USOCs and Class of Service Codes Billed to
Section 272 Affiliates in January 2001
Selected for Testing

Attachment A-8a
Objective IX, Procedure 3

USOC or Class of Service Code	Description
HZK3X	Megalink Custom High Capacity 44.736
S25EX	Special Access Service Surcharge
TMECS	Channel Termination
TUZPX	Electrical Channel Termination
XDH1X	Digital High Capacity 1.544 MBPS
1J5HS	Special Transport Per Mile
1L5XX	Special Transport Per Mile
1OXHX	Special Transport Fixed
T6ECS	Channel Termination
XDD4X	Digital - Digital Data 4 - Class of Service
BHMTT	Busy Hour Minutes Of Capacity
BHMOT	Busy Hour Minutes of Capacity
PT8JX	End Office Trunk Port DS1 Digital
TPP6X	Line or Trunk
BHMFA	Busy Hour Minutes of Capacity
EF2A4	Entrance Facility Voicegrade 4 Wire
TPP9X	Line or Trunk
SP1A1	DS1 Interconnect Cross Connect
NRB1X	Access Order Charge/ Interstate
DS1X5	DS1 Service - 5 Year Plan Discount
CCDS1	EISCC Per Termination
FC6XB	Central Office Node
FC6YX	STS - 1 DS3 C.O. Access Ports
FECAX	Dedicated Ring Fee Alternate Wire Center
FECFX	Dedicated IOF Ring Fee
FECLX	Dedicated Local Loop Access Ring Fee
FH5XC	Central Office Node
FP5XC	Premises Node Dedicated Node
FP6BX	DS3 Premises Access Ports
XDSD3	Class of Service for Sonet DS3
XDSL2	Class of Service for OC - 12 Sonet Ring
BHMDL	SWITCHED - BUSY HOUR MINUTES
BHMDA	SW-BUSY HOUR MINUTES
CF3CB	SW-COMMON SWITCH OPTIONAL FEATURE
NRBCL	CENTRAL OFFICE CONNECT & DESIGN CHG.
NRBDE	DESIGN & C.O. CONNECTION CHARGE ADDN. TRUNKS
U7CPE	SWITCHED ACCESS - OPTIONAL FEATURE CARRIER ID PARM (CIP) - PER END OFC
1YLXA	CHANNEL MILEAGE - LOCAL TRANSPORT - ZONE A
1YLXB	CHANNEL MILEAGE - LOCAL TRANSPORT - ZONE B
1YLXC	CHANNEL MILEAGE - LOCAL TRANSPORT - ZONE C

USOCs and Class of Service Codes Billed to
Section 272 Affiliates in January 2001
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Attachment A-8a
Objective IX, Procedure 3

USOC or Class of Service Code	Description
1YLXD	CHANNEL MILEAGE - LOCAL TRANSPORT - ZONE D
1YLXE	CHANNEL MILEAGE - LOCAL TRANSPORT - ZONE E
1YTX1	CHANNEL MILEAGE - LOCAL TRANSPORT - SWITCHED & SPECIAL ACCESS
1YTX2	CHANNEL MILEAGE - LOCAL TRANSPORT - SWITCHED & SPECIAL ACCESS
1YTX3	CHANNEL MILEAGE - LOCAL TRANSPORT - SWITCHED & SPECIAL ACCESS
1YTX4	CHANNEL MILEAGE - LOCAL TRANSPORT - SWITCHED & SPECIAL ACCESS
1YTX5	CHANNEL MILEAGE - LOCAL TRANSPORT - SWITCHED & SPECIAL ACCESS
1YZX1	SPCL-CHANNEL MILEAGE
1YZX2	SPCL-CHANNEL MILEAGE
1YZX3	SPCL-CHANNEL MILEAGE
1YZX4	SPCL-CHANNEL MILEAGE
1YZZ3	SPECIAL DSI - SHARED FACILITY CHANNEL CHANNEL MILEAGE PER MIL - ZONE 3
1Y6EC	CHANNELIZED SRVING AREA TRANSPORT 10.1 + MILES
AS3RG	REGENERATOR - RING APPLICATION PROV ONLY
AV1X1	SPCL - SWC AVOIDANCE - IST CHANNEL
AV1X2	SPCL - SWC AVOIDANCE - IST CHANNEL
AV1X4	SPCL - SWC AVOIDANCE - IST CHANNEL
AYVX2	SPCL - SWC AVOIDANCE ARGMT - ADDL CHANNEL
CF3CL	CLEAR CHANNEL CONDITIONING
CLYX1	OPTINET - CLEAR CHANNEL CAPABILITY - PER PORT ARRANGED
CLYX2	OPTINET - CLEAR CHANNEL CAPABILITY - PER PORT ARRANGED
CLYX3	OPTINET - CLEAR CHANNEL CAPABILITY - PER PORT ARRANGED
CLYX4	OPTINET - CLEAR CHANNEL CAPABILITY - PER PORT ARRANGED
CMO1X	DS1 MULTIPLEXER CROSS CONNECTION PER CENTRAL OFFICE
CMO31	DS3 MULTIPLEXER CROSS CONNECTION PER OFFICE ZONE 1
CMO32	DS3 MULTIPLEXER CROSS CONNECTION PER OFFICE ZONE 2
CMO33	DS3 MULTIPLEXER CROSS CONNECTION PER OFFICE ZONE 3
CM6	SPCL - CHANNEL MILEAGE TERMINATION - PER POINT OF MILEAGE TERMINATION
CXCEX	MISC - EXPANDED INTERCONNECTION DS3 CROSS CONNECTION
CZ4X1	SPCL - CHANNEL MILEAGE TERMINATION - PER POINT OF MILEAGE TERMINATION
CZ4X2	SPCL - CHANNEL MILEAGE TERMINATION - PER POINT OF MILEAGE TERMINATION
CZ4X3	SPCL - CHANNEL MILEAGE TERMINATION - PER POINT OF MILEAGE TERMINATION
CZ4X4	SPCL - CHANNEL MILEAGE TERMINATION - PER POINT OF MILEAGE TERMINATION
CZXXB	CHANNEL TERMN - PER CO TERMN ZONE B
CZRXC	CHANNEL TERMN - PER CO TERMN ZONE C
CZXXD	CHANNEL TERMN - PER CO TERMN ZONE C
CZ8XE	CHANNEL TERMN - PER CO TERMN ZONE C
CZXX?	CHANNEL TERMN - PER CO TERMN
CZ8X3	CHANNEL TERMN - PER CO TERMN
CZ8X4	CHANNEL TERMN - PER CO TERMN

