

PLUG-IN CENTRAL STOCK RECONCILIATION

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The first reconciliation is between the warehouse inventory of good units and the PIEC's inventory card. Integrity at this point is requisite to investment record integrity. The second reconciliation is between the PIEC's inventory card and the CENSTKMTC system's property record, the HN62 report. This is the most complicated of the three reconciliation procedures; it requires a consolidation of units on the inventory cards by PR number and an intermediate record showing the units making up the defective investment (i.e., the net of those units sent out on a like-for-like basis and those returned from repair locations repaired or retired if

unrepairable). This reconciliation is also requisite to integrity of the investment records. The third reconciliation is between the investment records of the CENSTKMTC system, the HN64 report, and the Accounting P&C system, the 6820 report (or FV71 report if converted to DOPAC). This reconciliation is the acid test for the other reconciliations. It is, however, complicated by the CENSTKMTC system being run on a fiscal month basis while the Accounting system is run on a calendar month basis.

1. GENERAL

1.01 This section is issued to provide the methods for reconciling the investment and property records of the Plug-In Central Stock operation.

1.02 Reconciliation in the plug-in central stock operation is a mandatory process of a continuing nature. The dual computer records and the level of activity and investment indicate that reconciliation be done regularly; otherwise, the investment and property records at the central stock and outlying equipment locations can quickly become distorted.

1.03 Three major reconciliations between four reconcilable entities are required. The four entities are the warehouse inventory, the PIEC's inventory card, the CENSTKMTC system's inventory, and investment records, and the Accounting Departments Property and Cost (P&C) investment record.

1.04 To aid in the development of reconciliation procedures, Exhibits 1 through 6 have been attached. The six exhibits consist of five views of the four reconcilable entities (the HN62 and HN64 are different views of the same entity) and the blank form which can be used to expand the exhibits to the degree required for local reconciliation procedures. The outer blocks on the form represent various types of plug-in unit activity. The middle block represents the reconcilable entity (units or investment record) which may or may not change as a result of the various types of plug-in activity. An arrow from a particular activity to the middle block represents an

increase of investment or units at the reconcilable entity due to that activity. An arrow to the activity from the middle block represents a decrease due to the activity. The notation on the arrow indicates the document or instruction that causes that change to take place.

1.05 In making a reconciliation, the exhibits of the two entities involved should be compared. A comparison of the arrows and the notation on the arrows should indicate the type of reconciliation activity required.

1.06 In the case where the arrow appears on both exhibits with the same notation, the reconciliation problem is simply one of time lag. An example of this is the case where units are received at the warehouse from Western Electric and posted to the PIEC's inventory card in both cases by the packing slip. The only difference between a warehouse count and the card count should be due to packing slips in transit to the PIEC. Consideration of the timing of counts and careful posting of documents (date and time notation) should simplify this reconciliation problem.

1.07 In the case where the arrow appears on both exhibits but the notation on the two arrows is different, the reconciliation problem is one of timing depending on the receipt and processing of the two documents. An example of this case is where new units from Western Electric are posted to the PIEC's card according to the packing slip and the units are entered on the HN62 report according to when the "02" transaction was processed. If the order or requisition is used to note the receipt of the packing slip, the month's business of the bill, and the month's business of the "02" transaction, then it can be used as a reference to determine the status of an "02" transaction where the inventory card indicates that units were

purchased. Similar check-off procedures should be inacted whenever separate documents cause a change in two reconcilable entities.

