



City of Austin

Office of the City Auditor



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Date: August 25, 2009
To: Mayor and Council
From: Taylor Dudley, Acting City Auditor
Subject: Telecommunications Access Line Fees

I am pleased to present this audit report on telecommunications access line fees.

We found that, among the five providers audited in this second phase of the project, access line fees not paid to the City of Austin total more than \$225,000. When added to the results from Phase I, this brings the total to more than \$283,000 not collected by the City. This represents only a small fraction of total access line revenue and at the same time represents more than 1,700 access lines which should now be credited to Austin each month.

We have issued one recommendation to assist the City of Austin in collecting revenue owed and minimizing future unpaid fees. This recommendation is an extension of one of the recommendations made in Phase I of this audit, and management has concurred with it.

We appreciate the cooperation and assistance we received from staff in the Office of Telecommunications and Regulatory Affairs during this audit.

Taylor Dudley, CIA, CGAP, CFE
Acting City Auditor



Audit Report

TELECOMMUNICATIONS ACCESS LINE FEES: PHASE II

August 25, 2009

**Office of the City Auditor
Austin, TX**



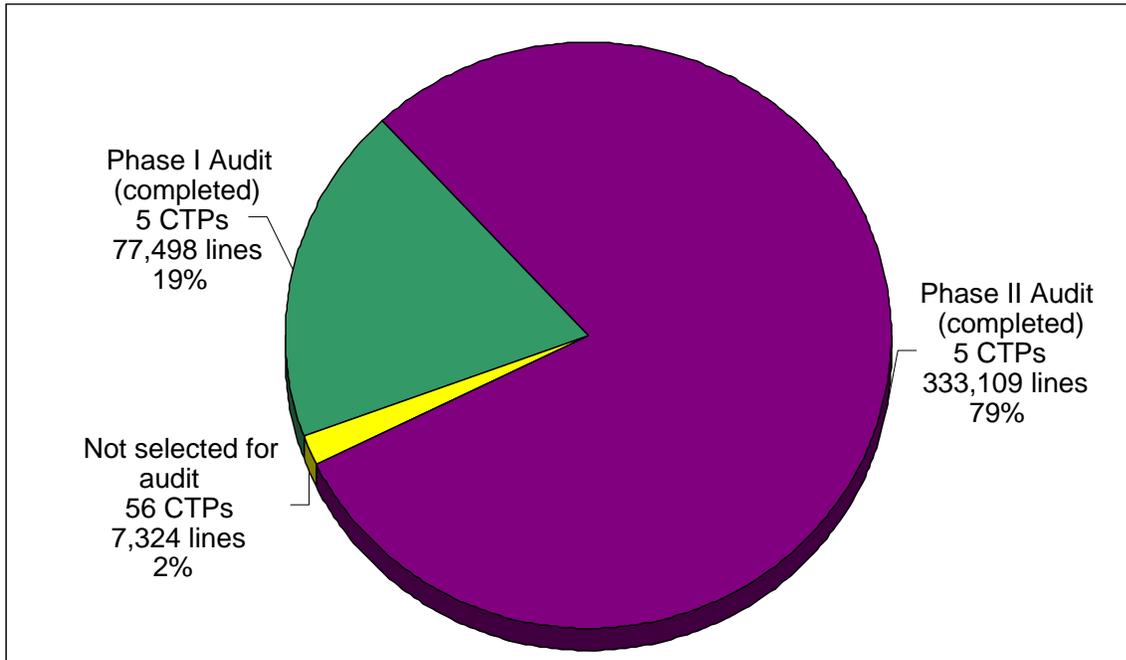
BACKGROUND

This audit is one of a series of audits conducted by the Office of the City Auditor designed to explore how well management has optimized revenue. Prior revenue work includes sales tax, property tax, hotel occupancy tax, natural gas franchise fee, and cable television franchise fee audits. The goal of this phase of the Telecommunications Access Line Fee audit is to determine the effectiveness of the control decisions made by the Office of Telecommunications and Regulatory Affairs (TARA) by testing whether the certificated telecommunications providers (CTPs) fully remit access line fees for all access lines within the Austin city limits.

