



ORIGINAL

010488-TV

FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING*

Miami District Office

TELCO HOLDINGS INC.

d/b/a DIAL AND SAVE

FLOW THROUGH OF 1998 LEC SWITCHED ACCESS

JUNE 1998 AND NOVEMBER 1998

UNDOCKETED

AUDIT CONTROL NO. 99-077-4-1



Gabriela Leon, Audit Manager

- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG _____
- MAS _____
- OPC _____
- RRR _____
- SEC I
- WAW _____
- OTH _____



Kathy L. Welch, Audit Supervisor

DOCUMENT NUMBER-DATE

02855 MAR-38

FPSC-RECORDS/REPORTING

TABLE OF CONTENTS

	PAGE
I. AUDIT'S PURPOSE	
PURPOSE	1
DISCLAIM PUBLIC USE	1
SUMMARY OF SIGNIFICANT FINDINGS	2
SUMMARY OF SIGNIFICANT PROCEDURES	3
II. DISCLOSURES	
1. RATE REDUCTION PER ORDER FPSC 98-0795-FOF-TP	4
2. CUSTOMER'S BILL	11
3. FLAT RATE II PLAN	12
4. CORRECT RATES	13
5. REGULATORY ASSESSMENT FEES	14

DIVISION OF AUDITING AND FINANCIAL ANALYSIS

AUDITOR'S REPORT

JANUARY 20, 2000

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to determine if the company has complied with Commission Order PSC 98-0795-FOF-TP. This order explains that according to Florida Statutes, "Any local exchange telecommunications company with more than 100,000, but fewer than 3 million, basic local telecommunications service access lines in service on July 1, 1995, shall reduce its intrastate switched access rates by 5% on July 1, 1998 and by 10% on October 1, 1998. Any interexchange telecommunications company whose intrastate switched access rate is reduced as a result of the rate decreases made by a local exchange company in accordance with this subsection shall decrease its intrastate long distance rates by the amount necessary to return the benefits of such reduction to its customers but shall not reduce per minute intralata toll rates by a percentage greater than the per minute intrastate switched access rate reductions required by this act."

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon 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 auditing standards and produce audited financial statements for public use.

SUMMARY OF SIGNIFICANT FINDINGS

The company decided to adjust only its tariff for the USA Savings Plan to satisfy the requirements of the order. However, the company never implemented the last three tariff changes for customers enrolled in this rate plan. The company used the tariff rates prescribed December 19, 1996 for the entire time period audited in spite of the fact that it filed a tariff increase that was to be effective January 23, 1998, and tariffs for the subsequent required reductions for July and October 1998.

Although the "Dial and Save Flat Rate II" plan was not part of the reduction, a call was inadvertently reviewed and found to be billed at \$.185 a minute instead of \$.15 a minute required in the tariff sheet #64, and issued March 11, 1997.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining on a test basis, certain billing transactions which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. The following definitions apply when used in this report:

SCANNED- The documents or accounts were read quickly looking for obvious errors.

REVIEWED- The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

EXAMINED- The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

CONFIRMED- The evidential matter supporting the account balance, transaction, or other information was obtained directly from an independent third party.

VERIFY- The item was tested for accuracy, and substantiating documentation was examined.

Examined a random sample of customers' bills to determine if the billing was based on approved tariffs.

Scanned tariffs for rates and other pertinent billing information; determined which tariffs applied to months selected in the sample. Gathered the tariff sheet of rates actually used according to the company, and all other tariffs filed and approved since, that pertained to the required decrease.

Verified the rates used by the company to calculate the customers' bills using tariff dated December 19, 1996.

Recalculated the selected bills using estimated mileage between the origination and destination of the call and compared the rates to the tariff rates used. Compared this rate to what should have been used and determined the differences.

AUDIT DISCLOSURES

AUDIT DISCLOSURE NO. 1

SUBJECT: RATE REDUCTIONS PER ORDER PSC-98-0795-FOF-TP

STATEMENT OF FACTS: FPSC Order PSC-98-0795-FOF-TP, states "Any local exchange telecommunications company with more than 100,000, but fewer than 3 million, basic local telecommunications service access lines in service on July 1, 1995, shall reduce its intrastate switched access rates by 5 percent on July 1, 1998, and by 10% on October 1, 1998. Any interexchange telecommunications company whose intrastate switched access rate is reduced as a result of the rate decreases made by a local exchange telecommunications company in accordance with this subsection shall decrease its intrastate long distance rates by the amount necessary to return the benefits of such reduction to its customers but shall not reduce per minute intralata toll rates by a percentage greater than the per minute intrastate switched access rate reductions required by this act. The interexchange telecommunications carrier may determine the specific intrastate rates to be decreased, provided that residential and business customers benefit from the rate decreases."