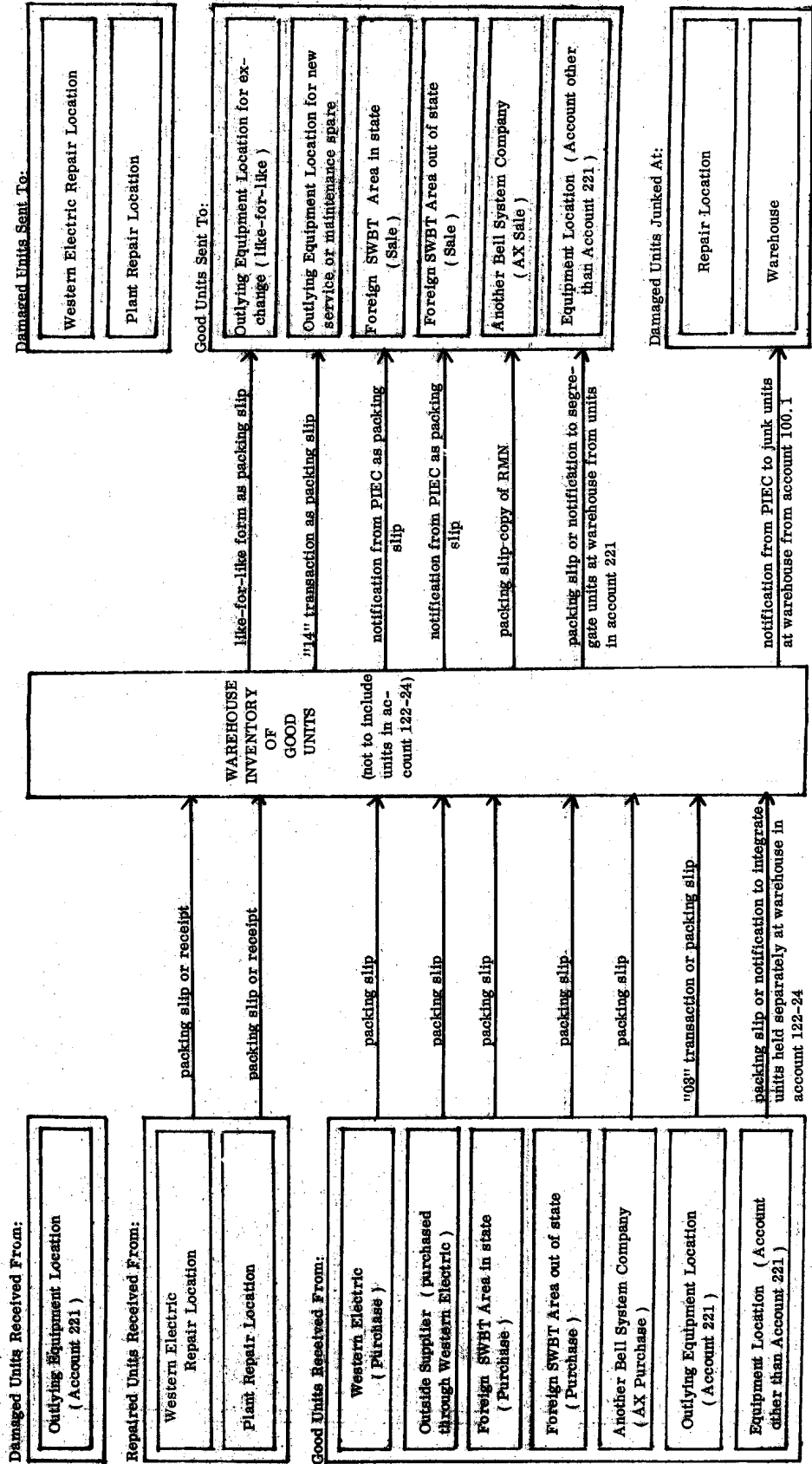
1.08 In the case where an arrow appears on one exhibit but not on the other, the exhibit will have at least one arrow entering the middle block and at least one leaving the middle block that does not appear on the other exhibit. This indicates that there is an external loop which exists in one system that does not change the other. An example of this case occurs when a good unit is sent out for exchange and the defective unit is returned to the stock. The inventory card is decreased when the good unit is sent out; it will not be increased until the defective unit has been repaired. But the HN62 record of the units will not change during this process because the plug-in investment has not changed. In order to reconcile this case, an intermediate record must be kept to show the net effect of the units sent out on a like-for-like or received from repair; if units are found unrepairable, the intermediate record should be adjusted at the same time the investment record reflects the retirement. A similar record must be initiated in any case where there is a loop which exists in only one of the two systems to be reconciled.

