

With this submission to the Office of Management and Budget (OMB), the Commission is requesting an extension of a currently approved collection. There is no change to the reporting requirements. There is no change to the Commission's previous burden estimates.

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) states that each incumbent local exchange carrier (LEC) required to file a cost allocation manual 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).

47 C.F.R. Section 64.905 requires mid-sized LECs to file a certification with the Commission stating that they are complying with section 64.901, which sets out the rules regarding the allocation of costs. The certification must be signed, under oath, by an officer of the mid-sized LEC, and filed with the Commission on an annual basis at the time that the mid-sized incumbent LEC files the annual reports required by section 43.21(e)(2).

In a *Report and Order*, FCC 01-305, the Commission eliminated the requirement that cost allocation manuals 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.

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.

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.
4. No similar information is available elsewhere.
5. The Commission specifically exempted small carriers from the reporting requirements. Only LECs subject to the cost allocation manual filing requirements are subject to the reporting requirement.
6. Carriers are required biennially to submit the auditors' reports. 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 collection of information is not being conducted in any manner which is inconsistent with circumstances described.
8. Pursuant to 5 CFR 1320.8(d), the Commission published a notice in the Federal Register on April 12, 2016 (81 FR 21546) seeking comments from the public. No PRA 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: 1.
- (2) Frequency of response: Biennially; 1 response per annum.
- (3) Annual hour burden: 250 burden hours per respondent per audit.

Total annual burden: 1 respondent x 250 hours/response = 250 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 non regulatory 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 in-house 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 \$16,263 based on the following:

1 respondent x 250 hours x \$50.04 per hour = \$12,510
30% overhead = \$ 3,753
Total: \$16,263

Section 64.905 – Annual Certification

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

Total annual burden: 1 respondent x 5 hours = 5 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: \$325.26

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 \$325.26 based on the following:

1 respondents x 5 hours x \$50.04 per hour = \$250.20
30% overhead = \$75.06
Total: \$325.26

Total Number of Respondents: 1

Total Number of Responses Annually: 1

Total Annual Burden Hours: 250 + 5 = 255 hours.

Total “In-House” Cost to the Respondent: \$16,263 + \$325.26 = \$16,588.26

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 Costs to the Respondent: \$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 \$5,204.16 as described below.

a. Approximately 1 carrier 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 \$5,204.16 calculated as follows:

Processing costs	
- 80 hrs to review each attestation (80x1) =	80 hours
- Avg. grade of employee (GS-13/5, incl. =	<u>\$50.04</u>
9.3% benefits)	\$4,003.20
Overhead costs (\$3,868 x 30%)	= <u>1,200.96</u>
TOTAL	= \$5,204.16

b. Approximately 1 carrier will be subject to these reporting requirements. The certifications will be examined each year. Annualized cost to the Federal government is estimated to be \$130.10 calculated as follows:

Processing Costs	
- 2 hours to review each certification (2x1) =	2 hours
- Avg. grade of employee (GS-13/5, incl. =	<u>\$50.04</u>
9.3% benefits)	= \$100.08
- Overhead costs (\$96.70 x 30%)	= <u>\$ 30.02</u>
TOTAL	= \$130.10

Total Cost to the Federal Government: \$5,204.16 + \$130.10 = \$5,334.26

15. Total annual burden for this requirement is 255 burden hours. There is no change in the burden estimates.

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. There are no 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.