

TSTCI 2017 AMCS CONFERENCE

TIME CODING REPORTING – FOUNDATION OF ACCOUNTING

Presented by:

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2 GENERAL

- “ Part 32 is a Uniform System of Accounts (USOA) prescribed by the FCC for telecommunications companies for consistency purposes throughout the industry.
- “ Part 32 accounts are used to record, in monetary terms, the basic transactions, functions or activities which occur on a consistent and continuing basis. The accounts are intended to reflect a functional and technological view.

3 GENERAL

- “ Part 32 does not provide for a natural expense classification, though the expense matrix provides some natural classification.
- “ This makes budgeting a challenge because costs are allocated to many different departments.
- “ Sub-accounts may be used as deemed appropriate providing that the number of the controlling account is included.

4 GENERAL

- “ Proper Part 32 classification is important for:
 - “ Financial statement preparation
 - “ Evaluating performance of business segments
 - “ Settlements
 - “ Regulatory reporting
 - “ Cost allocations between regulated and nonregulated activities
 - “ Income tax preparation

5 CAPITALIZE VS. EXPENSE

Capitalize costs that benefit more than one period. Amortize or depreciate the cost of the asset over its estimated useful life.

“ **Expense minor repair or maintenance costs**

“ Distinguishing characteristic is that cost should neither add to value of the property nor prolong its economic life

“ **Capitalize replacements that are considered retirement units. Retire plant that is replaced.**

6 CAPITALIZE VS. EXPENSE

“ Expense replacements

- “ If the replacement effects a substantial betterment, charge excess cost of betterment to plant.
- “ If original cost of item replaced cannot be specifically identified, charge replacement to expense. Example: (Air conditioning unit, carpet, roof.)
- “ We have observed several telcos using the new item to estimate a basis for the existing asset for retirement purposes.
 - “ Example: Using 50% basis of new roof as retirement amount for old roof.

“ Capitalize initial installations

- “ Consider using the % box method to determine if the installation is capital in nature. If nothing came out of a box (No equipment), it likely isn't a new install. Might be a new customer using existing plant already in service. The same methodology goes for those that salvage plant items for later usage.



7 BAD ONT REPLACEMENT

- “ Many of your networks have been plagued by a rash of faulty ONTs
- “ This is requiring replacement of hundreds or maybe thousands of these devices
- “ The manufacturer is typically offering some credit against the cost of the replacement units
- “ Since ONT's are typically a unit of property, should retire the old, capitalize the new, and record the credits to accumulated depreciation as salvage

8 CAPITALIZE VS. EXPENSE

- “ For replacements, determine if asset being replaced is a unit of property.
- “ For cable, technicians must know your policy for how many feet are considered a unit of property.
- “ Replacements of units of property are a retirement and addition.
- “ If not a unit of property, considered repair and charged to expense

9 CAPITALIZE VS. EXPENSE

“ The cost of the individual items of equipment, classifiable to Accounts 2112, Motor vehicles; 2113, Aircraft; 2114, Tools and Other Work Equipment; 2122, Furniture; 2123, Office equipment; and 2124, General purpose computers, costing \$2,000 or less or having a life less than one year shall be charged to the applicable Plant Specific Operations Expense accounts, except for personal computers falling within Account 2124. Personal computers classifiable to Account 2124, with a total cost for all components, including initial operating software, of \$500 or less shall be charged to the applicable Plant Specific Operations Expense accounts. The \$2,000 limit also applies to COE tools and test equipment. If the aggregate investment in the items is relatively large at the time of acquisition, such amounts shall be maintained in an applicable material and supplies account until placed in service.

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REGULATED AND NONREGULATED ACTIVITIES

- “ Sections 32.14 and 32.23 discuss accounting for regulated and nonregulated activities that involve common use of assets and those that do not. Section 32.27 describes accounting for transactions with nonregulated affiliates.
 - “ **Common use of assets** - use accounts prescribed for the activity by Part 32 Sub-account investment between solely regulated, solely nonregulated and common. Common will be allocated between regulated and nonregulated, generally off ledger.
 - “ **No common use of assets** . 1406 accounts for investment and 7990 for income/expense and maintain a separate set of books.



