

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Accounting and Auditing Branch

RESOLUTION NO. T-15939 *
August 2, 1996

R E S O L U T I O N

RESOLUTION T-15939. GTE CALIFORNIA INCORPORATED (GTEC). ORDER REGARDING GTEC'S ACTION PLAN FILED IN RESPONSE TO RECOMMENDATIONS OF THE COMMISSION ADVISORY & COMPLIANCE DIVISION (CACD) IN ITS "REPORT ON THE RESULTS OF EXAMINATION FOR GTE CALIFORNIA INCORPORATED'S SPECIAL NEEDS CENTER."

BY LETTER, FILED MARCH 11, 1996 AND ACTION PLAN FILED APRIL 3, 1996.

SUMMARY

On March 4, 1996, CACD issued its "Report on the Results of Examination for GTE California Incorporated's Special Needs Center." This report was based on an audit performed by GTEC of the Special Needs Center (SNC). In this report, CACD reviewed GTEC's audit and found that GTEC needed to strengthen its internal controls, improve its cost controls, and return \$2.5 million in excessive costs to the Deaf and Disabled Telecommunications Program Administrative Committee (DDTPAC).

On March 11, 1996, GTEC submitted to the Commission a letter indicating that it accepted all recommendations in CACD's report. GTEC filed its detailed action plan on April 3, 1996.

This Resolution approves GTEC's action plan.

BACKGROUND

On March 31, 1995, GTEC sent a letter to CACD summarizing the results of its investigation of the SNC operation. In its letter, and report, GTEC indicated that its internal auditor and investigators found that the SNC manager had violated a number of company practices and procedures that caused GTEC to seek reimbursement from the DDTPAC for expenses totaling \$363,456 in excess of what was appropriate to operate the SNC for the period 1989 through October 1994.

GTEC requested CACD to review and verify its results. CACD conducted its own investigation of GTEC's SNC and found that the SNC manager violated company policy, bypassed normal internal controls, and, through mismanagement, substantially inflated costs to the DDTPAC.

On March 4, 1996, CACD issued its report. CACD recommended that GTEC reimburse the DDTPAC \$2.5 million dollars for the discrepancies that were discovered, and institute a number of safeguards to ensure that these problems do not recur.

CACD's Report recommended that GTEC:

- reimburse the DDTPAC \$2.5 million for excessive costs;
- provide sufficient management oversight to the SNC;
- require the SNC to follow GTEC's company policies;
- require its Internal Audits Division to perform periodic audits of the SNC;
- ensure that the SNC follows reasonable cost controls;
- justify and support every lease that it is seeking recovery for in this year's budget;
- justify and support the SNC's need for cellular phones;
- justify and support every purchase order that the SNC is seeking recovery for in this year's budget; and,
- justify and support the amount it claims for labor in this year's budget.

GTEC has agreed to CACD's recommendations.

DISCUSSIONS

Reimburse the DDTPAC 2.5 million

GTEC wire-transferred \$2.5 million to the Deaf Trust Fund on March 20, 1996.

Provide Sufficient Management Oversight

GTEC has taken several steps to improve the management oversight of the SNC. GTEC improved management oversight by requiring its management to:

- participate in developing the SNC's annual budget;
- review the SNC's monthly expenditures that are submitted to the DDTPAC;
- review a new monthly expense trending report for the SNC;
- receive and review detailed back-up data for all expenses incurred by the SNC; and,
- approve and sign all hiring requisitions consistent with company policy.

Require Compliance with Company Policies

GTEC currently requires the SNC to follow all company policies.

Perform Internal Audits of the SNC

GTEC will conduct an annual audit of the SNC in 1997 and 1998. Audit reports will be supplied to CACD and to the Executive Director of the DDTP for information and review. In addition, after 1998, GTEC's Internal Audit Department will conduct internal audits of the SNC every three years in accordance with company policy.

Institute Additional Cost Controls

CACD's report recommended that GTEC's SNC:

- perform a lease-versus-buy analysis for every item to be leased, in compliance with GTEC's corporate policy N.001.02;

- require all service requirements and leases to be put out for bids by a group that is independent of the SNC;
- require written contracts for all services received by the SNC;
- require all contracts be reviewed by a group that is independent of the SNC; and,
- require the SNC to review and analyze all of its current labor requirements.

