

Caryn D. Moir
Vice President
Federal Regulatory

SBC Telecommunications, Inc.
1401 I Street, N. W.; Suite 400
Washington, DC 20005-2296
Phone: 202.326.8915
Fax: 202.408.4809
cmoir@corp.sbc.com



September 3, 2002

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
Office of the Secretary
445 Twelfth Street, S.W.; Room TW-A325
Washington, DC 20554

RE: In the Matter of Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from Ameritech Corporation, Transferor, To SBC Communications, Inc., Transferee,
(CC Docket No. 98-141)

Dear Ms. Dortch:

Pursuant to Appendix C (Separate Affiliate Requirements) regarding SBC Communications Inc.'s (SBC) compliance with the SBC/Ameritech Merger Conditions, SBC submits herein the report of its independent auditor, Ernst & Young LLP (EY). EY reports on the procedures agreed to by management of SBC and the Federal Communications Commission (FCC) covering the period January 1, 2001 through December 31, 2001.

Pursuant to 47 C.F.R. § 0.459, under separate transmittal, SBC requests confidential treatment of certain proprietary commercial and financial information contained in the report. A copy of the redacted report is attached.

Once SBC has had an opportunity to thoroughly conduct a review of this report and the auditor's work papers, SBC will be prepared to respond to or otherwise address any issues contained in them.

Sincerely,

A handwritten signature in cursive script that reads "Caryn Moir".

Attachments

cc: Ms. Maureen Del Duca
Mr. Anthony Dale
Mr. Hugh Boyle
Mr. Mark Stephens

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98-141

SBC Communications Inc.

Report of Independent Accountants on Applying Agreed-Upon Procedures

August 30, 2002

PUBLIC VERSION - REDACTED

Report of Independent Accountants on Applying Agreed-Upon Procedures

To the Management of SBC Communications Inc.

We have performed the procedures enumerated in Appendix A, which were agreed to by management of SBC Communications Inc. ("SBC") and the Federal Communications Commission ("FCC"), solely to assist these specified parties in evaluating management's assertion that SBC complied with the separate affiliate requirements set forth in Section I of Appendix C of the FCC's Order approving the SBC/Ameritech Merger, CC Docket No. 98-141, released October 8, 1999 ("Separate Affiliate Requirements"), as amended by the Second Memorandum Opinion and Order, FCC 00-336, released September 8, 2000, allowing SBC's incumbent local exchange carriers ("ILECs") to own certain equipment used to provide Advanced Services throughout SBC's service area, during the period from January 1, 2001 to December 31, 2001 ("the Engagement Period"). This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described in Appendix A either for the purpose for which this report has been requested or for any other purpose.

The procedures performed for the Engagement Period and the results obtained are documented in Appendix A. These procedures and the results are not intended to be an interpretation of any legal or regulatory rules, regulations or requirements.

On June 20, 2002, the FCC Staff responded to SBC's request for interpretation that Southwestern Bell Communications Services, Inc. ("SBCS") is to be included within the scope of these agreed-upon procedures. SBCS, which primarily provides interLATA telecommunications services in the states of Arkansas, Kansas, Missouri, Oklahoma and Texas, also provided Advanced Services during the Engagement Period. SBC and the FCC have agreed that no specific procedures were to be performed for SBCS other than the execution of management representation letters that SBCS and the SBC ILECs are in compliance with Section 272 of the Communications Act of 1934, as Amended,¹ and the

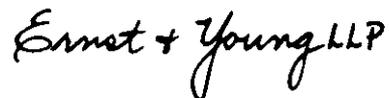
¹ These requirements are contained in 47 U.S.C. Section 272(b), (c) and (e) of the Communications Act of 1934, as Amended, and 47 CFR Section 53.209(b) of the FCC's rules and regulations.

Separate Affiliate Requirements; therefore, no procedures relating to SBCS are included in this report.

On August 30, 2002 the FCC Staff issued a letter extending the due date from September 3, 2002 to October 18, 2002 for completing one procedure related to the reporting of any exceptions noted in the testing of the collocation-related requirements of the Pronto Order². A separate supplemental report will be issued upon completion of this procedure.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on SBC's compliance with the Separate Affiliate Requirements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of SBC and the FCC and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



August 30, 2002

² These collocation-related requirements are discussed in paragraphs 5(a), 5(b)(1), 5(b)(2), 5(c), 5(d) and 6 of Appendix A of the *Ameritech Corp., Transferor, and SBC Communications, Inc., Transferee, For Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95 and 101 of the Commission's Rules*, CC Docket No. 98-141 and ASD File No. 99-49, *Second Memorandum Opinion and Order* (FCC 00-336), released September 8, 2000 ("Pronto Order").

APPENDIX A

Results of Agreed-Upon Procedures

The definitions of the following terms are documented in Appendix B: Advanced Services, Advanced Services affiliate(s), Advanced Services Equipment, Affiliate, Ameritech, Ameritech States, Assets, Customer Care, Engagement Period, ILECs, Merger Closing Date, Merger Conditions, Obtain, Official Services, Permitted Billing and Collection Services, SBC States, Users and Voice Grade Service.

Objective 1: Determine whether the Advanced Services affiliate(s) has operated independently of SBC Communications Inc. (SBC) and its affiliates.

1. Obtained and inspected the SBC corporate organizational charts as of December 31, 2001 and confirmed with legal representatives of the ILECs and Advanced Services affiliates the legal, reporting and operational corporate structure of the Advanced Services affiliates. Based on inspection of the organizational charts and confirmation with legal representatives, noted that the Advanced Services affiliates were independent from the ILECs.

Based on the review of documentation obtained above, noted that as of the end of the Engagement Period, SBC Advanced Solutions, Inc. ("ASI") was 92.52% owned directly by SBC Communications Inc., 6.72% owned by Southern New England Telecommunications Corporation and 0.76% owned by Pacific Telesis Group. Southern New England Telecommunications Corporation and Pacific Telesis Group were both 100% owned subsidiaries of SBC Communications Inc. ASI organizationally reported to SBC Communications Inc.

Also noted that as of the end of the Engagement Period, Ameritech Advanced Data Services of Indiana, Inc., Ameritech Advanced Data Services of Illinois, Inc., Ameritech Advanced Data Services of Ohio, Inc., Ameritech Advanced Data Services of Michigan, Inc. and Ameritech Advanced Data Services of Wisconsin Inc. (collectively "AADS") were 100% owned by Ameritech Corporation, which in turn was 100% owned by SBC Communications Inc. Management of AADS reported directly to the president of ASI.

