# BellSouth Telecommunications, Inc.

## Section 272
## Biennial Agreed-Upon Procedures Engagement

**Pursuant to Section 272(d)(2) of**
**The Telecommunications Act of 1996**

PRICEWATERHOUSECOOPERS

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**Report of Independent Accountants**

To the Management of BellSouth Telecommunications, Inc.
and the Joint Federal/State Oversight Team:

We have performed the procedures enumerated in Appendices A, B and C, which were agreed to by the management of BellSouth Telecommunications, Inc. (the "Company" or "BellSouth") and the Joint Federal/State Oversight Team (collectively, the "Specified Parties"), solely to assist you in evaluating management's assertion that BellSouth complied with the requirements of Section 272 of the Communications Act of 1934, as Amended (the "Section 272 Requirements") during the period from May 24, 2002 through May 23, 2003 (the "Engagement Period"). Management of the Company is responsible for BellSouth's compliance with the Section 272 Requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Appendices A, B and C either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results obtained are documented in Appendices A, B and C. The procedures and the results of performing such procedures are not intended to be an interpretation of any legal or regulatory rules, regulations or requirements.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the Company's compliance with the Section 272 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 the Specified Parties, and is not intended to be and should not be used by anyone other than the Specified Parties. However, this report is a matter of public record and its distribution is not limited.

PricewaterhouseCoopers LLP

November 10, 2003

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**Attachment B** General Standard Procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, as Amended as of November 10, 2003.

**Attachment C** BellSouth's Comments to Section 272 Agreed-Upon Procedures Engagement

**Appendix A enumerates the procedures performed by PricewaterhouseCoopers LLP ("PwC" or "we") in connection with the Bell Operating Company of BellSouth Corporation, (BellSouth Telecommunications, Inc., referred to herein as the "BellSouth BOC", or "BST", or the "Company") and BellSouth Long Distance, Inc. ("BSLD" or the "Section 272 Affiliate").**

**Objective I: Determine whether the separate affiliate required under Section 272 of the Act has operated independently of the Bell Operating Company.**

1. We obtained and inspected the certificate of incorporation and bylaws for BSLD. We noted that BSLD was established as a Delaware corporation separate from BST. Management of BST indicated that the Delaware General Corporation Law refers to the articles of incorporation as the certificates of incorporation.

2. We obtained and inspected BellSouth Corporation's (BSC) organizational charts as of February 28, 2003. BSC is the ultimate corporate parent of all BellSouth subsidiaries. We confirmed with legal representatives of BST and of the Section 272 Affiliate the legal, reporting, and operational corporate structure of the Section 272 Affiliate. We obtained written confirmations from the legal representatives noting that:

   - BST is a direct and wholly-owned subsidiary of BellSouth Corporation
   - BSLD is a direct and wholly-owned subsidiary of BellSouth Corporation

3. We inquired of management which entities perform operations, installation, and maintenance (OI&M) functions on facilities either owned by the Section 272 Affiliate, or leased from a third party by the Section 272 Affiliate. BSLD Management confirmed the following:

   "BellSouth Carrier Professional Services (BCPS) employees performed OI&M functions on BSLD network facilities and also managed and supervised vendors that performed OI&M functions for BSLD network facilities."

   We noted that BCPS performs OI&M as defined in 47 C.F.R. Section 53.203(a)(2), (3) (Section 53.203) and First Report and Order, paragraphs 15, 158, 163 (First Report and Order). We noted that Section 53.203 and the First Report and Order prohibit a BOC or BOC affiliate from performing OI&M functions on facilities either owned by the Section 272 Affiliate, or leased from a third party by the Section 272 Affiliate. We also noted that BST filed a petition for forbearance with the Federal Communications Commission related to the OI&M services mentioned above.

   a) BST Management's definition and interpretation of OI&M functions is:

      "Operations, Installation, and Maintenance (OI&M) functions in BST are those functions that involve the construction, installation, maintenance and monitoring of the network we use to provide service to our wholesale and retail customers."

b) Management indicated that BST does not perform any OI&M functions for BSLD owned or leased facilities. BCPS performs the following OI&M functions on BSLD network facilities:

- Network Planning
- Engineering
- Installation
- Operations
- Maintenance
- Fraud Management
- Provisioning
- Service Assurance
- Customer Care

c) Management indicated that neither the Section 272 Affiliate nor BCPS perform OI&M on facilities either owned or leased by BST.

4. We obtained a list and description of all services provided by BCPS to the Section 272 affiliate during the engagement period. The list below indicates whether each of the services is made available to third parties, and how the service is made available:

**Table 1**

| BCPS Services | Description of OI&M Function | Amount charged to BSLD | Provided to 3rd Party | Made available to 3rd Party |
|---|---|---|---|---|
| Network Planning | Planning and Engineering of the BSLD Network | * | No | No |
| Engineering | Planning and Engineering of the BSLD Network | * | No | No |
| Installation | Vendor Management of the OI&M of the BSLD Network | * | No | No |
| Operations | Vendor Management of the OI&M of the BSLD Network | * | No | No |
| Maintenance | Vendor Management of the OI&M of the BSLD Network | * | No | No |
| Fraud Management | Fraud Management | * | No | No |
| Provisioning | Service and Infrastructure Provisioning | * | No** | No** |
| Service Assurance | Service Assurance and Trouble Management | * | No** | No** |
| Customer Care | Customer Care | * | No** | No** |

* We inquired of management as to the amount that BCPS charged to the Section 272 Affiliate by service. Management indicated that they are unable to provide us with the amount BCPS charged to BSLD by service; however, we noted that BCPS charged BSLD $43,775,791 for the aggregate amount of services provided from May 24, 2002 through May 23, 2003, while BCPS billed approximately $4.5 million to affiliates other than BSLD. BCPS does not charge BSLD on a per service basis. Instead, each month BCPS bills BSLD for the services that BCPS provided to BSLD.

