Attachment 11

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March 12, 2001

Joint Federal/State Oversight Team
For the Biennial Audit Required under Section 272
c/o J. Paretti

and

PricewaterhouseCoopers
1301 Avenue of the Americas
New York, New York 10019

Please find attached the report required in the March 1 version of the General Standard Procedures for Biennial Audits Required under Section 272 indicating the corrective actions Verizon took between July 1 and September 30, 2000.

Susan Browning

Executive Director – Affiliate Interest Compliance

cc:
J. Ward
G. Asch
J. DiBella

March 12, 2001

In connection with the engagement to perform an agreed-upon procedures examination related to the compliance of Verizon Communications, Inc. ("the Company") with the Federal Communication Commission's ("FCC's") rules implementing Section 272 of the Act, *Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended*, 11 FCC Rcd 21905 (1996), and Sections 53.201-213 of the FCC's rules (collectively, the "FCC's Section 272 Rules"), this report provides the corrective actions taken by the Company after the Bell Atlantic/GTE merger relating to section 272 requirements.

1. The former GTE affiliates that became section 272 affiliates after the merger are Verizon Select Services Inc. (formerly GTE Communications Corp.), Codetel International Communications Incorporated; Telus Communications Incorporated, and Quebec Telephone.

2. Verizon Select Services provides interLATA services in New York, Codetel leases switch capacity from Verizon Select Services in New York City, and Telus and Quebec Telephone are foreign local exchange carriers whose calling cards can be utilized in New York.

3. After the Merger Closing Date, Verizon reviewed the former GTE affiliates for section 272 compliance as part of its integration of the Bell Atlantic and GTE compliance programs. This review identified four transactions involving the former GTE affiliates that required corrective action, which has been taken. Specifically,

   a. One Codetel International transaction with Verizon New Jersey and two Telus contracts with the GTE local exchange carriers had not been posted on their Internet sites. This was corrected on September 22, 2000.

   b. A contract with one customer for services provided in New York had not been transferred from one GTE affiliate (GTE Data Services, Inc.) to Verizon Select Services. This also was corrected on September 21, 2000.

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Mr. Joseph Paretti
Accounting Safeguards Division
6 Durham Lane
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Mr. Martin Kehoe
Partner
PricewaterhouseCoopers LLP
1095 Avenue of the Americas
New York, NY 10036

Re: ***Section 272 Biennial Audit***

Dear Mr. Paretti and Mr. Kehoe:

Attached are Verizon's comments on the PricewaterhouseCooper's audit report in the section 272 biennial review. Pursuant to section 53.213(b) of the Commission's rules, these comments should be attached to the audit report that is filed with the Commission and the state regulatory agencies participating in the Joint Federal/State Oversight Team. Verizon has also filed this day a request for confidential treatment of the information marked as "proprietary" in these comments and in the audit report, pursuant to section 0.459 of the Commission's rules. The unredacted version of these comments should be submitted to the Commission under seal.

While the audit report notes several clerical errors and items that required corrective action, this should not obscure the fact that the audit revealed that Verizon has a comprehensive and effective program for compliance with the Commission's section 272 accounting and non-accounting safeguards. In addition, the audit showed that

Verizon's internal controls are effective in assuring compliance with the Commission's rules. Because this is an agreed-upon-procedures audit, the auditor was required to report all results, regardless of materiality. Most of the items noted were extremely minor in nature and do not detract from Verizon's overall record of compliance. The attachment provides responses to specific audit results that require additional information and explanation.

Sincerely,

Joseph DiBella/cs

Joseph DiBella

Attachment

Section 272 Audit Report	*Management Response*
Objective III, Procedure 4 We obtained the employee listings of the Section 272 affiliates and of the BOCs that included the social security numbers of the directors, officers and employees at September 30, 2000. We designed and executed a program which electronically compared social security numbers of directors, officers and employees on the Section 272 affiliates' lists to the BOCs' lists and noted that 14 individuals were listed on both the Section 272 affiliates' listings and the BOCs' listings. We documented the names and social security numbers of the 14 individuals which appeared on both listings. Management indicated that each of the 14 individuals had transferred to a Section 272 affiliate and were no longer employees of a BOC at September 30, 2000. Management also indicated that each of these 14 individuals appeared on the BOC listing because they received non-wage payments, such as a Fair Labor Standards Act adjustment in overtime rate based on employees' overtime worked while employed by the BOC, vacation buyouts, employee incentive awards, and motor vehicle allowance reimbursement from a BOC subsequent to the individual's transfer to a Section 272 affiliate. We also obtained employment histories for the 14 individuals from the Company's Employee Information System. By reference to the Company's Employee Information System only, we noted no instances where an individual was concurrently employed by a BOC and Section 272 affiliate.	These results support PWC's statement that no individuals were concurrently employed by a BOC and Section 272 affiliate. Management not only indicated that the individuals had been transferred, but it also provided documentation mentioned by PWC (employment histories from the company's Employee Records in the Payroll Information System) supporting the transfer of the 14 individuals from the BOC to the Section 272 affiliates' payroll. The majority of the individuals (9 out of 14) received a non-wage payment related to the Fair Labor Standards Act adjustment in overtime rate when the individuals worked for the BOC. This Act involves non-exempt employees (also known as associate employees under a bargained-for union contract). The BOC was required to make these and other payments related to their service for the BOC regardless of whether the employee had left the company.