USOCs and Class of Service Codes Billed to
Section 272 Affiliates in January 2001
Selected for Testing

Attachment A-8a
Objective IX, Procedure 3

USOC or Class of Service Code	Description
CZ8X5	CHANNEL TERMN - PER CO TERMN
DZQX1	SPCL - INTER WIRE CENTER DIVERSITY ARGMT - LOC
DZQX2	SPCL - INTER WIRE CENTER DIVERSITY ARGMT - LOC
DZQX3	SPCL - INTER WIRE CENTER DIVERSITY ARGMT - LOC
DZQX4	SPCL - INTER WIRE CENTER DIVERSITY ARGMT - LOC
FC5EX	OC - 48 SONET DEDICATED RING NODE CENTRAL OFFICE
FP5EA	OC - 48 CUS PREM - ADD'L NODE
FP5EX	OC - 48 SONET DEDICATED RING NODE CUSTOMER PREMISES
MJW1C	DS1 TO VOICE MULTIPLEXING - ZONE C
MJW3A	DS3 TO DS1 MULTPLEXING - ZONE A
MJW3B	DS3 TO DS1 MULTPLEXING - ZONE B
MJW3C	DS3 TO DS1 MULTPLEXING - ZONE C
MKW13	DS1 TO VOICE MULTIPLEXING - LOCAL TRANSPORT
MKW31	DS3 TO DS1 MULTPLEXING - LOCAL TRANSPORT
MKW32	DS3 TO DS1 MULTPLEXING - LOCAL TRANSPORT
MKW33	DS3 TO DS1 MULTPLEXING - LOCAL TRANSPORT
MPEDX	OC - 12 SERVICE - ADD - DROP MULTIPLEXING
MPEFX	OC - 48 SONET DEDICATED RING ADD - DROP PER ARGMT
MXJBX	DS3 ADD - DROP MULTIPLEXER
NRBB1	CUSTOMER CONNECTION CHARGE

USOC	Class of Service	State	Interexchange Carrier ("IXC")	Unit Rate
1J5HS	HZK3X	Michigan	SBCS	$45.00
1J5HS	HZK3X	Michigan	Other IXCs	50.00
			Other IXCs	106.00
			Other IXCs	135.00
1OXHX	HZK3X	Michigan	SBCS	450.00
1OXHX	HZK3X	Michigan	Other IXCs	450.00
			Other IXCs	475.00
			Other IXCs	500.00
			Other IXCs	1,350.00
			Other IXCs	1,425.00
			Other IXCs	1,500.00
TMECS	XDHIX	Ohio	SBCS	180.00
TMECS	XDHIX	Ohio	Other IXCs	100.00
			Other IXCs	180.00
TUZPX	HZK3X	Michigan	SBCS	975.00
TUZPX	HZK3X	Michigan	Other IXCs	975.00
			Other IXCs	1 050.00
			Other IXCs	1,125.00
			Other IXCs	2,920.00
			Other IXCs	3,060.00
			Other IXCs	3,350.00
			Other IXCs	5,810.00
			Other IXCs	9,230.00
1L5XX	XDHIX	Connecticut	SBCS	10.05
1L5XX	XDH1X	Connecticut	SBCS	10.09
1L5XX	XDHIX	Connecticut	SBCS	10.93
1L5XX	XDHIX	Connecticut	Other IXCs	9.63
ILSXX	XDHlX	Connecticut	Other IXCs	10.05
			Other IXCs	10.09
			Other IXCs	10.93
1L5XX	XDSD3	Connecticut	SBCS	25.00
1LSXX	XDSD3	Connecticut	Other IXCs	0.90
			Other IXCs	1.79
			Other IXCs	2.68
			Other IXCs	3.57
			Other IXCs	4.47
			Other IXCs	5.36

USOC	Class of Service	State	Interexchange Carrier ("IXC")	Unit Rate
			Other IXCs	6.25
			Other IXCs	8.04
			Other IXCs	8.93
			Other IXCs	9.82
			Other IXCs	10.72
			Other IXCs	11.61
			Other IXCs	12.50
			Other IXCs	13.40
			Other IXCs	14.29
			Other IXCs	15.18
			Other IXCs	16.07
			Other IXCs	16.97
			Other IXCs	17.88
			Other IXCs	17.88
			Other IXCs	18.75
			Other IXCs	19.65
			Other IXCs	20.54
			Other IXCs	21.43
			Other IXCs	22.32
			Other IXCs	23.15
			Other IXCs	24.11
			Other IXCs	25.00
TMECS	XDH1X	Connecticut	**SBCS**	130.00
TMECS	XDH1X	Connecticut	**SBCS**	170.00
TMECS	XDH1X	Connecticut	**SBCS**	175.00
TMECS	XDH1X	Connecticut	**Other IXCs**	130.00
			Other IXCs	170.00
			Other IXCs	175.00

MSAs[1]	Dedicated Transport and Carrier Side of Special Access		End User Side of Special Access	
	PHASE I[2]	PHASE II[3]	PHASE 1	PHASE II
AMERITECH MSAs				
Appleton. WI	X			
Champaign/Urbana, IL	X	X	X	X
Chicago. IL	X			
Cleveland/Lorain/Elyria, OH	X	X		
Columbus, OH	X	X	X	
Davenport/Rock Island/ Moline, IA-IL	X			
Decatur, IL	X			
Dayton, OH	X	X		
Evansville/Henderson, IN-KY	X	X	X	
Flint, MI	X			
Green Bay, WI	X			
Indianapolis, IN	X	X		
Kalamazoo, MI	X	X		
Madison, WI	X		X	
Milwaukee/Waukesha, WI	X	X	X	

[1] MSAs are defined as Metropolitan Status Area.

