION PLAN OF SOUTHERN BELL  
TELEPHONE AND TELEGRAPH COMPANY

AGENDA: FEBRUARY 3, 1993-PARTIES MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\920260.RCM

CASE BACKGROUND

The National Association of Regulatory Commissioners (NARUC) passed a resolution in November of 1991 that involves multi state audits of the seven Bell Regional Companies focusing on affiliate relationships. A commissioner comprised "Policy Management Group" (PMG) was established in each region to oversee the audit.

In early 1992, the Commission at Internal Affairs agreed to devote resources to this effort. Between three and six states plus the FCC, were expected to be involved.

The Audit Team was not able to reach an agreement with BellSouth with respect to handling of proprietary information among other matters. Therefore, the Audit Team decided to base its authority on Florida statutes and rules. This approach was approved by the Commission at Internal Affairs on October 19, 1992.

Since the Southern Bell rate case was pending, Docket No 920260-TL, staff decided to use this audit to complement the rate

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case audit. Staff included issues in the rate case that would relate to the scope of this audit. However, various delays will probably prevent staff from including any findings in the multi state audit in the rate case.

On October 25, 1992 the Audit Team issued its first data request. Because it was voluminous (103 items), the due date was set for November 30, 1992.

BellSouth insisted upon a meeting with the PMG before responding to the request. The Audit Team made it clear that a impending meeting did not relieve the Company of its responsibility to respond to an audit request.

On November 25, 1992 the Company met with the PMG. Again, the Company was told that the audit would be conducted under Florida statutes and rules and in connection with its pending rate case.

The Audit Team cancelled its first field visit planned for the week of December 1, 1992 because the Company did not respond to the data request within the specified time. The first field visit was rescheduled for the week of January 11, 1993.

In addition to the data request, the Audit Team requested that the Company provide personnel who could explain the affiliates accounting systems and reports. The Company stated they could not accommodate us at this time. Of the 103 data requests, the Company has yet to respond to 44 of them, has objected to 15 of them and is substantially deficient with 14 of them. A sample of the Company's responses is attached.

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should the Commission require Southern Bell to show cause why it should not be fined for its failure to provide access to records pursuant to Section 364.183, Florida Statutes?

**RECOMMENDATION:** Yes, Southern Bell should be required to show cause why it should not be fined for its failure to provide access to records pursuant to Section 364.183, Florida Statutes?

**STAFF ANALYSIS:** The purpose of this recommendation is to require the Company to comply with the Audit Team's October 25, 1992 data request to the extent such a request is authorized under Florida law. Second, because of past difficulties in obtaining information in this audit, the staff recommends the Commission articulate the some of the ground rules by order so the auditors have a reference to judge the reasonableness of Company responses.

Section 364.183(1), Florida Statutes, provides, in part:

The commission shall have reasonable access to all company records, and to the records of the telecommunications company's affiliated companies, including its parent company, regarding transactions or cost allocations among the telecommunications company and such affiliated companies, and such records necessary to ensure that a telecommunications company's ratepayer do not subsidize the company's unregulated activities.

The Company has denied the Audit Team access to affiliate records such as the general ledger. The Audit Team selected certain affiliates in which they believe an association with the telephone company exists. We believe we not only have the authority to access affiliate records but a responsibility to do so. Otherwise, the Commission cannot meet its statutory responsibility to ensure no cross subsidy exists between regulated and non regulated operations.

As of January 11, 1993, the Company has not even responded to 44 of the 103 data requests which were due on November 30, 1992. If more time was needed for some of the requests, the Company should be required to inform the Audit Team in writing. The Audit Team has been getting oral responses such as "we are working on it" and "we don't have any authority over the affiliates." The parent company

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has that authority plus the affiliates are also bound by Florida law regarding access.

The Company appears to be unwilling to supply state specific information other than Florida-only information. Again, to ensure no cross subsidy, we need state specific information to test for example, the basis of allocations between states.

In certain instances the Company has refused to answer a data request without giving adequate reason. The Audit Team believes it is necessary to have as much authority as the Florida law provides if it is to be successful in meeting its audit scope.

Attached are the requests which the Company has objected to and the staff believes the Commission has the authority and responsibility to review and audit. To maintain audit independence it is fundamental that the auditors be free from management influence on audit scope and inquiry. The auditor not auditee determines what information is relevant to a particular audit.

Based on the foregoing, Staff recommends that Southern Bell be required to show cause why it should not be fined.

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**ISSUE 2:** Should Southern Bell be required to comply with the Commission Staff Auditor's data requests by February 10, 1993?

**RECOMMENDATION:** Yes, Southern Bell should be required to comply with the Commission Staff Auditor's data requests by February 10, 1993.