Objectives V/VI, Procedure 5 We noted that three of the five agreements that were no longer in effect as of September 30, 2000 were terminated prematurely during the period from January 3, 2000 through September 30, 2000. The three agreements that were terminated prematurely were for strike related services which were no longer needed after the strike had ended. We noted two agreements for real estate services that expired as of September 30, 2000, for which BAGNI continued to receive the services and make payments to the BOCs. These two real estate services were being provided on a month-to-month basis subsequent to the expiration of the related agreements which management indicated is consistent with common practice for real estate leases. We inquired of management and documented that the BOCs' policy is to provision services to the Section 272 affiliates only with a written agreement.	The two real estate agreements are supported by leases that contain renewal options. The leases are still in effect and BAGNI continues to pay rent on a month-to-month basis. Corrective action is being taken to ensure that a notification letter is provided. As mentioned by PWC, automatic lease renewals are a normal practice in the real estate industry.
Objectives V/VI, Procedure. 6, Web Posting **Issue No. 1.** We also printed the web postings of the contract summaries as of September 30, 2000. We compared the rates, terms and conditions of services on the web postings to the written agreements provided in Objective V/VI, Procedure 5 and noted the following: • 839 web postings in total (representing 135 written agreements and 51 amendments) of which 459 were posted in 2000 (representing 7 written agreements and 34 amendments); • Rates, terms and conditions for 535 of the 839 web postings were agreed to the written agreements with no exception; • 44 of the 839 web postings contained multiple errors; 129 of the 839 web postings contained discrepancies as compared to the written agreements. A list of the 129 web postings is provided in Attachment I, Table No. 2. The 129 web postings represent 11 written agreements and 14 amendments. . Management indicated that the discrepancies occurred as a result of administrative errors.	129 Web Posting Discrepancies vs. Written Agreements: The FCC's contract posting requirements are complex, requiring a minimum of 13 data entries to be posted for each contract, and frequently many more (even in excess of 100 items for a single contract). Therefore, the 129 errors were out of well over 20,000 data entries. Even when combined with the 68 postings identified in Objective V/VI, Procedure 6, Issue No. 5, the overall web posting error rate is less than 1%. In virtually every case, the errors were the result of minor clerical errors (*e.g.*, minor changes to effective dates, contract periods, etc.) for only one of the data entries on a contract, with no material impact on the overall accuracy of the contract and the associated web posting. Further, it is Verizon's practice to develop contracts to cover all 9 jurisdictions, even though section 271 relief was obtained in only one jurisdiction (New York) at the time the PWC audit was conducted. As a result, Web postings were made to all 9 jurisdictions, resulting in a "multiplier" effect in which 1 error counted 9 times. All warranted corrections have been made.

Issue No. 2. written agreements related to 96 of the 839 web postings were prepared in the form of Access Service Requests, which did not contain sufficiently detailed information necessary to enable us to agree the specific rates, terms and conditions in the written agreements to the web postings (representing 96 written agreements). A list of the 96 web postings related to Access Service Requests written agreements is provided in Attachment I, Table No. 3.	96 Written agreements: The Access Service Requests do not contain information about rates, terms and conditions because they relate to access services provided under tariff. The Act requires Verizon to include the rates, terms and conditions for access services in publicly available tariffs. All 96 instances relate to requests by Global Networks, Inc. ("GNI") for access services. Verizon met the section 272(b)(5) requirement for written agreements by executing and posting the Access Service requests (ASRs) from GNI. Verizon currently executes and posts Memorandums of Understanding that cover access services ordered under ASRs.
Issue No. 3. four web postings (representing two amendments) related to access services were not posted on the Section 272(b)(5) websites as of January 2, 2001, but were subsequently posted during February 2001. A list of the four web postings is provided in Attachment I, Table No. 4. For three of the four web postings, the original agreements were between Bell Atlantic-New York and the Section 272 affiliates. Management indicated there was an amendment which added an affiliate, which was not a Section 272 affiliate, to the agreements. Management indicated the amendments were originally posted to that affiliates' website and not the Section 272 (b) (5) website since the affiliate added was not a Section 272 affiliate. Management indicated that the fourth web posting between BABS and Bell Atlantic-Maryland was inadvertently excluded from the website.	4 Web Postings not on Web site: As noted in the report, the missing postings were for services provide pursuant to tariff. All missing postings have been added to the web sites. 3 of the 4 missing postings involved the same discrepancy on three section 272 web sites.