2. Obtained functional organizational charts for ASI as of the end of the Engagement Period. SBC represented that AADS did not have a separate organizational chart, as AADS employees report through their respective functions within the ASI organization. Obtained SBC's documentation of the number of employees and general descriptions of functions performed, by state, for ASI and AADS combined. This information is documented in Attachment A-1.
3. Obtained from the Advanced Services affiliates a list and description of services rendered to each Advanced Services affiliate by the ILECs and other affiliates during the Engagement Period.

A listing of the services rendered to each Advanced Services affiliate by each ILEC is included at Attachment A-2a. A description of each of the affiliate agreements is located on the Internet at:

http://www.sbc.com/public_affairs/regulatory_documents/affiliate_agreements

Additionally, Attachment A-2b is a listing, obtained from ASI and AADS, of the services provided by affiliates other than the ILECs to the Advanced Services affiliates.

4. Performed the following:
 - a. Obtained the balance sheet as of the end of the Engagement Period for each Advanced Services affiliate.
 - b. Obtained the listings of all fixed asset account balances, including capitalized software ("summary listings"), that rolled forward from the prior year's balance by adding additions, transfers in, transfers out and other retirements. Compared the amount shown on the summary listings with the amount shown in the balance sheets and noted no differences.
 - c. Obtained the detailed fixed assets listings ("detailed listings") of each Advanced Services affiliate that showed the cumulative adds (i.e., additions and transfers in) for the Engagement Period. Noted that the detailed listings included, for each asset, description, location, date of purchase or transfer and price paid and recorded, and whether it was acquired from an ILEC. The listings obtained did not note whether each item was acquired from a non-ILEC affiliate or nonaffiliate. Obtained a reconciliation of the total additions and transfers in for each account to the

additions and transfers in appearing on the summary listings obtained in step (b) above and noted no reconciling items.

- d. From the listings obtained in the previous procedure, randomly selected 100 items from ASI and 100 items from AADS, excluding capitalized labor and Allowance for Funds Used During Construction (“AFUDC”). For each item selected, inspected supporting documentation that revealed ownership.

For the 100 ASI items tested, noted the following:

- Documentation supporting ownership was not provided for one item.
- Invoices provided for one item did not clearly indicate that ASI was the owner of the asset.
- Invoices provided for 12 items indicated that the items were purchased by ASI from SBC DataComm, Inc. (“DataComm”) or Ameritech Data Networking Solutions, Inc. (“ADNS”). ADNS had a legal name change to SBC DataComm, Inc. effective May 18, 2000.
- For one item, noted that the invoice indicated that Pacific Bell placed the order for the item. SBC explained that this invoice was for some damaged equipment leased from Pacific Bell pending the CPUC approval of the ASI asset transfer. When the damaged equipment was replaced, ASI purchased the replacement directly.
- For two items, noted that the journal entry tested was a reclassification entry for an asset previously recorded to another ASI asset account. Noted that this asset was originally purchased by Pacific Bell as part of a bulk purchase of equipment made in 2000 on behalf of the Advanced Services affiliates and the ILECs. The 2001 transaction represented a reclassification of the original ASI entry recorded in 2000.
- For 83 items, obtained documentation that supported ASI’s ownership of the item. Noted that none of the 83 items were jointly owned with the ILECs or other affiliates.

For the 100 AADS items tested, noted the following:

- Documentation supporting ownership was not provided for three items.
- Invoices provided for three items did not clearly indicate that AADS was the owner of the asset.
- For 12 items in the AADS fixed asset sample, the amounts included on the documentation provided that supported ownership did not agree to the amounts included in AADS' fixed asset listing.
- Invoices provided for eight items indicated that the items were purchased by AADS from ADNS.
- For 74 items, obtained documentation that supported AADS' ownership of the item. Noted that none of the 74 items were jointly owned with the ILECs or other affiliates.

Objective 1: Determine whether the separate Advanced Services affiliate has maintained books, records and accounts that comply with the requirements of the Commission that are separate from the books, records and accounts maintained by the LLCs.

1. Obtained each Advanced Services affiliate's financial statements as of the end of the Engagement Period and a listing of all lease agreements, including the associated annualized payments or receipts in effect during the Engagement Period. Identified, in the workpapers, 11 leases for which the annual payments or receipts were \$500,000 or more. Obtained copies of the leases that met these criteria.

1. Inquired and documented that the Advanced Services affiliates and the ILECs maintain separate boards of directors and separate officers. Obtained a list of officers' and directors' names, including the dates of service for each officer and/or board member, for the ILECs and Advanced Services affiliates for the Engagement Period. Compared the lists and documented one instance where an officer of ASI and AADS was also listed as an officer of SWBT during the Engagement Period. Inquired and noted that the officer resigned from SWBT effective June 1, 2001 and was elected as a director and officer of ASI and AADS on the same date.

Read the minutes of the meetings of the board of directors and written consents of the stockholders electing the board of directors for each ILEC and the written consents of the Advanced Services affiliates for the Engagement Period and compared and documented the names appearing on the minutes and consents of the ILECs and Advanced Services affiliates. Noted no individuals served as a director or officer of an ILEC and an Advanced Services affiliate at the same time.

2. Obtained the functional organizational chart for each Advanced Services affiliate as of the end of the Engagement Period. Noted that AADS operated within ASI's organization. Inspected the charts and noted no departments reporting either functionally or administratively (directly or indirectly) to an officer of the ILECs.
3. Obtained files containing the year-to-date payroll information for each Advanced Services affiliate and each ILEC that included the social security numbers of all the directors, officers and employees as of the end of the Engagement Period. Using the files obtained, compared social security numbers of directors, officers and employees and prepared a list of those appearing on both the Advanced Services affiliates' payroll and the ILECs' payroll. For a random sample of 25 employees appearing on the list, obtained detailed payroll records to verify that they had not been simultaneously on both an ILEC's and an Advanced Services affiliate's payroll at any time during the Engagement Period. Documented, in the workpapers, those names and/or social security numbers appearing on both payrolls. For the sampled employees appearing on both payrolls, inquired and documented, in Table 1 below, that the employee transferred from one entity to another during the Engagement Period. Based on review of the detailed payroll records for the sampled employees, at no time during the Engagement Period was the employee simultaneously on both an ILEC's and an Advanced Services affiliate's payroll.

