

Staff Position Paper

Review of the Federal Communications Commission's Staff Report of the Audit of the Continuing Property Records of New York Telephone Company

** Redacted version **

August 8, 2001

CASE 00-C-0788 - Proceeding on Motion of the
Commission to Investigate the Accounting Practices of
New York Telephone Company Concerning its
Telephone Plant in Service.

TABLE OF CONTENTS

I.	SUMMARY	3
II.	BACKGROUND	3
III.	DESCRIPTION OF FCC AUDIT AND PSC STAFF REVIEW	
	Introduction	6
	Major Areas of the FCC’s CPR Audit	7
	Staff’s Review – Detailed Hardwired Equipment	9
	Staff’s Review – Non-Specific Investment	10
	- Undetailed Investment	11
	- Unallocated Other Costs	12
	- Discussion	13
	- Preliminary Conclusion - Staff’s Review	16
IV.	NYT’s RESPONSE	17
V.	PSC STAFF’S RECOMMENDATION	17
VI.	CONCLUSION	19
	APPENDICES	
	Appendix A – Non-Specific Plant By Vintage Year	
	Appendix B – Examples of the Continuing Property Records	
	Appendix C – NYT’s Responses and Staff’s Observations	
	Appendix D – Items and Dollar Level of Non-Specific Investment	
	Appendix E – PricewaterhouseCoopers & Internal Audit Selected Comments	

SUMMARY

The New York State Department of Public Service (NYDPS) staff has reviewed the Federal Communication Commission's (FCC) staff audit report dealing with New York Telephone's (NYT) central office plant accounting related practices. As part of this review we met with the FCC staff, NYT personnel, and the latter's outside auditors. We also examined workpapers from each party, and conducted written discovery of NYT including a review of the company's internal audit reports.

Based on this review, we became aware of several long-standing deficiencies in the company's record-keeping and accounting internal control procedures for a major class of its central office equipment (COE) investment. For the plant in question, NYT could neither identify nor locate the physical assets, and furthermore purposely excluded these assets from its routine physical verification process. In addition, NYT could not provide the cost support needed to verify the assets existence.

Taken as a whole, we believe these weaknesses call into question the adequacy of NYT's plant accounting practices and related internal controls. We believe that NYT should be required to address the findings in this report, any financial\rate implications, and report on steps taken to strengthen internal controls.

BACKGROUND

On March 12, 1999 the FCC released its staff reports and Regional Bell Operating Company (RBOC) responses related to a 1997 COE plant verification audit. The FCC staff found that approximately \$5 billion or 10% of the RBOCs' COE plant was missing or could not be substantiated on a national basis.

Consequently, the FCC staff believed that the RBOCs' COE plant balances were overstated, and recommended plant write-offs consistent with the audit's findings. The reports did not discuss the rate impacts resulting from the proposed write-offs.

Specific to NYNEX, (New York Telephone Company and New England Telephone Company) the FCC staff recommended that it write off \$758 million of COE plant. They also recommended that NYNEX reverse previously booked retirements of \$291 million, and instead write these amounts off.¹ In total, the FCC staff recommended a write-off of approximately \$1 billion of NYNEX's \$13 billion of COE plant.

In its response, Bell Atlantic ² (BA) disagreed with the FCC staff findings and disputed the need for any additional plant retirements or write-offs. It also disagreed with the need for such an audit, and found fault with the FCC staff audit and statistical procedures. BA stated that it found all but 3% of the plant in the audit sample, and that the FCC staff ignored later-provided information that proved the plant's existence. It asserted that the findings do not impact rates since interstate rates have been set using price caps since 1991 (i.e., price caps effectively de-link rates from the book costs).

The FCC did not endorse the reports but instead

¹ A write-off of plant would be charged against earnings and reduce rate base. This would eliminate recovery in future rates. A retirement of the plant would be charged to the depreciation reserve and have no net impact on rate base. As a result, there would be no direct revenue requirement effect.

² Response to Audit Staff Draft Report of Findings Related to Audit of Continuing Property Records of Bell Atlantic, dated January 11, 1999. Note that since the FCC report was issued subsequent to the NYNEX/Bell Atlantic merger, Bell Atlantic the surviving entity proved responses to the FCC on behalf of the former NYNEX companies.

initiated a proceeding to seek public comment on this matter.³ Initial and reply comments were filed with the FCC on September 23, 1999 and October 25, 1999 respectively. The NYSDPS filed comments, which stated that the initial results of our investigations indicated problems with the accuracy of NYT's records and reported results. The NYSDPS stated that it would keep the FCC apprised of our final conclusions⁴.

The FCC in an order adopted on November 1, 2000 decided not to pursue further investigation into the FCC staff COE verification audit reports. It stated that in light of recent access charge reforms and rate reductions continuing the investigation was unnecessary. The FCC also stated that the RBOCs did not seriously challenge the findings in the FCC staff audit reports and that the companies' plant record keeping was not in accordance with the FCC's rules. Finally, the FCC made clear that their decision to end the investigation does not preclude the states from pursuing relevant state issues raised by the FCC staff audits⁵.

In order to evaluate the potential rate making effects for New York State ratepayers, we began a review of the FCC staff report and NYT's response. The review involved the examination of the FCC staff's work papers in Washington DC, significant written discovery efforts with NYT, and a series of meetings amongst NYDPS Staff, NYT representatives, and their external

³ See FCC Notice of Inquiry in CC Docket No. 99-117, In the Matter of Bell Atlantic (North) Telephone Companies' Continuing Property Records Audit (ASD File No. 99-2), Adopted April 6, 1999 and released April 7, 1999.

⁴ Letter dated September 13, 1999 from Lawrence G. Malone, General Counsel, New York State Department of Public Service to Magalie Roman Salas, Secretary, Federal Communications Commission

⁵ See FCC Second Report and Order in CC Docket No. 99-137 and Order in CC Docket 99-117 and AAD File No. 98-26 (adopted November 1, 2000 and released November 7, 2000).

auditor, PriceWaterhouseCoopers, LLP (PwC). We also reviewed PwC's audit work papers and NYT's internal audit reports. Our review found that NYT's record keeping was poor and lacked some essential internal controls associated with certain capital expenditures.

As a result of our review, the NYSPSC instituted this proceeding to investigate these record-keeping deficiencies and the adequacy of NYT's internal controls. This proceeding will determine the extent of any such deficiencies, their relevance for ratemaking purposes, and what if any remedial actions are warranted.