[2] Phase I Pricing Flexibility as stated in the Federal Communications Commission's Memorandum Opinion and Order Adopted (DA 01-670) (WP K2-1200) March 13, 2001 and released March 14, 2001 is defined in section II paragraph 5 as follows. "A Price cap LEC that obtains Phase I relief is allowed to offer, on one day's notice contract tariffs (A contract tariff based on an individually negotiated service contract) and volume and term discounts for qualifying services, so long as the services provided pursuant to contract are removed from price caps. To protect those customers that may lack competitive alternatives, a price cap LEC receiving Phase I flexibility must maintain its generally available price cap constrained tariffed rates for these services. To obtain Phase I relief, a price cap LEC must meet triggers designed to demonstrate that competitors have mode irreversible, sunk investments in the facilities needed to provide the services at issue. In particular, to receive pricing flexibility for dedicated transport and special access services (other than channel terminations to end users), a price cap LEC must demonstrate that unaffiliated competitors have collocated in at least 15 percent of the LEC's wire centers within an MSA. or have collocated in wire centers accounting for 30 percent of the LEC's revenues from these services within an MSA. In both cases, the price cap LEC also must show, with respect to each wire center, that at least one collocator is relying on transport facilities provided by a transport provider other than the incumbent LEC."

[3] Phase II Pricing Flexibility as slated in the Federal Communications Commission's Memorandum Opinion and Order Adopted (DA 01-670) (WP K2-1200) March 13, 2001 and released March 14, 2001 is defined in section II paragraph 5 as follows. "A price cap LEC that receives Phase II relief is allowed to offer dedicated transport and special access services free for the Commission's Part 69 rate structure and Part 61 price cop rules The LEC, however, is required to file, on one day's notice, generally available tariffs for those services for which it receives Phase II relief. To obtain Phase II relief, a price cap LEC must meet triggers designed to demonstrate that competition for the services at issue within the MSA is sufficient to preclude the incumbent from exploiting any individual market poser over a sustained period. To obtain Phase II relief for dedicated transport and special access services (other than channel terminations to end users), a price cap LEC must demonstrate that unaffiliated competitors have collocated in at least 50 percent of the LEC's wire centers within an MSA. or have collocated in wire centers accounting for 65 percent of the LEC's revenues from these services within an MSA. Higher thresholds apply for obtaining Phase II pricing flexibility relief for channel terminations between a LEC end office and an end user customer. To obtain such relief, a price cap LEC most demonstrate that unaffiliated competitors have collocated in at least 65 percent of the LEC's wire centers within an MSA. or have collocated in wire centers accounting for 85 percent of the LEC's revenues from these services within an MSA. Once again, the LEC also must demonstrate, with respect to each wire center, that at least one collocator is relying on transport facilities provided by a transport provider other than the incumbent LEC.125

MSAs[1]	Dedicated Transport and Carrier Side of Special Access		End User Side of Special Access	
	PHASE I[2]	PHASE II[3]	PHASE I	PHASE II
Peoria/Pekin, IL	x		x	
Racine, WI	x			
Rockford, IL	x	x		
Springfield, IL	x	x	x	x
Toledo, OH	x	x	x	
South Bend, IN	x			
PACIFIC BELL MSAs	**PHASE I**	**PHASE II**	**PHASE I**	**PHASE II**
Los Angeles/Long Beach, CA	x			
Sacramento, CA	x	x	x	
San Diego, CA	x	x	x	
San Francisco/Oakland, CA	x	x		
San Jose, CA	x	x	x	
SOUTHWESTERN BELL MSAs	**PHASE I**	**PHASE II**	**PHASE I**	**PHASE II**
Austin/San Marcos, TX	x	x	x	
Amarillo, TX	x	x		
El Paso, TX	x			
Dallas/Fort Worth, TX	x	x	x	
Corpus Christi, TX	x	x	x	
Houston, TX	x	x	x	
Kansas City, KS-MO	x	x	x	
Little Rock, AR	x	x	x	
Lubbock, TX	x	x	x	x
Oklahoma City, OK	x	x	x	
San Antonio, TX	x	x	x	
St. Louis, MO-IL	x			
Springfield, MO	x	x	x	x
Tulsa, OK	x	x	x	
Topeka, KS	x	x	x	

COMMENTS OF THE JOINT OVERSIGHT TEAM FOR THE SBC COMMUNICATIONS INC. SECTION 272 AGREED-UPON PROCEDURES ENGAGEMENT

Section 272(d) of the Act requires the formation of a Joint Federal/State Oversight Team (JOT) to oversee the conduct of the agreed-upon procedures (AUP) engagement. A JOT has been formed and has overseen the conduct of this engagement, which includes the review of the report and its supporting working papers. The JOT offers the following comments:

Chronologv: Ernst & Young LLP (E&Y) the independent accounting finn hired by SBC Communications Inc. (SBC) to perform the engagement provided, as required, a copy of the draft report to the JOT on September 8, 2001. At that time the results of eleven procedures remained incomplete as E&Y was awaiting information from SBC. The JOT completed its review of the drafi report and working papers on September 27, 2001 and, with regard to disclosure changes to the draft report, provided written comments to E&Y on September 20 and September 27, 2001. E&Y provided another draft of the report to the JOT late in the day, on Friday November 2, 2001. As of November 6,2001, the date when the draft report was required to be submitted to the company for its review, a number of issues still needed to be addressed. All issues were subsequently addressed with the exception of the following items related to disclosures requested by the JOT to he made in E&Y's report:

Items Needing Disclosure:

Objective I, Procedure **4:** The JOT requested that the report should list the services rendered to each Section 272 affiliate by the Bell Operating Companies (BOCs), other affiliates, and unaffiliated entities. E&Y responded that the reporting of a list of services is not required by the procedure. The procedure only calls for the practitioner to "obtain" the list and description of services. The term "obtain" is defined in the 272 Biennial agreed-upon procedures and requires the practitioner to physically acquire and generally retain in the working papers, all documents supporting the work effort performed to adequately satisfy the requirements of the procedure. As such, a list of these services is included in the workpapers only and is not included in E&Y's report. SBC management agreed with E&Y's statement. The JOT believes that the procedures are flexible until completion of the report and, in the JOT's judgement, the information requested be disclosed in the report is useful in the final analyses of the contents of the report. The American Institute of Public Accountants (AICPA) standards support this view.