Table 1

Employee Sample Number	Transferred From	Transferred To
2 3 8 9 10 11 12 14 15 16 17 18 20 24 25	ASI	Pacific Bell
5 22	ASI	SWBT
1	Michigan Bell	AADS
4 13 19 21 23	Pacific Bell	ASI
6 7	SWBT	ASI

4. Obtained a list of all employees, including officers, who transferred from an ILEC to an Advanced Services affiliate at any time during the Engagement Period. Interviewed all 17 employees that transferred from an ILEC to AADS and noted that all 17 employees had been trained and/or were made aware of restrictions in interacting with the ILECs. Selected a random sample of 25 of the employees who had transferred from the ILECs to ASI. Interviewed four of the 25 ASI employees and noted that they had been trained and/or were made aware of restrictions in interacting with the ILECs. The remaining 21 of the 25 ASI employees were non-management employees that are covered by regional collective bargaining agreements with the Communications Workers of America ("CWA"). Interviews of these employees are subject to approval by the CWA. The CWA declined to make its employees available for interview.

Objective IV: Determine if the Advanced Services affiliate has not obtained credit from any lender or supplier of goods and services in effect during the Engagement Period as to the ILECs.

1. Documented, in the workpapers, that the Advanced Services affiliates had no debt agreements/instruments or credit arrangements with unaffiliated lenders or major suppliers of goods and services in effect during the Engagement Period.

SBC Communications Inc. and Ameritech Corporation, the "holding companies," extended credit to the Advanced Services affiliates through the consolidated cash management process.

Documented that the credit arrangements between the parent companies and the Advanced Services affiliates included no guarantees or recourse to the ILECs' assets either directly or indirectly through the consolidated cash management process.

2. Using the lease agreements obtained in Objective II, Procedure 1 (those exceeding \$500,000), documented that there were no instances in which an Advanced Services affiliate's lease agreement had recourse to the ILECs' assets either directly or indirectly through another affiliate.

Also reviewed the listing of Advanced Services employee work locations obtained in Objective II, Procedure 4 and noted that the Advanced Services affiliates' employee work locations were either covered under a lease agreement or owned outright by one of the Advanced Services affiliates, except for the following 38 locations:

- Eleven locations were covered under affiliate agreements with the ILECs, but the agreements were not effective until 2002.
- Nine locations were nonregulated affiliates' locations that were not covered by an affiliate agreement.
- Two locations were those of employees who worked from home.
- Five locations were mail pick up locations only for field technicians.
- One location was no longer an ASI location, but was shown as such for one employee who was on long-term disability. SBC represented that the system would not accept a location change while the employee is out on leave.

- Four locations were included on the 2001 listing of employee locations, but SBC represented that the locations were not occupied by ASI personnel until 2002.
 - Six locations were not included in any lease or affiliate agreements.
3. Requested positive written confirmation from the Advanced Services affiliates' lessors for all leases with annual payments in excess of \$500,000 that were signed or amended during the Engagement Period and for 10 leases judgmentally selected with annual payments less than \$500,000. Received responses from all 11 requests sent; the responses confirmed that there was no recourse either directly or indirectly to the assets of any of the ILECs.

As documented in Objective IV, Procedure 1, noted that the Advanced Services affiliates had no debt agreements/instruments or credit arrangements with unaffiliated lenders or major suppliers during the Engagement Period.

On 10/16/02, the Department, through the Advanced Services Unit, has reviewed all of the complaints filed during the Engagement Period on a complaint-by-complaint basis with the ILECs and the Corporate Compliance Officer to determine if they are related to the Advanced Services provisions of the Merger Conditions.

On 10/16/02, the Department, through the Advanced Services Unit, has reviewed all of the complaints filed during the Engagement Period on a complaint-by-complaint basis with the ILECs and the Corporate Compliance Officer to determine if they are related to the Advanced Services provisions of the Merger Conditions.

1. Documented, as follows, the procedures used by the ILECs and the Corporate Compliance Officer to identify, track, respond and take corrective action to competitors' complaints relating to alleged noncompliance with the Advanced Services provisions of the Merger Conditions.

SBC represented that the following procedures were used by the ILECs and the Corporate Compliance Officer to identify, track and respond to complaints relating to alleged noncompliance with the Advanced Services provisions of the Merger Conditions during the Engagement Period. The SBC Compliance Officer directed each business unit officer responsible for compliance with the Merger Conditions to refer any complaints or inquiries regarding merger compliance to the Executive Director-FCC Merger Compliance. The Executive Director-FCC Merger Compliance's responsibilities were to require that a listing of all merger-related complaints be maintained, that all complaints be acknowledged and investigated with appropriate input from Legal and the affected business unit and that the resolution be documented. If complaints were found to be related to the Merger Conditions, the Executive Director-FCC Merger Compliance reported the complaint to the Corporate Compliance Officer.

Obtained from the ILECs and the Corporate Compliance Officer a list of all FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716; and any written complaints made to a state regulatory commission from competitors filed during the Engagement Period and all new complaints filed up to June 30, 2002 involving alleged noncompliance with the Advanced Services provisions of the Merger Conditions, including complaints submitted by competitors related to the provision or procurement of goods, services, facilities and information, or in connection with the establishment of standards. Noted three complaints open as of the beginning of the Engagement Period and none filed during the Engagement Period. Of the three complaints, documented below, one remains open while SBC considers two to have been resolved.