DESCRIPTION OF FCC AUDIT AND PSC STAFF REVIEW

Introduction

The accurate reporting and accounting for plant costs is fundamental to rate setting, and telecommunications is a capital-intensive activity supported by a considerable investment in network plant. The costs associated with return of capital (depreciation) and return on capital (interest and equity return) can account for approximately one-third of a company's revenue requirement.

A non-regulated firm faces similar reporting and accounting controls for its physical assets. It must maintain records supporting the book value of this investment and regularly verify their existence. This is done to protect the firm's assets and maintain an accurate measurement for both internal management and investors.

Telecommunications plant related accounting and record keeping requirements are incorporated in the NYSPSC Uniform System of Accounts (USOA).⁶ These requirements are consistent with plant accounting regulations established by the FCC, which were

⁶ 16 NYCRR Part 663.

the subjects of the FCC staff audit. They are also similar to accounting controls and record keeping standards most non-regulated firms maintain to account for physical assets.

The USOA requires that NYT maintain a continuing property record system (CPR). The CPR identifies individual equipment items (and related dollar amounts) that comprise the company's telephone plant in service (TPIS) balance. It also records their location and along with supplemental records provides an accounting trail to their cost support.⁷ The CPR effectively acts as a perpetual plant inventory and substantiating the TPIS balance. The CPR should provide the information necessary to readily verify the physical existence of plant items whose cost is reflected in the TPIS balance. For this reason, the CPR needs to be reasonably accurate and its total cost for plant items should equal the financial statement plant balance.

Major Areas of the FCC's CPR Audit

The FCC staff tested the accuracy of NYT's CPR as of March 31, 1997 by physically verifying the COE equipment recorded in the CPR and examining related cost support (e.g., work orders, invoices). In performing the audit, the FCC Staff focused on hardwired COE plant equipment in the CPR. According to the company's accounting instructions, hardwired plant equipment includes permanently installed equipment normally wired in place, not readily movable, and considered inherent to the function it

⁷ Items of equipment in the CPR are known as retirement units. Each retirement unit has its own record identifying it, where its located and its installed cost with a trail to documents (work orders, invoices and the like) that shows the source and nature of these costs. From the NYNEX Corporate Requirement Letter: 518/B, Plug-Inventory Control System/Detailed Continuing Property Records (PICS/DCPR Requirements), Part 4.02 (data request PA-13). Also see responses to PA-26 and 30.

performs.⁸ The FCC audit tested only hard-wired central office equipment. This plant is least subject to being moved to different locations and in theory should be more capable of being located (for verification) than other plant. In performing the audit, the FCC staff initially found two categories of hardwired equipment and became aware of a third later:

Detailed Equipment

This category contains records detailing expenditures for individual assets. This allows each plant item to be physically verified and provides an accounting trail to the assets cost support. These records were detailed hardwired CPR items of plant.⁹

Undetailed Investment

These are items of plant placed in service before NYT's mechanized CPR system was installed in the 1970's.¹⁰

Unallocated Other Costs

These are costs in excess of those reasonably includable for individual hardwired items installation costs.¹¹

For both the undetailed investment and unallocated other costs plant items, neither the CPR nor the supplemental records capture the essential details of construction. Both items lack equipment and location descriptions thus making it

⁸ NCR 518/B PICS/DCPR Requirements, Part 4.01 (data request PA-13).

⁹ The FCC audit and sampling procedures dealt primarily with detailed plant which is described with specific location and identifying information on the company's detailed continuing property record (DCPR or CPR).

¹⁰ NCR 518/B PICS/DCPR Requirements, Part 4.01

¹¹ NCR 518/B PICS/DCPR Requirements, Part 9.06

impossible to verify the individual assets existence. NYT appears to have recorded costs interchangeably to the undetailed investment and unallocated other costs categories. Accordingly we refer to these two categories of plant collectively as non-specific investment. Detailed hardwired equipment, and non-specific investment are discussed individually below, due to differences in their nature and our findings

Staff's Review - Detailed Hardwired Equipment

The FCC staff's audit of detailed hardwired equipment records consisted of a random sample from each of the NYNEX companies' CPR. Of those records sampled, the FCC staff determined that a number of the plant items were missing or unverifiable. Based upon this sample the FCC Staff recommended that NYNEX write-off approximately \$382 million. A write-off lowers net plant, potentially reducing customer rates.

NYDPS staff focused its review of the FCC audit on those detailed hardwired items, which were on the company's CPR (and reflected in the TPIS book balance) but could not be physically verified by FCC Staff nor NYT, when the central offices were visited. We interviewed the FCC auditors and reviewed work papers supporting their detailed plant study. We also reviewed NYT's responses included in the FCC work papers and obtained the FCC Staff evaluation of the company's responses. Finally, our review included a significant number of discovery requests and face-to-face meetings with the company providing it with the opportunity to expand upon its view of the FCC staff study results and conclusions.

Although the failure of the company to identify equipment that is included in its CPR is perplexing¹², we

¹² As discussed below, NYT performed a 100% asset verification for this plant during 1995 and 1996. The company claimed this inventory corrected its CPR. Although the FCC audit occurred only one year later (1997), the FCC still found significant

conclude that much of the missing plant resulted from poor record keeping. Based on our review, the company was able to show the details of the equipment in the CPR and provide a link to the underlying cost support. From these details, we obtained reasonable assurance that the equipment in question was purchased, installed and placed into service.

For the most part, it appears that the verification problems were due to the company either not retiring the plant from the CPR or not updating the CPR to reflect changes in the location of plant. Therefore, we believe that the FCC staff's detailed hardwired plant findings relate to unrecorded retirements, not missing plant. As discussed above, an adjustment to correct for retirements merely reduces the TPIS with a corresponding adjustment to accumulated reserve for depreciation. Our conclusion is that the company's net plant for detailed hardwired equipment would not change and there would be little revenue requirement effect.

Staff's Review - Non-Specific Investment

From NYT's CPR at March 31, 1997, the FCC staff found a large number of records lacking equipment and specific location descriptions. The company refers to these records as undetailed investment and unallocated other cost items. This non-specific investment represented \$634 million or (7.1%) of NYT COE at March 31, 1997.¹³

Undetailed Investment

Originally, undetailed investment was created in the late 1970's when NYT established a computer-based CPR and details of existing plant items were not available. NYT's accounting instructions stated that undetailed plant would diminish to an

missing plant. This calls into question the reliability of the company's comprehensive asset verification.

