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COMMISSION CLERK

DATE: August 25, 2006

TO: Richard J. Wright, Professional Accountant Specialist, Division of Competitive Markets & Enforcement

FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance DV

RE: **Company Name: AT&T Communications and affiliates**
Purpose: Audit of Regulatory Assessment Fees reported for 2002-2004
Control No: 05-244-2-1; Undocketed

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of Commission Clerk and Administrative Services. There are confidential work papers associated with this audit.

DNV:sbj
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of Commission Clerk & Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

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Ms. Sonia Daniels
Regulatory Specialist
AT&T External Affairs – Southern Region
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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING

TAMPA DISTRICT OFFICE

AT&T COMMUNICATIONS AND AFFILIATES

AUDIT OF REGULATORY ASSESSMENT FEE RETURNS

FOR THE CALENDAR YEARS 2002, 2003 AND 2004

UNDOCKETED
AUDIT CONTROL NO. 05-244-2-1
Report Issued March 3, 2006

Jocelyn Y. Stephens, Audit Manager

Joseph W. Rohrbacher, Tampa District Supervisor

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DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT

February 28, 2006

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Competitive Markets and Enforcement in its audit service request. We have applied these procedures to the attached schedules prepared by AT&T in support of its filing for selected Regulatory Assessment Fee Returns for the years 2002, 2003 and 2004.

This audit is performed following general standards and field work standards of Generally Accepted Auditing Standards except for the evaluation of internal control. This report is based on agreed upon procedures which are only for internal Commission use. Commission audits do not satisfy Generally Accepted Auditing Standards for reporting or evaluating Internal Control.

Scope Limitation

AT&T did not provide either invoices for Amounts Paid to Other Telecommunication Companies or customer billing records for the requested periods. As a result, selected amounts could not be traced to adequate supporting third party billing or customer billed documentation which led to material audit scope limitations.

OBJECTIVES AND PROCEDURES:

Objective – Verify the RAF returns submitted for 2002, 2003 and 2004 are supported by the company's books and records.

Procedures
Obtained the year-end general ledgers (G/L). Obtained 12-month worksheets reconciling G/L balances to the amounts per the Regulatory Assessment Fee (RAF) return for each applicable company and year. Traced revenues recorded on the RAFs to the summary schedule of monthly revenues and the summary schedule of monthly revenues to the general ledger. Requested worksheets showing an allocation of FI Gross Operating Revenues between interstate, intrastate and any other categorization of revenues with an explanation of the allocation methodology used. Determined that revenues are directly assigned to each jurisdiction. There is no allocation. Using the monthly schedules of revenues, designated a month for testing and requested a schedule of revenues by billing cycle for selected companies for the purpose of determining if customer call data could be tracked between intrastate, interstate and other. During a conference call with the company's spokesperson and other informed company personnel, it was determined that the company's records are not maintained by billing cycle nor can they be tracked by billing cycle, nor could a customer record be pulled and the history of the call tracked through their record keeping system. It could not be determined if company records support the postings to the general ledger.

Objective – Compare reported RAF revenue to consolidated financial statements and worksheets indicating components of all revenue accounts.

Procedures
Obtained company's annual reports for 2002, 2003 and 2004 containing consolidated data for AT&T Corp and Subsidiaries – "Seven-Year Summary of Selected Financial Data". Traced revenues from Results of Operations and Earning (per annual report) to Revenues as reported in the RAF forms using the company prepared "Reconciliation of AT&T Annual Report Revenue for all companies for each year. Determined that the reconciliation schedule containing consolidated data segregates revenues by jurisdiction which includes dollars for both regulated and non-regulated revenues. Revenues per the company books segregate revenues between jurisdiction and by non-regulated amounts.

Objective – Trace the "amounts paid to other telecommunication companies" to company books or work sheets to determine that the expenses are split between inter- and intra-state and generally include only allowed services.

Procedures
For applicable companies, obtained monthly schedules of Amounts Paid to Other Telecommunication Companies (Access Expense). Obtained Reconciliation of access expense per the RAF form, to access expense per the G/L.

Requested documentation of methodology used to allocate expense between intrastate and interstate. Determined that Access expenses are directly assigned to the jurisdiction, therefore no allocation is used. Using the monthly schedules of access expense, designated several months for testing and requested a schedule of invoices from other telecommunication companies which corresponded to those months. Using the schedule of invoices, selected several telecommunication companies and requested specific invoices paid for the purpose of determining if recorded cost complied with provisions established by the FPSC for inclusion of costs as access expense. Determined that AT&T Corp does not receive paper copies of bills but instead receives invoices in electronic format from the local exchange carriers. Further, the selected electronic invoices were not available due to AT&T's retention policy – "mechanized files are maintained for 13 months before being deleted". In an amended requested dated February 8, 2006, the company was asked to provide a December 2004 invoice. The company responded that this invoice had been deleted. In a telephone call on February 15, the company spokesperson was asked to verify whether or not the invoice had actually been deleted. In a conference call on February 21, 2006 the company spokesperson verified that the December 2004 electronic invoice had been deleted. Determined that the billed access expenses, that amount recorded on the schedule of invoices from the telecommunication companies, did not agree to the booked access expense, recorded on the monthly schedule of access expense. Requested a reconciliation of this difference. The company provided a statement that the difference between booked and billed amounts are due to accruals, reversals, adjustments and actuals which are not distinguishable in the books and there is no way to separate them into detail.

