

Division Audit Report of

Union Telephone Company

Docket No. 19-054-01

October 1, 2019

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SUMMARY OF AUDIT ISSUES

Generally, Union Telephone Company (“Company”) has policies and procedures in place that allow it to distinguish between regulated and non-regulated expenses and revenues. The one issue found by the Utah Division of Public Utilities (“Division”) concerned information filed on the annual report. When entering information for the Utah specific tabs on the annual report, the Company included regulated and non-regulated entries. This caused the information to be inaccurate.

RECOMMENDATIONS

As stated above, the major finding of the audit concerned the way the company reported its information on the annual report. In meeting with the Company, the Division and Company were able to clarify what was needed on the reports. With that clarity, the Company was able to update the reports filed with the Utah Public Service Commission (“Commission”) and more accurately convey the results of operation for the 2018 calendar year.

The Company should continue to report only regulated expenses and revenues on the Utah specific tabs, similar to what was filed with the Commission after the audit.

PURPOSE

As required by the Commission on April 30, 2019, the Company filed its annual report and gross revenue report with the Utah Division of Public Utilities (“Division”). As part of the review process of the information filed, the Division has completed an audit of the Company. The intent of this audit was to review the revenues, expenses, separations between regulated and non-regulated charges, and depreciation rates as reported by the company in its annual report to the Commission. An additional objective of the audit was to evaluate the company’s current revenue requirement for Utah Universal Public Telecommunications Service Support Fund (“UUSF”). This is the first Division audit of the company for UUSF purposes.

BACKGROUND

The Company has offered telecommunication services in Utah and Wyoming since 1914. On September 25, 1956, the Company received a Certificate of Public Convenience and Necessity (CPCN) Number 1172 formalizing the establishment of a telecommunications corporation. The certificate entitled the company to construct, operate, and maintain a telephone system suitable for the rendition of general telephone service throughout Daggett County, Utah and that part of Summit County, Utah, within the drainage of the Henry’s Fork of the Green River. In 1988, the Company filed a petition that requested the Commission amend the Company’s CPCN to include authority to extend its telephone service in Summit County, Utah to the so-called Christmas

Meadows area in the Bear River drainage basin. The extension was approved by the Commission.

At the outset, the Division initiated the audit of the Company to review the accuracy of the information filed. On April 29, 2019 the Division issued the first set of data request questions to the Company. The 1st Set of Data Requests to the Company are attached as Exhibit I. An onsite audit was scheduled with the company on July 9th and 10th, 2019. As indicated in an email, before the onsite visit, the Division reviewed and inspected the following:

- Cost Allocation Manual
- Separations
- Asset Additions
- Taxes and Operating Income for 2018
- Depreciation
- Revenue Requirement for UUSF

The Division met with the Company on July 9th and 10th, 2019 at the corporate headquarters in Mountain View, Wyoming.

The following is the scope, findings and results of the Division audit.

SCOPE OF THE AUDIT

The Division performed the following audit procedures for the Company:

General Procedures:

- Compared the Company's most recent financial results to previous year's financial results.

Regulated Revenue Requirements and Rate Structure:

- Reviewed the Company's capital structure.
- Calculated an intrastate regulated revenue requirement.
- Reviewed and compared the Company's rate structure to ensure the affordable base rate was being used by the company.

Regulatory and Reporting Requirements:

- Reviewed the Annual Report submitted to the Commission for completeness and accuracy.
- Reviewed revenue, expense, asset, and liability accounts for propriety and proper regulatory reporting.

Plant in Service:

- Reviewed plant in service detail ledgers.
- Discussed plant balances with appropriate personnel as necessary.
- Compared plant balances to prior years and reviewed annual additions and deletions as necessary.
- Reviewed accumulated depreciation balances and activity for propriety.
- Reviewed and discussed with appropriate personnel the detail mapping of the Company's

area

- Performed onsite inspection of various outside plant facilities and central equipment within and surrounding the Company's area.

Cash Receipts/Revenues:

- Reviewed and discussed revenue recording procedures with appropriate personnel.
- Reviewed separations of revenue between intrastate/interstate operations and regulated/non-regulated operations.
- Compared revenues to prior years and reviewed month-to-month trends.
- Reviewed revenue accounts and compared balances with expected revenue calculations.
- Reviewed several revenue entries (including offsetting entries) and applicable supporting documentation.

Cash Disbursements/Expenses:

- Reviewed and discussed expense recording and cost allocation procedures with appropriate personnel.
- Reviewed separations of expenses between intrastate/interstate operations and regulated/non-regulated operations.
- Compared expenses to prior years and reviewed month-to-month trends.
- Reviewed several operating expenditures (including payroll), with applicable receipts, invoices, and statements, etc.
- Reviewed depreciation expense for propriety.

AUDIT AREAS OF FOCUS

Cost Allocation Manual:

The Company's cost allocation manual ("CAM") is designed to allow any employee to complete internally the Part 64, Regulated and Non-Regulated cost allocations. The purpose of the manual is to ensure that plant and other designated asset accounts, as well as revenue and costs associated with the different aspects of the business, are included in the financial reports for the Company.