Objective I, Procedure **7:** The report states that the listing of fixed assets obtained from the Section 272 affiliates included a column noting from whom each item was purchased or from where it was transferred, but this column was not always populated. The JOT requested that the report identify the items and the dollar amounts where this information was missing. This list includes transmission and switching facilities. E&Y added additional detail to the report stating that a total number of 119 of 480 assets for SBCS and 337 of 2,735 assets for ACI did not

include information in the data field titled "from whom the asset was purchased or transferred." E&Y stated additional detail was not required by the procedure. SBC management agreed with E&Y's statement and issued a separate response.

Objective II, Procedure **4:** While reviewing the working papers the JOT noted that Ameritech Communications, Inc. (ACI) was subletting space to Ameritech Services, Inc. **(ASI)** at prices in excess of those paid by ACI to the lessor. The JOT requested that these instances be disclosed in the report in Objective V&VI, in either Procedure 10 or 12. More specifically, the items noted were:

- Ameritech Communications, Inc. (ACI) leases additional space at Columbia Center II (9450 West Bryn Mawr Ave.), Rosemont, Illinois. 2nd expansion space lease on 2nd floor, 12,265 sq. ft. for $12,571.63/month (2001 rate). This equates to $1.025 per square foot.
- ACI subleases 1,662 sq. ft. of floor space on 2nd floor to Ameritech Services, Inc. (ASI) at $19.99 per square foot.
- ACI subleases to ASI another 2,665 **sq.** ft. at $20.92 per square foot.
- ACI subleases to ASI **3,943** sq. ft. at $20.92 per square foot.

ASI is a central services organization which recovers, with certain exceptions, all of its costs from the affiliates it serves, including the telephone companies. Therefore, to the extent these costs are inflated, they affect the charges to the telephone companies.

E&Y responded that procedures V&VI-10 or V&VI-12 do not direct the practitioner to review transactions from ACI (the Section 272 affiliate) to a central services affiliate. Procedure II-4 does not direct the practitioner to report on pricing contained in the leases obtained. SBC management agreed with E&Y's statement.

Objective V&VI, Procedure **12:** The JOT requested that the report should identify the central services organizations that render services to the Section 272 affiliates and the amounts billed to the Section 272 affiliates during the first nine months of the engagement period. The report should also describe when invoices or reports/schedules are rendered.

E&Y responded that the procedure only calls for the practitioner to "obtain" the list and description of services and, as described above, the reporting of this information is not required by the procedure, but it is included in the workpapcrs. SBC management agreed with E&Y's statement,

Other Matters:

Objective V&VI, Procedure **9:** The report indicates that in the September 2000 billing from Pacific Bell to southwestern Bell Communications Services, Inc. (SBCS) for Consumer Markets Group services, the unit price used for billing was $1.00 per listing compared to the fully

distributed cost (FDC) rate of $118.42 per hour. No supportiny information was provided that converted the FDC rate of $1 IX.42 per hour to the hilled rate of $1.00 per listing. SBC represented that the rate of $1.00 per listing was an estimate, which will be trued up once a time in motion study rate is established. As noted in E&Y's report, SBC has not provided documentation that the true up has yet been made as of December 11, 2001. Without this infonnation and fair market value (FMV) information, the regulatory commissions will be unable to determine whether SBCS was hilled the appropriate amount for this service. SBC management issued a separate response.

Confidentiality: SBC submitted to the **JOT** a listing of items requesting confidential treatment and that they be redacted from the final audit report for public inspection. The JOT does not have the authority to act upon SBC's request. Accordingly. the JOT neither agrees nor disagrees with the confidentiality of these items. Confidentiality issues will be addressed by the pertinent regulatory commissions: if necessary

Michelle A. Thomas
Executive Director
Federal Regulatory

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Phone 202 326-8810
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December 17, 2001

Mr. Hugh Boyle
Federal Communications Commission
445 12th Street, NW
Washington, DC 20554

Mr. Brian Horst
Ernst & Young LLP
Frost Bank Towers, Suite 1900
100 West Houston Street
San Antonio, Texas 78299-2938

Re: Section 272 Biennial Audit of SBC Communications Inc.

Dear Messers Boyle and Horst:

SBC Communications Inc. ("SBC") submits these comments to Ernst & Young's audit report pursuant to Section 272(d) of the Communications Act of 1934, as amended ("the Act") and Section 53.209 of the Commission's rules. These comments are being submitted to the Joint Federal/State Oversight Team ("JOT") and to Ernst & Young ("E&Y") in accordance with Section 53.213(b) of the Commission's rules and will become part of the final audit report.

SBC is also requesting confidential treatment of certain data contained in E&Y's audit report, SBC's Comments, the JOT's Comments, and E&Y's Comments (collectively "the Final Audit Report"), under Section 0.459 of the Commission's rules, and as per paragraph 30(f) of the Agreed-Upon Procedures. These items include details about the SBC long distance companies' assets and accounts, company facility locations, and the nature and amount of services purchased by the companies. Additionally, the report includes information about non-affiliated entities than include names and rates of specific services provided to those entities. This is commercially sensitive information and is typically withheld from public disclosure. SBC therefore requests that these items be redacted from the Final Audit Report for public inspection. A proprietary version of the Final Audit Report will be submitted to the Commission under confidential seal.

