



Independent Accountant's Report

We have examined management's assertions, included in the accompanying "Report of Management on Compliance with Applicable Requirements of 47 C.F.R. Sections 64.1310 and 64.1320 of the Federal Communications Commission's Rules and Regulations," that Verizon Communications Inc. ("Verizon")¹ remains in compliance with the payphone call tracking system audit criteria pursuant to sections 64.1310 (a), 64.1310 (c), 64.1310 (g), and 64.1320 of Appendix C - Final Rules of the FCC's Report and Order of October 3, 2003 (FCC 03-235/CC Docket No. 96-128) in the matter of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996 which provides that each Completing Carrier engages an independent third-party to perform an audit of the Verizon call tracking system that supports the payphone compensation payments. The order requires each Completing Carrier to establish its own call tracking system and to have a third party attest that the system accurately tracks payphone calls to completion.

Verizon Management is responsible for compliance with those requirements. Our responsibility is to express an opinion on management's assertions about Verizon's compliance based on our examination.

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

In our opinion, management's assertions that Verizon has complied with the aforementioned requirements as of June 30, 2016 are fairly stated in all material respects.

A handwritten signature in blue ink, appearing to read "Hendricks, CPA", is written over a horizontal line.

Engel Consulting Group
June 30, 2016

¹ "Verizon" refers to Verizon's Local Exchange Carriers ("LECs") and Verizon's Long Distance Carriers (collectively referred to herein as "Verizon Business") that are entities of Verizon Communications Inc.



Verizon
Payphone Compensation System
2016 FCC Audit Report and Attestation

June 30, 2016



Table of Contents

1.0	INTRODUCTION	3
2.0	EXECUTIVE SUMMARY	3
3.0	BACKGROUND.....	3
4.0	AUDIT APPROACH AND TEST PLAN.....	4
5.0	VALIDATION TEST RESULTS.....	4
5.1	ASSERTION A - PAYPHONE CALL TRACKING	4
5.2	ASSERTION B – TRACKING, COMPENSATING, AND RESOLVING DISPUTES	6
5.3	ASSERTION C - DATA MONITORING PROCEDURES	7
5.4	ASSERTION D – SOFTWARE AND NETWORK CHANGE CONTROL PROCEDURES	8
5.5	ASSERTION E - COMPENSABLE FILE CREATION	9
5.6	ASSERTION F – REQUIRED REPORTS	10
5.7	ASSERTION G - DISPUTE RESOLUTION PROCEDURES AND CONTROLS.....	10
5.8	ASSERTION #H - COMPENSATION CRITICAL CONTROLS AND PROCEDURES	11
5.9	ASSERTION I - COMPENSABLE CALL BUSINESS RULES	12
5.10	ASSERTION J – CFO CERTIFICATION OF PAYPHONE COMPENSATION ACCURACY	13
5.12	END-TO-END TESTING RESULTS	13
6.0	AUDIT CONCLUSIONS AND FINDINGS.....	14
6.1	CONTACT INFORMATION.....	14
7.0	APPENDIX - VERIZON MANAGEMENT ASSERTIONS	14

1.0 Introduction

Verizon¹ has engaged the services of the Engel Consulting Group (“Engel”) to perform the annual audit of its Payphone Compensation processes and procedures. The audit includes an attestation of Verizon’s compliance with the Federal Communications Commission (FCC) requirements to establish a call tracking system to compensate Payphone Service Providers (PSPs) for originating toll-free and access-code calls. This examination is in accordance with the provisions set forth in Appendix C – Final Rules of FCC 03-235/CC Docket No. 96-128 dated October 3, 2003, which obligates Completing Carriers to engage an independent third-party auditor to verify on an annual basis that no material changes have occurred concerning the Completing Carrier’s compliance with the FCC audit criteria.

The goal of this examination is to ensure that the payphone compensation processes operate as designed and that Verizon is in compliance with the criteria and audit requirements specified in §64.1310 and §64.1320 of FCC 03-235/CC Docket No. 96-128.

2.0 Executive Summary

To fulfill the audit requirements and criteria for a payphone call tracking and compensation system specified in §64.1310 and §64.1320 of FCC 03-235/CC Docket No. 96-128, the Engel Consulting Group was engaged by Verizon to audit the processes and procedures for payment of payphone compensation to Payphone Service Providers for toll-free and access-code calls where Verizon is the Completing Carrier. Verizon Management has asserted its payphone call tracking system and compensation processes are in compliance with the aforementioned criteria for the period July 1, 2015 through June 30, 2016.

The 2016 Payphone Compensation audit plan mapped a specific validation test against each of the Verizon management assertions of compliance with the FCC requirements. The validation consisted of reviewing information provided by Verizon Subject Matter Experts (SMEs), inspecting process documentation and correspondence, tracing sample disputes, and examining control reports and files. To validate that the end-to-end payphone compensation processes operates in accordance with the FCC requirements, the Audit Team traced a sample of payphone calls through the Verizon call tracking system by independently processing call detail records, creating a compensable file, comparing the file with the records deemed compensable by Verizon, and documenting the results.

Based upon the data examined and procedures tested during the audit process, the Audit Team concludes that Verizon has satisfied the requirements specified in the aforementioned FCC Orders. Verizon’s assertions of compliance with the FCC criteria specified in §64.1320 of the Final Rules are fairly stated and the Audit Team attests that the Verizon call tracking system is in compliance with the stated criteria as of June 30, 2016.

3.0 Background

The FCC in its Order in Docket No. 96-128 dated October 3, 2003, in the matter of the *Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, adopted new rules

¹ “Verizon” refers to Verizon’s Local Exchange Carriers (“LECs”) and Verizon Long Distance Carriers (collectively referred to herein as “Verizon Business”) that are entities of Verizon Communications Inc.

placing liability for compensating PSPs on the Completing Carriers for calls originating from payphones and completing on their networks. To ensure that the PSPs are fairly compensated, the FCC also imposed new audit, certification, and reporting requirements requiring each Completing Carrier to establish its own call tracking system and to engage a third party to attest that the system accurately tracks calls to completion.