¹³ NYT's response to staff information request PA-74 and 87.

immaterial level over time and would ultimately be retired from the company's plant records.¹⁴ It was anticipated that the undetailed investment would be replaced with detailed hardwired COE plant additions. However, as Appendix A demonstrates, NYT continued to record undetailed plant additions after its detailed CPR was installed.¹⁵ The undetailed investment amounted to \$287 million or 3% of NYT's COE TPIS as of March 1997.¹⁶

The absence of detail required the FCC staff to repeatedly request company representatives to provide cost support documentation to substantiate the physical existence of equipment associated with the undetailed investment. The FCC staff found the company could not provide adequate cost support for any of the undetailed items recorded in the CPR. Nor could the FCC staff or the company physically verify any of this investment during the FCC's staff's on-site visits.¹⁷ As a result, the FCC staff recommended the company write-off undetailed investment costs from the its CPR and plant accounts.

Unallocated Other Costs

Unallocated other cost items contain costs that are in

¹⁴ NCR 518/B PICS/DCPR Requirements, Part 11.01 (data request PA-13) and Bell Systems Requirements, General Description PICS/DCPR System, Section 790-100-120, Part 2.12 (data request PA-57).

¹⁵ NYDPS staff requested the company to provide the amount of undetailed investment and unallocated other cost additions from 1989 to the present to determine the materiality of these additions, but the company was unable to provide it (data request PA-55 and 73). However, Appendix A contains a table that breaks down the non-specific investment costs and items by vintage year.

¹⁶ NYT's response to staff information request PA-74.

¹⁷ See FCC Staff Report, Audit of the Continuing Property Records of the NYNEX Telephone Operating Companies as of March 31, 1997, dated December 22, 1998, p. 13-14.

excess of those reasonably includable in the costs of the hardwired items, and can not be related to any particular item of equipment. Examples of unallocated other cost items are the cost of aisle lighting and the expansion of ironwork at a central office. Dollars reflected in the CPR and TPIS balances that cannot be identified with a property unit, nor subject to physical verification of the underlying asset create an exposure of financial loss to the corporation.

In theory in such instances, management creates a control to limit its exposure, and NYT created such a control:

NYT accounting policies state that such costs should not exceed 0.5% for each plant account in which they are included. Annually, if the percentage of unallocated other costs exceeded 0.5%, then the excess amount of unallocated other costs were to be retired.¹⁸

In practice the March 31, 1997 data indicates that unallocated other cost items amounted to \$346 million or 4% of investment in the COE TPIS accounts¹⁹. Despite carrying an amount significantly in excess of its own stated limits NYT did not retire excessive unallocated other costs from COE TPIS.

The FCC staff made no recommendation on the category hardwired plant. However, they did request information from the company to verify the validity of these items. After reviewing NYT's cost documentation, they intended to further report on unallocated other costs.²⁰

¹⁸ NCR 518/B PICS/DCPR Requirements, Part 9.06 (data request PA-13) and Bell System Practices Section 790-100-120, Part 6.02 (data request PA-57).

¹⁹ Data request PA-74 and 87.

²⁰ Given the FCC's November 1, 2000 order not to pursue their staff's COE audit reports any further infra, it is questionable as to whether a separate report on unallocated other costs will

Discussion

As with the hardwired plant category, we reviewed the FCC staff examination of the non-specific investment. We also submitted a number of discovery requests to the company and conducted informal meetings for the purpose of obtaining a better understanding of the non-specific category of TPIS.

After reviewing the FCC plant audit workpapers and the company's responses, we concluded that NYT could not readily locate for physical verification the non-specific plant investment requested by the FCC staff. NYT was also unable to track the cost of the plant item back through its information systems and transaction files to its associated work order. It also could not provide an accurate breakdown of construction costs nor provide related source documents.

We agree with the FCC staff that NYT's CPR does not provide the essential details for the non-specific investment. Specifically, the non-specific investment lacks fundamental pieces of information, which would allow verification of recorded amounts and management to exercise control over the investment:

- A CPR number and J drawing number that provides a description of the item;
- A specific installation location in the central office (Frame Identification) and the quantities to be found there; and
- A material cost traceable to a specific invoice or work order included within the expenditure.

Appendix B compares the type of information provided in the CPR for detailed plant items versus non-specific investment.

As a result of this missing detail, a link cannot be made between the amount on the books and an item of physical

be issued.

plant in service. Without such details, the physical existence of these assets cannot be verified, nor can an item's value on the books be traced to the supporting documents (e.g., work orders, invoices).

During our review, we discovered an additional weakness in NYT's accounting and record keeping controls for this plant category. Since at least 1980 until 1995, NYT's accounting instructions required that non-specific investment be specifically excluded from the periodic physical verification procedures that the company otherwise required for TPIS assets.²¹

The undetailed investment items were excluded from the periodic verification procedures since it was expected that this investment would become a diminishing universe with the passing of time.²² By excluding these items from periodic verification, NYT management eliminated an essential control to assure that this non-verifiable plant would decrease and significant additions of undetailed plant would not occur. NYT was unable to provide the annual additions of this plant category for previous years allowing staff to determine the actual additions during the time period. Appendix A indicates, however, that large amounts of undetailed plant additions were made through the 1980's and 1990's.

²¹ NYT's response to staff information request PA-48 and 49. Also, see NCR 518/B PICS/DCPR Requirements, Part 11.01 (data request PA-13).

²² In order to determine the reasonableness of this claim of immateriality, we requested the company to provide various information on the company's 1989/1990 and 1995/1996 central office asset verifications. In NYT's response to staff information requests PA-29, 32, 43 and 44 the company stated information on the 1989/1990 physical verification was unavailable, but will be provided if found. This information should be available under the NYPSC record retention requirements.

Unallocated cost other items were also excluded from physical verification. This may be because these costs could not be related to specific items of plant. This exclusion, however, eliminated periodic monitoring of these items to determine whether these costs exceeded the 0.5% corporate policy limit. Although NYT could not provide this level of plant in previous years, the 4% level of this plant at March 1997 demonstrates that NYT did not adhere to its own policy.

The exclusion of these items is significant considering the magnitude of the non-specific TPIS investment. We were able to determine that non-specific plant was approximately \$950 million in 1994 for NYT²³, suggesting that this plant category was material in previous periods.

