

Sections 64.904 and 64.905, Auditor's Attestation and Certification

With this submission we are requesting an **extension** of a currently approved collection and updating the figures to reflect more current data affecting this control number.

SUPPORTING STATEMENT**A. Justification:**

1. Section 201(b) of the Communications Act of 1934, as amended, requires that common carriers establish just and reasonable charges, practices, and regulations for the service they provide. The Commission is responsible for regulating the telecommunications industry and ensuring that common carriers abide by its mandate. Since common carriers are allowed to provide non-common carrier services, the Commission must establish mechanisms to control cost shifting, inhibiting carriers from imposing on ratepayers for regulated interstate services the costs and risks of nonregulated ventures.

47 C.F.R. Section 64.904(a) requires each incumbent local exchange carrier (LEC) required to file a cost allocation manual (CAM) and shall elect to either:

- (1) have an attest engagement performed by an independent auditor every two years, covering the prior two year period, or
- (2) have a financial audit performed by an independent auditor every two years, covering the prior two year period.

In either case, the initial engagement shall be performed in the calendar year after the carrier is first required to file a cost allocation manual. See 47 C.F.R. § 64.904 (a)-(c).

In a previous *Report and Order*, the Commission eliminated the requirement that CAMs of mid-sized carriers be subject to an attest audit every two years. Instead of requiring mid-sized carriers to incur the expense of a biennial attestation engagement, they now file a certification with the Commission stating that they are complying with 47 C.F.R. Section 64.901 of the Commission's rules. The certification must be signed, under oath, by an officer of the incumbent LEC, and filed with the Commission on an annual basis. Such certification of compliance represents a less costly means of enforcing compliance with our cost allocation rules. See 47 C.F.R. § 64.905.

As noted on the OMB Form 83i, this information collection does not affect individuals or households; thus, there are no impacts under the Privacy Act.

Statutory authority is contained in sections 1, 4, 201-205, 215, and 218-220 of the Communications Act of 1934, as amended, 47 U.S.C. sections 151, 154, 201-205, 215, and 218-220, and Parts 32 and 64 of the Commission's rules, 47 C.F.R. Parts 32 and 64.

2. The independent audit requirement is imposed to ensure that the carriers are properly implementing their cost allocation manual. The independent audits serve as an important aid in the Commission's monitoring program. The report prepared by the independent auditor certifies that the data contained in the carrier's annual Joint Cost Report (ARMIS Report 43-03) present fairly the carriers' cost allocation manual and the Commission's joint cost rules. Therefore, this submission is an integral part of the 43-03 Report.
3. Carriers are not prohibited from using improved information technology to comply with the reporting requirement.

Auditor's Attestation and Certification -- 47 CFR Sections 64.904 and 64.905

4. No similar information is available elsewhere.
5. The Commission specifically exempted small carriers from the reporting requirements. Only local exchange carriers (LECs) subject to the cost allocation manual filing requirements are subject to the reporting requirement.
6. Carriers are required biennially to submit the auditors' report. Carriers subject to 47 C.F.R. section 64.905 are required only to certify annually. It would be difficult for the Commission to determine whether the carriers are adhering to its cost allocation standards without this information.
7. The collections are not being conducted in any manner which is inconsistent with circumstances described.
8. The Commission placed a notice in the Federal Register as required by 5 C.F.R §1320.8(d). See 72 FR 64223, November 15, 2007. No comments were received.
9. The Commission does not anticipate providing any payment or gift to respondents.
10. No assurances of confidentiality have been provided to respondents. If confidentiality is requested, such requests will be processed in accordance with the Commission's rules, 47 C.F.R. § 0.459.
11. This information collection does not address any private matters of a sensitive nature nor are there any privacy issues.
12. The following represents the estimates of hour burden of the proposed collection of information:

Section 64.904 – Auditor's Attestation

- (a) (1) Number of respondents: 6.
- (2) Frequency of response: Biennially; 6 responses per annum.
- (3) Annual hour burden: 250 burden hours per respondent per audit.

Total annual burden: 6 respondents x 250 hours/response = **1,500 hours.**

- (4) How the burden was estimated: It is extremely difficult to provide burden estimates for this requirement due to the varying degrees of carrier involvement in nonregulatory activities. However, the Commission speculates that about 250 burden hours would be expended in responding to inquiries of the outside auditors in the process of complying with the auditor's attestation. This estimate is speculative and we expect it to vary considerably.
- (5) Estimates of annualized cost to respondents for the hour burdens for collection of information: Assuming that respondents use personnel comparable in pay to a GS-13/5 Federal employee, plus 30% overhead, we estimate their cost to be \$88,148.44 based on the following:

6 respondents x 250 hours x \$45.20 per hour = \$67,806.49
 30% overhead = \$20,314.95
 Total: \$88,148.44

Section 64.905 – Annual Certification

- (b) (1) Number of respondents: 7.
 (2) Frequency of response: Annually; 7 responses per annum.
 (3) Annual hour burden: 5 burden hours per respondent.