The amount that BCPS bills BSLD each month is the total cost incurred by BCPS, plus a rate of return calculated on BCPS's total salaries and wages for the month, less the cost of providing services to other BellSouth companies.

Management indicated that BCPS does not provide these services to third parties. From the services listed above, Network Planning, Engineering, Installation, Operations, Maintenance and Fraud Management, are used by BSLD for internal maintenance only and are not used in products marketed to third parties.

** Provisioning, Service Assurance and Customer Care are not, directly, made available or provided to third parties. During the engagement period, BSLD had a service agreement with a third party. Under the agreement, BSLD was to provide, among other things, Provisioning, Service Assurance and Customer Care to the third party. BSLD subcontracted these services to BCPS. BCPS performed the services and billed BSLD directly for the work performed.

5. We inquired of BST management as to the existence of any research and development activities of BST in progress from June 1, 2002 through February 28, 2003 related to the Section 272 Affiliate. Management indicated that BST did not perform any research and development activities on behalf of the Section 272 Affiliate. Management indicated this representation was made based on the definitions of research and development as set forth in (1) Financial Accounting Standards Board Statement No. 2 and (2) 47 C.F.R. Part 32.6727 both of which essentially provide:

   (a) This account shall include costs incurred in making planned search or critical investigation aimed at discovery or new knowledge. It also includes translating research findings into a plan or design for a new product or process or for a significant improvement to an existing product or process, whether intended for sale or use.

   (b) This excludes making routine alterations to existing products, processes, and other ongoing operations even though those alterations may represent improvements.

   During this period, BST did provide equipment test and verification services on a commercial basis to BSLD and other external companies through the BellSouth Technology Assessment Center (BTAC), a department within BST. These equipment test and verification services did not involve research or the development of new services or functions.

   BellSouth Affiliated Services Corporation (BASC), a separate wholly owned subsidiary of BellSouth Corporation, did provide limited R&D "retainer" services to BSLD with the potential for consultations on MPLS data architecture, voice over IP trials, and Advanced Intelligent Network capabilities. However, consultations between BASC and BSLD did not occur during the period of June 1, 2002 through February 28, 2003.

   BST did not offer, was not requested to perform, and did not provide research and development services to unaffiliated entities during the period from June 1, 2002 through February 28, 2003.

6. We obtained the balance sheet and detailed fixed asset listing, including capitalized software, as of February 28, 2003 for BSLD. We compared the fixed asset balances in the balance sheet to the totals listed on the BSLD detailed fixed asset listing and noted no differences.

We noted that the fixed asset listing for BSLD included a description and location of each item, and from whom the asset was purchased or transferred. We noted that the detailed fixed asset listing did not include the date of purchase, price paid or the price recorded. Instead, the listing included the date the asset was placed into service, the current cost, and the general ledger amount recorded for each asset class. Management indicated the current cost is the historical cost of the asset and the general ledger amount is the total amount per asset class recorded in the general ledger.

From the detailed fixed asset listing for BSLD representing a population of 1,020 items, we selected a random sample of 94 transmission and switching facilities, including capitalized software, and the land and buildings where those facilities are located. We requested the title and/or other documents, which reveal ownership, for the sample selected. Management provided invoices as support for ownership and indicated the owner/lessee of the facility in which the asset is housed. We noted the following:

**Ownership:**

- For 29 of 94 items selected for testing, we inspected the invoices and noted that the assets were billed to the Section 272 Affiliate.
- For the remaining 65 of 94 items selected, we noted the following:
  - For 42 of the 94 items selected, we inspected the invoices and noted that the assets were billed to BellSouth Carrier Professional Services with a BSLD billing address.
  - For 7 of the 94 items selected, all of which appeared on a single invoice, we inspected the invoices and noted that the assets were billed to BellSouth with a BSLD billing address.
  - For 2 of the 94 items selected, we inspected the invoices and noted that the assets were billed to BellSouth Telecommunications, Inc. with a BSLD billing address.
  - For 4 of the 94 items selected, management indicated that the item was capitalized labor relating to transmission and switching facilities. For these samples, management provided the journal entry, which agreed to the amount stated on the detailed fixed asset listing.
  - For 10 of the 94 items selected, management was unable to provide the support requested. We noted 9 of those items represented the capitalized non-recurring portion of tariffed circuit charges subsequently reversed, as noted in Objective V/VI, Procedure 8. For the remaining item, the support was not available.

**Building Owner/Lessee:**

- For 40 out of the 94 items selected, we reviewed information provided by management and noted that the assets were located at a building owned/ leased by the Section 272 Affiliate.
- For the remaining 54 out of 94 items selected, we reviewed information provided by management and noted that the assets were located at a building owned/leased by BST. We noted that 53 of the 54 items located in the buildings owned/leased by BST were subject to a collocation agreement between BST and the Section 272 Affiliate. We noted the other item was subject to the Facility Use Agreement. We obtained and tested both the collocation and the Facility Use agreements as a part of Procedure 5 performed under Objective V/VI.