Excluding assets from physical verification is contrary to proper internal controls required for the protection of physical assets. As stated by NYT's own accounting instructions, physical verification of assets is a regulatory requirement prescribed in Part 32 of the FCC's USOA (and the NYSPSC's USOA) and in the Securities and Exchange Commission's (SEC) Foreign Corrupt Practices Act of 1977.²⁴

Among other things, the SEC requires every public company to devise and maintain a system of internal controls sufficient to provide reasonable assurance that the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

By excluding these assets from periodic verification over many years, NYT may have weakened its controls in a manner at odds with the basic operating standards required of all

²³ Data request PA-138.

²⁴ NCR 518/B PICS/DCPR Requirements, Part 11.01 (Data request PA-13) and Bell System Practices, Section 790-200-220 PICS/DCPR Asset Verification Procedures, Part 1 (data request PA-39).

businesses. The company's independent accountant, PwC, was aware of this exclusion.²⁵

Preliminary Conclusion – Staff's Review

Our preliminary conclusion is to agree with the FCC staff's findings on the non-specific investment. The company was unable to describe, locate or provide cost support for these plant items. Without this detail it is impossible to determine whether these assets are appropriately reflected in TPIS. In addition the company violated its own policy concerning the level of unallocated other costs and ignored a fundamental internal control by not physically verifying these plant items. Without a physical inspection, the asset's existence cannot be verified.

NYT'S RESPONSE

We reviewed our findings with the company, and NYT agreed that in the past there were record keeping problems related to the company's CPR. They also stated that these non-specific assets were excluded from physical verification in the past because it was impossible without significant expense to verify investment designated as unallocated or undetailed.

However, NYT believed that its records used for rate making and financial reporting were accurate and had adequate cost support. In addition, the company believes its 1995 and 1996 physical verification program corrected any CPR deficiencies and that it has adequate support for the non-specific investment category of plant.²⁶

Consistent with its response to the FCC Staff audit report, NYT stated that the record keeping problems and lack of physical verification are irrelevant because there is no

²⁵ NYT response to staff information request PA-48.

²⁶ See June 15, 1999 correspondence from William Allan to Charles Dickson.

relationship between the financial records and the CPR, and that customer rates are no longer based on costs. Finally, the company asserted that NYT's independent accountant has examined the company's capital expenditures related internal controls and transactions over the years as part of their financial statement audit engagements. NYT implied that due to the unqualified opinions received, there was reasonable assurance that the assets existed and the controls were sufficient²⁷.

Accordingly, NYT believes this provides evidence that the non-specific investment existed, and was used and useful in the provisioning of telephone service. For these reasons, the company believes that any CPR deficiencies are insignificant and the financial records for COE TPIS were reasonably stated. We discuss the company's explanations and our observations on Appendix C.

PSC STAFF'S RECOMMENDATION

As discussed above, we believe there are significant internal control weaknesses that call into question the balance of non-specific investment in NYT's TPIS accounts. It appears that the company cannot locate these plant items nor provide the required accounting trail to support the amounts recorded in its financial statements. NYT's decision not to look for these items of plant over an extended period of time appears to be in violation of the Commission's rules and regulations and basic internal controls required of all businesses.

The company correctly initiated an inventory program to

²⁷ In response to the FCC Staff CPR audit report, NYT provided a PWC report on the review of the company's controls for capital asset recording for COE. It is important to note that this review did not involve a testing of the controls. Also the controls reviewed were those in effect in 1998 and did not evaluate the controls in effect during the 1980's and early 1990's when large amounts of non-specific plant were added (data request PA-77 and 78).

verify the existence of non-specific investment during the 1995/1996 central office physical verification. However, we are concerned that NYT continued to reflect the non-specific investment of \$317 million as an asset, after failing to find this investment at the conclusion of the 1995/1996 central office physical verification. In addition, the company's policy of retiring non-specific investment more than ten years old is questionable since the financial records could not be reconciled with physical records.

NYT is in the sixth year of the PRP. Although the PRP was a macro price plan that placed less emphasis on accounting records, the starting point of the PRP was the 1992 calendar year accounting records. As a result, the inflated TPIS balances associated with the non-specific investment translates into a higher revenue requirement when rates were first set in the PRP.

NYDPS staff is not recommending that NYT be directed to make retroactive refunds to customers for overcharges in prior years. When the Commission used the calendar year 1992 starting point for the PRP, it was assumed that it was a reasonable basis to set rates. A cursory review of the company's earnings during the first five years of the PRP suggest that there were other cost categories that were higher than PRP expectations. We don't believe it would be appropriate to select one category of company costs and retroactively adjust rates for that lone category. As a result, we believe it would be unfair to the company to require the company to make retroactive refunds to customers.

However, we do believe that NYT should address any post-PRP ramifications, along with other issues raised in this report.

CONCLUSION

With regard to detailed central office hardwired plant,

it appears that NYT's record keeping is poor, and its cost support is deficient. However, we disagree with the FCC's recommendation to write-off plant because there is evidence that the detailed plant had been used and useful in the provisioning of telephone service.

For non-specific investment, it appears that the company has maintained weakened controls over a significant level of capital expenditures. In addition, we have found no evidence to verify the existence of the plant non-specific investment. The company lacks support of non-specific investment and has excluded these items from physical verification. We recommend that these deficiencies be considered in this proceeding.

Appendix A

Non-Specific Plant By Vintage Year

**New York Telephone
Non-Specific Investment
By Vintage Year**

Source: Data request PA-11 and 14

Year	<u>Undetailed</u>		<u>Unallocated</u>		<u>Total</u>	
	Items	Costs	Items	Costs	Items	Costs
1901	29	\$13,121	13	\$330	42	\$13,451
1922	2	40,610			2	40,610
1924	13	36,331			13	36,331
1925	11	76,325			11	76,325
1927	8	11,643			8	11,643
1929	13	4,156			13	4,156
1930	11	90,661			11	90,661
1931	15	18,355			15	18,355
1932	10	36,816			10	36,816
1933	1	328			1	328
1937	10	48,351			10	48,351
1938	4	46			4	46
1939	8	59,563			8	59,563
1940	15	104,419			15	104,419
1941	24	22,823			24	22,823
1942	2	1,126			2	1,126
1946	23	47,004			23	47,004
1947	33	228,475			33	228,475
1948	49	86,774			49	86,774
1949	42	51,147			42	51,147
1950	39	111,476			39	111,476
1951	74	135,801	2	373	76	136,174
1952	78	38,450	1	699	79	39,149
1953	91	37,725			91	37,725
1954	73	21,127			73	21,127
1955	89	41,145			89	41,145
1956	102	65,747			102	65,747
1957	115	110,868	8	119	123	110,987
1958	97	116,374			97	116,374
1959	114	117,540			114	117,540
1960	179	166,445			179	166,445
1961	186	129,720			186	129,720
1962	203	120,532	6	8	209	120,540
1963	236	225,398	16	37,191	252	262,589
1964	243	178,796	5	55	248	178,850
1965	278	166,847	29	25,621	307	192,468
1966	296	290,646	31	115	327	290,761
1967	283	519,846			283	519,846
1968	335	310,190	25	26	360	310,216
1969	371	480,123	12	14,592	383	494,715
1970	438	456,119	28	234,123	466	690,242
1971	449	2,004,048	67	397,414	516	2,401,462
1972	579	1,293,981	53	250,827	632	1,544,809
1973	486	958,702	357	416,451	843	1,375,153
1974	425	371,057	431	424,797	856	795,854
1975	441	568,717	515	911,108	956	1,479,825
1976	462	227,082	460	1,022,911	922	1,249,992