- Allegations of cross-subsidies (*no complaints received*)

- Allegations of discriminatory provision or procurement of goods, services, facilities or customer network services information (excludes customer proprietary network information (“CPNI”)) or the establishment of standards (*no complaints received*)
- Allegations of discriminatory processing of orders for, and provisioning of, unbundled network elements (“UNEs”), and discriminatory resolution of network problems (*one complaint received*)
 1. In a letter dated November 8, 2000, EarthLink filed a complaint against SBC with the FCC. The complaint alleged that SBC was provisioning DSL to favor unlawfully its affiliated and/or preferred Internet service providers (“ISPs”). EarthLink claimed that it had to wait longer than SBC’s affiliates for provisioning of DSL orders and that SBC was engaging in anticompetitive, discriminatory and unreasonable marketing practices. SBC replied to the FCC on December 13, 2000 rebutting EarthLink’s allegations. Discussions were held with SBC, EarthLink and the FCC in February and March 2001. On March 29, 2001 SBC responded to EarthLink’s allegations in a letter to the FCC. The FCC denied EarthLink’s request in July 2001. On August 7, 2001, EarthLink filed a formal complaint making the same allegations as in its November 8, 2000 letter. On November 30, 2001, the FCC ordered SBC to file a factual analysis. SBC filed its factual analysis on December 21, 2001. After a status conference call held on February 1, 2002, the FCC requested SBC and EarthLink file briefings. Both parties filed briefings around February 22, 2002. This complaint remains open as of the date of this report..
- Allegations of discriminatory availability of unbundled network elements (*no complaints received*)
- Allegations of discriminatory availability of facilities or services not at the same rates and not on the same terms and conditions as the separate Advanced Services affiliates (*two complaints received*)
 1. On September 29, 2000 CompTel wrote the FCC with a series of seven questions relating to the Accessible Letter (CLEC00-171)

offering Broadband Service and its alleged contradictions with the FCC's Pronto Modification Order. SBC responded to the inquiry on October 13, 2000 in writing to the FCC by clarifying misunderstandings by CompTel regarding SBC's Voluntary Conditions and its Accessible Letter. SBC proposed modified language to some of the terms of the Accessible Letter to clarify those terms. On October 10, 2000 CompTel filed a petition for reconsideration in CC Docket No. 98-141 with the FCC. This item was closed on May 4, 2001 when CompTel withdrew its petition for reconsideration in CC Docket No. 98-141.

2. In a letter dated October 3, 2000, @Link Networks filed a complaint with the FCC alleging that SBC and its affiliates interfered with and undermined the ability of @Link Networks to roll out DSL services consistent with the statutory and policy goals of reasonable, timely and affordable deployment of Advanced Services. SBC represented that it met with @Link Networks on November 11 and December 12, 2000 to discuss modified acceptance testing, virtual collocation, installation of @Link Networks remote test equipment and other issues related to Interconnection Agreements. This issue was considered closed by SBC when notice was received on May 18, 2001 that @Link Networks had discontinued operations and was in the process of legally dissolving.

2. Obtained SBC's representation that the only change implemented during the Engagement Period relating to how the ILECs and the Advanced Services affiliates disseminate the FCC Rules and Regulations and the conditions of the Merger Agreement, and how they raise awareness among employees for compliance with those rules, was that training held during the Engagement Period focused on "steady state" requirements, as the transition activities substantially concluded in 2000. SBC also represented that the type and frequency of the training were the same as presented in 2000.

Documented the names of supervision employees responsible for ensuring compliance with these rules in the workpapers. Interviewed five SBC employees, who were responsible for developing and recording in the books or records of the carrier transactions affected by these rules, and determined that these employees were aware of these rules.

3. Obtained all written agreements, including all Interconnection Agreements, for services and for equipment/facilities between the ILECs and each Advanced Services affiliate which were in effect during the Engagement Period. Summarized the 201 agreements obtained, noted those agreements still in effect and included copies of relevant pages in the workpapers. Compared these agreements with the list of services provided by the ILECs to the Advanced Services affiliates in Objective I, Procedure 3 and noted the following discrepancies:

- Seventeen Memoranda of Understanding (“MOUs”) agreements between the ILECs and the Advanced Services affiliates were not listed as services in Objective I, Procedure 3. These agreements relate to asset transfers or customer transfers, not services.
- The following agreements covered services that were not listed in Objective I, Procedure 3. SBC represented that no services were provided under these agreements during the Engagement Period.
 - One agreement between Illinois Bell and ASI and AADS.
 - Two agreements between Illinois Bell and AADS.
 - One agreement between Indiana Bell and ASI and AADS.
 - Two agreements between Indiana Bell and AADS.
 - One agreement between Michigan Bell and ASI and AADS.
 - Two agreements between Michigan Bell and AADS.
 - Nine agreements between Nevada Bell and ASI.
 - One agreement between Ohio Bell and ASI and AADS.
 - Two agreements between Ohio Bell and AADS.
 - One agreement between Ohio Bell and ASI.
 - Two agreements between Pacific Bell and AADS.
 - Two agreements between Pacific Bell and ASI.
 - Ten agreements between SNET and ASI.
 - Eleven agreements between SWBT and ASI.
 - One agreement between Wisconsin Bell and ASI and AADS.
 - Two agreements between Wisconsin Bell and AADS.
 - One agreement between Wisconsin Bell and ASI.

For those agreements no longer in effect, indicated the termination date, as documented in Attachment A-3. SBC represented that no agreements were terminated prematurely during the Engagement Period because the service agreements between the ILECs and the Advanced Services affiliates are not term agreements. Inquired and documented that the ILECs’ policy is to not provision services to the Advanced Services affiliates without a written agreement.

SBC represented that neither of the Advanced Services affiliates obtained any services from an ILEC without a written agreement with the following two exceptions:

SBC represented that as a result of a routine review of affiliate transactions, certain limited collection activities were identified that were not provisioned with a written agreement or appropriately billed during 2000 and 2001 from Illinois Bell and SWBT to the Advanced Services affiliates.

One Illinois Bell collection center was involved in collection efforts for AADS. During 2002, Illinois Bell collection activities for AADS' DSL accounts were transitioned to a billing and collection ("B&C") agreement. AADS will be retroactively billed by Illinois Bell under an affiliate agreement when it is executed.

Three SWBT personnel located in one Texas collection center were involved in collection efforts for ASI. SWBT is developing an affiliate agreement for this service and will retroactively bill ASI under this agreement when it is executed.

SBC represented that these two new agreements will be posted on the Internet when executed.

The affiliate agreements in effect as of the end of the Engagement Period are posted on the SBC web site at:

http://www.sbc.com/public_affairs/regulatory_documents/affiliate_agreements

4. Selected a random sample of 40 affiliate agreements and 74 related pricing addendums, revisions, appendices and attachments provided in Objective V and VI, Procedure 3 above and performed the following:
 - a. Viewed SBC's Internet site, http://www.sbc.com/public_affairs/regulatory_documents/affiliate_agreements, and compared the prices and terms and conditions of services and assets in the agreements to those shown on the web site. Noted no differences for those agreements posted on the Internet with the exception of one pricing addendum with an effective date of September 21, 2001 that was not posted on the Internet.