**Price Recorded:**

- For 62 out of 94 items selected, we compared the asset amount per the invoice with the amounts recorded in the fixed asset detail, and noted that the amount recorded agrees to the amount listed on the invoice.
- For the remaining 32 out of 94 items selected, we noted the following:
  - For 23 out of the 94 items selected, we compared the asset amount per the invoice with the amounts recorded in the fixed asset detail, and noted that the amounts did not agree. The differences relate to subsequent tax adjustments and capitalized overhead costs not included on the invoice.
  - For 9 out of the 94 items selected, we noted those items represented the capitalized non-recurring portion of tariffed circuit charges subsequently reversed, as noted in Objective V/VI, Procedure 8.

BSLD management indicated BSLD does not jointly own any assets with BST.

**Objective II: Determine whether the separate affiliate required under Section 272 of the Act has maintained books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell Operating Company.**

1. Due to the voluminous nature of BSLD's general ledger, we obtained the separate trial balance maintained for BSLD as of February 28, 2003. In order to test the validity of the trial balance, we randomly selected 10 accounts from the BSLD trial balance, obtained the corresponding account balance from the BSLD general ledger, and compared the account balance per the trial balance to the account balance per the general ledger. We noted no differences. We compared the title on the trial balance with the name on the certificates of incorporation and noted no differences.

   We reviewed all account descriptions and noted no reference to BST, and no special codes that may link BSLD's trial balance to the trial balance of BST.

2. We obtained and inspected the Section 272 Affiliate's balance sheets, income statements and listings of lease agreements for which the Section 272 Affiliate is either the lessor or lessee, as of February 28, 2003. We identified a population of two leases where the annual obligation was $500,000 or more. For the two selected leases, we obtained the lease agreements and noted the terms and conditions. We also obtained BSLD's "Analysis of Lease Agreements", which was prepared to assist the Company in determining whether the two selected leases should have been recorded as a capital lease or an operating lease. We noted the original "Analysis of Lease Agreements" could not be furnished by BSLD management; therefore, management recreated the "Analysis of Lease Agreements" utilized for our testing of both selected leases. Based on the procedures performed, it appears the leases were recorded in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP).

   We requested the BSLD accounting policy regarding leases. It appears that BSLD does not have its own accounting policy related to leases, but rather utilizes the BellSouth Corporate Financial Accounting policy related to leases. We obtained and inspected the BellSouth Corporation Financial Accounting policy related to leases. We noted that the policy refers the reader to GAAP literature including SFAS 13 *Leases* and Securities and Exchange Commission financial reporting guidelines; therefore, the policy appears to be in accordance with GAAP.

**Objective III: Determine whether the separate affiliate required under Section 272 of the Act has officers, directors, and employees that are separate from those of the Bell Operating Company.**

1. We inquired of management who indicated that the Section 272 Affiliate and BST maintain separate boards of directors, separate officers, and separate employees.

   We obtained a list of officers' and directors' names for BST and the Section 272 Affiliate, including the dates of service for each Board member and officer, from June 1, 2002 to May 23, 2003. We manually compared the list of officers' and directors' names for BST and BSLD for the period and noted no individual who appeared on both lists as a director or officer for BSLD and BST simultaneously.

2. We obtained a list of names and social security numbers of all employees of the Section 272 affiliate and of BST for the period June 1, 2002 through February 28, 2003. We designed and executed a program, which compared the names and social security numbers of the employees on the Section 272 list to the names and social security numbers of the employees on the BST list. We noted four individuals whose names appeared on both BSLD's and BST's lists. We inquired of management as to the reasons for the four names appearing on both the Section 272 affiliate's list and the list of BST. Management provided detailed employment histories for the four individuals from the Company's payroll systems. We compared the employees' termination date per the payroll records of their former employer to the commencement date of their new employer's payroll records and noted all four employees appeared on both lists due to a system requirement that makes termination from BSLD and employment by BST appear to be on the same day, when, in fact, a day of separation existed. By reference to this supporting data, we noted no instances where an individual was simultaneously employed by BSLD and BST.

**Objective IV: Determine that the separate affiliate required under Section 272 of the Act has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell Operating Company.**

1. We requested from BSLD management copies of BSLD's debt agreements/instruments and credit arrangements with lenders and major suppliers of goods and services. Major suppliers are those having $500,000 or more in annual sales as stated in the agreement or having $375,000 in sales from June 1, 2002 to February 28, 2003. We obtained vendor payment detail for BSLD and selected all vendors with payments greater than $375,000, resulting in a population of 46 agreements. We reviewed the agreements for recourse provisions. We noted no agreements indicating recourse to the assets of BST. Management indicated that BSLD "…does not have any debt agreements/instruments. All credit arrangements with vendors, major suppliers and affiliates are of a normal business nature (e.g., net 30 days)."

2. We obtained the lease agreements where the annual obligation is $500,000 or more used in Objective II, Procedure 2. We reviewed these lease agreements and noted no language in the agreements indicating recourse to BST assets, either directly or indirectly through another affiliate.

3. We requested and obtained a listing of all loan institutions, lessors, creditors and vendors (collectively referred to as "creditors"). From that listing we determined all creditors with annual obligations in excess of $500,000. We also selected a judgmental sample of 10 creditors with an annual obligation of less than $500,000. We excluded creditors that represented taxing authorities and providers of tariffed services. We mailed confirmations to 72 creditors. We requested the creditors to positively confirm lack of recourse to BST assets. We received responses from 40 of the 72 creditors confirming they did not have recourse to BST assets. We received no replies from the other 32 creditors.