1.09 The degree of difficulty of the reconciliation problem in PICS is largely dependent on how and when the PIEC chooses to initiate or transact plug-in activity. The next three sections deal with the individual reconciliations required by the PICS operation. They are intended to enhance the development of good procedures in the areas.

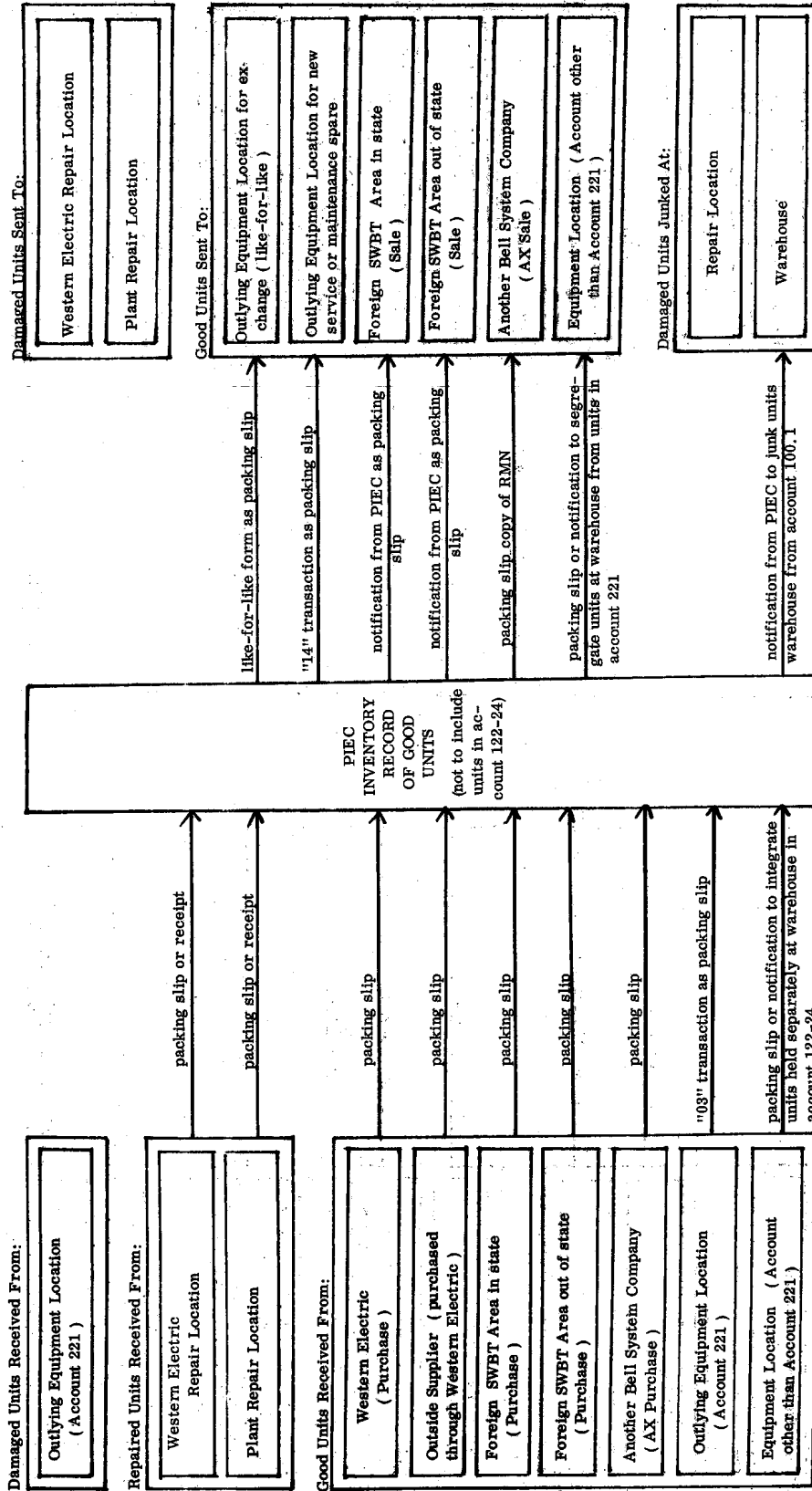
EXHIBIT 1

EXHIBIT 1

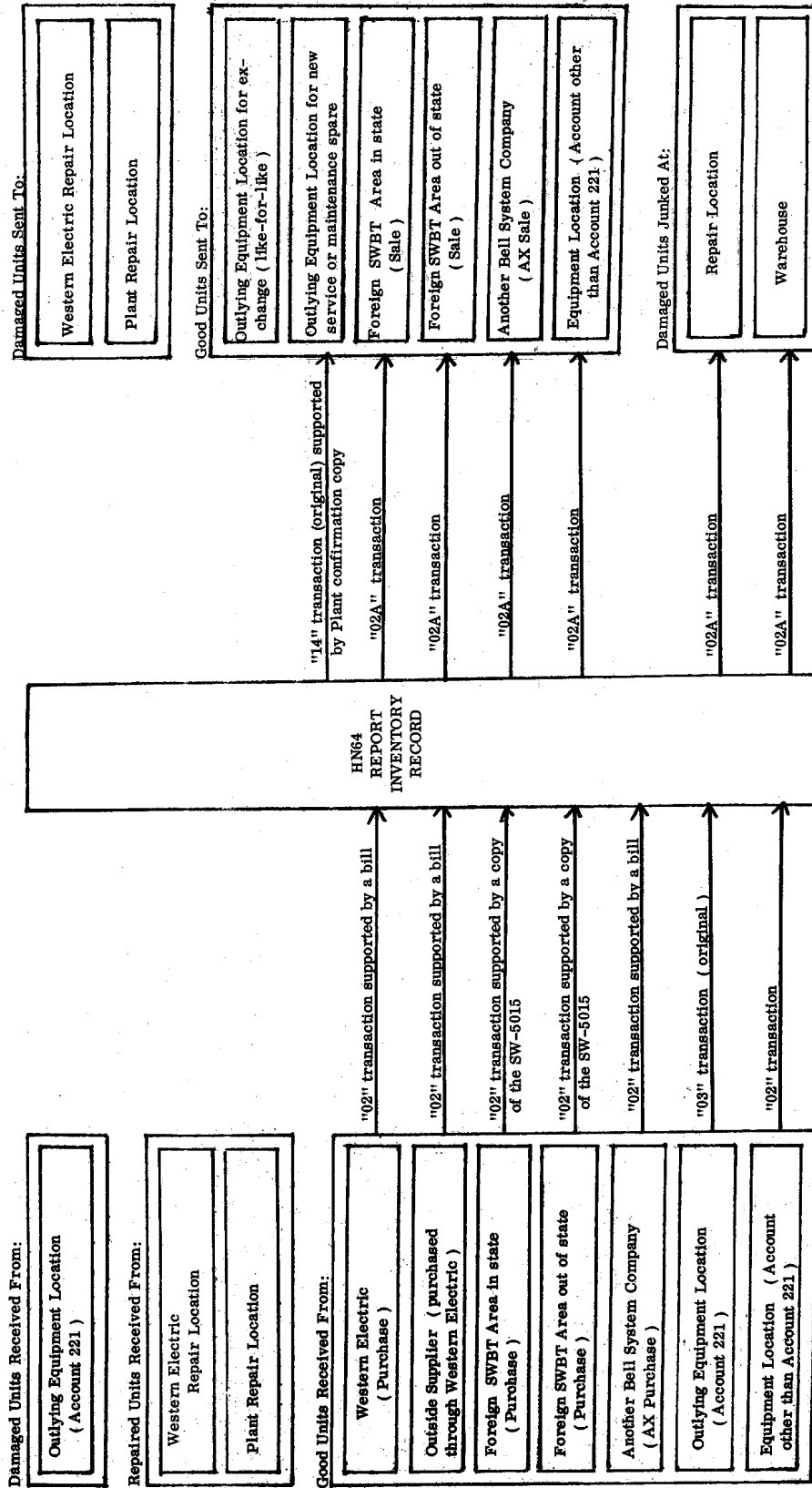
EFFECT OF VARIOUS TYPES OF PI UNIT ACTIVITY ON THE WAREHOUSE INVENTORY OF GOOD UNITS



