

## **Resolution Regarding NECA Expansion Of The Board And Audit Results**

**WHEREAS**, The National Exchange Carrier Association (NECA) is a non-profit corporation created by the Federal Communications Commission (FCC) in 1983 to administer the national interstate pools in conjunction with the Federal access charge program for all Local Exchange Carriers (LECs) that elect to participate and other support programs to further the goal of universal service, e.g., Universal Service Fund, Lifeline and Link-Up; and

**WHEREAS**, The National Association of Regulatory Utility Commissioners (NARUC) Communications Committee, Finance and Accounting Policy Subcommittee, has investigated NECA activities and recognizes that there may be a financial incentive for NECA pooling companies to engage in improper reporting; and

**WHEREAS**, The Common Carrier Bureau of the FCC has conducted an audit focusing on major adjustments LECs reported to the Common Line (CL) pool during the period of October, November and December, 1988 settlements cycles. The auditors found instances in which the companies apparently engaged in manipulative and erroneous reporting that influenced the CL earnings in 1988; and

**WHEREAS**, The FCC has required NECA to retain an independent auditor, to review other adjustments carriers reported to NECA for 1988 and 1989, and on safeguards to prevent other instances of this nature; and

**WHEREAS**, The FCC has required NECA to file a report on the independent audits by September 9, 1991; and

**WHEREAS**, The current membership of the board of directors of NECA is made up of LECs who have a financial interest in the procedures and operations of NECA; and

**WHEREAS**, The NARUC has adopted a resolution that applauds the FCC's announced intention to require further outside audits of the NECA pooling adjustments and to identify safeguards against current adverse financial incentives and the FCC be encouraged to proceed with its intention to appoint non-LEC individuals to the NECA Board of Directors to provide an independent view and a moderating effect on NECA deliberations; and

**WHEREAS**, In AAD 91-28, NECA has filed a request for waiver of the rules to temporarily add two non-LEC members to its board of directors; and

**WHEREAS**, In RM 7736, NECA has asked for a permanent change in the rules to add two non-LEC members to its board of directors; now, therefore, be it

**RESOLVED**, That the National Association of Regulatory Utility Commissioners (NARUC), assembled at its 1991 Summer Meeting in San Francisco, California, endorses the appointment of two or more

non-LEC board members and to this extent we support this petition by NECA for a temporary waiver; and be it further

**RESOLVED**, That the NARUC does not support a permanent rule change until the results of the audits are made publicly available and the State regulators have adequate opportunity to review the results and determine if additional remedial measures are necessary; and be it further

**RESOLVED**, That NARUC General Counsel should request that the FCC make NECA's report on the independent audits available to the public as expeditiously as practicable once that report is filed with the FCC, and the NARUC General Counsel shall, after evaluating the report and consulting with the members of the NARUC Committees on Communications and Finance and Technology, meet with the FCC staff to discuss that report and how the national interstate pools and support programs established by FCC rule might best be administered.

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Sponsored by the Committee on Communications  
Adopted July 24, 1991