Objectives V/VI, Procedure 6, Issue No. 4 – 51 Late Web Postings We compared the transaction date to the posting date for the 839 web postings referred to above and noted that 51 web postings (which represent seven amendments) of the 459 contract summaries posted in 2000 were not posted on the Section 272(b)(5) web sites within the required 10 calendar days. Of the 51 web postings, 37 web postings were posted within five days after the required posting date. Nine web postings were posted within six to 10 days after the required posting date, and five web postings were posted more than 10 days after the required posting date. A list of the 51 web postings is provided in Attachment I, Table No. 5. Management indicated that the web postings were not posted within the required period as the result of an administrative error. 408 of the 459 web postings posted in 2000 were posted within the required 10 calendar days.	As noted in the audit report, the 51 late Web postings related to only 7 contract amendments, multiplied by the number of entities and states where the transactions were posted. The majority of the delays ranged from 1 to 10 days. In total of the 839 postings, 94% were posted on time, and 5% were posted between day 11 and day 20. Only five postings (in all cases for minor amendments) were made more than 10 days late. Verizon used the preliminary results of the PWC audit to implement process improvements immediately to ensure that inputs for future web postings are available the same day that the contract is signed. Postings are now being reviewed by at least two persons before being sent for posting, with another internal review conducted within 10 days of the documents being posted, to check for accuracy on the Web site.
Objectives V/VI, Procedure. 6, Issue No. 5 – 68 Web Postings Did Not Contain Required Disclosure We inspected and noted that 68 web postings (which represent 22 written agreements and six amendments) of the 839 web postings did not contain some of the required disclosures necessary for posting. A list of the 68 web postings is provided in Attachment I, Table No. 6. Management indicated that the omissions of data occurred as the result of an administrative error.	As was the case with the first response above, the changes warranted were very minor in nature, reflecting clerical errors with no material impact on the contracts/web postings. Of the 68 items identified, 32 items were instances where the web posting did not contain a contract renewal clause but all of the material terms and conditions of the contract were included and correct. Of the remaining items, 34 had "TBD," or "To Be Determined," in the pricing information. Of these 34, 25 TBD postings were inserted in postings for states for which Verizon had not yet received long distance authority and therefore the contracts could not yet be operative. The remaining 9 TBD postings were for services that were not applicable to the jurisdiction included in that posting. Even treating all 68 items as "errors" and combining with the items identified in Objectives V/VI, Procedure 6, Issue No. 1, however, there is a web posting error rate of less than 1%.