**New York Telephone
Non-Specific Investment
By Vintage Year**

Year	<u>Undetailed</u>		<u>Unallocated</u>		<u>Total</u>	
	Items	Costs	Items	Costs	Items	Costs
1977	545	541,301	307	1,876,497	852	2,417,798
1978	571	739,560	530	433,154	1,101	1,172,714
1979	692	1,101,901	677	935,238	1,369	2,037,139
1980	734	708,986	763	968,443	1,497	1,677,430
1981	778	1,204,896	821	1,831,627	1,599	3,036,523
1982	940	2,139,163	1,252	2,894,273	2,192	5,033,437
1983	1,053	3,440,055	1,586	4,833,910	2,639	8,273,965
1984	1,046	5,481,252	1,222	3,567,520	2,268	9,048,772
1985	1,029	5,417,087	1,480	4,836,948	2,509	10,254,035
1986	1,387	10,325,332	1,809	6,151,464	3,196	16,476,796
1987	2,028	26,369,747	2,210	18,138,787	4,238	44,508,535
1988	2,332	49,608,671	2,789	35,391,179	5,121	84,999,850
1989	2,389	35,358,387	2,679	21,230,961	5,068	56,589,348
1990	2,589	43,633,606	2,860	22,945,044	5,449	66,578,651
1991	2,592	25,214,480	3,365	22,762,037	5,957	47,976,516
1992	1,983	25,760,003	4,280	40,801,697	6,263	66,561,700
1993	1,977	15,770,420	4,650	33,323,882	6,627	49,094,302
1994	3,068	20,415,857	5,755	42,060,082	8,823	62,475,939
1995	2,406	3,152,914	6,906	77,108,167	9,312	80,261,081
1996	314	976,019	141	227,672	455	1,203,691
1997	3	4,714			3	4,714
Total	37,541	\$287,606,925	48,141	\$346,055,342	85,682	\$633,662,267

Summary

1900 => 1950	362	\$ 1,089,548	13	\$ 330	375	\$ 1,089,878
1951 => 1960	1,012	851,222	11	1,190	1,023	852,412
1961 => 1970	2,869	2,878,216	152	311,730	3,021	3,189,946
1971 => 1980	5,384	8,515,336	4,160	7,636,840	9,544	16,152,176
1981 => 1990	15,571	182,978,196	18,708	121,821,715	34,279	304,799,911
1991 => 1997	12,343	91,294,407	25,097	216,283,536	37,440	307,577,943
Total	37,541	\$287,606,925	48,141	\$346,055,342	85,682	\$633,662,267

Note: Per response to data request PA-110 there is a net difference in amounts (\$6 Million) and number of items for non specific plant between responses to data requests PA-11 and 14 and data request PA-54. Staff considers the amounts to immaterial for the purpose of this analysis.

Appendix B

Examples of the Continuing Property Records

New York Telephone
Continuing Property Records
March 31, 1997

acct_loc	acct_code	frame_ident	cpr_no	j_drawing	cpr_desc	part_no	yr	material_cos	h_place_cos
31029	57C	UNALOC	04000	UNALL O C	UNALLOCATED OTHER		#	0	178.42
31029	57C	UNALOC	04000	UNALL O C	UNALLOCATED OTHER		#	0	11177.33
31029	57C	02 210.05	16056	ED-1P465-30	MNTCE CONN CA/NET		#	511.36	1692.23
31029	57C	02 279.03	16735	J1P033AD-1	DISTRIB NET PNL		#	345.52	1143.42
31029	57C	02 279.03	16735	J1P033AD-1	DISTRIB NET PNL		#	3379.20	5528.31
31029	57C	00 DIST-FR	06179	ED-1A216-71	CDF-ESS		#	1748.40	12119.19
31029	57C	02 MFT 10	26055	SET	TRMSN TST SET	100R-4	#	2500.00	4089.96
31029	57C	02 203.03	26055	SET	TRMSN TST SET	100R-4	#	2500.00	4089.96
31029	57C	02 203.19	36026	NJ00508A-1	ALARM MONITORING		#	619.20	2563.78
31029	57C	02 2ND-FL	06158	ED-81434-32	ROLL LADDERS AND		#	732.52	5077.53
31029	57C	UNDETAILE	04000	UNDET INV	UNDETAILED		#	0.00	135759.34
31029	57C	UNDETAILE	04000	UNDET INV	UNDETAILED		#	0.00	384.45
31029	57C	02 299.01	00209	J99338A-1	SW GAIN RPTR SHELF		#	253.11	385.25
31029	57C	UNDETAILE	04000	UNDET INV	UNDETAILED		#	0.00	35.83
31029	57C	02 206.07	11008	ED-3C660-32	660 COMM PNL		#	1882.76	7795.51
31029	57C	02 210.08	11008	ED-3C660-32	660 COMM PNL		#	25.16	104.17
31029	57C	02 210.12	11008	ED-3C660-32	660 COMM PNL		#	25.16	104.17
31029	57C	02 203.15	11008	ED-3C660-32	660 COMM PNL		#	1761.52	2881.82
31029	57C	02 203.15	56985	J98733D-2	D4/SMAS 5 CHAN BK BA		#	35892.80	58720.00
31029	57C	UNDETAILE	04000	UNDET INV	UNDETAILED		#	0.00	524.36
31029	57C	01 1ST-FL	06170	ED-30126-73	TRUNK DISTG FR		#	238.50	736.75
31029	57C	02 203.03	06621	J99359AP-1	JK/KY/LP CKT		#	857.26	2470.65
31029	57C	02 203.03	12007	ED-1P465-32	SMAS 5 MC BAY		#	2045.34	6318.28

