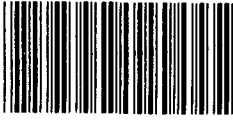


UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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STATEMENT OF  
ARTHUR L. LITKE.  
ASSISTANT TO THE DIRECTOR  
FINANCIAL AND GENERAL MANAGEMENT STUDIES DIVISION G 170  
BEFORE THE  
SUBCOMMITTEE ON COMMUNICATIONS 42301  
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE  
HOUSE OF REPRESENTATIVES  
ON  
FCC's  
THE ~~FEDERAL COMMUNICATIONS COMMISSION'S~~ PROGRESS 71  
IN DEVELOPING AND PLANNING THE IMPLEMENTATION OF A NEW  
ACCOUNTING SYSTEM FOR THE TELEPHONE INDUSTRY 7

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE AND MEMBERS OF THE PANEL:

My name is Arthur L. Litke, ~~Assistant to the Director, Financial and General Management Studies Division of the General Accounting Office.~~ *and I am available* I was appointed by the Comptroller General in June 1978 to review among other items the accounting rules and reports required by various Federal regulatory agencies, including the Federal Communications Commission. I am pleased to appear here and represent the GAO on the Panel.

We have just completed a review of the Federal Communications Commission's efforts to revise the existing uniform regulatory accounting system which the

Commission requires the telephone industry to follow.

We looked into the progress and problems the Commission faces in developing a new accounting system. Because the Commission's proposed system had not been finalized, we limited our review to evaluating the Commission's approach to developing and planning the implementation of the new system. *perform*

*yesterday*  
Based on the review, GAO issued a report to the Congress entitled "Outlook Dim for Revised Accounting System for Changing Telephone Industry" (FGMSD-80-9, dated November 13, 1979). I will briefly summarize the results of our review.

#### RESULTS OF REVIEW

Historically, the telephone industry has been regulated on the premise that it is a "natural monopoly." Over the past several years, however, the Federal Communications Commission has allowed competition in some areas of the industry, notably for terminal equipment and intercity communication.

FCC recognized that a more competitive industry will require a new regulatory approach. About 4 years ago the Commission began to develop a revised Uniform System of Accounts for the industry to provide more relevant information to Federal and State regulators, industry management, and other users. In particular, the new system is intended to make it possible to determine the cost of specific telephone services—to improve regulatory rate review and detect anticompetitive pricing practices.

GAO believes that unless a myriad of problems is solved, the outlook is dim for early implementation—and effective use—of the new accounting system as proposed by the Commission. Our outlook is based on

- weaknesses in the Commission's approach to developing the system and planning for its implementation,
- concerns raised by State regulatory commissions about some aspects of the proposed system, and
- criticisms voiced to the Commission by industry representatives and other interested parties.

The Commission's approach to developing a revised accounting system has been characterized by

- a lack of continuous overall direction and coordination by a high-level official,
- limited involvement of the Commission's accounting staff even though it is organizationally responsible for accounting system revisions,
- assignment of various staff members on a sporadic and fragmented basis,
- lack of involvement in system conceptualization by many of the system's ultimate users within the Commission, and
- minimal contact with representatives of State regulatory commissions, the telephone industry, and other interested parties during systems conceptualization.

While any one of these weaknesses has some adverse effect on system revision, their collective impact will likely be severe. If not corrected, they will inhibit timely and effective revision of the system.

Even after the system design is complete, the Commission will need to be in a position to use it. For example,

- a systematic way of assuring that reported data is consistent and reliable is needed,
- necessary resources should be available to effectively and efficiently process the data reported, and
- system outputs need to be specified for the intended users within the Commission.

At the time of <sup>our</sup> GAO's review, the Commission had done only minimal planning for these needs.

In response to a GAO questionnaire, State regulatory commissions identified several major problems that could arise if they use the revised system. For example, although the revised system envisioned computerized reports, most States said they preferred receiving manually prepared reports. Also, the majority of the States expressing an opinion believed the total cost of the new system would probably outweigh the benefits. The Commission must work closely with State regulatory commissions to avoid imposing duplicate reporting burdens on the telephone industry.

Respondents to the Commission's initial proposal for a revised system expressed concerns about the complexity, cost, and time frame for revising the system. Other concerns expressed included a need to consider the impact of the revised system on (1) the existing separations procedures whereby telephone property costs are apportioned between interstate and intrastate operations and (2) methods of allocating cost to various telephone services. Also, respondents cited the need to identify the reporting requirements to be placed on the industry.

RECOMMENDATIONS TO CHAIRMAN, FEDERAL  
COMMUNICATIONS COMMISSION

A well-coordinated development and implementation approach is essential to successful revision of the accounting system, particularly if early implementation remains an important goal of the Congress and the Commission.

In order to help FCC reach this goal, GAO recommended that the Chairman:

- 1 —Formally appoint a sufficiently high-level official to provide continuing and consistent direction and to monitor progress being achieved.
- 2 —Assign responsibility within the Commission for all phases of development and implementation.
- 3 —Define the specific needs of intended users of the revised system within the Commission.
- 4 —Improve the mechanism and procedures for coordination with State regulatory commissions to avoid imposing duplicate accounting and reporting burdens on the industry.
- 5 —Assess the resource needs of the Commission to provide an appropriate level of monitoring and to effectively and efficiently use reported information after system development.
- 6 —Explain how system development will be coordinated with other major actions which may be required, such as revising separations procedures and determining appropriate cost allocation methodologies.
- 7 —Identify the reporting requirements that the industry will need to follow.

COMMISSION COMMENTS

The Commission stated that GAO's report was critical, but very

*FCC's response to our report*  
*This would encompass joint meetings with industry, State and Commission personnel as well as others with an interest in this area*

constructive. Therefore, the Commission believed GAO's report would be useful in the future development of the Uniform System of Accounts.

The Commission <sup>also</sup> said it would take several managerial steps to alleviate many of the deficiencies discussed in this report, including establishing a task force, headed by a senior staff member and composed of individuals with appropriate backgrounds and expertise, to design the revised system.

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This concludes my prepared statement. I will attempt to answer any questions you may have.