**Objective V: Determine whether the separate affiliate required under Section 272 of the Act has conducted all transactions with the Bell Operating Company on an arm's length basis with the transactions reduced to writing and available for public inspection.**

**Objective VI: Determine whether or not the Bell Operating Company has accounted for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.**

1. We documented in our workpapers the procedures used by BST to identify, track, respond, and take corrective action to competitors' complaints with respect to alleged violations of the Section 272 requirements. Those procedures are summarized in the tables below:

**Table 2**

| PROCEDURES FOR HANDLING FCC COMPLAINTS |
|---|
| o The complaint is received from the FCC by BellSouth's Washington, DC office (BellSouth DC).<br>o The complaint is logged and distributed to the BellSouth Legal and Regulatory departments.<br>o The Regulatory department logs the complaint on the Section 272 complaint matrix, if applicable, and updates the status of complaint throughout the docket process.<br>o The Regulatory department identifies the applicable Subject Matter Experts (SMEs) and distributes complaint to each SME. Regulatory, Legal, and SMEs form a Docket Team to respond to the complaint.<br>o The Regulatory department collaborates with legal counsel regarding BellSouth position.<br>o The Regulatory department conducts a Docket Team meeting to develop BellSouth position and to gather input, including applicable SME input and material for complaint response.<br>o The Regulatory department works with legal counsel to prepare a response outline and forwards supporting documentation to the legal department for preparation of response.<br>o Legal counsel drafts a response and the Regulatory department distributes to SMEs for feedback for finalization of the response.<br>o BellSouth DC files the response to the complaint with the FCC.<br>o If the complaint is not settled and Commission renders a decision, the Regulatory department distributes the Commission decision (order) to SME team.<br>o Appropriate meetings are scheduled to discuss any further action required by the Commission order and to charge the appropriate SME or organizations with implementation responsibility. |

**Table 3**

| PROCEDURES FOR HANDLING SECTION 272 COMPLAINTS FILED AT STATE COMMISSIONS |
|---|
| o The Complainant serves BellSouth with a copy of the complaint being filed at the State Commission.<br>o The State Regulatory or State Legal office (varies by state) transmits the complaint to the headquarters (HQ) Regulatory and Legal departments.<br>o The HQ Regulatory department confirms the date BellSouth must respond to the complaint based on specific State Commission rules.<br>o The Regulatory Docket Manager logs the complaint on the Section 272 complaint matrix and updates the status of complaint throughout the docket process.<br>o Regulatory Docket Management identifies the appropriate SMEs and electronically distributes the complaint to them.<br>o Strategy meetings (held by the Regulatory and Legal departments) are scheduled with the appropriate SMEs and held to determine the BellSouth position and to gather facts on allegations. Information from these meetings is used for input into the complaint response.<br>o Based on the input from the team, Legal counsel drafts a response to the complaint.<br>o The Regulatory department distributes a draft response to the SME team for review and update by Legal counsel, as necessary.<br>o The Regulatory department sends the final response to the State Regulatory/Legal departments for filing with the State Commission and sends it to the appropriate parties of record.<br>o The Regulatory department distributes the filed response to the SME team.<br>o If issues are unresolved and State Commission establishes a schedule for the complaint, Docket Management schedules strategy meetings (with Legal, Regulatory and SMEs) to select appropriate witnesses and discuss the preparation of any required testimony.<br>o If testimony is required, the appropriate SME/Legal assignments are communicated so that testimony drafts are prepared, reviewed and timely filed with the State Commissions.<br>o Once the hearing process is complete and the Commission renders decision, State Regulatory Docket Management receives and electronically distributes the Commission decision (order) to the SME team.<br>o Appropriate meetings are scheduled to discuss any BellSouth action required by the Commission order and charge the appropriate SME or organizations with implementation responsibility. |

We obtained from BST 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 either involving the provision or procurement of goods, services, facilities, and information, or involving the establishment of standards which were filed from May 24, 2002 through May 23, 2003. This list categorizes the complaints as follows:

- allegations of cross-subsidies (for Objectives V and VI);

- allegations of discriminatory provision or procurement of goods, services, facilities, customer network services information (excludes customer proprietary network information (CPNI)), or the establishment of standards (for Objective VII);

- allegations of discriminatory processing of orders for, and provisioning of, exchange access, exchange services and unbundled network elements, and discriminatory resolution of network problems (for Objective VIII);

- allegations of discriminatory availability of exchange access facilities (for Objective IX);

- allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group of complaints, we inquired of the management of BST and reviewed documentation to determine how many of these complaints were under investigation, how many complaints had been resolved and in what time frame they would be resolved. Although the procedures and results related to competitors' complaints are reported here in Objective V/VI, Procedure 1, these results reflect the complaints for Objective VII, Objective VIII, Objective IX, and Objective XI, as well.

BST management indicated the following:

- For Objectives V, VI, and VII, there was one complaint that originated during the period from May 24, 2002 through May 23, 2003 and it was still under investigation. On June 23, 2003, the FCC closed the informal complaint and recommended no further action. This complaint is summarized below.

- There were no complaints filed applicable to Objective VIII, IX, and XI.