CTPs use access lines as the transmission path connection to their customers. When these lines are located within a public right of way (ROW), the providers must compensate the municipality for ROW use. The Public Utility Commission of Texas (PUCT) establishes the ROW usage rates for each municipality. The CTPs collect access line fees from customers and pay the City. The revenue goes to the City's General Fund.

Currently 66 CTPs operate within the Austin city limits (as of the fourth quarter of 2008). For this audit, we selected the 10 largest CTPs, representing just over 98 percent of the access lines in Austin. This audit was split into two separate phases due to challenges we faced obtaining requested data from some CTPs in a timely fashion. On May 19, 2009, we presented the results of our first phase, in which we assessed remittances from five CTPs and found that they owed a total of \$58,111. In this report, we present the results from the remaining five. The chart below shows our audit coverage of the CTPs with access lines in Austin and the relative number of access lines represented by each group.

EXHIBIT 1
CTP Line Counts: Audited by OCA vs Unaudited



SOURCE: CTP 2008 quarterly filings with the Public Utility Commission of Texas, unaudited

The City of Austin does not have franchise agreements with the CTPs. Instead, the PUCT monitors access line reporting for CTPs serving the local market. TARA, a division of the City's Financial and Administrative Services Department, does play a local regulatory role in overseeing the private use of public ROWs.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objective of this audit was to determine if the City of Austin Office of Telecommunications and Regulatory Affairs (TARA) ensures that certificated telecommunications providers (CTPs) fully remit access line fees for all access lines within the City limits.

Scope

In this second phase of the audit, for all accounts paying access line fees within Austin zip codes, we analyzed data for a single quarter from each of the CTPs audited. Two out of the five CTPs provided data from the first quarter of 2008; the other three CTPs provided data from the second quarter of 2008. For calculating revenue related to non-conforming addresses we extended the scope to 2000, when the access line fee was initiated.

Methodology

To accomplish the audit objectives we performed the following steps.

- Obtained an understanding of the legal issues and Public Utility Commission of Texas Rules surrounding municipal authorized reviews.

- Obtained an understanding of the activities carried out by TARA to assure that the City receives the revenue to which it is entitled from CTPs.
- Obtained data sets for each of the five CTPs.
- Analyzed and geocoded data obtained from the CTPs.
- Identified addresses within the Austin full-purpose jurisdiction for which the City of Austin was not receiving access line fees (non-conforming addresses).
- Calculated the revenue not collected by the City for the non-conforming addresses.

To calculate the revenue not collected by the City for non-conforming addresses, we multiplied the number of lines at each address by the rate for the relevant line type (residential, business, or point-to-point). To estimate past underpayments, we multiplied the lines reported for the quarter audited by the relevant rate for each month dating back to the service activation date, annexation date or inception of the access line fee in 2000 (whichever is more recent).

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

For purposes of this audit, we did not conduct a municipal authorized review as defined by the PUCT Substantive Rules. Those rules include restrictions on information gathering that might result in a scope limitation per GAGAS. These restrictions are detailed further in the Audit Findings section of the Phase I report.

AUDIT RESULTS

The Certificated Telecommunications Providers (CTPs) that we audited underpaid access line fee revenue to the City by an estimated \$225,827 for the period under review, due mainly to the CTPs not updating customer records to include all customers in the Austin full purpose jurisdiction area. When added to the results of Phase I, we identified more than \$280,000 from more than 1,700 lines that were not properly credited to the City of Austin. While this is only a small percentage of total activity, these numbers represent an opportunity to further maximize revenue, past and future.

