

FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554**IN REPLY REFER TO: 1600E  
RAO Letter 31**Adopted: December 20, 2000  
Released: December 21, 2000**Responsible Accounting Officer:**

Re: CAM Audit Requirements for Large Incumbent Local Exchange Carriers

This Responsible Accounting Officer (RAO) letter implements the provision in the *Phase 1 Report and Order*<sup>1</sup> that permits large incumbent local exchange carriers (ILECs) to opt for less burdensome attest examinations of cost allocation manuals (CAMs) instead of the financial audits that they have been required to obtain.<sup>2</sup> The provision for attest engagements was previously adopted for mid-sized ILECs<sup>3</sup>, and that provision was implemented with RAO 29.<sup>4</sup> This letter extends the requirements in RAO 29 to the large ILECs to conform their requirements to those established for the mid-sized ILECs.

In RAO 29, mid-sized ILECs were required to base their attest assertions generally on a model assertion letter and to provide a management representation letter regarding their internal controls. In addition, their auditors were required to file their programs for the engagement with the Accounting Safeguards Division (ASD) at least 30 days before beginning the engagement. RAO 29 also provided a model attest opinion based on the American Institute of Certified Public Accountants (AICPA) attestation standards.<sup>5</sup>

In the future, large ILECs shall follow the requirements established for mid-sized ILECs in RAO 29 when engaging auditors for all CAM examinations. The auditors must submit their programs to ASD for review at least 30 days before beginning an engagement. We will communicate to the auditor any necessary additional steps within 30 days to minimize the burden of any such changes. The auditor may consider the program sufficient to begin the engagement if

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<sup>1</sup> Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 1, CC Docket No. 99-253, *Report and Order*, FCC 00-78, ¶ 13 (rel. Mar. 8, 2000) (*Phase 1 Report and Order* or *Phase 1*).

<sup>2</sup> A large ILEC is a Class A carrier having annual revenues from regulated telecommunications that are equal to or above \$7 billion.

<sup>3</sup> See 47 C.F.R. § 64.904(b). We note that the Commission is considering eliminating the attest audit requirement for mid-sized ILECs. See 2000 Biennial Regulatory Review Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2 and Phase 3, CC Docket No. 00-199, *Notice of Proposed Rulemaking*, FCC 00-364, ¶ 82, (rel. Oct. 18, 2000).

<sup>4</sup> Responsible Accounting Officer Letter 29, DA 00-265 (rel. Feb. 14, 2000) (RAO 29).

<sup>5</sup> RAO 29 at 1-2.

we have not provided any additional procedures within 30 days. The carrier shall also provide an internal controls representation letter for each engagement. In addition, if the large ILEC opts for an attest engagement, it shall either use the model assertion letter attached hereto as Attachment A or follow the guidelines provided in RAO 29 for submitting a different letter for approval. We have also provided a model attest opinion in Attachment B.

Based on our experience overseeing CAM examinations, we believe that a model assertion, model opinion, internal controls representation letter, and an up-front review of the program will improve the reliability of all auditor examinations. Equally important, these guidelines will mitigate the need for costly post-engagement work for both the carriers and their auditors

This letter is issued pursuant to authority delegated under section 0.291 of the Commission's rules.<sup>6</sup> Applications for review under section 1.115 of the Commission's rules must be filed within 30 days of the date of this letter.<sup>7</sup>

If you have any questions, please contact Hugh Boyle at (202) 418-0820 or José-Luis Rodríguez at (202) 418-0810.

Sincerely,

Kenneth P. Moran  
Chief, Accounting Safeguards Division,  
Common Carrier Bureau

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<sup>6</sup> See 47 C.F.R. § 0.291.

<sup>7</sup> See 47 C.F.R. § 1.4(b)(2).

## Attachment A

## Large Carrier Model Assertion

**Name of Carrier**  
**Statement of Cost Allocation System Compliance**  
**For the Two Years Ended [date] and [date]**

Our cost allocation manual, as amended December 31, XXXX, has been filed with the Federal Communications Commission (Commission). The cost allocation manual complies with the Commission rules and regulations mentioned in the paragraph below and provides criteria against which our cost allocation system can be evaluated. The cost allocation system is supported by cost allocation methods that comply with the cost allocation manual and utilizes methods that permit preparation of the attached Automated Reporting Management Information System (ARMIS) 43-03 Joint Cost Reports, for the years ended [date] and [date] in accordance with the cost allocation manual.

The results reported in our ARMIS 43-03 Joint Cost Reports are an accurate application of the Commission's orders issued in conjunction with CC Docket Nos. 86-111 and 96-150 and the Commission's rules and regulations including sections 32.23, 32.27, 64.901 and 64.903 in force during the years ended [date] and [date], and our cost methodologies in place are in conformance with the cost allocation manual filed with the Commission, during the years ended [date] and [date].

*[signed by an Officer of the Carrier]*

## Attachment B

## Large Carrier Model Attest Opinion

We have examined management's assertion, included in the accompanying ARMIS 43-03 Joint Cost Reports, that the results reported in [carrier name]'s ARMIS 43-03 Joint Cost Reports are an accurate application of the Commission's orders issued in conjunction with CC Docket Nos. 86-111 and 96-150 and the Commission's rules and regulations including sections 32.23, 32.27, 64.901 and 64.903 in force as of the date of this opinion, and that [carrier name]'s cost methodologies in place are in conformance with the cost allocation manual filed with the Commission, during the years ended [date] and [date]. Management is responsible for [carrier name]'s compliance with those requirements. Our responsibility is to express an opinion on management's assertion about [carrier name]'s compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and as directed by the Chief, Common Carrier Bureau, and, accordingly, included examining, on a test basis, evidence about [carrier name]'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on [carrier name]'s compliance with specified requirements.

In our opinion, management's assertion that the results reported in [carrier name]'s ARMIS 43-03 Joint Cost Report are an accurate application of the aforementioned requirements, and are in conformance with the cost allocation manual filed with the Commission, during the two-year period ended December 31, [XXXX] is fairly stated, in all material respects.

This report is intended solely for the information and use of [names of specified parties] and is not intended to be and should not be used by anyone other than these specified parties.