Table 4

| No. | Type | Company | Reason for Complaint | Status | Time Frame for Resolution |
|---|---|---|---|---|---|
| 1 | FCC Informal | Americatel | Americatel alleges that:<br><br>• BellSouth appears to be discriminating in its procurement of long distance services in favor of BSLD<br>• BellSouth may not be dealing with BSLD on an "arm's length" basis<br>• BellSouth appears to be using its purchases of long distance service from BSLD to channel funds to BSLD and to unfairly compete in retail long distance market<br>• High revenue contributions from local service packages may also be subsidizing very low international toll rates<br>• BSLD's long distance rates may not be fully compensatory<br>• BSLD has in place an unreasonable restriction on resale of its services<br>• BellSouth and BSLD's packaging of local and discounted international services may be anticompetitive | The FCC sent the complaint to BellSouth on April 11, 2003. BellSouth filed its response on May 9, 2003 stating that each allegation made by Americatel is speculative and unsubstantiated.<br><br>BellSouth received a response from the FCC dated June 23, 2003. This response stated that after review of the complaint and the response by BellSouth the Commission is not recommending further action and will close this complaint file. | Resolved – See Status |

2. We requested and obtained BST's and BSLD's current written procedures for transactions with affiliates and compared these procedures with the FCC Rules and Regulations indicated as "standards" in the General Standard Procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, as amended (the "GSP"). We noted the BellSouth Corporate Policy relating to affiliate transactions is documented in Executive Directive No. 008, which also references pertinent FCC regulations. Due to expanded regulatory requirements, BST, BSLD and BCPS have all developed separate, distinct and more stringent policies of their own. BSLD and BCPS utilize the same policy. We noted BST's written procedures had not been updated since 2001. We also noted the Company's written procedures included the FCC Rules and Regulations indicated as standards above with the following exceptions:

   GSP Excerpt 1 - "Exception: Threshold. Carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of asset(s) reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular asset for the first time, the carrier must perform market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules. When the

total aggregate annual value of the asset(s) does not reach or exceeds $500,000, the asset(s) shall be recorded at net book cost."

We noted per the Company's policies and procedures, both BST and BSLD had current policies and procedures in place to address asset transfers. Those current policies and procedures addressed the appropriate affiliate transaction and asymmetrical rules; however, neither BST's nor BSLD's company policies stated the exception to the rule noted above.

At both BST and BSLD, we were unable to obtain a current written procedure related to the following FCC Rules and Regulations:

GSP Excerpt 2 - "Provision of exchange and exchange access services and unbundled network elements constitute transactions requiring disclosure (See CC Docket No. 96-150, Report and Order, para. 124). These transactions include the provision of transmission and switching facilities by the BOC and its affiliate to one another. (See CC Docket No. 96-149, First Report and Order, para. 193)"

GSP Excerpt 3 - "Interstate rate base, revenue requirements, and price cap indices of the BOC must be reduced by the costs related to any regulated facilities transferred to each Section 272 affiliate. (See CC Docket No. 96-150, Report and Order, para. 265)."

3. We inquired and documented how BST and BSLD disseminate the FCC rules and regulations and raise awareness among employees for compliance with the affiliate transaction rules.

BST management indicated that BST's Federal Financial Compliance Group (FFCG) is responsible for affiliate transactions for the entire corporation and Section 272 compliance training for all affiliates except BSLD and BCPS. BSLD's Business Implementation & Compliance Group (BICG) is responsible for the Section 272 compliance training for BSLD and BCPS.

We documented the literature distributed, the types and frequency of training, the Company's employee and supervisor policies and interviewed selected employees.

**Literature Distributed**

Employees of both BST and BSLD are provided with written documentation on the affiliate transaction policies. The BSLD finance department and the FFCG maintain separate intranet sites that contain the BellSouth Corporate Financial Accounting Policy on affiliate transactions. Additionally, there are ongoing awareness campaigns at both BST and BSLD to emphasize regulatory compliance. These include employee handbooks, officer letters and newsletters.

**Training**

We noted the two primary training courses used are:

Affiliate Transactions Policy Training

We noted that the Affiliate Transaction Policy Training (Affiliate Transactions Training) includes an overview of the Telecommunications Act of 1996, identification of a Section 272 affiliate, the

structural, accounting and non-discriminatory compliance requirements, and rules surrounding information sharing and joint marketing.

For BST, beginning in 2003, the on-line version of Affiliate Transactions Training is required of all managers. In addition, on-line Section 272 Training is required for all BST personnel. Live courses are also offered on an "as requested basis" and for certain targeted audiences. BSLD/BCPS Affiliate Transactions Training is required for all personnel with live training repeated on a periodic and "as requested" basis.

Section 272 Compliance Training

The Section 272 Compliance Training (Section 272 Training) for both BST and BSLD/BCPS is administered online and in-person and covers: Section 271 requirements that govern entry into long distance, Section 272 requirements that govern the relationship between BSLD/BCPS and BST, and the importance of compliance with these requirements. Section 272 Training is required of any new BSLD employee and must be completed within 30 days of hire, transfer, or prior to engaging in any BST activity. Records of training are retained and monitored to ensure completion on a timely basis. In addition, live Section 272 Training courses are available on an "as requested" basis for BSLD employees.

**Employee Policy**

Prior to 2003, all BST employees were required to fill out questionnaires to determine their responsibility to obtain the Section 272 Training; only very few employees meeting very stringent criteria were exempt from attending the course. Management plans to update and require the Section 272 Training annually and require all employees to take the Section 272 Training during 2003.