The company was originally charging its USA Savings Plan customers the rates per tariff sheet #38, issued December 19, 1996. In January 1998 it filed a new tariff which increased rates. Then to comply with the above stated order the company reduced the January 1998 tariff in August and September by the required 5% and 10%.

However, the company continued to charge the rates in the tariff, issued December 19, 1996. The new tariff rates effective January, July, and October 1998 were never used. In addition, the company has been rounding down, not rounding up as the tariff requires.

Schedule No. 1 attached shows what the rates would have been if the company would have reduced the tariff sheet #38, issued December 19, 1996, which was the rate being used at the time the order was issued, for the 5% decrease in July, 1998 and the 10% decrease in October, 1998.

OPINION: The company never passed through a rate reduction. In order to determine the dollar effect, the minutes of use for July to the present time are needed. This information was requested from the company but has not yet been provided, a supplemental report will be issued.

It should also be noted, that the company filed a tariff increase in January 1998. The order requiring the reduction was issued on June 8, 1998. A comparison of the tariff rates follows:

USA SAVINGS PLAN-INTERLATA RATES

DAY RATES

FIRST MINUTE OF USE

MILEAGE	TARIFF 12/19/96	TARIFF 1/22/98	TARIFF 7/1/98	TARIFF 10/1/98
1-10	.1424	.1700	.1615	.1454
11-22	.1496	.1800	.1710	.1539
23-55	.1638	.1800	.1710	.1540
56-124	.1780	.1980	.1881	.1693
125-292	.1781	.1980	.1881	.1693
293-430	.1781	.1980	.1881	.1693
431-624	.1781	.1980	.1881	.1693
625-+		.1980	.1881	.1693

DAY RATES

ADDITIONAL MINUTES OF USE

MILEAGE	TARIFF 12/19/96	TARIFF 1/22/98	TARIFF 7/1/98	TARIFF 10/1/98
1-10	.1424	.1700	.1615	.1454
11-22	.1496	.1800	.1710	.1539
23-55	.1539	.1800	.1710	.1540
56-124	.1568	.1980	.1881	.1693
125-292	.1604	.1980	.1881	.1693
293-430	.1639	.1980	.1881	.1693
431-624	.1639	.1980	.1881	.1693
625-+		.1980	.1881	.1693

USA SAVINGS PLAN-INTERLATA

EVENING RATES

FIRST MINUTES OF USE

<u>MILEAGE</u>	<u>TARIFF</u> 12/19/96	<u>TARIFF</u> 1/22/98	<u>TARIFF</u> 7/1/98	<u>TARIFF</u> 10/1/98
1-10	.1124	.1400	.1330	.1197
11-22	.1200	.1500	.1425	.1283
23-55	.1274	.1468	.1468	.1321
56-124	.1274	.1558	.1395	.1256
125-292	.1349	.1558	.1395	.1256
293-430	.1424	.1558	.1395	.1256
431-624	.1424	.1558	.1395	.1256
625-+		.1558	.1395	.1256

EVENING RATES

MINUTES OF USE

<u>MILEAGE</u>	<u>TARIFF</u> 12/19/96	<u>TARIFF</u> 1/22/98	<u>TARIFF</u> 7/1/98	<u>TARIFF</u> 10/1/98
1-10	.1124	.1400	.1330	.1197
11-22	.1200	.1500	.1425	.1283
23-55	.1208	.1468	.1468	.1321
56-124	.1238	.1558	.1395	.1256
125-292	.1263	.1558	.1395	.1256
293-430	.1292	.1558	.1395	.1256
431-624	.1294	.1558	.1395	.1256
625-+		.1558	.1395	.1256

USA SAVINGS PLAN-NIGHTS AND WEEKEND

FIRST MINUTES OF USE

MILEAGE	TARIFF 12/19/96	TARIFF 1/22/98	TARIFF 7/1/98	TARIFF 10/1/98
1-10	.0899	.1200	.1140	.1026
11-22	.0974	.1200	.1140	.1026
23-55	.0974	.1108	.1053	.0948
56-124	.1049	.1198	.1140	.1026
125-292	.1049	.1288	.1224	.1102
293-430	.1124	.1288	.1224	.1102
431-624	.1124	.1288	.1224	.1102
625+		.1288	.1224	.1102

ADDITIONAL MINUTES OF USE

MILEAGE	TARIFF 12/19/96	TARIFF 1/22/98	TARIFF 7/1/98	TARIFF 10/1/98
1-10	.0899	.1200	.1140	.1026
11-22	.0974	.1200	.1140	.1026
23-55	.0863	.1108	.1053	.0948
56-124	.0893	.1198	.1140	.1026
125-292	.0930	.1288	.1224	.1102
293-430	.0930	.1288	.1224	.1102
431-624	.0968	.1288	.1224	.1102
625+		.1288	.1224	.1102