CTPs examined failed to remit telecommunications access line fees for all lines within the city limits, resulting in approximately \$225,827 due to the City of Austin. Using the access line count records provided to us by the 5 CTPs audited, we discovered approximately 1,212 access lines that were mistakenly identified as either being outside the city limits or not recognized by the CTPs as owing access line fees to Austin. We found that all but one of the CTPs examined underpaid access line fees to the City of Austin for the period under review. The table below shows the estimated unpaid fees for the quarter audited and the estimated accumulated fees. Though our scope included all years since 2000, we found that most non-conforming accounts dated back no earlier than 2004. More than two-thirds of the unpaid fees were accrued from 2005 onward.

EXHIBIT 2

Fees Not Paid to Austin for Non-Conforming Addresses, Phase II

| TELECOM | NON-CONFORMING ACCESS LINES SINGLE QUARTER | ACCESS LINE FEES UNPAID SINGLE QUARTER | ACCESS LINE FEES UNPAID ACCUMULATION |
|----------------|---|---|---|
| CTP F | 84 | \$ 1,225 | \$ 15,101 |
| CTP G | 214 | \$ 3,067 | \$ 84,614 |
| CTP H | 0 | \$0 | \$0 |
| CTP I | 155 | \$ 2,651 | \$ 38,901 |
| CTP J | 759 | \$ 8,414 | \$ 87,211 |
| TOTAL | 1212 | \$ 15,357 | \$ 225,827 |

SOURCE: OCA analysis of non-conformance based on records provided by CTPs

The total amounts for each CTP are a function of two factors: the type of line (business versus residential) and the length of time the customer has been receiving service. Therefore, the amount unpaid will not necessarily be proportional to the number of non-conforming access lines.

The unpaid revenue we have identified is a small percentage of the total revenue remitted by these CTPs. The five CTPs we examined accounted for approximately 85% of the City’s access line fee revenue in the first quarter of 2008. For each of the past two years, they have remitted an average of approximately \$13.5 million.

When both phases of the audit are combined, they show \$283,938 in uncollected revenue from 1,771 lines. (see table below) This uncollected revenue is less than half of one percent of the total revenue remitted by the 10 audited CTPs during the full audit scope period.

Two things should be noted related to these findings. First, because we calculated backward from a recent quarter, our total does not capture revenue from accounts that were closed prior to the quarter we audited. Second, after the CTPs update their records to correctly identify these lines as owing access line fees to the City of Austin, each of these 1,771 lines will produce revenue for the City for as long as the lines remain active.

EXHIBIT 3

Fees Not Paid to Austin for Non-Conforming Addresses, Audit Total

| | NON-CONFORMING ACCESS LINES SINGLE QUARTER | ACCESS LINE FEES UNPAID SINGLE QUARTER | ACCESS LINE FEES UNPAID ACCUMULATION |
|-----------------------|---|---|---|
| Phase I | 559 | \$ 5,000 | \$ 58,111 |
| Phase II (est) | 1212 | \$ 15,357 | \$ 225,827 |
| TOTAL (est) | 1771 | \$ 20,357 | \$ 283,938 |

SOURCE: OCA analysis of non-conformance based on records provided by CTPs

Recommendations

01. To ensure revenues owed to the City are paid by responsible Certificated Telecommunications Providers (CTPs), the City of Austin Telecommunications and Regulatory Affairs (TARA) Officer should contact the CTPs audited in Phase II to collect all unpaid access line fees.

MANAGEMENT RESPONSE: CONCUR

TARA will coordinate with the OCA to send out payment demand letters.



Austin City Council

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Mayor Pro Tem Mike Martinez
Council Members
Laura Morrison
Randi Shade
Sheryl Cole
William Spelman
Chris Riley

Office of the City Auditor

Acting City Auditor Taylor Dudley
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A full copy of this report is available for download at our website: <http://www.ci.austin.tx.us/auditor/reports>. You may also contact our office by email at oca_auditor@ci.austin.tx.us.
Please request Audit No. AU08105B

Note: On November 12, 2009, this report was updated to reflect additional information received from one of the CTPs and to correct information on which quarters were included by CTPs.