Per Appendix C – Final Rules FCC 03-235/CC Docket No. 96-128, the Completing Carrier is obligated to engage on an annual basis an independent third-party auditor to:

- 1) *Verify that no material changes have occurred concerning the Completing Carrier's compliance with the criteria of the prior year's System Audit Report; or*
- 2) *If a material change has occurred concerning the Completing Carrier's compliance with the prior year's System Audit Report, verify that the material changes do not affect compliance with the audit criteria.*

The FCC requires that the 2016 audit and attestation of compliance must be completed no later than July 1, 2016.

4.0 Audit Approach and Test Plan

The objective of this audit was to validate through testing and other means deemed appropriate that Verizon remains in compliance with the audit requirements and criteria specified in §64.1310 and §64.1320 of FCC 03-235/CC Docket No. 96-128 and that any material changes occurring after June 30, 2015 do not affect compliance with the aforementioned criteria.

Following the Standards for Attestation Engagements established by the American Institute of Certified Public Accountants (AICPA), the Engel Consulting Group utilized an approach which examined processes, procedures, system documentation, sample logs, and control reports provided by Verizon Managers accountable for critical deliverables in the compensation process. In addition, a test to validate that the end-to-end process continues to meet the compliance criteria was conducted by tracing a sample of payphone call detail records (CDRs) from origination on the switch to the compensable calls sent to the National Payphone Clearinghouse (NPC), a service of Cincinnati Bell, for payment and reporting to the PSPs. The Audit Team independently processed the CDRs, applied the business rules for compensation, and created a compensable call file which was then compared with the compensable calls sent to the NPC.

5.0 Validation Test Results

5.1 Assertion A - Payphone Call Tracking

Payphone Call Tracking
<p>Verizon's procedures accurately track calls to completion, as follows:</p> <ol style="list-style-type: none"> 1. Verizon uses the appropriate FCC default "per-call rate" to compensate PSPs 2. Verizon's definition of a "Compensable Call" (payphone-originated call that completes over the Company's network) is in compliance with the FCC Rules and Regulations 3. Verizon's definition of a "Completed Call" (call that is answered by the called party) is in compliance with FCC Rules and Regulations 4. Verizon's procedures for identifying PSPs are complete and accurate 5. Verizon's procedures for validating payphone ANIs are complete and accurate, and the audit report of the NPC verified the NPC procedures for validating payphone ANIs are complete and accurate

Verizon has documented its Payphone Compensation System (PCS) processes and system interfaces through a detailed set of flow diagrams and a corresponding narrative. On a daily basis, call records are collected from the switches and undergo a series of validation steps to determine if the records originated from payphones. If a call contains payphone-specific info-digits of 27, 29, or 70, it will be classified as originating from a payphone. If the record does not contain the payphone-specific info-digits, a further check is made of the originating ANI against the Payphone ANI file. If a match is found, a payphone indicator is added to the record. Records with either payphone-specific info-digits or the payphone indicator are considered originating from payphones. All other call records are dropped from PCS.

The phone indicator on the payphone calls is defaulted to 'P,' and further validation is done to determine if the calls are complete and potentially compensable. A call is considered complete if it is answered by the called party. If the call is not answered or the TALK-TIME field is '0,' the indicator is changed to 'I' signifying an incomplete call.

The Audit Team processed a sample of call records from several of the Verizon switches and created a file of compensable payphone calls. The records from this file were then matched to records of compensable calls in PCS. All matched records were completed calls and either contained the payphone-specific info-digits or the originating ANI was found on the Payphone ANI file.

To validate that Verizon is using the default per call compensation rate, the Audit Team examined a sample of the quarterly reports from the LEC payphone compensation system which was sent to the PSP for the 4Q2015 processing period. The report detailed the number of compensable calls for each ANI / toll-free number combination, the per call compensation rate, and the total amount paid. The report also includes a link to Verizon's website, <http://www.verizon.com/paymenthandling>, and a contact telephone number in the event a PSP has questions about payment handling and dispute resolution.

Since Verizon Business contracts with the NPC to handle per call compensation and reporting to the PSPs on its behalf, the Audit Team examined the 4Q2015 Submission File Analysis reports sent by the NPC to Verizon and observed the per call compensation rate of \$.0494. As further validation that the default rate is being applied to the PSP payments, the Audit Team also reviewed the Obligation Invoice and Payment Summary Report compiled by the NPC for the 4Q2015 processing period which listed the total number of ANIs, the total number of calls, the per call compensation rate, and the total amount paid to PSPs on Verizon's behalf.

On a quarterly basis, the LEC payphone compensation system creates files of Active and Disconnected Payphone ANIs based on Service Order activity for the quarter. The active files, containing PSP identification and contact information, are sent to the NPC and the PSPs for validation of PSP claims. Copies of the Active and Disconnected Payphone ANI files for 4Q2015 and 1Q2016 were provided to the Audit Team for examination.

To ensure that the NPC has controls to validate the PSP ownership claims in order to handle the compensation payments on behalf of Verizon Business, the SOC 1 report from the independent auditor on the NPC controls was examined. The Validation process is the phase in the NPC quarterly processing cycle which compares the claims submitted by the PSPs with the ANI information provided by the LECs / CLECs and determines whether a claim is payable. The control objective for the Validation process is that it completes successfully and errors are identified and resolved. The results of the testing performed by the auditor on the validation control objective were that the controls operated as described.