SCHEDULE NO. 1

USA SAVINGS PLAN-INTERLATA RATES

DAY RATES

FIRST MINUTES OF USE

	(A)	(B)	(C)	(D)	(F)
		(A)*.95	(A)-(B)	(B*.90)	(A)-(D)
Mileage	Rates used per tariff issued on 12/19/96	What the new tariff should have been @ 7/1/98	Difference between the 2/19/96 tariff used and what should have been @ 7/1/98	What the new tariff should have been @ 10/1/98	Difference between the 12/19/96 tariff used and what should have been @ 10/1/98
1-10	0.1424	0.1353	0.0071	0.1218	0.0206
11-22	0.1496	0.1421	0.0075	0.1279	0.0217
23-55	0.1638	0.1556	0.0082	0.1400	0.0238
56-124	0.1780	0.1691	0.0089	0.1522	0.0258
125-292	0.1781	0.1692	0.0089	0.1523	0.0258
293-430	0.1781	0.1692	0.0089	0.1523	0.0258
431-624	0.1781	0.1692	0.0089	0.1523	0.0258

DAY

ADDITIONAL MINUTES OF USE

	(A)	(B)	(C)	(D)	(F)
		(A)*.95	(A)-(B)	(B*.90)	(A)-(D)
Mileage	Rates used per tariff issued on 2/19/96	What the new tariff should have been @ 7/1/98	Difference between the 12/19/96 tariff used and what should have been @ 7/1/98	What the new tariff should have been @ 10/1/98	Difference between the 12/19/96 tariff used and what should have been @ 10/1/98
1-10	0.1424	0.1353	0.0071	0.1218	0.0206
11-22	0.1496	0.1421	0.0075	0.1279	0.0217
23-55	0.1539	0.1462	0.0077	0.1316	0.0223
56-124	0.1568	0.1490	0.0078	0.1341	0.0227
125-292	0.1604	0.1524	0.0080	0.1371	0.0233
293-430	0.1639	0.1557	0.0082	0.1401	0.0238
431-624	0.1639	0.1557	0.0082	0.1401	0.0238

USA SAVINGS PLAN-INTERLATA RATES

EVENING RATES
FIRST MINUTES OF USE

	(A)	(B)	(C)	(D)	(F)
		(A)*.95	(A)-(B)	(B*.90)	(A)-(D)
	Rates used per tariff issued on 12/19/96	What the new tariff should have been @ 7/1/98	Difference between the 12/19/96 tariff used and what should have been @ 7/1/98	What the new tariff should have been @ 10/1/98	Difference between the 12/19/96 tariff used and that should have been @ 10/1/98
Mileage					
1-10	0.1124	0.1068	0.0056	0.0961	0.0163
11-22	0.1200	0.1140	0.0060	0.1026	0.0174
23-55	0.1274	0.1210	0.0064	0.1089	0.0185
56-124	0.1274	0.1210	0.0064	0.1089	0.0185
125-292	0.1349	0.1282	0.0067	0.1153	0.0196
293-430	0.1424	0.1353	0.0071	0.1218	0.0206
431-624	0.1424	0.1353	0.0071	0.1218	0.0206

6

USA SAVINGS PLAN-INTERLATA RATES

EVENING RATES
ADDITIONAL MINUTES

	(A)	(B)	(C)	(D)	(F)
		(A)*.95	(A)-(B)	(B*.90)	(A)-(D)
	Rates used per tariff issued on 12/19/96	What the new tariff should have been @ 7/1/98	Difference between the 12/19/96 tariff used and what should have been @ 7/1/98	What the new tariff should have been @ 10/1/98	Difference between the 12/19/96 tariff used and what should have been @ 10/1/98
Mileage					
1-10	0.1124	0.1068	0.0056	0.0961	0.0163
11-22	0.1200	0.1140	0.0060	0.1026	0.0174
23-55	0.1208	0.1148	0.0060	0.1033	0.0175
56-124	0.1238	0.1176	0.0062	0.1058	0.0180
125-292	0.1263	0.1200	0.0063	0.1080	0.0183
293-430	0.1292	0.1227	0.0065	0.1105	0.0187
431-624	0.1294	0.1229	0.0065	0.1106	0.0188