GTEC has agreed to all of these recommendations. GTEC will require that:

- all future leases will have a lease-versus-buy analysis, in compliance with Company policy, performed before signing any lease;
- all future service requirements and leases will be put out for bid by a group that is independent of the SNC;
- all future service requirements and leases will have written contracts; and,
- all contracts will be reviewed by a group that is independent of the SNC.

In addition, in early 1995, GTEC changed the SNC's organizational structure. GTEC reevaluated each position at the SNC using its Hay System of Job Evaluation, and determined the appropriate job description and pay level for each position.

Justify and Support Every Lease that GTEC is Seeking Recovery

Currently GTEC's SNC has three leases.

- GTEC has performed a lease-versus-buy analysis on its field vehicle rental. A copy of the lease-versus-buy analysis was presented to the DDTP's Executive Director in May, 1996. The vans will be leased through the GTEC National Contract for vehicles. This will eliminate the Hertz purchase order.
- Upon completion of the centralized-database project, computers will be purchased according to the data base requirements via the company awarded the contract through the bid process. This will eliminate the current computer leasing purchase order.
- The SNC is at the end of a five-year contract for the telephone system. A lease-versus-buy analysis was not conducted for the current system, but one will be conducted in the fall of 1996, for a new telephone system to be installed either in the Norwalk office or the new SNC location.

Justify and Support the SNC's Need for Cellular Phones

GTEC performed a cost-benefit study to support its use of cellular phones for its Field Consultants. According to GTEC, the use of cellular phones by the SNC field representatives, is cost effective and provides other benefits for the SNC. Cellular phones can be used to:

- provided quick access to help if needed;
- notify Field Consultants that a customer has canceled the appointment or changed the time; and,
- keep the representatives from tying up a customer's telephone.

Justify and Support Every Purchase Order for which GTEC is Seeking Recovery

GTEC currently has seventeen purchase orders. Eleven are for supplying equipment for the SNC's customers. These purchase orders were put out for bid by Pacific Bell and are approved by the DDTPAC for all DDTPAC related equipment. Of the remaining six purchase orders, two were for leases that were discussed previously.

The remaining four non-lease purchase orders are as follows:

- The SNC has terminated its two cellular contracts (one purchase order is for its historic cellular service contracts, and the other purchase order is for its cellular long distance telephone service). The SNC is currently using GTE's national cellular service contract.
- GTEC and Sheila Thomson Consulting have agreed to exchange services for Deaf and Disabled Telecommunication Program field visits at cost. Thomson Consulting will conduct field visits in GTEC/Continental Telephone's northern most territories that are closely aligned with California Telephone Association (CTA) properties that Thomson serves. In exchange, GTEC will conduct field visits for CTA-served customers that are more closely aligned with GTEC/Continental Telephone's properties that GTEC serves.
- Upon completion of the centralized warehousing project, GTEC will utilize the newly selected warehouse vendor along with all other California Local Exchange Carriers. This will then eliminate the Zamudio Distribution purchase order.

Justify and Support the amount of labor for which the SNC is Seeking Recovery

In early 1995, GTEC changed the organizational structure of the SNC. GTEC reevaluated each position at the SNC using its HAY System of Job Evaluation, and determined the appropriate job description and pay level for each position.

Currently, GTEC is in the process of converting the SNC from contract labor to GTEC employees, and should complete its conversion by the end of September, 1996.

The exclusive use of GTEC employees at the SNC will eliminate the possibility of violating GTEC policies regarding contract labor. In addition, the pay established through the HAY process mentioned previously assures that workers are appropriately paid for the work performed.

During this time, GTEC was able to decrease the number of employees at the SNC from 24 to 18.

GTEC will use these revised employee and salary levels in its 1997 budget.