The specific validation tests for this assertion are documented below:

Validation Tests	Test Results
<ol style="list-style-type: none"> 1. Examined the Verizon PCS process narrative and call flows to verify the systems and control points used to identify and track payphone-originated calls 2. Inspected payphone CDRs for info-digits of 27, 29, or 70 or, if no info-digits, a match to the Payphone ANI file 3. Processed a sample of CDRs received from the Verizon switches, created a compensable payphone file, and compared results with the compensable records in PCS 4. Inspected payphone CDRs for call completion indicators on compensable records in PCS 5. Examined control reports used to manage the payphone identification and compensability processes 6. Examined a sample of quarterly reports from the LEC payphone compensation system for validation of default per call rate 7. Reviewed file analysis reports and quarterly payment summary reports compiled by the NPC for validation of default per call rate paid on Verizon's behalf 8. Reviewed Active and Disconnected payphone ANI report for validation of LEC process to identify PSPs 9. Examined NPC SOC 1 report to ensure process to identify PSPs is accurate 	No deficiencies or exceptions noted

5.2 Assertion B – Tracking, compensating, and resolving disputes

Tracking, compensating, and resolving disputes
<p>Verizon has identified a specific person or persons responsible for tracking, compensating, and resolving disputes concerning payphone-completed calls, as follows:</p> <ol style="list-style-type: none"> 1. Personnel responsible for drafting and maintaining business requirements associated with tracking, compensating, and resolving disputes 2. Personnel responsible for developing and maintaining systems used in the collection and reporting of payphone call data 3. Personnel responsible for Implementing and maintaining procedures to create final payphone compensation data sets 4. Personnel responsible for developing payphone compensation tracking reports 5. Personnel responsible for payphone compensation dispute resolution 6. Personnel responsible for managing coordination with the NPC

Verizon provided a list of personnel responsible for all aspects of the Payphone Compensation System. The primary and secondary points of contact for handling payments and resolving disputes for both LEC Operations and Verizon Business Operations can be found on the Verizon website, <http://www.verizon.com/pages/paymenthandling/>. In addition, PSPs can also reference the secured NPC website, <https://www.npc.cc/> for contact information for questions regarding payments and disputes for Verizon Business. Screenshots from both the Verizon and NPC websites were shared for examination by the Audit Team.

The specific validation tests are documented below:

Validation Test	Test Results
<ol style="list-style-type: none"> 1. Reviewed list of personnel responsible for the payphone compensation system to ensure all aspects were covered 2. Examined screenshots of contact information from Verizon and NPC websites 	No deficiencies or exceptions noted

5.3 Assertion C - Data Monitoring Procedures

Data Monitoring Procedures
<p>Verizon has effective data monitoring procedures, as follows:</p> <ol style="list-style-type: none"> 1. Prepares quarterly reports on payphone call counts, PSP identifiers, and numbers dialed for completed payphone-originating calls 2. Performs data monitoring procedures on call record volumes entering the payphone compensation systems 3. Performs fraud-monitoring procedures to identify potentially illegitimate payphone calls 4. Investigates and resolves PSP disputes

The Audit Team examined two Operations Support documents which detail the procedures run daily and monthly to monitor the data coming into the payphone compensation system. On a daily basis, PCS receives and processes call record data and the PCS Support team performs the daily file monitoring for each sub-system. Any data anomalies or exceptions observed from the results of the monitoring reports are researched and analyzed.

The procedures in the Operations Support documents are detailed and include examples of what the Support team sees at each step of the monitoring process including examples of each report. Charts and graphs are also available to assist the Support team in trend analysis.

The Audit Team also examined the HiVAD (High Volume ANI Detection) process documentation which provides the detailed steps Verizon performs to identify and monitor potentially fraudulent call activity originating from payphones. On a quarterly basis, the NPC sends a notice to Verizon identifying all payphone calls by ANI which have exceeded the high volume threshold. Verizon analyzes the list to determine if any of the ANIs has been previously researched and its disposition. Verizon will then send a list to the NPC of ANIs for which payment can be released.

For the remainder of the ANIs where the high volume threshold has been exceeded, NPC notifies the appropriate PSPs that compensation has been withheld due to HiVAD. The letter to the PSPs includes the Verizon contact information for follow-up. A copy of the letter for the 4Q2015 processing period was provided to the Audit Team for review.

In addition to the HiVAD process documentation, the Audit Team also reviewed the email received from the NPC listing the ANIs with calls exceeding the monthly and quarterly thresholds for the 4Q2015 and the email from Verizon to the NPC releasing ANIs from 4Q2015 for payment during the 1Q2016 processing period. The Audit Team also examined a sample of Verizon's HiVAD control report for the 4Q2015 which listed the ANI, the PSP, the call volumes, and the results of Verizon's investigation.

A sample of the quarterly reports provided to PSPs from the LEC payphone compensation from the 4Q2015 reporting period was examined to validate that the information meets the FCC requirements. The report included the PSP name and other contact information, a list of originating ANIs, the toll-free numbers dialed, the volume of compensable calls, the rate, and the total compensation. The detailed report accompanied the payment information which included the check number, the payment amount, and summaries of the message volume and per call compensation for the reporting period as well as Verizon contact information in the event the PSP has any questions.

The specific validation tests are documented below:

Validation Test	Test Results
<ol style="list-style-type: none"> 1. Examined the Operations Support – PCS documentation detailing the procedures for monitoring call data entering PCS 2. Examined the HiVAD process documentation which detailed the procedures for monitoring potentially fraudulent calls made from payphones 3. Reviewed 4Q2015 report from the NPC detailing payphone calls exceeding the volume thresholds 4. Reviewed email from Verizon releasing payment for 4Q2015 HiVAD ANIs 5. Examined a sample control report for monitoring HiVAD activity 6. Reviewed letter from NPC to PSPs regarding HiVAD activity for 1Q2016 processing period 7. Examined sample of quarterly reports provided by the LEC to PSPs to validate information meets FCC requirements 	No deficiencies or exceptions noted

5.4 Assertion D – Software and Network Change Control Procedures

Software and Network Change Control Procedures
<p>Verizon adheres to established protocols to ensure that software, personnel, or any other network changes do not adversely affect its payphone call tracking ability, as follows:</p> <ol style="list-style-type: none"> 1. Security controls to control access to and monitor call-tracking data 2. Department responsible for making software changes that affect payphone compensation 3. Established protocols to implement and test software changes affecting payphone compensation 4. Application controls in place to ensure network changes external to payphone compensation do not negatively impact payphone compensation

Verizon uses the Sarbanes-Oxley (SOX) control objectives as the governance and control framework for its Information Technology (IT) organization. One of the key objectives is the management of changes where all changes relating to infrastructure and applications within the production environment are formally managed in a controlled manner. Changes to procedures, processes, and systems are logged, assessed, and authorized prior to implementation. Once development is complete, control objectives for testing the new functionality, planning for the release, migrating the data to production, and implementing the system are established to ensure the new functionality meets expectations.