REGULATED AND NONREGULATED ACTIVITIES

- “ **Joint operation of regulated companies** - Parent initially records entire cost to plant or expense. Apportion expenses to subsidiary by crediting expense on parent's books and debiting expense on subsidiary's books. Same result is achieved by initially recording expense as a receivable on parent's books and payable and expense on subsidiary's books. Any allowance for return on property used should be recorded as rent revenue.
- “ Accounting for joint operation of regulated companies is designed to avoid duplicating expense for settlements. Same results are achieved for use of property by charging a cost based lease amount recorded as expense by the subsidiary and rent revenue by the parent and reducing the parent's revenue requirement by the rent revenue.



12 TIME REPORTING - GENERAL

- “ Most expense classification begins with time reporting
 - “ Labor is allocated based on actual time or time study allocations for select employees.
 - “ Benefits follow labor allocations, along with numerous other spreads.
 - “ In most cases for plant related activities, inventory tends to track concurrently with time. Increased time charged to buried cable/fiber would typically lead to increased inventory usage for these respective items.
- “ When reporting time, you must first determine the company for which you are working on behalf of.
 - “ Regulated telephone company
 - “ Nonregulated internet or cable provider
 - “ Nonregulated cellular entities
- “ This is not always easy because joint facilities are used to provide various services that may be provided by more than one affiliate.



13 TIME REPORTING - GENERAL

- “ Must also determine which business segment or segments are involved
- “ Example: Service call to determine internet disruption.
 - “ Issue could be in the regulated plant – copper or fiber cable, electronics, ONT, etc.
 - “ Trouble could be in the CPE – modem or router.
- “ We now have a situation in which our OSP employees must be knowledgeable and understand the appropriate time coding response to the above situation.

14 SERVICE CALL EXAMPLE

- “ Customer calls regarding internet service disruption?
 - “ Technician dispatched to residence or business?
 - “ Several unknown variables are already necessary to start considering.
 - “ Where does windshield/travel time go?
 - “ Where does diagnostic time go?
- “ After issue is addressed and corrected?
 - “ Does technician have the knowledge to appropriately record their time based on actual disruption cause?



15 WINDSHIELD AND DIAGNOSTIC TIME

- “ Some companies report all travel/diagnostic time for calls with an unknown trouble source to telco accounts. Others wait until after diagnosis is determined and corrected.
 - “ Potential errors can exist if time recording is not prompt. Attempting to remember specific service calls a week later is difficult and often leads to the “most common” account default recording.

16 COMMON TIME CODING QUESTIONS

- “ IT employees time coding considerations:
 - “ 6124 vs. 6724?
 - “ Good rule of thumb is to identify what the employee is working on. Hardware/equipment vs. software/applications.
- “ Example: At a recent audit, our audit team needed a clients IT employee to set up a local network. He came to the board room and set up a router/switch for internet access and local networking.
 - “ 6124 appears to be the more appropriate account based on the fact that hardware/equipment were temporarily established. This could appear to be capital in nature, but given the temporary status, expensing is a more appropriate classification for this particular event.



17 SET TOP BOXES & MODEMS

- “ Are you capitalizing or expensing initial installation?
 - “ This is a policy that needs to be developed internally, based on your own assessment of cost benefit analysis.
- “ Some telco’s don’t even capitalize the equipment.
 - “ Should capitalize but this method of recording can create an accounting burden especially with companies with large customer bases and frequent turnover of users.
- “ What do you do when the CPE is retired? Retire pro-rata share of installation costs?