By physical inspection, determined that the same information is made available for public inspection at the principal place of business of the ILECs with the exception of items listed in Table 2 below that were not available for public inspection at the principal place of business of the ILEC.

Table 2

ILEC	Advanced Services Affiliate	Document Not Available at Principal Place of Business
SWBT	ASI	Schedule 026, Addendum 3
SWBT	ASI	Schedule 600, Attachment 1
SWBT	ASI	Schedule 999, Addendum 4
SWBT	ASI & AADS	MOU - Billing and Collection Agreement, Amendment 1
SWBT	ASI & AADS	Interim Virtual Collocation Agreement, General Terms and Conditions
SWBT	ASI	MOU - Native LAN Equipment
SWBT	AADS	Global Sales Support, Addendum 2
Indiana Bell	ASI & AADS	Broadband Services Standalone Agreement - MOU
Nevada Bell	ASI	MOU - Vehicles
Nevada Bell	ASI	MOU - Vehicles, Attachment 1
Nevada Bell	ASI	MOU - Vehicles, Attachment 2

b. Noted that 58 of the 114 items selected (40 agreements and 74 pricing addendums, revisions, appendices and attachments) were executed or amended during the Engagement Period. For 41 of 58 documents executed or amended during the Engagement Period, noted by inquiry and observation that they were posted to the Internet within 10 days of occurrence. For 17 of the 58 documents, as listed in Attachment A-4, noted the following exceptions to the 10-day posting requirement:

- Six documents were posted one day beyond the 10-day period.
- Three documents were posted two days beyond the 10-day period.
- One document was posted four days beyond the 10-day period.
- One document was posted eight days beyond the 10-day period.
- Three documents were posted 10 days beyond the 10-day period. The link for one of these three documents was not established correctly resulting in the required document never

being posted on the Internet and incomplete disclosure of the terms of the transaction.

- Two documents were posted 12 days beyond the 10-day period.
- One document was not posted on the Internet.

Documented that SBC's procedures for posting these agreements and transactions on a timely basis are located on the SBC Internet site at:

http://www.sbc.com/public_affairs/regulatory_documents/affiliate_agreements

- c. Noted that the information provided on the Internet is sufficiently detailed to allow evaluation for compliance with the FCC's accounting rules because entire agreements are posted on the SBC Internet web site. Noted that all the details needed to allow evaluation for compliance with the FCC's accounting rules are made available.

For asset transfers, the agreement reviewed disclosed both the total amount and the unit amount of the asset transferred included in the sample, allowing the calculation of the quantity. For affiliate transactions involving services, noted that the disclosure was sufficiently detailed as described in this procedure.

- d. Obtained copies of the Internet postings for all of the agreements and pricing addendums reviewed with the exception of the two pricing addendums that were not posted to the Internet.
5. Obtained a listing and dollar amounts of all services rendered by month by each ILEC to each Advanced Services affiliate during the Engagement Period and identified services made available to the Advanced Services affiliate that are not made available to third parties. For those services that are not made available to third parties, selected a random sample of 100 billed items and compared unit charges to PMP, FDC or FMV, as appropriate, and noted that these amounts were recorded in the books of the ILECs in accordance with the affiliate transaction standards, except for the findings listed below:
- Pacific Bell to ASI, April 2001 and August 2001 for real estate management services, noted that the FDC rate of **Proprietary** was adjusted to **Proprietary** to remove the Affiliate Oversight Group factor. After this adjustment, the FMV rate of **Proprietary** should have been used since it was higher than the adjusted FDC rate of

Proprietary. This resulted in an underbilling to ASI of **Proprietary** for April 2001 and **Proprietary** for August 2001.

- Pacific Bell to ASI, February 2001 for real estate management services, noted that Pacific Bell billed ASI at an incorrect rate of **Proprietary** per square foot for one location, compared to the FDC rate of **Proprietary** and the FMV rate of **Proprietary**, resulting in an overbilling to ASI of **Proprietary** for February 2001.
- Pacific Bell to ASI, March 2001 and May 2001 for real estate management services, noted that Pacific Bell billed ASI at an incorrect rate of **Proprietary** per square foot for one location, compared to the FDC rate of **Proprietary** and the FMV rate of **Proprietary**, resulting in an overbilling to ASI of **Proprietary** for March 2001 and **Proprietary** for May 2001.
- Pacific Bell to ASI, July 2001 for joint marketing services, noted that Pacific Bell billed the incorrect FDC rate of **Proprietary** per referral instead of the FDC rate of **Proprietary** per referral, resulting in an underbilling of **Proprietary** for July 2001.
- Pacific Bell to ASI, February 2001 for real estate management services, noted that Pacific Bell billed at the incorrect FMV rate of **Proprietary** per square foot for one location, instead of the correct FMV rate of **Proprietary**. In April 2001, Pacific Bell processed a total adjustment of **Proprietary** to correct the June 2000 through February 2001 billed amounts.
- Pacific Bell to ASI, April 2001, July 2001, August 2001, October 2001, November 2001 and December 2001 for real estate management services, parking spaces, noted that FMV rate billed by Pacific Bell was not compared to an FDC rate; therefore, the higher of FMV or FDC could not be determined. The total amount billed for all months listed above was **Proprietary**.
- SWBT to ASI, June 2001 for real estate management services, noted that unit rates of **Proprietary** per position for one position and **Proprietary** per line for seven lines were billed to ASI. The rates supported by the shared tariff study were **Proprietary** per position

and **Proprietary** per line, resulting in a net overbilling to ASI of **Proprietary** for June 2001.