Appendix C

NYT's Responses and Staff's Observations

New York Telephone Responses and Staff's Observations

Appendix C contains a more detailed response to points raised by the company regarding the review of its continuing property records. Five points are addressed in this appendix:

- Immaterial
- Cost Support Exists
- 1995/1996 Corrective Actions
- Findings are Irrelevant
- Reasonable Internal Control Exist
 - NYT Purchasing Controls
 - Lack of Segregation of Duties
 - Internal Audit Findings
 - Other
- Conclusion Internal Controls

New York Telephone Responses and Staff's Observations

Immaterial

The company agreed that non-specific investment could not be readily identified, and were excluded from physical verification in the past because the cost to find the equipment would be very expensive. However, the company noted that when the procedures to exclude non-specific investment from physical verification were written, it was assumed that the exclusion was immaterial.¹ In addition, the company indicated many of the items that made up the non-specific plant balances were made up of small items and it would be too costly to attempt to locate these items of plant.

We disagree with NYT. First, the balance of the non-specific investment was \$633 million or approximately 7.1% of the COE TPIS at March 31, 1997. In the company's accounting instructions, it states that differences in excess of .05% of the detailed hardwired investment within a given subaccount is substantial and require a comprehensive investigation.² NYT did not investigate the non-specific investment even though the balance of this TPIS category exceeded the company's own materiality benchmark by over 14 times.

Second, staff requested that the company provide the year-end balances of non-specific investment from 1989 to 1999. However, the company claims it can't respond to this request at this time.³ Although the company was unable to provide us with a

¹ See June 18, 1999 correspondence from William Allan to Charles Dickson.

² NYT response to staff information request PA-39 and PICS/DCPR Requirements, Part 11.07.

³ NYT response to staff information request PA-55.

New York Telephone Responses and Staff's Observations

history of this plant category, this balance was likely higher in previous years because NYT began to accelerate the retirement of non-specific investment in 1995 and 1996.⁴ According to NYT's response to data request PA-138, the 1994 balance of non-specific plant was approximately \$950 Million. As a result, the non-specific investment balance was material and ignored for many years when conducting periodic verifications of plant assets.⁵

Third, NYT's contention that the non-specific category of plant consisted of only small items is incorrect. As shown on Appendix D, over 50% of the non-specific investment were made of items that were valued at greater than \$100,000. With the high percentage of items over \$100,000, the company should have attempted to locate these items of plant. If the plant was not found within a reasonable time period, the company should have adjusted its accounting records since the plant's existence could not be verified.

⁴ See June 18, 1999 correspondence from William Allan to Charles Dickson and NYT response to staff information request PA-87.

⁵ It appears that in 1994 NYT began to recognize that the non-specific investment was no longer immaterial. As a result, the company determined the existing asset verification procedures were no longer appropriate verification practices.

New York Telephone Responses and Staff's Observations

Cost Support Exists

Contrary to the FCC staff report, the company claimed that the cost support for the non-specific investment exists. We submitted three staff information requests in order to provide the company with another opportunity to provide the cost support.⁶ Since physical verification of these non-specific items is impossible then at least a showing of complete and accurate cost support would indicate that the item did exist and was used and useful at some time in the past.

Although NYT provided staff with documents that were represented as cost support for various non-specific items, this supporting documentation was incomplete in several major respects. First, the submitted cost support documentation for an item did not provide the linkage, as required under the company's accounting instructions from the material cost of the item in the CPR back through the company's transaction files to the specific work order in which the item was included:

Material cost of item in CPR



Company's transaction files



⁶ In NYT's response to staff information request PA-52, the company states the cost support provided to the FCC staff for the non specific items was complete and no additional support was found. In the staff information request PA-68, the company provided an explanation as to why there was no cost support for a number of the items. In the follow up to this request (staff information request PA-113), the company provides bits and pieces of cost support, rather than a complete cost support package.

New York Telephone Responses and Staff's Observations

Specific Work Order

This accounting trail is essential to assure that the cost support documents provided for the item were included in a specific work order and not related to another similar plant item that may have been added in another work order. Since NYT did not maintain this information for individual non-specific items it was impossible to assure that the cost support documents provided for an item did not in fact relate to another work order or item of plant.

Second, for many of the items the company provided cost support that did not agree in amount to the cost of the item in the CPR. Also, during our review NYT submitted several versions of cost support for the same items. It appears NYT attempted to demonstrate cost support for these items by searching for invoices that matched the item, without providing a demonstration that the invoices were not related to another item of plant. Based on this, we agree with the FCC staff that the company did not have adequate cost support to substantiate the non-specific investment.

New York Telephone Responses and Staff's Observations

1995\1996 Corrective Actions

NYT states it corrected any bookkeeping problems when it performed a 100% physical verification of its Hardwired COE plant in 1995 and 1996. The company determined in 1994 that the non-specific investment should not be excluded from the asset verification process and claims to have updated their engineering procedures.⁷ After completing its physical verification program, the company was still unable to reasonably allocate \$317 million of plant investment in the financial records to the items of plant physically verified. The company at the end of the 100% asset verification program held \$317 million of non-specific investment in its CPR and on its books that could not be associated to physical plant in existence. After this verification, NYT continued to carry this amount on its books and reflected the investment as non-specific items in its CPR.⁸ With this effort, NYT stated that it corrected any CPR deficiencies and stated that there was a valid level of non-specific investment that can be reflected in the TPIS balances over time.

The company also established a policy to retire all COE non-specific investment more than 10 years old to prevent the non-specific investment from staying on the company's records past a reasonable service life. In addition, the company began a program to restrict the additions of non-

⁷ However, the company says it did not update the corporate asset verification procedures (PICS/DCPR Requirements) at the time. See June 18, 1999 correspondence from William Allan to Charles Dickson.

⁸ NYT response to Staff information request PA-61

New York Telephone Responses and Staff's Observations

specific investment to the TPIS accounts and the CPR.⁹ In discussions with NYT, the company's goal is to have non-specific investment of less than \$100 million or 1% of COE TPIS. It appears the company will track this balance in the future to monitor compliance. NYT believes all of these actions corrected for any past record keeping deficiencies.