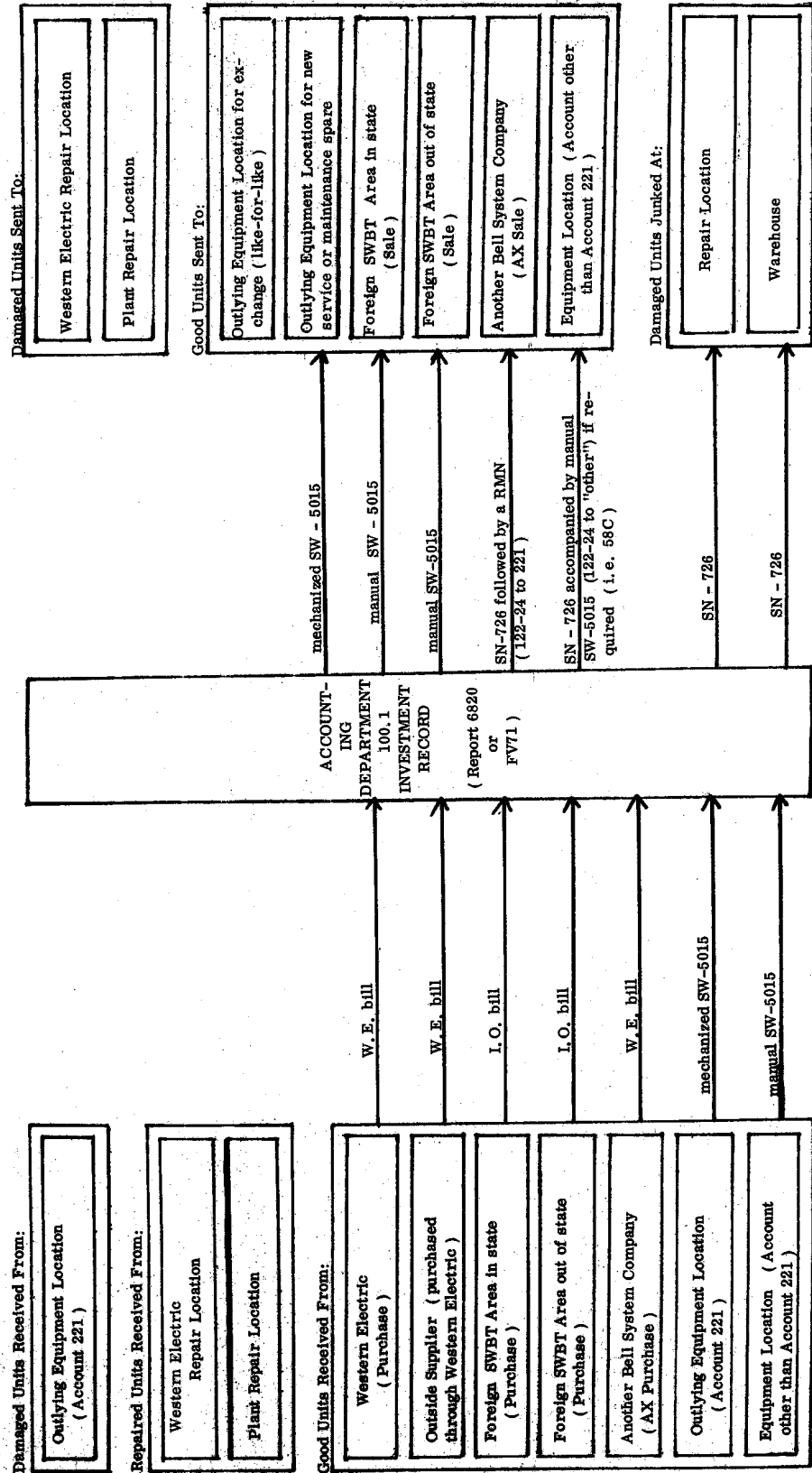
EFFECT OF VARIOUS TYPES OF PI UNIT ACTIVITY ON THE PIEC INVENTORY RECORD OF GOOD UNITS