The results of the Agreed-Upon Procedures, as reflected in the Final Audit Report, reveals that SBC has effectively implemented internal policies, procedures and practices to comply with the Section 272 requirements of the Act. Due to the nature of an agreed-upon procedures engagement, the practitioner has performed the procedures as agreed to by the users and has reported all results, regardless of materiality. Accordingly, the audit

report includes minor exceptions. Further, the preponderance of those exceptions relate not to Southwestern Bell Communications Services, Inc. ("SBCS"), but to Ameritech Communications, Inc. ("ACI").[1] In other instances, exceptions were noted where data and/or documentation was not available in the format required by the audit procedures due to systems limitations or system incompatibility between the SBC BOCs and the Section 272 affiliates.

SBC provides these comments to address certain procedures or results noted in the practitioner's audit report that may require additional information or clarification.

Sincerely,

Michelle A. Thomas
Executive Director – Federal Regulatory

Attachment

[1] It should be noted that SBCS is the only SBC Section 272 affiliate that has been granted 271 authorization to provide interLATA long distance services in SBC in-region states. ACI does not have 271 authority to provide in-region interLATA services.

Section 272 Audit Report	SBC Management Response
Objective I, Procedure 7 Verified by observation that the listings obtained above, which included 480 assets fo SBCS and 2,735 assets for ACI, included information in the five required fields of data description, location of each item, date of purchase, price paid and recorded, and fron whom the asset was purchased or transferred. Noted that all 16,075 required data field were populated except for 119 assets of SBCS and 337 assets of ACI that did no include information in one data field, "from whom the asset was purchased o transferred".	The purpose of this procedure is to determine whether there is joint ownership of switching and transmission facilities between the SBC 272 affiliate and the SBC BOC, and the audit report reflects that there were none. As part of this procedure, the auditor was instructed to verify the completeness of the SBC 272 affiliates' detailed fixed asset listings. The audit report noted unpopulated fields in less than 3 percent of the total required data fields. It was discovered that the "Vendor Name" field was not populated for certain fixed asset records. This occurred due to a fixed asset systems conversion at SBCS and ACI to a new ORACLE based system. As a result of this conversion, the vendor name was captured in another field (e.g., manufacturer name) which was not included in the listings provided to the auditors. For a limited number of older fixed assets, no vendor name was captured in the fixed asset records. The absence of a vendor name associated with certain older fixed assets does not impact the determination of whether the SBC 272 affiliate and the SBC BOC jointly owned switching and transmission facilities during the engagement period.
Objective III, Procedure 4 Obtained the payroll registers for each Section 272 affiliate that included the socia security numbers of all the directors, officers, and employees as of March 31, 2001 an designed and executed a program which electronically compared the social securit numbers of directors, officers, and employees on the Section 272 affiliates' payrol registers to the electronic employee records for the SBC BOCs. Noted that fou individuals were listed on both the Section 272 affiliates' listings and the SBC BOCs listings. Documented below the reason and number of employees appearing on botl lists. Noted by review of the payroll registers that while the employee names appeared o both the SBC BOCs' and ACI's payroll registers, only the ACI payroll register include payments to the employees. The SBC BOC payroll register listing included th	The purpose of this procedure was to determine whether an individual served simultaneously as an employee of a SBC BOC and a SBC 272 affiliate. While the administrative records indicate that four employees were included on the payroll listing (e.g., payroll register) of both a SBC BOC and a SBC 272 affiliate, the employees were only active in and paid by one entity within the payroll system, thus resulting in no overlap. The PeopleSoft payroll system used in the Ameritech region only allows for an employee to be currently active in, and therefore paid by, one company. Therefore, although employees may not have been removed from a prior employer company's payroll register in a timely manner, the systems do not allow two Ameritech companies to pay the employee during the same time period.

Section 272 Audit Report	SBC Management Response
employee name with no corresponding payment. Also noted by review of the employee transfers obtained in Procedure 5 below that the four duplicates transferred between the SBC BOCs and ACI with effective dates of March 2001 and April 2001. SBC represented that the duplicate employees were only paid by the affiliate for which they were employed and appeared on the other register with no pay.	
Objective V/VI, Procedure 6 Viewed the SBC Internet site at [SBC web site] as of March 29, 2001 and noted that all agreements and pricing addendums, 450 in total, obtained in Procedure 5 above were posted on the Internet, except for 25 agreements or pricing addendums noted in Attachment A-4. Noted that there were no asset transfers between the Section 272 affiliates and the SBC BOCs included in the agreements obtained in Procedure 5 and no asset transfers were posted on the Internet as of March 29, 2001. SBC has represented that only furniture valued at $5,000 was transferred from an SBC BOC to SBCS in 1996. Compared the prices and terms and conditions of services and assets in the agreements obtained in Objectives V and VI, Procedure 5 to those shown on the SBC Internet site. Noted certain exceptions listed on Attachment A-4 and as summarized in Table 4 above. 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 site. Noted that all the details needed to allow evaluation for compliance with the FCC's accounting rules are made available. Noted that the Internet posting of the agreements included rates, terms, conditions, frequency, effective dates, termination date, description of services, and method of pricing. By physical inspection of the SBC BOC central files at the locations listed in the table below, noted that the same information was made available for public inspection at the principal place of business of the SBC BOCs, except as noted on Attachment A-4. Noted that SBC did not make any claim of confidentiality for nondisclosure.	The purpose of this procedure was to determine whether the SBC BOC was properl following the FCC's affiliate transactions rules. The audit report noted SBC's extensiv procedures to ensure compliance and to detect and prevent non-compliance. Th requirements for affiliate transactions are complex; however, the items noted in th audit report are miniscule. Of the 25 items noted in Attachment A-4, 21 relate to eithe discontinued services which have been removed from the Internet web site or to join marketing provided by the SBC BOC under section 272(g) and are not subject to th non-discrimination provisions of section 272(c). This results in a less than 1 percent (of 450) exception to the total Internet postings. SBC has taken corrective action with respect to the 17 items noted in the central file (noted in Table 4) by updating the particular pricing addendum or contract. As o today, the only outside parties that have requested access to the Central file are Ernst & Young for the Biennial Audit and one unaffiliated carrier who did not disclose th purpose for their review. It should be noted that no unaffiliated third party entity ha requested service provided from the SBC BOC to the SBC 272 affiliates for the non tariffed agreements posted on the Internet web site.
Objective V/VI, Procedure 6 – continued	