- SWBT to ASI, May 2001 for real estate management services, noted that an incorrect rate of **Proprietary** per line for one line was billed by SWBT instead of the shared tariff rate of **Proprietary** per line, resulting in a total underbilling to ASI of **Proprietary** for May 2001.
- SWBT to ASI, April 2001 for real estate management services, noted that an unsupported rate of **Proprietary** per position was used to bill seven units in the billing tested. The rate supported with a shared tariff study was **Proprietary** per position that, when applied to the seven units billed, results in a total underbilling by SWBT of **Proprietary** for April 2001.
- SWBT to ASI, November 2001 for real estate management services, noted that the rate per the bill and pricing addendum was **Proprietary** compared to the FMV rate of **Proprietary**, resulting in a total underbilling by SWBT of **Proprietary** for November 2001.
- SWBT to ASI, April 2001 for real estate management services, noted that the rate per the bill and pricing addendum was **Proprietary** compared to the FMV rate of **Proprietary**, resulting in an underbilling by SWBT of **Proprietary** for April 2001.
- SNET to ASI, January 2001 through June 2001 for Business Communications Services, noted that SNET adjusted these billings in August for a correction in the allocation factor developed from ASI's percentage of revenue and to update the labor rates used to amounts determined in the 2001 labor rate studies. In the August 2001 billing to ASI, SNET processed a total adjustment of **Proprietary** to bill ASI for corrections to the January 2001 through June 2001 original invoices.
- Pacific Bell to ASI, February 2001, Pacific Bell recorded total billings of **Proprietary** on the ILEC's books of record for services provided to ASI, compared to the actual billings to ASI in February 2001 of **Proprietary**, resulting in understatement of affiliate revenue by Pacific Bell of **Proprietary** for February 2001.

Documented in Attachment A-5, for the sampled items, the amounts the Advanced Services affiliate has recorded for the services in its books of record and the amounts the Advanced Services affiliate has paid for the services to the ILECs. Payment was verified by tracing the amount billed for service to a payable account on the Advanced Services affiliate's general ledger and then noting such payable account was cleared through the month-end cash settlement journal entry with the parent company.

6. Obtained a listing and dollar amounts of all services rendered by month to SNET by ASI during the Engagement Period and for the four monthly bills judgmentally selected by the Users, compared unit charge to the wholesale rate established by the State of Connecticut, Department of Public Utilities Control ("DPUC") Docket No. 95-06-17REO2. SBC represented that ASI provided no services to SWBT, Pacific Bell, Nevada Bell and Ameritech and that AADS provided no services to any of the ILECs. ASI did provide one service to SNET. Noted that the selected billings for March 2001 and June 2001 were adjusted to the final rate approved in the above docket in September 2001. Also noted that the June 2001 billing was originally calculated using an incorrect retail volume. SBC represented this error was corrected in ASI's May 2002 billing to SNET. Except for the instances noted above, noted that the expenses for the services were recorded in the books of the ILECs in accordance with the affiliate transaction standards.

Documented, in Table 3 below, the amounts that SNET has recorded for the sampled services in its books of record by tracing the amount billed for service to the ILEC's payable account and then noting settlement through the month-end cash journal entry with the parent company.

Table 3

Month	ASI Amount Billed and SNET Amount Paid
March 2001	<i>*Proprietary*</i>
June 2001	<i>*Proprietary*</i>
September 2001	<i>*Proprietary*</i>
December 2001	<i>*Proprietary*</i>

7. Performed the following:
 - a. Obtained the balance sheet as of the end of the Engagement Period for each Advanced Services affiliate.

- b. Obtained a listing of all fixed asset account balances, including capitalized software, and performed the required procedures as documented in Objective I, Procedure 4 above.
- c. Obtained a detailed listing of cumulative fixed asset adds (additions and transfers in) from each Advanced Services affiliate and performed the required procedures as documented in Objective I, Procedure 4.
- d. From the ASI listing obtained in step (c) above, identified three journal entries that recorded numerous items transferred from the ILECs during the Engagement Period. Obtained the detailed listing by individual asset item for the three journal entries and selected a random sample of 100 individual items for testing. Obtained net book cost and fair market value for each item selected and noted that the appropriate value (greater of FMV or Net Book Value (“NBV”)) was used in the journal entries used to record the transfer from the ILECs to ASI. Inquired and documented that the FMV of the assets transferred was determined by a third-party valuation using a combination of the Cost Approach, the Market (or Sales Comparison) Approach and the Income Approach. Using the valuation report, the ILEC compared the FMV provided by the valuation report to the calculated NBV. The ILEC calculated the difference between FMV and NBV for individual assets in which the FMV was greater than NBV. The transferred values (greater of FMV or NBV) for the individual assets were aggregated at an asset-class level. Inspected these transactions and noted that they were recorded in the books of the ILECs at the higher of FMV or net book cost, as required under FCC Part 32.27 rules.

SBC represented that there were no assets transferred to AADS from any ILEC or affiliated company during the Engagement Period.

- e. For the 20 items sampled in Objective I, Procedure 4d that were purchased or transferred from other affiliates during the Engagement Period, verified that 18 of the 20 items were purchased by the other affiliate directly from third-party vendors and documented that these items were not originally transferred from an ILEC to the other affiliate. SBC did not provide information for one item, an ASI purchase from DataComm for **Proprietary**. For one item, an AADS purchase of **Proprietary** splitter cards from DataComm in October 2001, reviewed inventory records from DataComm that indicated that DataComm received **Proprietary** of the same splitter cards from SNET in October 2001 and DataComm represented that the splitter cards received from SNET were sold to

AADS. SBC represented that the splitter cards were purchased from SNET Procurement, a division of SBC Services, Inc. SNET has no financial records that indicate that SNET originally owned the splitter cards.

- f. For those items purchased or transferred from the ILECs, either directly or through another affiliate, during the Engagement Period, inquired and noted that out-of-territory xDSL and Native Local Area Network ("LAN") assets were transferred from SWBT to ASI during the Engagement Period. SBC represented that the xDSL asset transfer transaction details that notified CLECs of the availability to obtain comparable assets at the same rates, terms and conditions were posted on the Internet at:

http://www.sbc.com/public_affairs/regulatory_documents/affiliate_agreements

Also noted that Native LAN equipment transfers totaling \$523,624.18 from SWBT to ASI were recorded during the Engagement Period. SBC represented that this equipment was transferred, but not recorded, during the grace period as defined by the Merger Conditions. SBC represented that the Native LAN asset transfers were posted to the above Internet site in 2001 and 2002. SBC disclosed this information in the *SBC/Ameritech Merger Conditions 2001 Compliance Report to the FCC*, dated and filed on March 15, 2002.