CA Endeavor is used to manage software changes in Mainframe applications and PVCS is used to manage version changes for Midrange applications. Clear Quest is the Trouble Ticket Tracking System used to track the various stages of an upgrade, fix, or new functionality. Results of both unit and end user testing are tracked in Clear Quest and user sign-off is required before the software is released to production. All changes are made in a test environment and require manager approval before going into production.

The Audit Team examined screen shots from the system used to input and track change requests. Two examples from a Payphone migration request were reviewed. The first was a migration request to put the new module into the Acceptance Region, which was approved by the testing team. The second was a migration request to move the module into Production, which was approved by the IT manager.

Daily monitoring checks are performed by production support personnel to verify all jobs have run in the last 24 hours. Logs for any jobs are verified on a daily basis and appropriate action is taken.

Security controls are in place to control access to call-tracking data. IT Management maintains segregated environments and designated roles for developers and production operations personnel in each of the environments. Assignments are reviewed and monitored on a quarterly basis. Unique IDs are assigned and User accounts are requested via the Systems Security website which has defined approval processes.

The specific validation tests are documented below:

Validation Test	Test Results
<ol style="list-style-type: none"> 1. Examined IT Unified Compliance SOX Controls for Verizon IT 2. Reviewed screen shots from system used to input and track changes 3. Examined Change Management documentation for adherence to established protocols 	No deficiencies or exceptions noted

5.5 Assertion E - Compensable File Creation

Compensable File Creation
<p>Verizon creates a compensable payphone call file by matching call detail records against payphone identifiers, as follows:</p> <ol style="list-style-type: none"> 1. Utilizes switch data and database look-ups to populate the date, originating ANI, and dialed number and to aggregate the data into a compensable call file 2. Defines compensable call as a coinless access-code or toll-free call originating at a payphone and completed from a switch that Verizon owns or leases to an end user 3. Utilizes payphone-specific identifiers (coin indicator, info digits, or ANI lists) to identify a compensable payphone call.

Verizon uses Payphone-specific identifiers (coin indicator, info digits, or ANI lists) to identify calls originating from payphones. Compensable calls are defined as coinless access-code or toll-free calls originating from a payphone and completing from a switch that Verizon owns or leases. On a quarterly basis, the payphone calls which have been identified as potentially-compensable are matched to the NPC Traffic Request file which includes all ANIs that are claimed by the PSPs or reported by the Local Exchange Carriers (LECs).

The quarterly process then creates the NPC Superfile which contains cumulative data for all potentially compensable calls for the appropriate process quarter. As an additional control, an internal quarterly process report is created which contains counts of call records that match the Traffic Request File, call records that did not match, and the total call count in the Superfile. The quarterly process report is analyzed and if the counts are in order, the Superfile is sent to the NPC.

To validate this process, the Audit Team conducted an end-to-end test by processing a sample of December 2015 call records from several switches, identifying which originated from payphones, determining which were compensable, and creating a compensable call file. The records that Engel deemed compensable were then matched with records on the Superfile sent to the NPC. The Audit Team also examined several of the call detail records for a sample of payphone ANIs from the 2Q2016 reporting period from the LEC process and matched those with records awaiting payment for that period.

The specific validation tests are documented below:

Validation Test	Test Results
<ol style="list-style-type: none"> 1. Examined PCS narrative and flow diagrams for details on the quarterly processing of the compensable file 2. Independently processed a sample of call detail records, created a compensable call file, and matched the records to the Superfile 3. Examined call detail records from the LEC process and matched those with compensable records in PCS 	No deficiencies or exceptions noted

5.6 Assertion F – Required Reports

Required Reports
<p>Verizon applies validation and control procedures to compile the Compensable Call File. Verizon has procedures to incorporate call data into required reports, as follows:</p> <ol style="list-style-type: none"> 1. Verizon's systems are able to generate (and NPC's systems are able to generate) the following reports on a quarterly basis: <ol style="list-style-type: none"> a. List of toll-free and access-code numbers dialed (where captured by the compensation system) and completed from each PSP's payphones along with the originating ANI b. Volume of payphone originating calls for each toll-free and access-code number completed by Verizon c. The name(s), address(es) and phone number(s) of the person(s) responsible for handling Verizon's payphone compensation d. The Carrier Identification Code (CIC) of all facilities-based LD carriers that routed calls to Verizon categorized according to toll-free and access-code numbers 2. Verizon possesses valid list of payphone owners identified by ANI

A sample of reports generated by the LEC payphone compensation from the 4Q2015 processing period and provided to the PSPs was examined by the Audit Team. All reports contained the originating ANI for each of the calls, corresponding toll-free or access-code numbers dialed, volume of calls, the Verizon website address, and the phone number for questions regarding payphone compensation.

The Audit Team also examined the 4Q2015 and 1Q2016 files of Active payphone ANIs compiled by the LEC Operations team from the payphone compensation system. The list includes the PSP contact information as well as the payphone ANIs.