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Documented the policies that the Section 272 affiliates have in place for posting these transactions on a timely basis and noted that these procedures are posted on the SBC Internet site at: http://www.sbc.com/PublicAffairs/PublicPolicy/Regulatory/affdocs/MethodsProc-Rev.doc For the random sample of 100 affiliate agreements and related pricing addendums obtained in Procedure 5 above, performed the following: Noted by inquiry and observation that the 100 agreements or pricing addendums were posted for public inspection within 10 days of their occurrence except for the following: ▪ SWBT to SBCS – Premise Sales Support Pricing Addendum dated June 4, 2000 was posted to the Internet on July 13, 2000. ▪ Nevada Bell to SBCS – Employee Concession Pricing Addendum effective April 1, 2001 was posted to the Internet on May 8, 2001. ▪ Nevada Bell to SBCS – Joint Marketing and Sales Support Pricing Addendum effective March 20, 2001 was posted to the Internet on May 8, 2001. ▪ For 12 of the 100 postings tested, Internet posting dates could not be verified since these agreements were executed prior to October 8, 1999, and SBC did not retain support for the Internet posting dates.	Since the adoption of the FCC's 10-day Internet posting requirement (approximately 450 agreements posted to date), the SBC 272 affiliates have continued to improve the process and procedures used to post affiliate agreements to the Internet in an accurate and timely fashion. Out of 100 sampled, only three agreements were actually posted outside of the 10-day requirement. (SBC investigated and discovered that one of the alleged late Internet postings--the Nevada Bell to SBCS – Employee Concession Pricing Addendum--actually had an April 30, 2001 effective date, and was posted on May 8, 2001, within the 10-day posting requirement.) SBC will correct this posting date oversight. For the 12 Internet postings for which documentation could not be located, 11 were for ACI affiliate agreements signed and executed prior to the SBC/Ameritech merger. As noted, ACI is not the SBC 272 affiliate authorized to provide in-region, interLATA services for SBC states. With regard to the availability of system-generated verification of posting dates, as of September 2000, the SBC 272 affiliates moved from using a manual hard copy posting process to an online posting process using the software tool PubWeb. A hard copy is now maintained on file. The mechanized PubWeb posting process has built-in procedures and controls that ensure that Internet postings occur timely.

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Objective V/VI, Procedure 6 – continued For 39 of the 100 postings tested, support obtained for the Internet porting date was internal correspondence or employee file notes provided by the Section 272 affiliate. These agreements or pricing addendums were ported to the Internet prior to the Section 272 affiliate's implementation of the posting procedures which produce system-generated verification of the postingdates.	
Objective V/VI, Procedure 9 Noted that the sampled amounts were priced at the higher of FDC or FMV, or PMP in accordance with the affiliate transactions standards and were recorded in the books of the SBC BOCs in accordance with the affiliate transaction standards, except as listed below: ▪ Noted in the September 2000 billing from Pacific Bell to SBCS for Consumer Markets Group services, the unit price used for billing was $1.00 per listing compared to the FDC rate of $118.42 per hour. No supporting information was provided that converted the FDC rate of $118.42 per hour to the billed rate of $1.00 per listing. SBC represented that the rate of $1.00 per listing was an estimate, which will be trued up once a time in motion study rate is established.	For the affiliate transaction noted, a time and motion study was completed in August 2000 to true-up the estimated $1.00 per listing, but was not applied to the hourly rate to revise the per listing price until April 2001. A true-up for all billings, which includes 2000 and 2001, will be processed by SBC in December 2001 These transactions are subject to review in the annual SBC Cost Allocation Manual (CAM) audits. Both the 2000 and 2001 rates are supported by the fully distributed cost (FDC) calculations performed in accordance with SBC's approved FDC valuation methodologies included in SBC's CAM on file with the FCC.
Objective V/VI, Procedure 10 From the summary listing obtained above, selected a judgmental sample, as approved by the Oversight Team, of six services for one month as listed in Table 6 below. SBC represented that services provided by SBCS were billed on numerous invoices every month. Requested and obtained a detailed listing by invoice. of the amounts billed by SBCS to Pacific Bell and SWBT for the service and month selected in the sample. Noted that this listing did not agree to the summary listing provided above due to errors in the compilation of the summary listing by SBCS.	The audit report noted that for each SBC invoice provided under this procedure that the services were billed by SBCS in accordance with affiliate transaction standards. Discrepancies of dollar amounts from the initial request and the second request are due to billing disputes and adjustments made to a specific account(s) during the interim period between the requests. Billing for services provided by the SBC 272 affiliates to the SBC BOCs were at the agreed upon rates as shown in the audit report. The SBC 272 affiliates were able to provide sufficient information demonstrating that it had met this objective. The SBC 272 affiliates are currently working to resolve any billing