8. Obtained a listing of all services rendered by each ILEC to each Advanced Services affiliate during the Engagement Period. Inquired and documented those services priced pursuant to Section 252(e). For a random sample of 100 Universal Service Order Codes ("USOCs") for these services, compared the price charged by the ILECs to the stated price in the Interconnection Agreement. Differences noted are listed in Attachment A-6. Inquired and documented that no services are provided by the ILECs to the Advanced Services affiliates pursuant to Section 252(f).
9. Inquired and documented that SBC has represented that there was no transfer or sale of any part of the ILECs' Official Services network to an Advanced Services affiliate during the Engagement Period.
10. Inquired and documented that joint marketing is occurring between the Advanced Services affiliates and the ILECs by performing the following:

- a. Inquired and documented that Pacific Bell, Nevada Bell, SNET and SWBT jointly marketed the following ASI data products during the Engagement Period:
- Frame Relay
 - ATM
 - Native LAN+
 - Broadband Educational Video Services (“BEVS”)
 - Network Access Point
 - Switched Megabit Data Services (“SMDS”)
 - Virtual Point of Presence – Dial Access Service (“VPOP-DAS”)

Also noted that Pacific Bell, SWBT and SNET also jointly marketed DSL Internet transport on a wholesale basis only to entities such as ISPs during the Engagement Period.

Additionally, noted that Pacific Bell, SNET and SWBT provided joint marketing services to ASI and AADS during the Engagement Period. The Global Markets group provided large customers with multi-regional service requirements a single point-of-contact for the purchase of services provided by various SBC affiliates, including services provided by the ILECs and the Advanced Services affiliates.

SBC represented that Indiana Bell, Illinois Bell, Wisconsin Bell, Michigan Bell and Ohio Bell did not provide joint marketing services to AADS during the Engagement Period. AADS was subject to various state regulations that precluded certain Ameritech ILECs from jointly marketing AADS products.

- b. Documented that joint marketing representatives are responsible for pre-qualification of availability of Advanced Services, sale of Advanced Services provided by the Advanced Services affiliates and transfer of the customers’ Advanced Services orders to ASI for completion and performance of follow-up customer care services as permitted under paragraphs 3a, 4b, 4i and 4l of the Merger Conditions.

Pacific Bell, Nevada Bell, SWBT and SNET:

Noted through inquiry that ASI provides its wholesale DSL transport product to ISPs rather than end user customers. Upon the ISP’s request, the ILEC joint marketing representatives use the systems described below

to place an order to ASI on behalf of the ISP; however, the ILEC joint marketing representatives do not perform any "customer negotiation" with the ISP's end users for the sale of ASI's wholesale DSL transport product.

When an ISP requests assistance from the ILEC joint marketing representatives, the joint marketing representatives access loop qualification information in the ILEC's databases through the systems discussed below. Loop qualification requests are typically for validation/verification of a telephone number provided by the ISP, and requests for loop make-up information. The joint marketing representative provides such information to the ISP so that the ISP can negotiate with the end user customer. Once the ISP secures the customer's agreement to purchase the ISP's service, the ISP sends the order either directly to ASI for completion, or to the ILEC joint marketing representatives in the ISP Service Center who then send the order to ASI for completion.

Through inquiry and review of system architecture, noted that the ILEC joint marketing representatives utilized a combination of "customer negotiation and service order aggregation" systems in the Pacific Bell, Nevada Bell, SWBT and SNET regions when performing joint marketing activities. These "customer negotiation and service order aggregation" systems were Ease Access Sales Environment ("EASE"), Enhanced Simple Solutions System ("ESSS"), Facilities, Advanced Service Order System ("ASOS") and Complex Product Service Order System ("CPSOS"). Joint marketing representatives, utilizing one of the "customer negotiation and service order aggregation" systems above, access loop qualification information in the ILECs' databases through either Datagate (an interface available to unaffiliated carriers) or CORBA (an Electronic Data Interface ("EDI") protocol interface also available to unaffiliated carriers).

During the Engagement Period, SBC utilized a joint region process called DSL LoopQual Middleware Service ("Middleware Service") that formats loop qualification requests and sends/receives requests/responses to/from various back-end Operations Support Systems ("OSS"). The Middleware Service, which is accessed by joint marketing representatives and unaffiliated carriers through EDI CORBA, DataGate or Verigate, accesses loop qualification data from various back-end OSS. Prerequisites for this function are a wire center and validated service address from the Premises Information System ("PREMIS"). Through inquiry, review of system architecture and observation, identified the following loop qualification

information that was available to joint marketing representatives and unaffiliated carriers through the Middleware Service during the Engagement Period:

Theoretical/design information – Theoretical/design information is maintained in the LoopQual Design Database (“Design Database”) within the LoopQual Host system. The Middleware Service performs a lookup in the Design Database and returns loop make-up information based on plan data for the longest loop in the distribution area. The Design Database is loaded by wire center with information from other ILEC databases and returns the following theoretical information to the requestor when available in the database: overall qualification status (red, yellow, green), wire center code and design cable gauge make-up information.

Actual information – Requests for actual loop qualification information from the ILECs’ Loop Facility Assignments & Control Systems (“LFACS”) could be made through the Middleware Service during the Engagement Period. Additionally, requests to Engineering to perform a manual loop qualification could be made through the Middleware Service during the Engagement Period. Actual information provided to joint marketing representatives and unaffiliated carriers through this process throughout the Engagement Period included: loop length by segment, length by gauge, 26 gauge equivalent loop length, presence of load coils, quantity of load coils, presence of bridge taps, length of bridge taps, presence of pair gain/DLC and qualification status of loop. SBC represented that loop make-up information as documented in the March 31, 2000 Plan of Record was made available to joint marketing representatives and unaffiliated carriers consistent with the Plan of Record Schedule.

Noted through inquiry and observation that unaffiliated entities had access to the same systems and type of information during the Engagement Period.

- c. Inquired and documented the procedures being followed by SWBT, Pacific Bell, Nevada Bell and SNET to bill the Advanced Services affiliates for joint marketing services rendered and noted that SWBT, Pacific Bell, Nevada Bell and SNET charge the Advanced Services affiliates for joint marketing through affiliate agreements. Noted that the

agreements included both xDSL and non-xDSL services sold by SWBT, Pacific Bell, Nevada Bell and SNET on behalf of the Advanced Services affiliates. The billing for these services is detailed on the monthly affiliate bills rendered by SWBT, Pacific Bell, Nevada Bell and SNET to the Advanced Services affiliates and includes hourly charges at FDC or FMV for the time spent by the ILEC employees on joint marketing activities on behalf of ASI and directly assigned charges incurred by the ILECs for employee commission payments, agency commission payments, employee referral fees and direct expenses related to ASI's joint marketing.