Objectives V/VI, Procedure 6, Issue No. 6 – Public Inspection Sites We selected a random sample of 85 web postings to determine whether the same information was made available for public inspection at the principal place of business of the BOCs at three judgmentally selected BOCs' locations. We noted that four web postings and their related agreements and Officer Certification Statements were not made available for public inspection when we visited the principal place of business of one of the BOCs. Detailed information concerning these four web postings has been provided in the table below: At two of the BOCs' locations, we noted that tariff pages for six agreements (three at each location) were not made available for public inspection. Detailed information concerning these six web postings has been provided in the table below:. Management indicated that the tariff pages were inadvertently excluded from the agreements made available for public inspection. The Company made no claims of confidentiality for nondisclosure.	The items noted in the audit were not available due to clerical errors in the distribution and physical filing of the material. Three of the agreements were associated with a temporary, unique Emergency Work Stoppage agreements. Some of the material was subsequently found at the site after the auditor's visit. Verizon has reviewed the Section 272 Public Inspection Requirements with each Public Inspection Coordinator and plans to provide additional training on these requirements. Verizon has detailed procedures in place for its public inspections sites. The FCC required a very large volume of data to be filed at these sites. In almost three years of operations there have only been three visits (total) to the nine (9) Bell Atlantic BOC headquarter sites.
Objectives V/VI, Procedure 9, Issue No. 1 – FMV @ Unit Level For 34 of the 49 transactions, we were able to compare some but not all of the components of FDC and FMV. Management indicated that the Company requested but was not able to obtain FMV from the third parties for services such as the development and maintenance of customer database records and the customer complaint center because the related services were unique to the Company. We obtained from management a letter from the unaffiliated entity that indicated a FMV could not be obtained for these services.	Verizon made a good faith effort to attain FMV by hiring a third party vendor (Mitchell & Titus, LLP) to provide FMV for unique system components. M&T reported that it was not possible to get a FMV on certain unique systems. While section 32.27 of the Commission's rules requires a carrier to make a good faith determination of FMV, it provides no clear guidance for situations where no such determination is possible. As a result, Verizon used FDC in place of a FMV that did not exist for the unique system components.
Objectives V/VI, Procedure 9, Issue No. 2 – Consumer Marketing transactions We noted that for nine of the 70 transactions (which represents three services), the Section 272 affiliate was charged an amount other than FDC or FMV as the result of an administrative error. Detailed information concerning these nine transactions has been provided in the table below :	For the three services at issue, the contract was correct, as was the web posting. In billing the affiliates for the service, the rates from the contract/posting were not applied due to an administrative error. This situation was corrected through an invoice that was issued to the section 272 affiliate in April, 2001 to true-up the difference between the amount billed in 2000 and the contract rate.

Objectives V/VI, Procedure 10 We documented the amount the BOCs recorded for these transactions in their books of record. For two of the 17 transactions, the amount recorded by the Section 272 affiliate could not be agreed to the amount recorded by the BOCs due to a reclass in the amounts billed of $4,311. However, in total, the amounts recorded for these two transactions by the BOCs and Section 272 affiliate were the same. For one of the 17 transactions, the amount recorded by the Section 272 affiliate could not be agreed to the amount recorded by the BOC due to disputes in the amounts billed of **proprietary**. We also documented the amount the BOCs paid for these transactions to Section 272 affiliates. For one of the 17 transactions, we were unable to trace the invoiced amount to the books of record of the BOC as this transaction was not yet fully paid by the BOC. The transaction was for services provided by BACI for Bell Atlantic-Maryland in August 2000. The total amount billed was **proprietary **, of which ** proprietary** was not paid.	After investigation by Bell Atlantic-Maryland, they determined that BACI charged them correctly including the outstanding ** proprietary** charge. Therefore, Bell Atlantic-Maryland paid the **proprietary** balance in May 2001.
Objectives V/VI, Procedure. 13 For 14 of the 86 selections, we were unable to obtain third party and other non-regulated affiliate invoices as management was unable to locate such invoices. Therefore, we were unable to determine whether these 14 items were originally transferred from the BOCs. Detailed information concerning these 14 invoices has been provided in the table below:	These items were not transferred from the BOCs. A nonregulated entity – Verizon Network Integration, Inc. (formerly Bell Atlantic Network Integration, Inc.) – billed GNI for 11 cabinets at a price that was quoted by one vendor. Because that vendor could not deliver in a timely manner, an order for the cabinets was placed, and fulfilled, by a different vendor. The billing from Verizon Network Integration, Inc. to GNI was based on the original order. Therefore, the payments made to the second vendor cannot be linked back to amounts billed to GNI. Of the remaining 3 items, invoices for 86 percent of the total amount were located.
Objective VIII. Procedure 3 – Intervals, Issue No. 1 PWC chart notes shorter provisioning and repair intervals for affiliated companies than for non-affiliated companies in certain months.	The direct comparison of differences, a "stare and compare" approach, between Verizon and non-affiliate performance is statistically meaningless due to the extremely small volumes of orders for the section 272 affiliates. In most months, only a handful of orders or troubles were processed for section 272 affiliates.