Since Verizon Business contracts with the NPC for PSP quarterly compensation and reporting, it is critical that effective controls exist in the processing of the Verizon data to ensure accurate compensation and reporting. The Audit Team examined the Service Organization Control (SOC 1) report on the NPC compiled by an independent auditor for the period April 1, 2015 to March 31, 2016 to ensure that controls for processing the Verizon data were in place and operating for the payphone compensation and quarterly reporting commitments for the reporting periods 1Q2015 through 4Q2015. In the report, Cincinnati Bell specified twelve control objectives relating to the NPC Quarterly Dial-Around Compensation process. Testing was performed by the auditor on each control objective and the results were that the controls operated as described.

The specific validation tests are documented below:

Validation Test	Test Results
<ol style="list-style-type: none"> 1. Examined the LEC procedures for compiling the quarterly compensation reports 2. Reviewed a sample of one of the PSP reports to validate the required information was included 3. Examined the current SOC 1 report from the independent auditor to verify the NPC controls for processing the payphone call data received from Verizon 	<p>No deficiencies or exceptions noted</p>

5.7 Assertion G - Dispute Resolution Procedures and Controls

Dispute Resolution Procedures and Controls
<p>Verizon has implemented procedures and controls needed to resolve payphone compensation disputes, as follows:</p> <ol style="list-style-type: none"> 1. Maintains payphone call-tracking data for 27 months as required by FCC Rules and Regulations 2. Investigates and resolves PSP disputes 3. Designated personnel responsible for payphone compensation dispute resolution

4. Statement including name(s), address(es), and phone number(s) for person(s) handling payments and resolving disputes files with the FCC Secretary and made available to PSPs

The primary and secondary contact information for the persons handling payments and resolving disputes is available to PSPs on the Verizon website, <http://www.verizon.com/pages/paymenthandling/>. PSPs can also access the secure NPC website, <https://www.npc.cc/> for primary and secondary contact information for payments handling and dispute resolution for Verizon Business Operations. Screen shots from both websites were provided to the Audit Team as confirmation of the notification. Additionally, the Verizon website address along with the LEC Operations phone number is included in the quarterly reports sent to the PSPs. For Verizon Business, the primary contact is the NPC and the secondary contact is Verizon; for LEC Operations, both the primary and secondary contacts are Verizon personnel.

The Audit Team examined the Verizon Payphone Compensation Dispute Resolution document which outlines the procedures to be followed in the case of a dispute. For Verizon Business, the NPC is contacted first unless the dispute is about the per call compensation amount, illegal routers, HiVAD call counts, Take-backs, and surrogate payments. In those instances, Verizon should be contacted directly. The Audit Team was able to trace a sample dispute regarding HiVAD withholding through the process from initiation by the PSP through to resolution.

All payphone call records are retained for a period of at least 27 months as required by the FCC to assist in dispute resolution.

The specific validation tests are documented below:

Validation Test	Test Results
<ol style="list-style-type: none"> 1. Review posting of dispute contact information on Verizon website 2. Examine Dispute Resolution procedures document to verify process 3. Trace a sample dispute through the process from initiation to resolution 4. Review screen shots from Verizon and NPC websites notifying PSPs of payphone compensation contacts 	<p>No deficiencies or exceptions noted</p>

5.8 Assertion #H - Compensation Critical Controls and Procedures

Compensation Critical Controls and Procedures
<p>Verizon has critical controls and procedures in place to verify that errors are immaterial, as follows:</p> <ol style="list-style-type: none"> 1. Procedures to identify payphone-originated calls 2. Procedures to capture dial-around calls originating from a payphone 3. Procedures to exclude incomplete calls originating from a payphone 4. Procedures to accurately populate call record data in the Compensable Call File 5. Procedures to exclude separately commissioned calls from the Compensable Call File

No changes have been made to Verizon's Payphone Compensation System and the process flows and narrative remain valid. All call records go through a series of validation steps to determine if they 1) are valid calls, 2) are not duplicate records, 3) originate from a payphone, 4) are completed, and 5) are compensable. Payphone calls are identified by a coin indicator (LEC) or by payphone-specific info digits of '27,' '29,' or '70' (LD) on the call detail records received from the switches. If the payphone-specific info digits are not on the call detail records, a further check is done against the Payphone ANI file; if there is a match, the call will be classified as originating from a payphone. The calls are considered compensable if they are completed (answered by the called party), there is a completion indicator on the records, and they terminate to a toll-free or access-code dialed number.

Records that fail the validation checks are written to various reject files which are consolidated daily. Records that successfully pass the validation checks are written to extract files for further downstream processing. Further checks are made against the Switch-Based Reseller (SBR) file to determine the Opt-In (compensable) or Opt-Out (non-compensable) arrangement for each SBR as well as against the True Carrier Table which identifies Special Customer Arrangements (SCAs). If a match is made with the True Carrier Table, the call records are excluded from per call compensation.

On a quarterly basis, the NPC provides SuperFile submission file analysis reports with record and file counts for the files submitted by Verizon for payphone compensation and reporting. Verizon validates that the counts of records processed, ANIs, and messages are correct and sends confirmation back to the NPC. The SuperFile submission file analysis reports were examined for the 4Q2015 data submission along with validation from Verizon that the counts on all reports matched the counts reported by the NPC.

The specific validation tests are documented below:

Validation Test	Test Results
<ol style="list-style-type: none"> 1. Examined PCS process narrative and flow diagrams to verify procedures for identifying payphone calls, eliminating incomplete calls, excluding separately-commissioned calls 2. Examined Superfile submission file analysis reports from the NPC and approvals from Verizon to validate the control process 	No deficiencies or exceptions noted

5.9 Assertion I - Compensable Call Business Rules

Compensable Call Business Rules
<p>Verizon has in place adequate and effective business rules for implementation and payment of payphone compensation, including rules to:</p> <ol style="list-style-type: none"> 1. Identify calls originated from payphones 2. Identify compensable payphone calls 3. Identify incomplete or otherwise non-compensable calls 4. Determine the identities of the PSPs to which Verizon owes compensation

The Audit Team examined the PCS process narrative and flow diagrams to confirm the business rules Verizon has in place for payphone compensation. Calls originating from payphones are identified by a coin indicator (LEC) or payphone-specific info-digits of '27,' '29,' or '70' (LD) on the call record or an ANI match with the Traffic Request File. Compensable calls are defined as completed (answered) calls originating from a payphone and terminating to a toll-free or access-code number. The business rules were validated during the end-to-end test where a sample of call detail records from a number of Verizon switches was processed using the Verizon business rules for determining compensable payphone calls.