Documented SBC's representation of the following controls that were in place relating to the development of the monthly affiliate billing for joint marketing from the ILECs to the Advanced Services affiliates. SBC represented that these controls were in effect during the Engagement Period and are designed to ensure that the joint marketing costs are identified and fully recovered by the ILECs.

- All policies and procedures developed in SBC Operating Practice 125-Affiliate Transactions ("OP125") apply to the ILECs billing for joint marketing to ASI.
- A contract administrator is assigned for each joint marketing agreement between the ILECs and ASI. The contract administrator is responsible for receiving monthly billed units reports from the joint marketing organizations, summarizing the information, performing a reasonableness check based on prior month activity and submitting it to the Affiliate Oversight Group ("AOG") for processing of the monthly invoice from the ILECs to ASI. The process used by the contract administrators to report joint marketing costs incurred by the ILECs is documented in OP125.
- To ensure completeness of affiliate billing information, the contract administrator positively reports billing information to the AOG each month, even if no billing activity took place during the month.

- SWBT, Pacific Bell and Nevada Bell joint marketing employees report their time spent on ASI's joint marketing on an exception reporting basis using SBC's employee time and attendance reporting system, Elink. These employees are instructed to report, on a daily basis, all time spent on ASI activities in quarter-hour increments unless their individual activity code in Elink directs all their time to ASI joint marketing activities. These employees are instructed as to their time reporting requirements by the distribution of methods and procedures on appropriate time tracking and periodic reminders via email from the joint marketing contract administrators that include specific project codes to be used to report ASI joint marketing activity.
- Each month, contract administrators extract reports from Elink using Enterprise Data Warehouse that capture all joint marketing hours including those billed to ASI. These reports are reviewed for reasonableness by the contract administrator. After review, the contract administrator passes the billed unit information from the reports to the AOG for processing of ASI's monthly affiliate invoice.
- The ASI joint marketing contract administrator performs monthly inquiries of SNET employees performing joint marketing activities, requesting a report on the number of hours spent on Advanced Services products. Since SNET still provides frame and cell relay services to grandfathered customers, the contract administrator then allocates these hours based on the monthly total frame and cell relay revenue for SNET and ASI in Connecticut. ASI is then billed their prorated number of hours for the month.
- All directly assigned expenses are identified as ASI when incurred, and are assigned by the ILEC to unique project codes established for ASI.

The process used by the AOG to bill joint marketing costs incurred by the ILECs is standardized for all affiliates and is documented in OP125.

- d. Inspected the ILEC bills to the Advanced Services affiliates for joint marketing for February 2001 and June 2001.

Obtained copies of source documentation for the bills listed above that shows how the ILEC tracks or calculates the amounts billed to the Advanced Services affiliates for joint marketing and traced the billed amounts to the source documentation. Noted the following exceptions:

- Pacific Bell to ASI, February 2001 and June 2001 for Consumer Markets Group, Sales and Referrals, noted that Pacific Bell billed this service at the 2000 rate of **Proprietary** per hour or **Proprietary** per referral. Documentation obtained supported 2001 rates of **Proprietary** per hour or **Proprietary** per referral, resulting in an overbilling to ASI of **Proprietary** for February 2001 and **Proprietary** for June 2001.
- Pacific Bell to ASI, June 2001 for Business Communications Services, Sales Support, noted that Pacific Bell billed this service at **Proprietary** per hour instead of the revised rate of **Proprietary** that was effective in March 2001, resulting in an overbilling to ASI of **Proprietary** in June 2001. Pacific Bell processed a credit for this overbilling in July 2001, but applied the revised rate to the wrong number of billed units resulting in an underbilling to ASI of **Proprietary**.
- SWBT to ASI, June 2001 for Employee Referral Support Staff, noted the billed units from the usage report did not agree to the billed units used on the invoice and SBC could not provide support for the units billed. In addition, the FDC rate was based on a time-in-motion study developed for services provided to another affiliate and was not applicable to ASI; therefore, the appropriate FDC rate could not be determined. The total amount of the June 2001 billing was **Proprietary**.
- Nevada Bell to ASI, February 2001 and June 2001 for Joint Marketing and Sales Support for Frame Relay and ATM, noted that an incorrect number of units were applied on the invoices, resulting in an overbilling to ASI of **Proprietary** for both February 2001 and June 2001.
- Pacific Bell to ASI, February 2001 for Order Design and Testing, noted that Pacific Bell billed ASI for these services

that it had stopped providing to ASI in 2000. This resulted in an overbilling to ASI of **Proprietary** for February 2001.

- Pacific Bell to ASI, February 2001 and June 2001, for Business Communications Services, noted that Pacific Bell billed this service at **Proprietary** per referral instead of the FDC rate of **Proprietary** per referral, resulting in an underbilling to ASI of **Proprietary** in February 2001 and **Proprietary** in June 2001.
- SNET to ASI, February 2001 and June 2001 for Business Communications Services, noted that SNET adjusted the June 2001 billing in August 2001 for a correction in the allocation factor developed from ASI's percentage of revenue and adjusted the February and June billings to update the labor rates used to amounts determined in the 2001 labor rate studies. In the August 2001 billing to ASI, SNET processed a total adjustment of **Proprietary** to bill ASI for corrections to the January 2001 through June 2001 original invoices.
- SNET to ASI, February 2001 and June 2001 for Emerging Products Center services, noted that SNET applied an incorrect allocator in determining the number of units billed to ASI. SNET processed adjustments in June 2001, August 2001 and December 2001 that totaled to an additional billing to ASI of **Proprietary**. These adjustments corrected the allocation error and updated the labor rates to the 2001 rate for the original billed amounts from January 2001 through November 2001.
- SNET to ASI and AADS, February 2001 for Global Markets services, noted that SNET utilized the prior year labor rates in the February 2001 billings. SNET processed an adjustment in September 2001 to adjust the previous billings to reflect current labor rates resulting in additional billed amounts of **Proprietary** and **Proprietary** to ASI and AADS, respectively, for February 2001.

For the joint marketing billings tested above, payment was verified by tracing the amount billed for the service to a payable account on the Advanced Services affiliate's general ledger and then noting such payable

account was cleared through the month-end cash settlement journal entry with the parent company.

- e. Inspected the SBC Internet web site and noted that joint marketing is posted to the web site as an affiliate transaction at:

http://www.sbc.com/public_affairs/regulatory_documents/affiliate_agreements