The Company's CAM is made up of several smaller models that build upon each other. Information is collected from studies conducted by consultants, the accounting department and engineering department. Data from each of these areas are used to develop the smaller models that will flow up to the final allocations for each aspect of the business. The specific reports in the CAM are:

- Circuit Ends Report
- AMOU Report
- Regulated Switch Analysis
- Previous Years Plant Factors
- Depreciation Expense Report
- TPUC Report
- Detail Plant Report

- Detailed Accumulated Depreciation Report
- Detailed Revenue Report
- Detailed Expense Report

With the data collected from the various sources and input into the appropriate reports, the Company is able to determine Allocation Factors. In reviewing the CAM and the allocation factors calculated by the Company, the Division believes the method the Company is using will generate acceptable allocation factors for UUSF purposes.

Regulatory and Reporting Requirements

As required in R746-340-2(D) the Company uses a Uniform System of Accounts as prescribed by the Federal Communications Commission to record the results of Utah intrastate operations. Because the Company has services in Utah, Wyoming, Colorado and Idaho, additional account descriptions and codes are used to broaden the detail of each transaction. The Company, in its accounting system uses a letter code to determine if the asset, revenue, or expense should be booked in Utah, Colorado, Wyoming, or Idaho. This additional detail helps to ensure that transactions are booked correctly for the Utah intrastate operations. The Division's review of the records of the Company confirmed that the accounting policies implemented by the Company is adequate at this time to correctly report the Company's operations.

Plant in Service:

The Division discussed with the Company's employees the plant in service and telephone plant under construction balances for the last few years. Generally the Company had not been doing much construction in the State of Utah, so the rate base for the company was lower.

In 2019, the Company is engaged in a construction project to bring fiber to Manila, Utah that will increase the plant in service accounts and telephone plant under construction balances on the annual report. This construction project will allow the Company to provide high-speed broadband to the residents in Manila, UT.

During the onsite audit, the Division reviewed Company accounting practices for plant in service and plant under construction. The factors used for these accounts, as well as the expenses, are developed based on a direct analysis of the work orders and other activities posted to these accounts. Because the balances are directly attributed to specific construction projects, the Company is able to correctly allocate the expenses and revenues between Utah, Wyoming, Colorado, and Idaho projects and ensure the information is recorded accurately.

The Division acknowledges the processes and procedures followed by the Company are adequate at this time for accurately reflecting the plant in service.

Separations:

As both a cellular and landline telecommunications company, that offers a wide range of services to its customers, the Company must do a precise job of following Part 64 to separate non-

regulated items from the regulated accounts. The company uses a robust model that looks at a variety of inputs such as, Line Counts, land CPRs, Telephone Plant Under Construction, Labor Distribution, and Depreciation. Using this model the Company is able to determine which entries are regulated intrastate items. The model will use the different tabs to generate allocation factors when it is difficult to directly determine which costs are regulated. At this time, it appears the model is correctly separating for Part 64.

Depreciation:

Union Telephone employs a hybrid method of depreciation where assets are grouped together according to Public Service Commission rules, and then depreciated using a straight line method. We found that this method is conservative in nature and adheres to the method established in 47 CFR, Part 32.2(g)(1)(i). Union's depreciation method clearly reflects the loss of utility by the assets in each group year after year and was correctly accounted for.

EXHIBITS

Exhibit I:

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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

)	
In the Matter of Union Telephone Company's. (UNION) Review of 2018 Operations)	Docket 19-054-01 Division of Public Utilities 1 ST Set of Data Requests to UNION TELEPHONE COMPANY APRIL 29, 2019

Please send an electronic copy and a paper copy of your Data Response to:

Paralegal
Division of Public Utilities
160 E 300 S, 4th Floor
Salt Lake City, UT 84114

**PLEASE E-MAIL YOUR DATA
RESPONSE TO DPU Data Request**

dpudatarequest@utah.gov

Response should include where applicable native WORD and EXCEL documents with intact formulas. Your Data Response is not considered received until an electronic copy is furnished and received.

- 1.1** Provide in Excel format, a copy of UNION's 2018 General Ledger as of December 31, 2018.

- 1.2 Provide a in Excel format, copy of the 2018 YE Trial balance that shows the annual totals and reconciles with the 2018 General Ledger.
- 1.3 Provide in Excel format, the 2018 Chart of Accounts for UNION.
- 1.4 Provide a detailed description of any significant changes to UNION's accounting procedures implemented in CY 2018.
- 1.5 Provide a current organization chart for UNION including names and contact information.
- 1.6 Provide and describe the company's asset retirement policy.
- 1.7 Provide the Cost Allocation Manual explaining allocations relevant to Part 36 and Part 64.
- 1.8 Please identify and describe the company's capitalization threshold.
- 1.9 Provide a summary of your long-term debt obligations, including amounts, debtors, terms and rates.
- 1.10 Does UNION participate in the NECA tariff? If not, how is broadband pricing to affiliates determined? If UNION is selling internet service to a wholesale affiliate provide a copy of the contract with the affiliate including the price paid by the affiliate to the regulated company.
- 1.11 If Union is selling internet service directly to the end-user provide a copy of tariff and or price list governing the internet service.
- 1.12 Provide the following records: Copy of the Board of Directors minutes for CY 2108.
- 1.13 Report showing the FCC Excluded Costs
- 1.14 In 2007 and 2008 UNION had some projects with UDOT where money was received from UDOT. If UNION had similar projects in 2018 with UDOT, provide a detailed description of how would UNION have entered these or similar assets in the accounting records.
- 1.15 Provide the most recent audit reports from the following: FCC, NECA, and applicable taxing authorities.

DPU Requestor: Casey J. Coleman (801) 530-6775
Joe Hellewell (801) 530-6616

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cc: Service List