FINDINGS

1. CACD conducted an investigation into the operation of GTEC's SNC and issued its report on March 4, 1996.
2. In a letter to the Commission, dated March 11, 1996, GTEC agreed to the recommendations in CACD's report.
3. On April 3, 1996, GTEC filed its detailed action plan to correct problems at the SNC and comply with the recommendations included in CACD's report.
4. GTEC has:
 - reimbursed the DDTPAC \$2,500,000 on March 20, 1996;
 - improved its corporate oversight of the SNC by requiring greater management participation in the operation of the SNC;
 - required the SNC to follow GTEC's corporate policies;
 - instructed its Internal Audit Department to audit the SNC during 1996, and 1997. After 1997, GTEC has requested its Internal Audit Department to audit the SNC every three years. GTEC has indicated that it will provide a copy of its audit reports to CACD upon completion of each audit;
 - agreed to perform lease-versus-buy analysis, consistent with its Company policy, for all future leases;
 - agreed to require that all future service requirements and leases be put out for bids by a group that is independent of the SNC;
 - agreed to require that all future services received by the SNC have written contracts;
 - agreed to have all future SNC contracts be reviewed by a group that is independent of the SNC;
 - justified the SNC's current lease expense;
 - justified the SNC's current cellular phone expense;
 - justified the SNC's current purchase order expense; and,
 - justified the SNC's current labor expense.
5. GTEC's action plan is responsive to CACD's report and should be adopted by the Commission.
6. The Commission expects all utilities that receive funding from the DDTPAC to have reasonable cost controls in effect. This includes reasonable management oversight, appropriate internal controls, and reasonable cost controls, such as sending out purchase orders out for bid, having written contracts, and performing lease-versus-buy analysis for all leases.
7. The Commission also expects the DDTPAC to be provided sufficient information to ensure that each utility that receives funding from the DDTPAC has sufficient management oversight, internal controls, and cost controls.

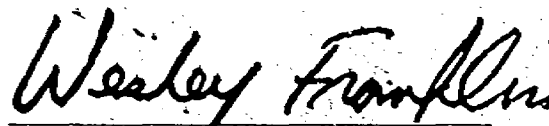
THEREFORE, IT IS ORDERED that:

1. The "Report on the Results of Examination for GTB California Incorporated's Special Needs Center" written by the Commission Advisory and Compliance Division is reasonable, and is adopted by the California Public Utilities Commission.
2. GTB California Incorporated must comply with the recommendations that are contained in the "Report on the Results of Examination for GTB California Incorporated's Special Needs Center."
3. GTB California Incorporated shall provide sufficient management oversight of the Special Needs Center.
4. GTB California Incorporated's Special Needs Center is to follow GTB California Incorporated's company policies.
5. GTB California Incorporated's Internal Audit Department shall perform annual audits of GTB California Incorporated's Special Needs Center in 1997, and 1998.
6. GTB California Incorporated's Internal Audit Department shall perform tri-annual audit of GTB California Incorporated's Special Needs Center starting in 1999.
7. GTB California Incorporated's Special Needs Center shall perform a lease-versus-buy analysis for every item that is leased, in compliance with GTB California Incorporated's corporate policy N.001.02.
8. GTB California Incorporated shall put all service requirements and leases for the Special Needs Center out for bids by a group that is independent of the Special Needs Center.
9. GTB California Incorporated have written contracts for all services received by the Special Needs Center.
10. GTB California Incorporated shall have all of the Special Needs Center's contracts reviewed by a group that is independent of the Special Needs Center.
11. GTB California Incorporated shall justify and support every lease that the Special Needs Center is seeking recovery for in the Deaf and Disabled Telecommunications Program's next budget filing.
12. GTB California Incorporated shall justify and support every purchase order that the Special Needs Center is seeking recovery for in the Deaf and Disabled Telecommunications Program's next budget filing.
13. GTB California Incorporated's action plan filed in response to the "Report on the Results of Examination for GTB California Incorporated's Special Needs Center" is approved and shall be implemented as discussed in this Resolution.

August 2, 1996

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on August 2, 1996. The following Commissioners approved it:



in. WESLEY M. FRANKLIN
Executive Director

P. GREGORY CONLON
President

DANIEL Wm. FESSLER

JESSIE J. KNIGHT, Jr.

HENRY M. DUQUE

JOSIAH L. NEEPER

Commissioners