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	system issues in order to provide the necessary information in the requested format in the future.
Objective VII, Procedure 5 The Oversight Team selected B&C services and local exchange services for March 2001 for testing. Noted that SBCS purchased B&C services from SWBT and ACI purchased B&C services from Indiana Bell, Illinois Bell, Michigan Bell, Ohio Bell, and Wisconsin Bell. For 38 unaffiliated carriers purchasing B&C services from SWBT and 34 unaffiliated carriers purchasing B&C services from Indiana Bell, Illinois Bell, Michigan Bell, Ohio Bell, or Wisconsin Bell, compared the rates, terms, and conditions on their March 2001 billing to the rates, terms, and conditions on the Section 272 affiliates' March 2001 billing from the comparable SBC BOC. The results of this comparison are shown on Attachment A-5a for SBCS and Attachment A-5b for ACI. SBC represented that the differences noted may result from whether the customer has chosen the following contractual options: invoice billing; message billing; volume discount pricing; standard pricing; per page billing; and/or rate element billing.	The SBC BOCs make available Billing and Collection Services (B&C) to carriers at the same rates, terms and conditions. The differences in the rates for B&C services shown in Attachment A-5a are a result of several options available to B&C customers. The SBC BOCs offer (1) invoice billing and/or message ready billing; (2) volume discount or standard billing; and (3) per page billing (for invoice billing only) or rate element by rate element billing. Although other IXCs have selected invoice billing, SBCS is the only IXC that has chosen the per invoice page pricing option and the volume discount rating option; therefore, the B&C services purchased by the SBC 272 affiliate and by the unaffiliated carriers listed are not comparable. Consequently, the information contained in Attachment A-5a is misleading because it does not compare similar data.
Objective VII, Procedure 5 – continued Pacific Bell provided copies of Customer Service Records ("CSRs") for seven billing account numbers ("BANs") billed to SBCS as of March 2001 and 18 BANs billed to nine unaffiliated carriers. Compared the rates, by Universal Service Order Code ("USOC"), charged to SBCS to those charged to the unaffiliated carriers. For all the USOCs billed to SBCS, noted 16 USOCs that were also billed to the unaffiliated carriers. Noted that of these 16 comparable USOCs, 13 of the rates agreed without exception and three contained differences which are included in Attachment A-5c. SBC represented that the terms and conditions associated with these billings were the same for SBCS and the unaffiliated carriers. Obtained documentation verifying SBCS's payment to Pacific Bell and Pacific Bell's receipt of payment for the seven SBCS BANs provided above. For the local exchange services provided by Indiana Bell, Illinois Bell, Michigan Bell, Ohio Bell, and Wisconsin Bell, SBC provided a file containing USOCs, billed units,	

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and billed amounts for the month of March 2001 for ACI facilities in Rosemont, Illinois; Muncie, Indiana; and Brookfield, Wisconsin, and ten unaffiliated retail customers (SBC was unable to identify and provide unaffiliated carrier information). SBC represented that this file was extracted from the Ameritech Customer Information System ("ACIS"). SBC represented that ACIS does not designate customers as "retail carriers" or "retail non-carriers." Sorted the information provided by USOC and class of service and compared the rates per USOC charged to ACI and the unaffiliated customers. Noted no comparable USOCs between the ACI location in Rosemont, Illinois, and the unaffiliated retail customers. Noted 30 comparable USOCs and classes of service between the ACI locations in Muncie and Brookfield and the unaffiliated retail customers. Noted that of these 30 comparable USOCs and classes of service, 24 compared to the rates charged to unaffiliated customers without exception and	Centrex Services, Section 3 – Advanced Centrex Services, the "centrex common block" represented by USOC CKC bills at the following rates dependent upon the term length elected by the customer: month-to-month $30.00 36 months $27.50 60 months $25.00 84 months $23.00 For each of the accounts listed in Attachment A-5c, the unit rate matches the elected term length. This logic (unit rate dependent upon elected term length pursuant to tariff) applies to the other USOC comparisons noted on Attachment A-5c.
Objective VII, Procedure 5 – continued differences *were* **noted** in 6 USOC/class of service comparisons. Attachment A-5c lists the differences noted. SBC represented that tariff **rates** may vary depending on the term length selected by the customer. Obtained documentation verifying ACI's payment to Illinois Bell, **Indiana** Bell. and Wisconsin Bell for the ACI BANs listed on the file	
Objective VIII, Procedure 3 Obtained data tracked and maintained by the SBC BOCs during the first nine months of the Engagement Period, by month and quarter, indicating time intervals for processing of orders (for initial installation requests, subsequent requests for improvement, upgrades, or modifications of service, or repair and maintenance), provisioning of service, and performance of repair and maintenance services for themselves and their affiliates and for unaffiliated entities, as customers, for exchange access services and PIC change orders, as noted in Attachment A-7.	**A** "stare **and compere**" of the results included in Attachment A-7 reveal variances that are **very** misleading in terms of the overall performance in the **level** of **service** provided to the SBC BOCs and its affiliates and to non-affiliates. **These** variances are statistically insignificant due tu the extremely low volume of affiliate orders (or troubles) as compared to that of the non-affiliates orders fur the service categories measured each month.
Objective IX, Procedure 4	

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Nineteen of the 50 invoices obtained in Procedure 3 above related to ACI. SBC provided no payment or receipt documentation, from either ACI or the SBC BOCs, relating to these BANs. SBC represented that these BANs were assigned to Williams Communications as of September 30, 2000 and after this date ACI was no longer responsible for payment of these accounts. These accounts were improperly included in the listing of invoices obtained in Procedure 3 above.	Due to a record-keeping error in processing the necessary changes in the SBC BOC billing systems associated with the BANs assigned to Williams on September 30, 2000, ACI's name continued to appear as the customer of record with respect to these BANs even though the bill was sent to and paid for by the actual customer, Williams. SBC has changed the ACNA to accurately reflect Williams as the customer of record associated with these BANS in the SBC BOC billing systems.
Objective X, Procedure 7 SBC represented that all of ACI's exchange access service and local exchange service was transferred to Williams Communications on October 1, 2000 and most of the ACI differences noted above are due to the SBC BOCs' continuing to record after October	See response to Objective IX, Procedure 4 above.

COMMENTS OF ERNST & YOUNG FOR THE SBC COMMUNICATIONS INC. SECTION 272 AGREED-UPON PROCEDURES ENGAGEMENT

The following comments of Ernst & Young ("E&Y") address comments of the Joint Oversight Team ("Joint Oversight Team" or "JOT") included in Attachment B-1 to our Report of Lndependent Accountants on Applying Agreed-Upon Procedures related to the SBC Communications, Inc. Section 272 Agreed-Upon Procedures Engagement.

E&Y performed the procedures enumerated in our report, which were agreed to by management of SBC Communications Inc. ("SBC") and the Joint Oversight Team in accordance with attestation standards established by the American Institute of Certified Public Accountants ("AICPA"). The Specified Users of this report determined and agreed to the procedures to be perfomied in this engagement, including agreement on the information that was to be obtained as a result of executing those procedures and when that information was to be included in the report. The findings within our report represent the results obtained from performing those procedures.