**STAFF ANALYSIS:** As discussed in Issue 1 above, the Company has failed to fully respond to staff's audit data request. Pursuant to the Commission's authority under Section 364.183, Southern Bell should be order to comply with the following:

1- Provide access to affiliate records in accord with Section 364.183. The Company shall provide upon reasonable notice, personnel who can respond to the auditors questions relating to affiliate records and operations.

2- Provide complete response to all outstanding data requests associated with the October 25, 1992 request by February 10, 1993. In the future, the Company shall respond in writing to all written data requests within five working days of the date of the data request.

3- Provide complete response to data request items 3-017, 3-020, 3-021, 3-022, 3-023, 3-028, 3-034, 3-035 and 3-036 by February 10, 1993.

4- Provide state by state information to ensure there is no cross subsidy between regulated and non regulated. Non Florida information is considered non regulated.

5- In instances where the Company refuses to comply with a data request it shall show with sufficient explanation where the Commission lacks authority to obtain such information.

Southern Bell should provide the requested documents by February 10, 1993.

In the future, the Company should be ordered to respond to all written requests in writing within five working days from the date of the data request unless a longer period is specified by the Audit Team. If the Company can not provide the requested information within five working days it should provide the Audit Team a suggested provision date and an explanation why it could not respond within five days.

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**ISSUE 3:** Should this docket be closed?

**RECOMMENDATION:** No.

**STAFF ANALYSIS:** This docket should be left open to process the pending rate case.

Southern Bell Tel. & Tel. Co.  
FPSC Docket No. 920260-TL  
Audit  
Date: 10-26-92  
Item No. 3-017  
Page 1 of 1

**Request:** Provide General Ledgers for L. M. Berry, Stevens Graphics.

**Response:** BST does not have possession of the requested information.

Southern Bell Tel. & Tel. Co.  
FPSC Docket No. 920260-TL  
Audit  
Date: 10-26-92  
Item No. 3-020  
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**Request:** Provide any market research studies related to Directory Operations or Yellow Page Operations that were performed by BellSouth or any affiliate or for BellSouth or any affiliate during the years 1990, 1991, and 1992.

**Response:** The Company is unwilling to provide this information.



Southern Bell Tel. & Tel. Co.  
FPSC Docket No. 920260-TL  
Audit  
Date: 10-26-92  
Item No. 3-021  
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Request: Provide any market studies related to electronic publishing.

Response: The Company objects to providing the requested information as it is outside the scope of this proceeding.

Southern Bell Tel. & Tel. Co.  
FPSC Docket No. 920260-TL  
Audit  
Date: 10-26-92  
Item No. 3-022  
Page 1 of 1

Request: Provide a list of current research efforts being performed by BAPCO or on BAPCO's behalf.

Response: The Company objects to providing the requested information.

Southern Bell Tel. & Tel. Co.  
FPSC Docket No. 920260-TL  
Audit  
Date: 10-26-92  
Item No. 3-023  
Page 1 of 1

**Request:** Provide 1990 and 1991 detailed financial statements and general ledger for BellSouth Enterprises, Inc.

**Response:** BSE provides no products or services to Southern Bell; therefore, the Company is unwilling to provide the requested information.

Southern Bell Tel. & Tel. Co.  
FPSC Docket No. 920260-TL  
Audit  
Date: 10-26-92  
Item No. 3-028  
Page 1 of 1

Request: Provide actual payments from BAPCO to L.M. Berry by month for 1990 and 1991 and forecasted amounts for 1992 and 1993.

Response: BST is unwilling to provide this information since BAPCO does not use L. M. Berry in publishing the Florida directories.

Southern Bell Tel. & Tel. Co.  
FPSC Docket No. 920260-TL  
Audit  
Date: 10-26-92  
Item No. 3-034  
Page 1 of 1

**Request:** Provide any forecast financial data regarding electronic yellow Pages.

**Resposes:** The Company objects to the provision of the requested information on the grounds that it is not relevant in this proceeding.

Southern Bell Tel. & Tel. Co.  
FPSC Docket No. 920260-TL  
Audit  
Date: 10-26-92  
Item No. 3-035  
Page 1 of 1

**Request:** Provide all corporate strategy documents regarding electronic yellow pages or any similar services.

**Response:** The Company objects to the provision of the requested information on the grounds that it is not relevant in this proceeding.

Southern Bell Tel. & Tel. Co.  
FPSC Docket No. 920260-TL  
Audit  
Date: 10-26-92  
Item No. 3-036  
Page 1 of 1

**Request:** Provide the financial statements and general ledger for 1991 for TechSouth Inc.. BellSouth Marketing Programs, and Intellegent Media Services.

**Response:** See response to Item No. 3-016 for the 1991 Balance Sheets and Income Statements of TechSouth. The Company objects to providing financials for BellSouth Marketing Programs and Intelligent Media Services on the grounds that these companies had no transactions with Southern Bell during the requested time frame.