Objective – Review consolidated financial statements and work sheets to determine any non-certificated Florida business.

Procedures
In reconciliation reports provided by AT&T Corp for 2002, 2003 and 2004, amounts for unregulated revenues and brand licensing revenues were listed. Also in the monthly schedule of revenues - internal, non-regulated/non-jurisdictional and uncollectible were listed. The above amounts are included in the consolidated financial statements but were removed from the RAF form for 2002, 2003 and 2004.

Objective – For all TA and TX (CLEC) company codes, review the relay access surcharges remitted by the CLECs. This charge is required by Rule 25-4.160. It is a monthly charge based on number of subscribers. Please verify the companies are remitting accurate amounts on a monthly basis. Include support for your conclusion with the RAF work papers.

Procedures

Obtained a schedule of monthly relay access surcharges collected and submitted for AT&T Communications of the Southern States LLC and TCG South Florida for the years 2002, 2003 and 2004. Obtained the number of subscribers that pertained to the Relay access Charges. Using the Commission directed surcharge and the number of subscribers, recalculated the relay access surcharges.

SUMMARY OF FINDINGS

1. An audit trail could not be established using customer billing records to support the claim that booked revenues are directly charged to the various jurisdictions.

2. For the period under audit, the company could not provide third party documentation to support Amounts Paid to Other Telecommunication companies (access expense) recorded in its general ledger.

AUDIT FINDING NO. 1

SUMMARY: An audit trail could not be established using customer billing records to support the claim that booked revenues are directly charged to the various jurisdictions.

STATEMENT OF FACT: The company was asked to provide an allocation methodology and worksheet for the allocation of Florida Gross Operating revenues between intrastate, interstate and other. Also, the company was asked to provide a schedule of revenues by billing cycles for a selected month. The purpose of this request was to select a billing cycle and test customer bill records to determine the accuracy of revenues recorded as intrastate, interstate and other.

The company responded that there is no allocation methodology. Revenues are assigned to each jurisdiction which is determined within the AT&T billing systems based upon the point of origination, point of termination, service type, tariff source, and other message specific data. Once the usage, service type, or lines are rated and captured for customer invoicing, the revenue is recorded to jurisdiction specific financial accounts on the books and records of the company.

Additionally, revenue is not available in the general ledger by billing cycle, it is recognized by month. The revenue types are identified by Part 32 accounts and the jurisdictions are identified by the jurisdictional codes for intrastate, international, interstate and non-jurisdictional.

When recorded, all revenues are summarized, therefore there is no billing cycle detail available.

EFFECT ON THE GENERAL LEDGER:

There is no affect on the company general ledger.

EFFECT ON REGULATORY ASSESSMENT FEE RETURN:

Because the company could not provide the auditor with documentation to support the dollars charged to intrastate revenues, all revenues received and recorded by the company should be treated as intrastate revenues and the applicable regulatory assessment fee charged to this total.

AUDIT FINDING NO. 2

SUMMARY: For the period under audit, the company could not provide third party documentation to support Amounts Paid to Other Telecommunication companies (access expense) recorded in its general ledger.

STATEMENT OF FACT:

For the purpose of determining if the amount of access expenses recorded on the Regulatory Assessment Fee return were in compliance with FPSC requirements, the company was asked to provide several vendor invoices for analysis and testing.

Company responded that the "....requested invoices are not available. In an effort to reduce costs and to streamline operating processes, the invoicing of most access charge expenses from local exchange carriers is done electronically. Each of the noted LECs provides their access invoices to AT&T in this electronic format. The mechanized file feeds from the LECs are reviewed, verified, and paid and the expense is recorded to our financial systems. In addition, the mechanized files are maintained for 13 months before being deleted. Each of the invoices requested are more than 13 months old.

AT&T keeps the required books and records for each legal entity and records regulated revenues and access expenses by jurisdiction. Access charge billings are often several months in arrears, therefore, monthly accruals are prepared for each legal entity by state and jurisdiction. The monthly accruals are prepared for nationwide results and, through a complex process, the booked expense is recorded down to the requisite state and jurisdiction. Once the actual invoices are received, the state specific and jurisdiction specific amounts are posted to the books. The nationwide approach to the accrual process, the allocation of the expense accruals to the states and jurisdictions, and the time lags in receipt of LEC invoicing make reconciliation of invoices received for specific months (as provided in the previous response) to the booked expense identified in documents request No. 7 difficult and time consuming. If such a reconciliation of booked results is required, it cannot be provided for several weeks or more given the merger activity, year-end book close, and time personnel will be out of the office over the next few weeks."

"In order to reduce costs, the access invoicing and payment processes are all electronic and to ensure enough storage space is available in the systems, records are deleted month to month."

In the company's response, staff noted that the actual access charge billings are often "several months" in arrears and that monthly accruals are prepared to record a specific months' access expense. Additionally, there is a time lag in receiving the actual invoices and once received are maintained for 13 months. Therefore, even if the December 2004 electronic invoice was received just one month in arrears, it would have been deleted no earlier than March 1, 2006 and therefore should have been available for review by audit staff.

EFFECT ON THE GENERAL LEDGER:

There is no affect on the company general ledger.

EFFECT ON REGULATORY ASSESSMENT FEE RETURN:

Because the company could not provide the auditor with documentation to support the apportionment of intrastate dollars charged as Amounts Paid to Other Telecommunication companies, all amounts paid to other telecommunication companies should be disallowed when calculating the regulatory assessment fee to be paid to this Commission.