EFFECT OF VARIOUS TYPES OF PI UNIT ACTIVITY ON THE HN64 REPORT INVESTMENT RECORD



EFFECT OF VARIOUS TYPES OF PI UNIT ACTIVITY ON THE ACCOUNTING DEPARTMENT'S 100.1 INVESTMENT RECORD



Damaged Units Received From:

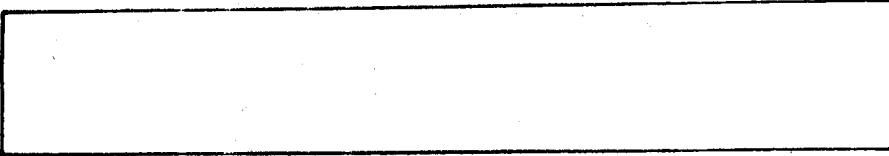
Outlying Equipment Location
(Account 221)

Repaired Units Received From:

Western Electric
Repair Location
Plant Repair Location

Good Units Received From:

Western Electric
(Purchase)
Outside Supplier (purchased
through Western Electric)
Foreign SWBT Area in state
(Purchase)
Foreign SWBT Area out of state
(Purchase)
Another Bell System Company
(AX Purchase)
Outlying Equipment Location
(Account 221)
Equipment Location (Account
other than Account 221)



Damaged Units Sent To:

Western Electric Repair Location
Plant Repair Location

Good Units Sent To:

Outlying Equipment Location for ex-
change (like-for-like)
Outlying Equipment Location for new
service or maintenance spare
Foreign SWBT Area in state
(Sale)
Foreign SWBT Area out of state
(Sale)
Another Bell System Company
(AX Sale)
Equipment Location (Account other
than Account 221)

Damaged Units Junked At:

Repair Location
Warehouse

2. RECONCILIATION OF WAREHOUSE UNITS AND PIEC'S INVENTORY CARD

2.01 The reconciliation between the PICS warehouse and the PIEC's inventory card is a units inventory. Comparison of Exhibits 1 and 2 indicates that the reconciliation problem is primarily one of time lags. To assure that the problem is only one of time lags, the same document should be used at both the warehouse and the PIEC's inventory card to record a change in the inventory level.

2.02 To increase the usefulness of the reconciliation procedure, primarily by fragmenting the task, a continuing inventory system is recommended over a flash inventory procedure. By spreading the inventory process over the year's business (by scheduling PR numbers for various inventory times), the reconciliation procedure will be less tedious due to having more current information than in the case of a flash inventory. All items should be scheduled for inventory at least once a year. Expensive items and high activity items should be inventoried frequently - in some cases, as often as bi-weekly. Low activity items should be scheduled less frequently - perhaps semi-annually or annually.

2.03 A continuing inventory system requires a rigorous sequential posting system and close coordination with the stockmen. The time of day for requesting counts should be chosen carefully to limit the amount of paper in transit.

2.04 Timing can be important in two other areas. If a reconciliation with the HN62 is planned, the inventory should be coordinated with the cutoff date for submitting MTR's for keypunching prior to the monthly processing. Also, efficiency can be gained by scheduling counts at low inventory levels.

3. RECONCILIATION OF PIEC'S INVENTORY CARDS AND THE HN62 REPORT

3.01 The reconciliation between the PIEC's inventory cards and the HN62 report is a units reconciliation. Comparison of Exhibits 2 and 3 indicates that the reconciliation problem is more complicated than the previous one. In most cases, the document which posts a change on a card is not the document which causes the corresponding change to be inputted into the GENSTKMTTC system. In all cases, the units representing the defective investment are deducted from the inventory cards but the HN62 report includes these units. In the case of "14" transactions, the input document to the GENSTKMTTC system is held up until a confirmation copy is received back from the outlying equipment location.