The agreed-upon procedures to be performed were provided to E&Y by the Joint Oversight Team in a document titled General Standard Procedures For Biennial Audits Required Under Section 272 of the Communications Act of 1934, As Amended; dated April 23, 2001 ("General Standard Procedures"). E&Y was instructed to follow the guidance in this document during the conduct of the engagement. The General Standard Procedures define the Specified Users of the report to include the FCC, the state regulatory commissions in the **13** states in which **SBC** operates, and the company responsible for obtaining and paying for the biennial audits. **As** such, SBC is a Specified User of the report. The General Standard Procedures further state that "The Joint Oversight Team is responsible for reviewing the conduct of the engagement and. after agreement with SBC, for directing the practitioner to take such action as the team finds necessary to achieve each objective."

As confirmed in a series of conference calls with the Joint Oversight Team, SBC, and E&Y on December 12, 2001, the procedures were performed as agreed-to by the Specified Users of the report. However, the Joint Oversight Team requested additional disclosures be made in E&Y's report which, as described below, represent changes to the definitions of terms used to define the procedures to be performed. SBC did not agree with these requested changes. Each of these requests is further addressed below:

Objective **I,** Procedure **4:** The JOT requested that the report should list the services rendered to each Section 272 affiliate by the Bell Operating Companies ("BOCs"), other affiliates, and unaffiliated entities.

The procedure was perfonned as agreed-to by the Specified Users of the report. The list ***of*** services rendered to each Section ***272*** affiliate by the BOCs, other affiliates, and unaffiliated entities was obtained and placed in the workpapers in a manner consistent with other procedures in which the word "obtain" is also used and consistent with the definition of the term "obtain" for this engagement. The term "obtain" as stated in the procedure is a defined term within the General Standard Procedures that requires the practitioner to physically acquire and generally retain in the working papers, all documents supporting the work effort performed to adequately satisfy the requirements of the procedure. Further instructions contained in the General Standard Procedures specify certain terms for which the Specified Users' expectation is that the practitioner will include in its report all results of those procedural steps. The term "obtain" is not included in this set of tenns. As such, a list of these services is included in the workpapers only and is not included in E&Y's report. Additional disclosures, beyond what was required by the guidance in the General Standard Procedures, were not agreed-to by the Specified Users of the report.

The JOT further states in Attachment B1: "The JOT believes that the procedures are flexible until completion of the report and, in the JOT's judgment, the information requested be disclosed in the report is useful in the final analyses of the contents of the report. The AICPA standards support this view." Ernst & Young agrees that the AICPA standards clearly state that the procedures to be performed may be changed during the engagement; however, the standards also explicitly require that they must be agreed upon by the specified users, and one of the Specified Users did not agree upon the JOT's request for the described modification. Further, the findings of the procedures performed have been reported in a manner consistent with the procedures agreed upon by the Specified Users and as required by applicable professional standards.

Objective **I,** Procedure **7:** The report states that the listing of fixed assets obtained from the Section 272 affiliates included a column noting from whom each item was purchased or from where it was transferred, but this column was not always populated. The JOT requested that the report identify the items and the dollar amounts where this information was missing. This list includes transmission and switching facilities.

E&Y added additional detail to the report stating the following:

Verified by observation that the listings obtained above, which included 480 assets for Southwestern Bell Communications Services, Inc. ("SBCS") and 2.735 assets for Ameritech Communications. Inc. ("ACI"), included information in the five required fields of data: description, location of each item. date of purchase, price paid and recorded, and from whom the asset was purchased or transferred. Noted that all 16,075 required data fields were populated except for 119 assets of SBCS and 337 assets of ACI that did not include information in one data field, "from whom the asset was purchased or transferred."

Inclusion of a detailed list of such assets for which the data was not included in the computer listing was not specified by the procedure.

Objective II, Procedure 4: While reviewing the working papers the JOT noted that ACI was subletting space to Ameritech Services, Inc. ("ASI") at prices in excess of those paid by ACI to the lessor. The JOT requested that these instances be disclosed in the report in Objectives V&VI, in either Procedure 10 or 12. ASI is a central services organization, which recovers, with certain exceptions, all of its costs from the affiliates it serves, including the telephone companies. Therefore, to the extent these costs are inflated, they affect the charges to the telephone companies.

SBC provided further information to E&Y, which was subsequently provided to the Joint Oversight Team, that clarified the rent per square foot figures observed by the Joint Oversight Team. The lease to ACI was a *monthly* square foot rental amount that did not include recovery of operating expenses (i.e., ACI was responsible for paying the operating expenses directly) and thus appeared to be at a lower rate. The subleases to ASI were annual square foot rental amounts that included recovery of operating expenses and thus appeared to be at a higher rate. Based on the fact that there was not a specific agreed-upon procedure to test the leases between **ACI** and ASI and the unaudited information provided did not indicate the subleases were at a significantly higher rate than the original lease when viewed on comparable terms, disclosure within our report was not deemed necessary.

Objectives V&VI, Procedure 12: The JOT requested that the report identify the central services organizations that render services to the Section 272 affiliates and the amounts billed to the Section 272 affiliates during the first nine months of the engagement period. The report should also describe when invoices or reports/schedules are rendered.

The procedure was performed as agreed-to by the Specified Users of the report. The central services organizations that render services to the Section 272 affiliates and the amounts billed to the Section 272 affiliates during the first nine months of the engagement period were obtained and placed in the workpapers in a manner consistent with other procedures in which the word "obtain" is also used. The term "obtain" as stated in the procedure is a defined term within the General Standard Procedures that requires the practitioner to physically acquire and generally retain in the working papers, all documents supporting the work effort performed to adequately satisfy the requirements of the procedure. Further instructions contained in the General Standard Procedures communicate certain terms for which the Specified Users' expectation is that the practitioner will include in its report all results of those procedural steps. The term "obtain" is not included in this set of terms. **As** such, the information above was obtained and included in the workpapers.