Although the company's physical inventory and new policies on non-specific investment represent improvement, PSC staff believes NYT's accounting to continue to carry a material amount of missing equipment on the books is flawed. Based on the company's physical verification, NYT's plant assets were overstated by \$317 million of non-specific investment recorded on the books and in the CPR that could not be associated with any verified plant. However, the company did not adjust its TPIS balance to coincide with the verified assets. In order to reflect the results of its own physical verification, the company should have adjusted its records for the \$317 million of plant investment that was not found.

It is important to note that based on its own accounting instructions, a difference in excess of .05% between verified items and those items reflected on the books was considered material and required comprehensive investigation. The \$317 million of non-verifiable plant represented 6% of the investment of the verified plant¹⁰, which is clearly a material variance. The company appears to have ignored its own

⁹ See June 18, 1999 correspondence from William Allan to Charles Dickson.

¹⁰ Data requests PA-61 and 87.

New York Telephone Responses and Staff's Observations

accounting requirements by continuing to carry such a large amount of non-verifiable plant investment on its books.

Also, according to NYT procedures, by performing this 100% verification the company should have found any undetailed equipment items that were in existence and recorded their details to the CPR thus eliminating the undetailed items in the CPR. Based on this, the only remaining non-specific items after the verification should be the unallocated other costs items¹¹. As previously stated, NYT's accounting controls allowed the portion of unallocated other costs to be no greater than .05% of plant investment. The company again did not follow its own controls by continuing to hold a 6% non-specific investment after the end of its asset verification.

Finally, NYT's policy of retiring all COE non-specific investment greater than ten years old is questionable; given the lack of physical and record support for the assets in question.

¹¹ NYNEX-New York Central Office Asset Verification Procedures, Asset Reconciliation section, page 1 (data request PA-53).

New York Telephone Responses and Staff's Observations

Findings are Irrelevant

NYT believes that these findings are irrelevant because there is no relationship between the financial records and the CPR. According to the company, rate making is based on the financial statement balances of TPIS and not the CPR. The company explains that under rate of return regulation, the financial statement balances of TPIS are the basis for determining the plant costs that are used to set rates. NYT claims the CPR is not used in the rate making so any inaccuracies in the CPR have no impact on rates that are charged to customers.

We disagree with the company. Based on the Commission's requirements and NYT's own accounting instructions, the TPIS balance used in rate making is substantiated by the details maintained for individual plant items reflected in the CPR. The total of these property records must equal in aggregate to the total investment reflected in the financial property control accounts.¹² Without the CPR, the TPIS balance can not be related to the underlying physical assets. The CPR provides the essential link that identifies the individual asset items and their cost that make up the TPIS balance used in rate making.

NYT also states that the findings have no relevance to rate setting under the current PRP. Under the PRP, cost precision contained in the company's accounting records became less important when determining a reasonable level of customer rates. Therefore, the company claims that even if it was found that NYT overvalued its plant, customers are not harmed because

¹² NCR 518/B PICS/DCPR Requirements, Part 4.02 and responses to data requests PA-26, 30 and 57.

New York Telephone Responses and Staff's Observations

customer's rates were not based on accounting costs. However, the PRP forecast was the 1992 calendar year accounting records. To the extent that the 1992 costs were overstated, customer rates that were based on those costs are overstated.¹³

¹³ In staff information request PA-55, we requested the company provide us with the December 31, 1992 balance of non-specific investment in order to estimate the customer exposure. However, NYT stated that the balances were unavailable at this time.

New York Telephone Responses and Staff's Observations

Reasonable Internal Controls

NYT stated that the overall internal controls on NYT's capital expenditures process have been sufficient to assure the TPIS balances represented actual TPIS. As evidence, the company pointed to its independent accounting firm, PriceWaterhouseCoopers, LLP (PwC), which has over the years, examined the company's financial statements and issued unqualified opinions. NYT believes the issuance of unqualified opinions shows that the company's overall capital expenditures process has sufficient controls in place. This should assure the Commission that non-specific investment represented valid purchases and installation of plant used in the provisioning of telephone service. To support their position, the company invited NYDPS staff to review the work papers of its outside auditor, PwC.

Although PwC issued unqualified opinions on NYT's financial statements, PwC did provide NYT management with reports where they presented audit findings and recommendations. PwC issued a number of findings related to the internal controls of the company's capital expenditures process. Staff attempted to better understand the underlying PwC support for these findings and evaluate their impact in conjunction with the internal control weaknesses and violations of NYT accounting requirements we described above.

This effort was hampered in several respects. Staff asked PwC to identify the specific workpapers that supported each of the auditor's findings. They were unwilling to provide

New York Telephone Responses and Staff's Observations

these references¹⁴. This made it difficult to better understand the basis of their findings. Also, PwC was unable to locate their permanent workpapers related to the understanding of NYT's estimate process. The estimate process includes the NYT procedures and resulting documents used to evaluate and authorize capital expenditures, to control their costs during construction and assure the proper accounting and records are provided for the plant additions¹⁵. Without these workpapers it was difficult for staff to ascertain the auditor's of knowledge of the capital expenditures process and their evaluation of the related internal controls that would be reflected in these workpapers for the estimate process.

Finally, NYT's rates were last based on the 1992 historic plant balances.¹⁶ Based on this, it would be necessary to review PwC's audit work papers in the past up through 1992 to evaluate NYT's statement on purchasing controls. Due to PwC's six-year work paper retention policy, however, they were only able to provide us with audit work papers for the period of 1992 to the present. As a result, only a very minor portion of capital expenditures and plant costs reflected in rates can be evaluated in the supporting work papers of PwC. All pre-1992 NYT additions have no associated PwC annual engagement audit work papers that would allow us to judge the basis of the

¹⁴ Data request PA-124.

¹⁵ Accounting Instruction 17 Specific & Routine Estimates and Projects (data request PA-65).

¹⁶ Opinion No. 94-2, Case 92-C-0665, Motion of the Commission to Investigate Performance Based Incentive New York Telephone Company, Issued and Effective January 28, 1994.

New York Telephone Responses and Staff's Observations

company's statements concerning the purchasing controls. This clearly limits the amount of reliance we can place on the PwC's audit work in supporting the reasonableness of the NYT non-specific investment in rates at the time the PRP became effective.

NYT Purchasing Controls

In reviewing the PwC work papers and reports that were available, a number of internal control comments were presented by the auditor to NYT. In NYT's response to PA-10, the company provided PwC's comments on NYT's internal controls. Selected comments that we will discuss are presented in Appendix E.