USA SAVINGS PLAN-INTERLATA RATES

NIGHTS AND WEEKEND
FIRST MINUTES OF USE

	(A)	(B)	(C)	(D)	(F)
		(A)*.95	(A)-(B)	(B*.90)	(A)-(D)
Mileage	Rates used per tariff issued on 12/19/96	What the new tariff should have been @ 7/1/98	Difference between the 12/19/96 tariff used and what should have been @ 7/1/98	What the new tariff should have been @ 10/1/98	Difference between the 12/19/96 tariff used and what should have been @ 10/1/98
1-10	0.0899	0.0854	0.0045	0.0769	0.0130
11-22	0.0974	0.0925	0.0049	0.0833	0.0141
23-55	0.0974	0.0925	0.0049	0.0833	0.0141
56-124	0.1049	0.0997	0.0052	0.0897	0.0152
125-292	0.1049	0.0997	0.0052	0.0897	0.0152
293-430	0.1124	0.1068	0.0056	0.0961	0.0163
431-624	0.1124	0.1068	0.0056	0.0961	0.0163

USA SAVINGS PLAN-INTERLATA RATES

NIGHTS AND WEEKEND
ADDITIONAL MINUTES

	(A)	(B)	(C)	(D)	(F)
		(A)*.95	(A)-(B)	(B*.90)	(A)-(D)
Mileage	Rates used per tariff issued on 12/19/96	What the new tariff should have been @ 7/1/98	Difference between the 12/19/96 tariff used and what should have been @ 7/1/98	What the new tariff should have been @ 10/1/98	Difference between the 12/19/96 tariff used and what should have been @ 10/1/98
1-10	0.0899	0.0854	0.0045	0.0769	0.0130
11-22	0.0974	0.0925	0.0049	0.0833	0.0141
23-55	0.0863	0.0820	0.0043	0.0738	0.0125
56-124	0.0893	0.0848	0.0045	0.0764	0.0129
125-292	0.0930	0.0884	0.0047	0.0795	0.0135
293-430	0.0930	0.0884	0.0047	0.0795	0.0135
431-624	0.0968	0.0920	0.0048	0.0828	0.0140

AUDIT DISCLOSURE NO. 2

SUBJECT: CUSTOMER'S BILL

STATEMENT OF FACT: The following calls from customers in the USA Savings Plan were reviewed to determine which rates were used:

A call from phone number [REDACTED] to phone number [REDACTED]
A call from phone number [REDACTED] to phone number [REDACTED]

OPINION: The rates used to calculate these calls couldn't be traced to any of the tariffs filed by the company.

The company was asked to explain but hasn't provided a response. It will be discussed in the supplemental report.

AUDIT DISCLOSURE NO. 3

SUBJECT: FLAT RATE II PLAN

STATEMENT OF FACT: There was a customer under the Flat Rate II Plan, that was inadvertently picked in the sample, whose bill was calculated using a Flat Rate fee of .185 per minute. According to the tariff, that should have been implemented, the rate would have been \$.15 per minute.

In order to determine if this problem affected the whole population, rate deck reports are needed and have been requested.

To determine the dollar effect of the error, minutes of use reports are needed and have been requested. We will include this information in the supplemental report.

AUDIT DISCLOSURE NO. 4

SUBJECT: CORRECT RATES PER TARIFF

STATEMENT OF FACT: Calls from phone number [REDACTED] to phone number [REDACTED], and to [REDACTED] made on June 4, 1998 were correctly calculated using the correct rates per tariff issued on January 22, 1998. This bill was submitted by GTE.

This was the only call found in the USA Savings Plan that did not use the December 19, 1996 tariff rates.

AUDIT DISCLOSURE NO. 5

SUBJECT: REGULATORY ASSESSMENT FEES

STATEMENT OF FACT: In order to audit the regulatory assessment fees the following items were requested: (1) a copy of the general ledger for revenues for 1997 and 1998, and (2) an explanation of how the split between interlata and intralata was calculated. The company did not provide any of these items. However, Dial and Save did provide an income statement as of December 1998, but it was not broken down into states, therefore, it could not be traced to the Regulatory Assessment Fee Return. The company's reasons for not providing the information are as follows:

“We have been unable to obtain the 1997 general ledger for Telco Holding, Inc. d/b/a Dial and Save. We have also been unable to obtain any information to support the access expenses shown as a deduction on the 1997 Regulatory Assessment Fee Return. We acquired this company in 1997, but the tax function was not transferred to Dallas until the middle of 1998. As a result, our records are incomplete as to the 1997 filings.”

OPINION: Since this information was not provided, the regulatory assessment fees could not be audited. We accept the explanation for the 1997 Regulatory Assessment Fee request. However, we will pursue the 1998 and 1999 as part of the supplement audit. The company should be required to submit sufficient documentation to support the return submitted to the Commission.