To determine the identities of the PSPs to which Verizon owes compensation, the LEC payphone compensation system creates files of Active Payphone ANIs which are updated based on Service Order activity for the quarter. These files contain payphone ANI ownership and PSP contact information. Copies of the Active and Disconnected Payphone ANI files for 4Q2015 and 1Q2016 were provided to the Audit Team for review and confirmation of the process.

To ensure that the NPC has controls to validate the PSP ownership claims in order to handle the compensation payments on behalf of Verizon Long Distance, the SOC 1 report from the independent auditor on the NPC controls was examined. During the NPC quarterly processing cycle, the claims submitted by the PSPs are compared with the ANI information provided by the LECs / CLECs to determine whether a claim is payable. The NPC control objective for the ANI validation process is that it completes

successfully and errors are identified and resolved. The results of the testing performed by the auditor on the validation control objective were that the controls operated as described.

The specific validation tests are documented below:

Validation Test	Test Results
<ol style="list-style-type: none"> 1. Observed sample CDRs to determine if only completed calls with the info-digits of '27,' '29,' or '70' were in the compensable records or that there was a coin indicator and that the originating ANI was included 2. Examined PCS process narrative and flows to determine that the business rules are consistent 3. Processed a sample file of CDRs to create a compensable file and compared with records sent to the NPC on the compensable file to determine that the business rules, e.g. completed toll-free or access-code dialed calls, were being followed 4. Examined the independent auditor's SOC 1 report on the NPC controls to determine that controls are in place to validate ANI ownership and resolve disputes 5. Examined the LEC process for identifying PSPs to which compensation is owed 	No deficiencies or exceptions noted

5.10 Assertion J – CFO Certification of Payphone Compensation Accuracy

Quarterly statements of Payphone Compensation Accuracy
Verizon publishes quarterly statements of payphone accuracy signed by its CFO

Copies of the quarterly statements of payphone accuracy signed by Verizon's CFO can be downloaded from Verizon's website, <http://www.verizon/pages/paymenthandling/>. PSPs can also download the most recent CFO statement from the secure NPC website, <https://www.npc.cc/>. The Audit Team received screen shots from both websites and soft copies were provided for the 2Q2015-4Q2015 reporting periods. All were signed by the Senior Vice President – Chief Financial Officer.

Validation Test	Test Results
<ol style="list-style-type: none"> 1. Downloaded copies of the CFO quarterly statements of payphone accuracy for 1Q2015-4Q2015 reporting periods 2. Examined screen shots from both the Verizon and NPC websites of the quarterly CFO statements 3. Reviewed the soft copies of the CFO quarterly statements for the 2Q2015-4Q2015 reporting periods 	No deficiencies or exceptions noted

5.12 End-to-End Testing Results

The end-to-end test consisted of the Audit Team independently processing a sample of call detail records, applying the business rules for compensation, and comparing the results with the compensable calls sent to the NPC. A sample of call detail records was pulled from a number of Verizon switches for a specified time period. Using the Verizon business rules for determining compensable calls and the reference files, the Audit Team processed the CDRs and created a compensable call file. The records were then matched to records on the 4Q2015 Superfile sent to the NPC.

The Audit Team identified a record that appeared to be compensable but did not match a record on the Superfile. Verizon investigated and provided evidence that this call record was not compensable since it completed to an enhanced call services platform. The Audit Team concluded that the Verizon business

rules are being applied consistently and correctly with the stated assertions. Detailed examination of the individual CDRs revealed:

1. The compensable CDRs contained payphone-specific info-digits of '27,' '29,' or '70' or the originating ANI was on the Traffic Request File
2. The compensable CDRs contained call completion indicators
3. The compensable CDRs included a toll-free or access-code dialed number
4. The compensable CDRs contained the originating ANI which was correctly populated on the record forwarded to the NPC for compensation purposes.

6.0 Audit Conclusions and Findings

Based on the results of the examination of the Verizon payphone compensation processes and procedures and the end-to-end validation of the overall call tracking system, the Audit Team concludes that Verizon and its call tracking system for payphone compensation remain in compliance with the FCC audit requirements and criteria specified in §64.1310 and §64.1320 of the Final Rules of FCC 03-235/CC Docket No. 96-128. The Audit Team further attests that Verizon's assertions of compliance with the aforementioned requirements and criteria are fairly stated in all material respects.

6.1 Contact Information

Please direct any questions regarding this audit to:

Patrick Merrick
Attorney – Legal Operations
(703) 886 - 5088
patrick.merrick@verizon.com

7.0 Appendix - Verizon Management Assertions



**Report of Management on Compliance with Applicable Requirements
of 47 CFR 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations**

Management of Verizon¹ (“Verizon” or the “Company”) is responsible for establishing and maintaining the internal controls over its pay telephone call tracking system necessary for compliance with 47 CFR 64.1310(a)(1), 64.1320(c), and 64.1320(d) of the Federal Communications Commission’s (“FCC”) Rules and Regulations and related requirements contained in CC Docket No. 96-128, regarding *The Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*.