Lack of Segregation of Duties

REDACTED INFORMATION BEGINS

REDACTED INFORMATION ENDS

The lack of segregation of duties and independent confirmation on the receipt of goods provided the JIE with control of too many aspects of the capital expenditure process and the information reflected in the DCPR for these expenditures. This could potentially provide an opportunity to order equipment that was never received by the company. Any activities resulting from these weaknesses could easily have

¹⁷ To the company's credit, NYT recognized these weaknesses when it instituted the Vendor Engineering Center (VEC) in 1993 where a centralized, dedicated staff shared responsibilities with the JIE regarding the requirements for additions and replacements of central office equipment. Also, the billing organization required a positive feedback on the receipt of materials prior to the authorization of a bill for payment. See the NYT's responses to staff information requests PA-98 and PA-106.

New York Telephone Responses and Staff's Observations

been concealed by reflecting these inflated costs as non-specific plant since the non-specific investment category of TPIS was excluded from physical verification.

Internal Audit Findings

REDACTED INFORMATION BEGINS

REDACTED INFORMATION ENDS

Other

In addition, there were three other NYT documents that contained information on receipting procedures, accounting issues arising from the 1995 and 1996 physical inventory, and the historic levels of unspecific investment. The company's 1989 receipting procedures document states that the physical receipting of equipment is not necessary to authorize payment for certain equipment.²⁰ While physical receipting of all equipment is desirable from a control viewpoint, the document explains that it is not cost effective for all orders. As discussed above, failure to obtain independent verification that goods were received may result in payments to vendors when those goods were never received.

The 1994 NYT document on the 1995/1996 physical inventory discusses certain accounting issues that have arisen

¹⁸ Response to Staff request PA-129.

¹⁹ NYT's responses to staff information requests PA-167, PA-168, and PA-169.

²⁰ NYT's response to staff information request PA-141.

New York Telephone Responses and Staff's Observations

as a result of the asset verification process.²¹ Although the company states that any discrepancy in the CPR is due to unrecorded retirements, this document indicates the discrepancies may also relate to missing equipment. The document also discusses the possibility of setting up certain regulatory liabilities to reflect past overcharges to customers. This implies the company itself, considered the possibility that certain equipment could not be found.

As stated above, the non-specific investment for COE was \$633 million as of March 31, 1997. NYT indicated that the unspecific balances were much larger previously - \$950 million at the end of 1994 prior to the physical inventory and changes to the in place cost factor.²² The vast majority of the unspecific plant was likely removed from the books through accounting retirements even though NYT could not identify the item being retired

Conclusion - Internal Controls

The workpapers of PwC were not designed to provide the assurance of the purchasing internal control structure that is needed in this case. PwC can not provide audit work papers for the great majority of plant expenditures in rates. This severely limits our ability to judge the basis of NYT's statement on purchasing controls and the reliance on the plant balances reflected in rates.

Also, based on our work paper review, there appears to have been significant concerns related to NYT's purchasing controls but the lack of previous years' work papers also limits

²¹ NYT's response to staff information request PA-137.

²² NYT's response to staff information request PA-138.

New York Telephone Responses and Staff's Observations

our ability to determine their effect and PwC's evaluation of them. These facts lead staff to the determination that the PwC audits and work papers do not the basis of support for NYT's statement that its purchasing controls provided assurance that the non-specific investment was properly purchased, installed, used and useful in the provisioning of telephone service.

Finally, review of PwC's past audit workpapers to determine the effectiveness of previous years' purchasing controls is less effective. At this point in time the more effective test of these controls is obtained by performing a verification of the assets purchased in the past and providing their related cost support documentation. This is something the company can not provide.

Appendix D

Items and Dollar Level of Non-Specific Investment

New York Telephone
Items and Dollar Level of Undetailed and Unallocated
Classifications of Central Office Equipment
As of March 31, 1997

Source: Data request PA-11 and 14

<u>\$ Ranges</u>	Undetailed		433.64108.20.j 92 rfn		BT 109.34 565.2 TD 042695 Tc		Total	
	<u>Items</u>	<u>\$ Amounts</u>	<u>Items</u>	<u>\$ Amounts</u>	<u>Items</u>	<u>\$ Amounts</u>	<u>Items</u>	<u>Percentage</u>
Less than 1	26,437	(3,335,724)	23,360	4,246,629	49,797	910,905		0.1%
1 => 10,000	7,555	15,053,112	19,524	36,922,469	27,079	51,975,582		8.2%
10,001 => 20,000	1,097	15,609,870	1,881	26,739,955	2,978	42,349,824		6.7%
20,001 => 30,000	579	14,371,873	988	24,336,233	1,567	38,708,106		6.1%
30,001 => 40,000	417	14,430,377	586	20,209,675	1,003	34,640,052		5.5%
40,001 => 50,000	237	10,613,140	361	16,177,838	598	26,790,978		4.2%
50,001 => 60,000	179	9,804,781	235	12,834,622	414	22,639,403		3.6%
60,001 => 70,000	124	8,026,955	163	10,522,392	287	18,549,347		2.9%
70,001 => 80,000	117	8,764,751	138	10,333,224	255	19,097,975		3.0%
80,001 => 90,000	79	6,652,964	119	10,085,214	198	16,738,178		2.6%
90,001 => 100,000	72	6,819,589	94	8,912,094	166	15,731,683		2.5%
100,001 => 200,000	353	48,067,227	417	58,375,942	770	106,443,169		16.8%
200,001 => 300,000	125	30,143,073	135	33,161,028	260	63,304,101		10.0%
300,001 => 400,000	64	22,283,275	69	23,671,533	133	45,954,808		7.3%
400,001 => 500,000	41	18,344,666	25	11,023,136	66	29,367,803		4.6%
Greater than 500,000	65	61,956,997	46	38,503,358	111	100,460,354		15.9%
Total	37,541	287,606,925	48,141	346,055,342	85,682	633,662,267		100.0%

Note: Per response to data request PA-110 there is a net difference in amounts (\$6 Million) and number of items for non specific plant between responses to data requests PA-11 and 14 and data request PA-54. Staff considers the amounts to immaterial for the purpose of this analysis.

Appendix E

PricewaterhouseCoopers and Internal Audit Selected Comments

REDACTED

Appendix E
Schedule 1

PricewaterhouseCoopers
Lack of Segregation of Duties

REDACTED

Appendix E
Schedule 2

PricewaterhouseCoopers
Re-emphasize the Need for Comprehensive Asset Verification

REDACTED

Appendix E
Schedule 3

Internal Audit Findings

REDACTED