

EXPENSE LIMIT DATA REQUEST CC DOCKET NO. 95-60

Q. Please explain what types of internal controls you have in place for tracking items that are expensed.

A. Southwestern Bell Telephone Company (SWBT) has a number of internal controls and security measures which serve to safeguard its assets, including expensed items. While these controls and measures generally do not keep track of individual expensed assets on an item-by-item basis in the same manner as Part 32 detailed property records, they are the most cost-effective procedures for safeguarding assets, especially with respect to items that are or should be expensed. Typically, expensed items are large volume purchases with small dollar costs. Detailed item-by-item tracking of such expensed assets simply cannot be cost-justified from a business perspective, especially in view of the sufficiency of the other controls and measures. SWBT's competitors and firms in other industries use such controls and measures to safeguard their assets. In addition to the controls and measures described below, SWBT has special recordkeeping for certain types of expensed assets to meet specific business needs. For example, SWBT keeps records of cellular phone equipment in order to verify the associated cellular service invoices. Other examples of special recordkeeping are the records kept in connection with maintenance of official communications equipment.

SWBT's primary controls are designed to assure that:

- 1) assets are safeguarded, and
- 2) financial records accurately reflect the company's accounting transactions.

Specific internal controls and security measures include the following:

Safeguarding of Assets

The following controls have been implemented by SWBT to safeguard its assets:

Expense budgets are maintained for each operating unit and are monitored closely by management in both the operating unit and the Accounting/Finance department.

Expenditures must be authorized by the appropriate level of management in accordance with SWBT's Schedule of Authorizations. Limited discretionary funds in today's competitive environment make it unlikely that managers would readily authorize the purchase of new equipment to replace items if there were a loss. Emphasis is placed on purchasing only equipment that is absolutely necessary to generate revenue or increase productivity. Organizations that exhaust expense budgets will have significant difficulty obtaining more items in this strict budget environment.

Security guards in each building monitor the removal of equipment from company premises. In addition, most company sites are secured by locks; e.g., door codes for central offices and locks on yard gates at work centers.

Southwestern Bell's *Code of Business Conduct* contains strong language about the misappropriation of company property. It promises dismissal and prosecution under the law. Every employee is required to read this Code and sign a statement of understanding annually.

Recording of Transactions

The following controls have been implemented by SWBT to ensure that transactions are properly recorded:

Requests for payment are reviewed for appropriate authorizations and supporting documentation. Invoices must be approved by management in accordance with the schedule of authorization.

Expenses are reviewed for reasonableness on a continuous basis by the Finance Organization. Material fluctuations are investigated and resolved promptly.

Internal and external auditors periodically review our controls to ensure proper reporting and accurate tracking of expenditures on an ongoing basis.

Purchasing activities are segregated from the disbursement and accounting activities.

Purchase orders must contain information regarding price and quantity, and must be appropriately authorized.

SWBT Operating Practices detail proper accounting procedures to be followed when purchasing, transferring and disposing of equipment.

SWBT's accounting systems contain various edits to ensure that transactions are recorded in accordance with company policies and procedures. For example, transactions are edited for valid accounts, location codes, expenditure types, account/job order number combinations, etc. In addition, the systems can be set up to allow only selected organizations to charge some accounts, thereby prohibiting charges to those accounts by organizations not specifically authorized.

Southwestern Bell Telephone has internal procedures for disposing of equipment. Employees return unused equipment to the Procurement organization for re-use elsewhere within the company or for sale to others.

Account reconciliations/balancing to ensure consistency of books and records (e.g. Cash Accounts to Treasury reports for cash purchases, if any; monthly general ledger close process for balancing accounts payable transactions to the general ledger).