Management has evaluated the Company’s compliance with the applicable requirements of 47 CFR 64.1310(a)(1), using the criteria in 47 CFR 64.1320(c) of the FCC’s Rules and Regulations as the framework for the evaluation. Based on this evaluation, we assert that as of June 24, 2016, the Company complies with the applicable requirements of 47 CFR 64.1310(a)(1), 64.1320(c), and 64.1320(d) in all material respects as described below. Verizon has disclosed all material changes since June 27, 2015 to the auditors concerning the call tracking system that must be disclosed in accordance with Section 64.1320(f) of FCC’s Rules and Regulations. The material changes do not affect Verizon’s compliance with Section 64.1310(a)(1).

Verizon Local Exchange Carrier operations² (“LEC Operations”) consist of local exchange and intraLATA toll services provided by Verizon LECs. Verizon Business operations consist of interLATA and intraLATA toll services provided by Verizon Business long-distance (“LD”) carriers. Verizon Business uses the National Payphone Clearinghouse (“NPC”) to perform payphone compensation settlements. Certain assertions included in this report depend in whole or in part upon NPC performance. In support of these assertions, Verizon Business relies upon a contractual agreement between Verizon Business and NPC (“NPC Contract”), which requires NPC compliance with CC Docket No. 96-128. In addition, NPC has provided Verizon Business an independent third-party audit report to verify that effective controls and procedures relating to these assertions have been established and will be maintained by NPC. Verizon Business has not conducted an independent evaluation and makes these assertions based solely on the NPC Contract and the third-party audit report of NPC’s operations.

Verizon acts as the “Completing Carrier”³ for intraLATA coinless access code and subscriber toll-free payphone calls that originate and terminate within the LEC service area and for the following types of interLATA and intraLATA Verizon Business Services:

¹ “Verizon” refers to Verizon’s Local Exchange Carrier’s (“LECs”) and Verizon Long Distance Carriers (collectively referred to herein as “Verizon Business”) that are entities of Verizon Communications Inc.

² Verizon’s LECs consist of the following companies: Verizon New York Inc., Verizon New England Inc., Verizon Washington D.C. Inc., Verizon Maryland LLC., Verizon Virginia LLC., Verizon New Jersey Inc., Verizon Pennsylvania LLC., Verizon Delaware LLC., Verizon California Inc., Verizon Florida LLC., Verizon North LLC., Verizon South Inc., and GTE Southwest Incorporated d/b/a Verizon Southwest.

³ As defined in 47 CFR 64.1300(a), a Completing Carrier is a long distance carrier or switch-based long distance reseller that completes a coinless access code or subscriber toll-free payphone call or a LEC that completes a local, coinless access code or subscriber toll-free payphone call.

**Report of Management on Compliance with Applicable Requirements
of 47 CFR 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations**

1. Postpaid Calling Card calls
2. Prepaid Calling Card calls
3. Toll Free calls
4. Operator Service calls
5. Wholesale Switch-less Based Reseller calls

The assertions are made starting with the initial point in call record processing at which Verizon has visibility to the call tracking data.

Verizon represents the following facts regarding its role as the Completing Carrier, which are in fulfillment of the obligations of Verizon as described at 47 CFR 64.1320(c):

- A. Verizon's procedures accurately track calls to completion, as follows:
 1. Verizon uses the appropriate FCC default "per-call rate" to compensate Payphone Service Providers ("PSPs").
 2. Verizon's definition of a "Compensable Call" (payphone-originated call that completes over the Company's network in which the Company identifies itself as the Completing Carrier) is in compliance with FCC Rules and Regulations.
 3. Verizon's definition of a "Completed Call" (call that is answered by the called party) is in compliance with FCC Rules and Regulations.
 4. Verizon's procedures for identifying PSPs are complete and accurate.
 5. Verizon's procedures for validating payphone ANIs are complete and accurate, and the third-party audit report of NPC verified that NPC procedures for validating payphone ANIs are also complete and accurate.
- B. Verizon has identified a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone-completed calls, as follows:
 1. Verizon has identified personnel responsible for drafting and maintaining the business requirements associated with tracking, compensating, and resolving disputes concerning payphone-compensated calls.
 2. Verizon has identified personnel responsible for the development and maintenance of systems used in the collection and reporting of payphone call data.
 3. Verizon has identified personnel responsible for the implementation and maintenance of procedures that are utilized in creating final payphone compensation data sets.
 4. Verizon has identified personnel who are responsible for developing payphone compensation tracking reports.

**Report of Management on Compliance with Applicable Requirements
of 47 CFR 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations**

5. Verizon has identified personnel who are responsible for payphone compensation dispute resolution.
 6. Verizon has identified personnel responsible for managing coordination with the payphone clearinghouse services provider, NPC.
- C. Verizon has effective data monitoring procedures, as follows:
1. Verizon has the ability to prepare quarterly reports on payphone call counts, PSP identifiers, and numbers dialed for completed payphone originating calls.
 2. Verizon performs data monitoring procedures on call record volumes entering the payphone compensation systems.
 3. Verizon performs fraud-monitoring procedures to identify potentially illegitimate payphone calls.
 4. Verizon has the ability to investigate and resolve PSP disputes.
- D. Verizon adheres to established protocols to ensure that any software, personnel, or any other network changes do not adversely affect its payphone call tracking ability, as follows:
1. Verizon has security controls in place to control access to and monitor call-tracking data.
 2. Verizon has a department that is responsible for making software changes that affect payphone compensation.
 3. Verizon has established protocols to implement and test software changes affecting payphone compensation.
 4. Verizon has application controls in place to ensure that network changes external to payphone compensation do not negatively affect payphone compensation.
- E. Verizon creates a compensable payphone call file by matching call detail records against payphone identifiers, as follows:
1. Verizon utilizes switch data and database look-ups to populate the date, originating ANI, and dialed number (where captured by the compensation system), and to aggregate data into a Compensable Call File.
 2. A compensable call for Verizon is a coinless access code or subscriber toll-free call originating at a payphone and completed from a switch that Verizon owns or leases to an end user.
 3. Verizon uses payphone-specific identifiers (coin indicator, info digits or ANI lists) to identify a compensable payphone call, and the third-party audit report of NPC verified that NPC also uses payphone-specific identifiers (info digits or ANI lists) to identify a compensable payphone call.