Objective VIII, Procedure 3 – Intervals, Issue No. 2 PWC table notes differences in average PIC change intervals between affiliates and non-affiliates.	The differences in average PIC processing time between affiliates and non-affiliates are relatively small and immaterial – they would not have practical significance to the interexchange carrier or be perceived as differences by the interexchange carrier's customer. Based on input from the interexchange carriers concerning their expectations for processing their PIC files, Verizon's customer satisfaction surveys measure whether PIC files are processed within 24 hours. The data in the audit report show that Verizon is greatly exceeding this goal for both affiliates and non-affiliates. Verizon treats all mechanical PIC orders using the same systems and procedures for all carriers, with no manual intervention in handling the files that could affect the processing interval. All files are processed in the order that they are received. After successfully passing through a series of updates, the orders are sent to the switch for PIC implementation.
Objective VIII. Procedure 4 – Intervals, Issue No. #3 We noted that one ACNA for a non-Section 272 affiliate and one ACNA used for internal BOC orders was improperly included in the non-affiliate measure. This accounted for the difference of 131 noted below.	The two ACNAs that were mistakenly included in the non-affiliate category in the month of August were 4 percent of the total troubles reported that month and had an insignificant effect on the Average Repair Interval.
Objective VIII. Procedure 4 – Intervals, Issue No. 4 We compared the percentages for the total population reflected on the FOC report to the Calculated percentages and notes the differences.	The differences observed between the sample and the population calculations are consistent with expected sampling error.
Objective IX, Procedure 2 – Web Posting Issues repeated from Objective V/VI, Procedure 6	See Management Response to Objective V/VI, Procedure 6.
Objective IX, Procedure 4 For 34 invoices, we compared the amount per invoice to the amount per the payment voucher and noted differences resulting from disputed charges with respect to taxes, surcharges, late payments and outstanding credits. Detailed information concerning these 34 invoices has been provided in the table below:	See Management Response to Objective X, Procedure 7

Objective X, Procedure 6 For NDA database dip charges for the month of November, ** **proprietary**** , we noted the entries were improperly recorded as a credit to non-regulated operating revenues and a debit to regulated revenues. Management indicated this was a manual error which had not yet been corrected.	The NDA Database dip charges for November 2000, which were booked in December 2000, had an error in booking. These charges were calculated correctly, but were posted to the ledger with the wrong signs. The company issued a journal entry to correct this error in the May 2001 books.
Objective X, Procedure 7 For exchange access services and local exchange services provided by the BOC to the Section 272 affiliates from January 3, 2000 through September 30, 2000, we documented the total amount the affiliates recorded and paid for these services in their books as noted below: Local exchange reconciling items included invoices that had not yet been paid and disputed charges. Exchange access reconciling items included late payment charges, taxes/surcharges, disputed charges and overpayments. Management indicated that the Section 272 affiliates do not purchase unbundled network elements from the BOCs.	As is noted in the report, differences in the table between the amounts recorded as paid in by the section 272 affiliates and amounts recorded as billed by the BOC represent invoices that have not yet been paid and charges that the section 272 affiliates have disputed. Items to be reconciled include late payment charges, taxes/surcharges, disputed charges, and overpayments. It is a common industry practice for carriers to withhold payment of portions of their bills that are in dispute, unless they have a prior arrangement to pay under protest. Carriers also sometimes pay a bill for which some items are in dispute but then deduct the disputed items from payments due on the next bill. Some of the invoices were paid subsequent to the audit period, and a large overpayment occurred when BACI inadvertently paid a GNI bill for **proprietary**.

Observation of the
Federal/State Joint Audit Team For the
Verizon Section 272 Biennial Audit

The Section 272 Biennial Audit process provides for the creation of a Joint Federal/State Oversight Team (JOT) to oversee the conduct of the biennial audit which is performed by an independent accounting firm. As part of this oversight function, the JOT has reviewed both the draft report and the working papers documenting the work performed and makes the following observation:

The procedures in Objective VIII are designed to provide the information to evaluate compliance with the nondiscriminatory performance requirements of Section 272(e)(1) of the Act.

In its application for Section 271 authorization in New York, Verizon demonstrated that it would maintain accurate data that can be used to evaluate the BOC's Section 272(e)(1) nondiscrimination obligations.[1] These data would contain the following information:[2] (1) Percent Circuits Completed by Firm Order Commitment Date (disaggregated at DS1 and Above; DS0); (2) Percent of Orders Confirmed Within Established Parameters (disaggregated into DS1/DS0 Orders in 24 hours; DS3 Orders in 72 hours); (3) Average Time of PIC Change (from receipt of Carrier initiated Change to Completion at Switch)(disaggregated into CIC A, B, and C); (4) Percent Troubles Cleared within 3 Hours (disagreggated into DS0 and DS1 and Above); (5) Mean Time To Restore/Repair Service (disaggregated into DS0 and DS1 and Above); and (6) Percent Failure Frequency (disaggregated into DS0 and DS1 and Above).

The data noted in the NY 271 Order differ from those used in the agreed-upon procedures for Objective VIII, Procedure 3.

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[1] Bell Atlantic New York Order at paragraph 418, footnote 1290, citing Browning Declaration at paragraph 17(e), Attachment J.

[2] Bell Atlantic New York 271 Browning Declaration at Attachment J, page 5.