18 MATERIALITY

- “ If you prefer to expense CPE costs, including installation, must consider materiality.
- “ This type of CPE typically has a 3 year life.
- “ If your installs are consistent, there may not be a significant difference between expensing versus depreciating over 3 years.
 - “ As stated previously, these cost should be capitalized, but from an audit and internal use perspective materiality is a viable consideration.

19 SUGGESTIONS FOR IMPLEMENTING MORE EFFECTIVE TIME KEEPING DATA

- “ Annual training for all business segments within the company.
 - “ OSP, COE, Customer Service, Corporate, Accounting, Etc.
 - “ Discuss different situations which may arise in each groups activities, such as the travel time example previously discussed.
- “ Diligent review by managers of employee time recording.
 - “ Strong oversight for time recording alleviates countless error and offers more accurate data for users.
 - “ Knowing that a review is being performed subsequent to time reporting lessens the risk of theft of time, carelessness in coding, and offers countless other benefits.

20 SUGGESTIONS FOR IMPLEMENTING MORE EFFECTIVE TIME KEEPING DATA

- “ Update time studies.
 - “ Updates should be frequent (At a minimum annually)
 - “ They should also be systematically implemented.
 - “ Not based off judgement, but actual time recording for a period of time.
 - “ Be sure to document the support for time allocation changes, this has come up as findings in USAC audits.
- “ Quarterly review of time reporting, especially for those with integrated time keeping systems.
 - “ Allows for additional analysis of work order progress, better tracks labor resources, assists with maintaining appropriate levels of staff.

21 SUGGESTIONS FOR IMPLEMENTING MORE EFFECTIVE TIME KEEPING DATA

- “ Keep track of labor and inventory trends. They generally should be flowing to the same spots and inventory usage is indicative of plant operations.
 - “ When performing reviews of work orders or analysis of accounts, this is one of the first things your auditor is likely looking at.

22 USAC AUDITS - GENERAL

- “ No materiality threshold
- “ Excluded expenses
 - “ Some companies have gone into creating sub accounts in order to better track excluded expenses.
- “ With the new TUSF bill, Texas PUC will likely scrutinize the earnings reports more closely and will likely require more detail so expenses can be excluded similar to those excluded by USAC.

23 USAC AUDITS (CONTINUED)

- “ Part 32 is followed verbatim, with little to no deviation allowed.
 - “ Examples: An annual inventory adjustment was quantified and several of the variances were directly identifiable to specific work orders and projects. Client elected to charge the identifiable differences to specific jobs. Per USAC, these costs should have been cleared through the provisioning module and allocated based on material usage for the month regardless of whether or not the errors could be correctly coded.
 - “ This method of correcting could lead to OSP items ending up in COE accounts and vice versa, but per part 32 is the correct allocation technique.

24 USAC AUDITS (CONTINUED)

- “ Accounting methodology must be followed per Part 32.
 - “ Example: Client has a general ledger software that is integrated with a plant module. This module automatically calculates and codes monthly depreciation based on month end plant balances. This is a trivial deviation from Part 32, due to the average monthly balance vs. month end balances being inconsequential. This is ultimately a timing difference and over the life of the asset it will correct itself.
 - “ Per USAC, the monetary amount for the audited year was irrelevant and a finding was issued. The client is now computing the monthly depreciation via an excel model outside of their software and posting manually. This methodology can lead to additional errors due to the loss of automation.

25 USAC AUDITS (CONTINUED)

“ In the past year, there have been several revelations regarding what is an excludable cost. Here are some of the now excludable costs per the FCC 15-133 notice:

- “ Personal travel
- “ Entertainment
- “ Donations and Scholarships
- “ Penalties
- “ Membership fees (Including TSTCI)
- “ Food and Alcohol

26 CONCLUSION

- “ First and foremost, time reporting should be accurate, reasonable and supported by documentation.
- “ There are numerous incentives to carefully analyzing time reporting methodology.
 - “ This is typically the largest group of expenses for most companies, when considering benefits associated with employees.