3.02 Some keys to a smooth reconciliation include an accurate and informative inventory card, an intermediate record of defective units, a reference list of all inventory cards with the same PR number, and extensive posting and logging procedures.

3.03 The inventory card should be the starting point for checking the status of all current activity affecting the reconciliation. All activity shown on the cards (for a given PR number) which has not been processed through GENSTKMTTC, within, or prior to, the processing corresponding to the HN62 report being reconciled, must be isolated. The card contains a reference number or form number which provides a cross-reference to the necessary information to determine the status of the corresponding computer transaction.

3.04 An intermediate record or log of defective units should be kept by PR number. The log should be increased by a like-for-like transaction when the inventory

record is decreased. The log should be decreased when the units have been repaired (and the inventory card increased) or when the units are retired and deducted from the CENSTKMTC system.

3.05 A reference list should be maintained by the PR number of all inventory cards having the same PR number. This list can be used for reference purposes when the inventory items are combined for comparison to the HN62 report.

3.06 In the process of accounting for the activity which is posted to the inventory card but entered into the CENSTKMTC system, a copy of the Telephone Equipment Orders and requisitions provide an excellent log. The receipt of a packing slip should be logged to confirm that the units have been received at the warehouse and posted to the inventory card. The month that a bill is processed into the Accounting Property and Cost system should be logged to provide information for reconciling between that system and CENSTKMTC system; the month is shown in the perforation of factory bills and the printed information of the duplicate, Engineering copy of the Order Invoice from the Distribution Information System (DIS). The expected month of processing should be logged for the "02" transaction when it is filled out. A log with this information will be useful in the reconciliations of the inventory card, the CENSTKMTC system and the Accounting Property and Cost System.

3.07 Other aids in isolating the pending computer input transactions are to organize non-keypunched documents and to utilize HN60 reports representing activity which has not been processed through Programs HN050 and HN052. There are two categories of non-keypunched transactions. The first category is of transactions in which the

information required for processing is not complete. In the case of "14" transactions, they must be held until the confirmation copy is received from Plant; in the case of "02" transactions, they must be held until billing information is received. The second category of non-keypunched transactions is that of transactions in which the necessary information is complete, but the transactions are being accumulated in batches prior to keypunching.

3.08 The first step in reconciling a PR number is choosing an appropriate point in time for reconciliation. A reconciliation between the warehouse and the inventory card should have been completed within a reasonably close period of time prior to the reconciliation of the card to the computer record. The time of the reconciliation should limit the level of intermediate activity; an appropriate time would be the monthly cutoff date for MTR input documents going to Accounting. The card count, at the time the reconciliation is declared, is the amount to which the HN62 report should be reconciled.

3.09 The time between the card count and receiving the HN62 report (if the reconciliation date is in the last part of the month, the HN62 report may have been received) should be spent identifying all of the activity which is not going to appear as completed transactions in the computer printouts as of the date and time of the card count. When the figures are complete, they should be used to increase or decrease the card count as appropriate. The units in the defective investment as of the date and time of the card count should also be identified and added to the card count.

3.10 When the computer printouts are received, the HN51 and HN59 reports should be reviewed. The card count of the PR number being reconciled should be adjusted to

reflect the effect of any entries on those reports. After that adjustment, the adjusted card count can be compared to the HN62 report. If a difference is found, the computer should be changed to agree with the adjusted card count.

3.11 A reconciliation form may be of use for the procedure. It should start with the basic card count at the top. Under that count would be positive and negative adjustments for transactions in error (HN51 report) and unprocessed or partially completed "14" transactions (HN59 report). It is critical that units which are unrepairable be considered in the defective investment until they are retired and deducted from the CENSTKMTTC system.

4. RECONCILIATION OF THE HN64 REPORT AND THE ACCOUNTING P&C INVESTMENT RECORD

4.01 The reconciliation between the HN64 report and the Accounting Property and Cost (P&C) investment record is an investment reconciliation. The HN64 report is an investment view of the HN62 report. The Accounting P&C system's investment record is the 6820 report (or FV71 report if converted to DOPAC).