**Report of Management on Compliance with Applicable Requirements
of 47 CFR 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations**

- F. Verizon applies validation and control procedures to compile the Compensable Call File. Verizon has procedures to incorporate call data into required reports, as follows:
1. Verizon's systems are able to generate, and NPC's systems are able to generate for the systems under their control, the following reports on a quarterly basis:
 - a. A list of the toll-free and access code numbers dialed (where captured by the compensation system) and completed from each PSP's payphones along with the ANI for each payphone.
 - b. The volume of payphone originating calls, for each toll-free and access code number, completed by Verizon.
 - c. The name(s), address(es), and phone number(s) of the person(s) responsible for handling Verizon's payphone compensation.
 - d. The Carrier Identification Code ("CIC") of all facilities-based LD carriers that routed calls to Verizon, categorized according to toll-free and access code numbers.
 2. Verizon possesses valid lists of payphone owners identified by ANI.
- G. Verizon has implemented procedures and controls needed to resolve payphone compensation disputes, as follows:
1. Verizon maintains required payphone call-tracking data for twenty-seven (27) months as required by FCC Rules and Regulations.
 2. Verizon has the ability to investigate and resolve PSP disputes.
 3. Verizon has designated personnel who are responsible for payphone compensation dispute resolution.
 4. Verizon has filed a statement that includes the name(s), address(es), and phone number(s) for person(s) responsible for handling payments and resolving disputes. This statement is updated within 60 days of any changes to such persons. The statement was filed with the FCC Secretary and made available to facilities-based LD carriers and PSPs.
- H. Verizon has procedures in place to test critical controls and procedures to verify that errors are immaterial, as follows:
1. Verizon has procedures to identify payphone-originated calls.
 2. Verizon has procedures to capture dial-around calls originating from a payphone.
 3. Verizon has procedures to exclude incomplete calls originating from a payphone from the Compensable Call File.
 4. Verizon has procedures to accurately populate call record data in the Compensable Call File.

**Report of Management on Compliance with Applicable Requirements
of 47 CFR 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations**

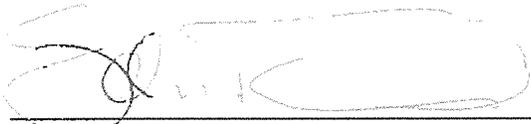
5. Verizon has procedures to exclude separately commissioned calls from the Compensable Call File.
- I. Verizon has in place adequate and effective business rules for implementing and paying payphone compensation, including rules used to: (i) identify calls originated from payphones; (ii) identify compensable payphone calls; (iii) identify incomplete or otherwise non-compensable calls; and (iv) determine the identities of the PSPs to which Verizon owes compensation, as follows:
 1. Verizon has business rules that identify calls originated from payphones.
 2. Verizon has business rules that identify compensable payphone calls.
 3. Verizon has business rules that exclude incomplete or otherwise non-compensable calls originating from a payphone.
 4. Verizon has business rules to determine the identities of the PSPs to which Verizon owes compensation.
- J. Verizon publishes quarterly statements of payphone accuracy signed by its CFO.

Required Disclosures per 47 CFR Section 64.1320(d)

- I. Verizon represents the following facts regarding its LEC operations in its role as the Completing Carrier. These facts are in fulfillment of the obligations of Verizon as specified at 47 CFR Section 64.1320(d):
 1. Verizon's criterion for identifying calls originating from payphones is a payphone line identifier ("coin indicator") populated in the call record.
 2. Verizon's criteria for identifying compensable payphone calls include all calls with the coin-indicator populated and call duration greater than zero (0). Calls originating from payphones where a Verizon LEC has a written compensation agreement with the payphone owner are excluded from the Compensable Call File.
 3. Verizon's criteria for identifying incomplete or otherwise non-compensable calls include: (i) calls that do not have the coin-indicator populated; (ii) calls with a duration of zero (0); or (iii) calls that originate from payphones where Verizon has a written compensation agreement with the payphone owner.
 4. Verizon's criteria used to determine the identities of the PSPs to which Verizon owes compensation are established during the Sales Order Process. During the Sales Order Process, all orders relating to payphones require information consisting of PSP name, address, ANI and ANI location, to determine the identities of the PSPs.
 5. The type of information that Verizon LECs need from the PSPs in order to compensate the PSPs is the correct identification information, consisting of PSP name, address, ANI and ANI location.

Report of Management on Compliance with Applicable Requirements
of 47 CFR 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations

- II. Verizon represents the following facts regarding Verizon Business' role as the Completing Carrier. These facts are in fulfillment of the obligations of Verizon Business as specified at 47 CFR 64.1320(d):
1. Verizon Business' criteria for identifying calls originating from payphones include call record info-digit identification of 07, 27, 29 or 70. In addition, originating ANI is also used to identify payphone-originated calls.
 2. Verizon Business' criteria for identifying compensable payphone calls include all calls with info-digits 07, 27, 29 or 70 (or with a payphone-identified originating ANI) and call duration greater than zero (0). Calls originating from payphones with a separate compensation agreement in place are excluded from the Compensable Call File.
 3. Verizon Business' criteria for identifying incomplete or otherwise non-compensable calls include: (i) calls that do not have info-digits 07, 27, 29 or 70 (or that are not from a payphone-identified originating ANI); (ii) calls with a duration of zero (0); or (iii) calls that originate from payphones with a separate compensation agreement in place
 4. Verizon Business' criteria used to determine the identities of the PSPs to which Verizon Business owes compensation are established by NPC.
 5. Verizon Business uses NPC to perform payphone compensation settlements.


6/24/2016
(Signature and Date)

John Townsend

*Senior Vice President and Chief Financial Officer
Verizon Wireline*