**Supervisor Policy**

We inquired and documented the supervision received by employees responsible for affiliate transactions. BST and BSLD management indicated the FFCG and the BICG oversee compliance with FCC rules and regulations at BST and BSLD, respectively. In addition many business units that enter into affiliate transactions have a compliance officer on staff with direct contact with FFCG and/or BICG. Both BST and BSLD employees responsible for affiliate transactions receive the names of affiliate transaction subject matter experts via the web-based training, the intranet, and various awareness campaigns.

**Interviews**

We obtained a listing of 39 employees who are responsible for developing and recording affiliate transactions in the books of record of various affiliates of BellSouth Corporation. We noted this list of 39 affiliate transaction contacts is provided to all employees attending affiliate transaction training. We judgmentally selected 8 employees and requested that they complete a questionnaire surrounding their awareness of the FCC Rules and Regulations governing affiliate transactions. The employees interviewed had the following job titles: Accounting Manager, Director of Financial Reporting, Comptroller/Specialist, Project Accounting - Processing Manager, Senior Financial Analyst and Part 64 Manager. We interviewed these employees and noted that the

individuals indicated they were aware of these rules and received training with respect to these rules with the following exceptions:

One respondent indicated they were not responsible for the development or recording of affiliate transactions during the engagement period. They indicated they were responsible for Part 64 separations and not affiliate transactions. In certain instances, resolution of an affiliate transaction issue requires Part 64 knowledge; therefore, this respondent was listed as a subject matter expert in our population. However, they are only listed as a subject matter expert as it relates to Part 64. If the issue expands to affiliate transactions, they work with the appropriate individuals in the FFCG to address the issue. The respondent also indicated that they were not provided any reference material but that they knew where to go if an issue of complex subject matter regarding affiliate transactions were to arise.

Another respondent indicated that they were not responsible for the development or recording of affiliate transactions during the engagement period. The respondent indicated they reported income to BST as part of their job duties at one of the non-regulated affiliates. The respondent indicated that even though they were reporting affiliate income, their responsibilities did not require knowledge of affiliate transactions. The respondent indicated that they had not had affiliate transactions training and were not provided any affiliate transactions reference material but that they were supervised by people who were responsible for affiliate transactions and that they knew who to contact should an issue of complex subject matter regarding affiliate transactions arise.

4. We obtained a listing of 34 written agreements, including their corresponding 64 amendments and addendums, for services and for interLATA and exchange access facilities between BST and BSLD which were in effect during the period from June 1, 2002 through February 28, 2003. We also obtained summaries of these agreements, noting names of parties, type of service, price, terms, and conditions. We further noted which agreements were still in effect as of May 23, 2003 and for those agreements which were no longer in effect, indicated the termination date. We identified the following agreements that were terminated prematurely from June 01, 2002 through May 23, 2003.

**Table 5**

| Contracts Prematurely Terminated | Effective Date | Expiration Date | Termination Date |
|---|---|---|---|
| Wavelength Service End-to-End Test Agreement - Phase 2 (Wavelength Agreement) | 09-23-2002 | 04-30-2003 | 03-12-2003 |
| Billing and Collection Service Package Clearinghouse Operating Agreement (Billing and Collection Agreement) | 05-01-2000 | 06-04-2003 | 03-01-2003 |

The Wavelength Agreement was terminated slightly ahead of its scheduled expiration date after both parties agreed that all work had been completed. The Billing and Collection Agreement was superceded by a new agreement that became effective March 1, 2003

We inquired of BST management regarding the provisioning of services without written agreements. They indicated the following: "For services purchased pursuant to tariff, the terms and conditions of the tariffs serve as written agreements. BSLD discloses to the public that it

purchases tariffed services on the BellSouth internet site and at BST's place of business. The terms and conditions set forth in the tariffs have, by operation of law, the same force and effect as a contract." We noted all transactions are conducted under a written contract or tariff.

5. We printed copies of the website postings for all 34 written agreements, including the corresponding 64 amendments included in the list in procedure 4 above. We compared the rates, terms and conditions of services between the web posting and the written agreements provided in Procedure 4 above and noted differences in the following five contracts:

**Table 6**

| No. | Comparison of Written Agreement to Web Posting | Differences |
|---|---|---|
| 1 | The Billing and Collection Service Packaging Clearinghouse Operating Agreement (Terminated) | The execution date on the website is 5/1/00, but the agreement was signed on 6/5/00. |
| 2 | The Billing and Collection Service Packaging Clearinghouse Operating Agreement (Current) | The execution date on the website is 3/1/03, but the agreement was signed on 3/1/03 by one party and on 3/5/03 by the other party. |
| 3 | End to End Test Agreement, Amendment 1 | The execution date on the website is 7/1/97, but the agreement was not signed until 7/10/97 by one party and on 7/11/97 by the other party. |
| 4 | Facility Use Agreement | The execution date on the website is 6/30/97, but the document was signed on 7/28/97 by one party and on 8/12/97 by the other party. Further, the agreement has amendments numbered through 24 but no amendment #2 was located on the web or at the principle place of business. |
| 5 | InterLATA End to End Test Agreement | There are several sections of the web agreement which do not include text from the original agreement. |

For differences 1, 2, 3, and 4, it was noted that the execution date on the website was different than the date the agreements were signed. Management provided this explanation:

> "Agreements between BST and BSLD become effective on the date the second of the signing parties actually signs the agreement. Until both parties sign, there is no final agreement. BSLD posts agreements to the Internet within 10 days from the date of the second signature. The "effective date" shown in the first paragraph of this agreement and on the Internet posting was thus incorrectly shown."