4.02 The bottom line of the two reports are not directly comparable due to time lags. A comparison of Exhibits 4 and 5 gives some indication of the reconciliation process required. After reconciliation steps are completed, the bottom lines in the CENSTKMTTC and Property and Cost Systems should not affect this basic agreement; what happens in one system should happen in the other. If there should be a difference between the two bottom lines after reconciliation, this difference becomes the reconcilable difference or bench mark. Normal operations should not change this reconcilable difference. Only the operations undertaken

in the reconciliation between the inventory cards and the HN62 report (see previous section) should reduce (in most cases) this basic difference. When that reconciliation is 100% complete (all PR numbers reconciled, preferably within five months), the reconcilable difference between the bottom lines of the HN64 report and the 6820 report (or FV71) should then be zero. If the reconcilable difference is not zero at that time, the Accounting investment record should be brought into agreement with the HN64 report by means of retirements and reverse retirements.

4.03 Once the two systems have been reconciled, the continuing reconciliation problems for mortality years other than current year should be diminished. This is due to the fact that time lag is much less a factor for prior mortality years. The mechanized transfers initiated by "03" and "14" transactions are in phase for both systems and do not affect reconciliation. All other activity affecting the status of prior mortality years is at the control of the PIEC. All manual transfers (SW-5015) and retirements (SN726) will be initiated by the PIEC. All purchases from another area within the same state will be IO billed between the Accounting offices, but the PIEC is in a position to either limit this activity or determine the effects on reconciliation when it occurs. Purchases from other areas in other states will also be IO billed, but these transactions will have current year mortality. Due to the lack of complexity of this reconciliation problem, it is recommended that it take place each month.

4.04 Reconciliation of the current year, although it is more involved, should be done as often as is feasible. If the retirements and manual transfers are handled in the first two weeks of each month so that corresponding "02A" transactions are processed in the CENSTKMTTC system in the same

month, the reconciliation of current year mortality is simplified. The remaining problem is then reconciling Western Electric billing and IO billing from other Southwestern Bell Telephone areas with current year mortality.

4.05 A monthly total for transfers other than mechanized transfers can be developed from the Central Stock estimate ledger and the HN63 report. This figure would include all manual transfers and IO billing entered into the P&C system for the month. To develop this figure, add the transfers column from each division as reported on the Central Stock estimate ledger. From that total, deduct the month's "14" transactions as reported on the HN63 report. The remainder represents billing from other areas and manual transfers.

4.07 It may be useful to the reconciliation process to split up the reconcilable difference. The total differences between the HN64 report and the 6820 report (or FV71 report) can be sectioned into prior mortality year, current mortality year and total by subtracting the current year mortality from the total investment on each report and, then, taking the difference.

4.08 The 6820 report and the FV71 report are organized by division, then by account code, then by location code and then by mortality year. Each report contains a beginning and ending balance column. The "beginning balance" column contains the 100.1 balance as of the first of January of the current balance. The "ending balance" is the current 100.1 balance. The intermediate columns account for the difference between the beginning and ending balance.

4.09 The intermediate columns on the 6820 report that will primarily affect the Central Stock location code are the "gross

additions," "adjustments," and "interim retirement" columns. The only "C" transactions that do not appear under the "gross additions" heading are P&C source codes 65, 85, and 86 for prior mortality years which appear under "adjustments."

4.10 The intermediate columns on the FV71 report that will primarily affect the Central Stock location code are the "additions-adjustments" and "interim retirements" columns.

5. SUMMARY

5.01 Reconciliation is an important aspect of the PIEC's task. Prior to PICS, the property records were separate from the investment record or Company books. In the PICS operation, the Company books are still a separate entity; but, there is a combined investment and property record which must agree with the Company books. At the Central Stock location, the combined investment and property record is the HN62 report. (The HN64 report equates to the HN62 report). At the outlying equipment locations, the combined investment and property record is the HN56 report. Since the investment records of the two systems are mechanically and manually interfaced, it is essential that reconciliation be done to assure the integrity of the plug-in investment.