(1) A description of each of the carrier's nonregulated activities;

(2) A list of all the activities to which the carrier now accords incidental accounting treatment and the justification therefor;

(3) A chart showing all of the carrier's corporate affiliates;

(4) A statement identifying each affiliate that engages in or will engage in transactions with the carrier and describing the nature, terms and frequency of each transaction;

(5) A cost apportionment table showing, for each account containing costs incurred in providing regulated services, the cost pools with that account, the procedures used to place costs into each cost pool, and the method used to apportion the costs within each cost pool between regulated and nonregulated activities; and

(6) A description of the time reporting procedures that the carrier uses, including the methods or studies designed to measure and allocate nonproductive time.

(b) Each carrier shall ensure that the information contained in its cost allocation manual is accurate. Carriers must update their cost allocation manuals at least annually, except that changes to the cost apportionment table and to the description of time reporting procedures must be filed at the time of implementation. Annual cost allocation manual updates shall be filed on or before the last working day of each calendar year. Proposed changes in the description of time reporting procedures, the statement concerning affiliate transactions, and the cost apportionment table must be accompanied by a statement quantifying the impact of each change on regulated operations. Changes in the description of time reporting procedures and the statement concerning affiliate transactions must be quantified in $100,000 increments at the account level. Changes in cost apportionment tables must be quantified in $100,000 increments at the cost pool level. The Chief, Wireline Competition Bureau may suspend any such changes for a period not to exceed 180 days, and may thereafter allow the change to become effective or prescribe a different procedure.

(c) The Commission may by order require any other communications common carrier to file and maintain a cost allocation manual as provided in this section.

[57 FR 4375, Feb. 5, 1992, as amended at 59 FR 46358, Sept. 8, 1994; 61 FR 50246, Sept. 25, 1996; 62 FR 39779, July 24, 1997; 65 FR 16335, Mar. 28, 2000; 67 FR 5702, Feb. 6, 2002; 67 FR 13229, Mar. 21, 2002]

§ 64.904 Independent audits.

(a) Each carrier required to file a cost allocation manual shall elect to either have an attest engagement performed by an independent auditor every two years, covering the prior two year period, or have a financial audit performed by an independent auditor every two years, covering the prior two year period. In either case, the initial engagement shall be performed in the calendar year after the carrier is first required to file a cost allocation manual.

(b) The attest engagement shall be an examination engagement and shall provide a written communication that expresses an opinion that the systems, processes, and procedures applied by the carrier to generate the results reported pursuant to § 43.21(e)(2) of this chapter comply with the Commission's Joint Cost Orders issued in conjunction with CC Docket No. 86–111, the Commission's Accounting Safeguards proceeding in CC Docket No. 96–150, and the Commission's rules and regulations including §§ 32.23 and 32.27 of this chapter, and §§ 64.901, and 64.903 in force as of the date of the auditor's report. At least 30 days prior to beginning the attestation engagement, the independent auditors shall provide the Commission with the audit program. The attest engagement shall be conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, except as otherwise directed by the Chief, Enforcement Bureau.

(c) The biennial financial audit shall provide a positive opinion on whether the applicable date shown in the carrier's annual report required by § 43.21(e)(2) of this chapter present fairly, in all material respects, the information of the Commission's Joint Cost Orders issued in conjunction with CC

Docket No. 86–111, the Commission's Accounting Safeguards proceeding in CC Docket No. 96–150, and the Commission's rules and regulations including §§ 32.23 and 32.27 of this chapter, and §§ 64.901, and 64.903 in force as of the date of the auditor's report. The audit shall be conducted in accordance with generally accepted auditing standards, except as otherwise directed by the Chief, Enforcement Bureau. The report of the independent auditor shall be filed at the time that the carrier files the annual reports required by § 43.21(e)(2) of this chapter.

[67 FR 5702, Feb. 6, 2002, as amended at 67 FR 13229, Mar. 21, 2002]

§ 64.905 Annual certification.

A mid-sized incumbent local exchange carrier, as defined in § 32.9000 of this chapter, shall file a certification with the Commission stating that it is complying with § 64.901. The certification must be signed, under oath, by an officer of the mid-sized incumbent LEC, and filed with the Commission on an annual basis at the time that the mid-sized incumbent LEC files the annual reports required by § 43.21(e)(2) of this chapter.

[67 FR 5702, Feb. 6, 2002]

Subpart J—Recovery of Investments and Expenses in Regulated Interstate Rates

SOURCE: 83 FR 18965, May 1, 2018, unless otherwise noted.

§ 64.1000 Scope.

This subpart is applicable only to rate-of-return carriers as defined in § 54.5 of this chapter receiving Connect America Fund Broadband Loop Support as described in § 54.901 of this chapter.

§ 64.1001 Purpose.

This subpart is intended to ensure that only used and useful investments and expenses are recovered through regulated interstate rates pursuant to section 201(b) of the Communications Act as amended (the Act), 47 U.S.C. 201(b).

§ 64.1002 Investments and expenses.

(a) *Investment and expenses not used and useful in the ordinary course.* The following investments and expenses are presumed not used and useful (and thus unreasonable):

(1) Personal expenses, including but not limited to personal expenses for food and beverages, housing, such as rent or mortgages, vehicles for personal use, and personal travel;

(2) Tangible property not logically related or necessary to offering voice or broadband services;

(3) Political contributions;

(4) Membership fees and dues in social, service and recreational, or athletic clubs or organizations;

(5) Penalties or fines for statutory or regulatory violations; and

(6) Penalties or fees for late payments on debt, loans, or other payments.

(b) *Non-customary investments and expenses.* Unless customary for similarly situated companies, the following investments and expenses are presumed not used and useful (and thus unreasonable):

(1) Personal benefits, such as gifts, housing allowances, and childcare, that are not part of taxable compensation;

(2) Artwork and other objects that possess aesthetic value that are displayed in the workplace;

(3) Aircraft, watercraft, and off-road vehicles used for work and work-related purposes;

(4) Cafeterias and dining facilities;

(5) Charitable donations;

(6) Entertainment;

(7) Food and beverage expenses for work and work-related travel;

(8) Membership fees and dues associated with professional organizations;

(9) Scholarships; and

(10) Sponsorships of conferences or community events.

Subpart K—Changes in Preferred Telecommunications Service Providers

§ 64.1100 Definitions.

(a) The term *submitting carrier* is generally any telecommunications carrier