For difference 4, related to exclusion of Amendment 2, BSLD management provided this response:

> "An error was made in numbering the amendments to this agreement with an Amendment 2 being omitted; therefore, there is no Amendment 2 to the Facility Use Agreement."

For difference 5, related to several sections of the web agreement that did not include information included in the original agreement, BSLD management provided this response:

> "This agreement and its amendments pre-date the Contract Manager's ability to scan documents for posting to the Internet. Prior to the scanning of documents for internet posting, electronic copies of the agreement and amendments were provided to the Contract Manager, at which point the electronic copies were converted to a PDF document and electronically sent to the external internet posting contractor to be posted to the BellSouth website. The Contract Manager was given an incorrect electronic version of this agreement and its amendments and, therefore, the documents posted to the Internet were incorrect. Upon discovery of this posting error by PwC, BSLD has taken corrective action to scan the original documents and replace the incorrect version currently posted to the Internet website with the correct (scanned) version of this agreement and its amendments. The correct version of this agreement and its amendments were available at all times at BST for public inspection."

It was also noted that for 5 agreements, signatures were missing and that the agreements stated the signatures were on file. We observed the signatures on file. BSLD management provided this explanation:

> "Although BST attempts to have a copy of the actual signed contract on file at its place of business, and as noted can produce copies of signatures upon request, Paragraph 122 of the FCC's Report and Order in CC Docket No 96-150 does not require this. The paragraph states in part: 'we (the FCC) require the separate affiliate, at a minimum, to provide a detailed written description of the asset or service transferred and the terms and conditions of the transaction on the Internet… We require that the description of the asset or service and the terms and conditions of the transaction should be sufficiently detailed to allow us to evaluate the compliance with our accounting rules. This information must also be available for public inspection at the principal place of business of the BOC.' By making a copy of the actual contract available to the public, BellSouth is in compliance with the requirements set forth by the FCC."

We noted 25 of the agreements were not posted to the website within the required ten-day timeframe. Management indicated that the following late postings were due to the contract/amendment not being presented to Contract Manager - BI&C on a timely basis. Posting was completed within 10 days of Contract Manager's receiving the contract/amendment.

**Table 7**

| Agreement/Amendment – Not Posted to the Website | Execution Date | Post Date |
|---|---|---|
| Facility Use Agreement | 6/14/1999 | 3/25/2003 |
| Coordination Agreement | 2/1/2001 | 3/5/2001 |
| Facility Use Agreement Amendment 1 | 1/15/1999 | 5/1/2001 |
| Facility Use Agreement Amendment 3 | 10/8/1999 | 5/1/2001 |

| Agreement/Amendment – Not Posted to the Website | Execution Date | Post Date |
|---|---|---|
| Facility Use Agreement Amendment 4 | 12/15/1999 | 5/1/2001 |
| Facility Use Agreement Amendment 5 | 2/13/2000 | 5/1/2001 |
| Facility Use Agreement Amendment 6 | 3/13/2000 | 5/1/2001 |
| Facility Use Agreement Amendment 7 | 3/15/2000 | 5/1/2001 |
| Facility Use Agreement Amendment 8 | 8/15/2000 | 5/1/2001 |
| Facility Use Agreement Amendment 9 | 1/1/2000 | 5/1/2001 |
| Facility Use Agreement Amendment 10 | 11/15/2001 | 5/1/2001 |
| Facility Use Agreement Amendment 11 | 1/15/2001 | 5/1/2001 |
| Facility Use Agreement Amendment 12 | 9/28/2001 | 2/14/2003 |
| Facility Use Agreement Amendment 13 | 10/30/2001 | 2/14/2003 |
| Facility Use Agreement Amendment 14 | 11/5/2001 | 2/14/2003 |
| Facility Use Agreement Amendment 15 | 1/24/2002 | 2/14/2003 |
| Facility Use Agreement Amendment 16 | 2/8/2002 | 2/14/2003 |
| Facility Use Agreement Amendment 17 | 4/22/2002 | 2/14/2003 |
| Facility Use Agreement Amendment 18 | 6/10/2002 | 2/14/2003 |
| Facility Use Agreement Amendment 19 | 7/16/2002 | 2/14/2003 |
| Facility Use Agreement Amendment 20 | 7/17/2002 | 2/14/2003 |
| Facility Use Agreement Amendment 21 | 7/17/2002 | 2/14/2003 |
| Facility Use Agreement Amendment 22 | 9/19/2002 | 2/14/2003 |
| Facility Use Agreement Amendment 23 | 10/15/2002 | 2/14/2003 |
| Facility Use Agreement Amendment 24 | 10/15/2002 | 2/14/2003 |

Management indicated that due to the advanced age of the following agreements, BSLD is unable to provide documentation as to the exact posting date. Management estimated the latest date upon which the agreement might have been posted which is indicated in the "Posted By" column below.