Total annual burden: 7 respondents x 5 hours/reponse = **35 hours.**

- (4) How the burden was estimated: It is expected that the burden associated with this requirement would be relatively minimal and involve basically the review, etc., associated with preparing for and executing the certification. Accordingly, the Commission estimates that no more than 5 burden hours per carrier would be associated with complying with the annual certification.
- (5) Estimates of annualized cost to respondents for the hour burdens for collection of information: \$2,056.80.

Assuming that respondents use personnel comparable in pay to a GS-13/5 Federal employee, plus 30% for overhead, we estimate their cost to be \$2,056.80 based on the following:

7 respondents x 5 hours x \$45.20 per hour = \$1,582.15
 30% overhead = \$474.65
 Total: \$2,056.80

Total Number of Respondents: 6 + 7 = 13 respondents

Total Number of Responses Annually: 6 + 7 = 13 responses

Total Annual Hourly Burden: 1,500 + 35 = 1,535 hours.

Total "In House" Cost: \$88,148.44 + \$2,056.80 = \$90,205.23

13. The following represents the Commission's estimate of the annual cost burden to respondents resulting from the collection of information:

- (a)(1) Total capital and start-up cost component (annualized over its expected useful life): The auditor's certification is a product of the annual independent audit required by Section 64.904 of the Commission's rules. The cost of the independent audit varies depending upon the size of the companies' operations and the number of audit hours involved.

The cost ranges from \$65,000 to \$1,200,000 per audit.

The variation is caused by the size of the companies' operations and the number of hours involved. While some carriers may have several operating companies in various states throughout the country, other carriers have a fewer number of operating companies concentrated in a much smaller region. The carriers with more extensive operations would require more independent audit hours; conversely, the carriers with smaller serving areas would require fewer independent audit hours. There are no small companies subject to the independent audit requirement.

- (a)(2) Total operation and maintenance and purchase of services component: \$0.

- (a)(3) Total Annual Cost: \$1,200,000.

The Commission estimates that the total annual costs to respondents are likely to be closer to the higher end of the cost range—approximately \$1,200,000 per audit.

14. Annualized cost to the Federal government is estimated to be \$24,404 as described below.

a. Approximately 6 carriers will be subject to the reporting requirements. The work papers will be examined each year. Annualized cost to the Federal government is estimated to be \$28,207.50 calculated as follows:

Processing costs	
- 80 hrs to review each attestation (80x6) =	480 hours
- Avg. grade of employee (GS-13/5, incl. =	<u>\$45.20</u>
9.3% benefits)	\$21,698.08
Overhead costs (\$21,698.08 x 30%)	= <u>6,509.42</u>
TOTAL	= \$28,207.50

b. Approximately 7 carriers will be subject to these reporting requirements. The certifications will be examined each year. Annualized cost to the Federal government is estimated to be \$822.72 calculated as follows:

Processing Costs	
- 2 hours to review each certification (2x7) =	14 hours
- Avg. grade of employee (GS-13/5, incl. =	<u>\$45.20</u>
9.3% benefits)	= \$632.86
- Overhead costs (532 x 30%)	= <u>\$189.86</u>
TOTAL	= \$822.72

Total Governmental Cost: \$28,207.50 + \$822.72 = **\$29,030.22.**

15. Total annual burden for this requirement is 1,535 burden hours. This represents a burden adjustment decrease of 10 hours currently reported in OMB's inventory. The decrease is a result of a decrease in the number of carriers, from 15 to 13 carriers, that will be filing annual certifications. The information is needed for the Commission to fulfill its statutory responsibilities.

16. There are no plans for publication of the results.

17. The Commission does not intend to seek approval not to display the expiration date for OMB approval of the information collection.

18. The number of burden hours and respondents has been adjusted to correctly reflect the actual current figures; however, the estimated time per response should have been stated as 5 to 250 hours, rather than 35 to 250 hours as reported in the *Federal Register*.

There are no other exceptions to the Certification Statement.

B. Collection of Information Employing Statistical Methods.

The Commission does not anticipate that the collection of information will employ statistical methods.