**Table 8**

| Posting Dates Unavailable | Execution Date | Post Date | Posted By |
|---|---|---|---|
| End to End Test Agreement | 6/12/1997 | Unknown | 12/17/1998 |
| End to End Test Agreement Amendment 1 | 7/1/1997 | Unknown | 12/17/1998 |
| End to End Test Agreement Amendment 2 | 9/16/1997 | Unknown | 12/17/1998 |
| End to End Test Agreement Amendment 3 | 12/17/1997 | Unknown | 12/17/1998 |
| End to End Test Agreement Amendment 4 | 4/24/1998 | Unknown | 12/17/1998 |
| End to End Test Agreement Amendment 5 | 6/29/1998 | Unknown | 12/17/1998 |
| Facility Use Agreement | 6/30/1997 | Unknown | 11/7/1997 |

BSLD management indicated that due to the advanced age of the following agreement, they were unable to provide documentation as to the exact posting date, however PwC noted a request was sent to the posting vendor requesting that the posting for this contract be completed by 4/26/98. This is within the 10-day period.

**Table 9**

| Agreement/Amendment | Execution Date | Post Date |
|---|---|---|
| Contract Provisions for BSLD Daily Usage File | 4/16/1998 | Unknown |

Management indicated that the posting date of 6/22/00 for the following agreement has been located on the internal BSLD 272 Internet Postings Tracking Log. We were not provided this log upon initial visit; rather it was provided subsequent to the request for management response.

**Table 10**

| Agreement/Amendment | Execution Date | Post Date |
|---|---|---|
| InterLATA End to End Test Agreement | 6/13/2000 | Unknown |

For the following two agreements, we were unable to review original evidence of the posting date indicated below. Management indicated that the posting date was within 10 days, after confirming with the external Internet posting vendor.

**Table 11**

| Agreement/Amendment | Execution Date | Post Date |
|---|---|---|
| InterLATA End to End Test Agreement Amendment 1 | 9/22/2000 | 9/26/2000 |
| Agreement for the Provision of National Directory Assistance Services | 7/31/2000 | 8/8/2000 |

**Compliance with Accounting Rules**

We reviewed the web postings for the following items to allow evaluation for compliance with accounting rules (CC Docket No. 96-150, Report and Order, para 122):

- Frequency of recurring transactions
- The approximate date of completed transactions
- Type of personnel assigned to the project
- The level of expertise of such personnel (including the associated rate per service unit)
- Special equipment
- Whether they stated if the hourly rate is a fully loaded rate
- Whether or not the rate includes the cost of materials and all direct and indirect miscellaneous and overhead costs for goods and services priced at Fully Distributed Cost (FDC).

We noted that the following 21 agreements did not contain the required disclosures of whether the hourly rate is a fully loaded rate, and whether or not that rate includes the cost of materials and all direct or indirect miscellaneous and overhead costs for goods and services provided at FDC:

1. Billing and Collection Service Package Clearinghouse Operating Agreement
2. Coordination Agreement

3. Labor Contract Negotiations and Support Services Agreement
4. Regulatory, Legal, and Other Services Agreement
5. Slamming Investigation and Reporting Services Agreement
6. Facility Use Agreement
7. Wavelength Service End-To-End Test Agreement
8. Network Maintenance Center & Network Management Center Agreement
9. Wavelength Service End-To-End Test Agreement – Phase 2
10. Affiliate Long Distance Service Agreement
11. Contract Provision for Daily Usage File
12. End-To-End Test Agreement
13. Facility Use Agreement
14. InterLATA End-To-End Test Agreement
15. International Call Reports Agreement
16. IntraLATA Toll Resale Agreement
17. Local Carrier Services Center Services Agreement
18. Marketing and Sales Agreement
19. Subscription Fraud Information Sharing Agreement
20. Trouble Reporting and Referral Services Agreement for Toll Free Services
21. Workcenter Interface Agreement

We inquired of BST Management regarding the missing disclosures and received the following response:

> "The hourly rate pricing elements disclosed in the above referenced agreements are based on the Fair Market Value (FMV) of the services. In the Code of Federal Regulations, Part 32.27(d), the FCC states, 'In the case of transactions for assets and services subject to Section 272, a BOC may record such transactions at prevailing price regardless of whether the 25 percent threshold has been satisfied.' The genesis of this federal rule is Docket No. 96-150, Report and Order at paragraph 137 that states 'Because the rates for services subject to section 272 must be made generally available to both affiliates and third parties, we adopt a rebuttable presumption that these rates represent prevailing company prices. Accordingly, products and services subject to Section 272 need not meet the 50 percent (now 25%) threshold in order for a BOC to record the transaction involving such products and services at prevailing price.' Hence, tariff services at the tariff rate and contract services such as those listed above are provided by BST, the BOC, to BSLD without regard to consideration of Fully Distributed Cost (FDC) as the Part 32.27(d) Rule specifically eliminates FDC from consideration for these services. Therefore, FDC elements such as materials, full loading and overhead whether direct or indirect are not tracked for these services as there are no regulatory or business reasons to do so. Although the Rule does not make exception for any service between BST and its 272 affiliate, FDC is tracked for joint marketing in keeping with the spirit of the Order that set the affiliate transaction rule for 272 transactions in place."

6. We obtained a listing and amounts of all services rendered by month to BSLD by BST for the period from June 1, 2002 through February 28, 2003. BST management indicated that the only service made available to BSLD and not made available to third parties was Joint Marketing Services.

a. From the population of 9 monthly joint marketing invoices, we obtained the Fair Market Value (FMV) of the joint marketing services and obtained the journal entries to determine whether these transactions were recorded in the books of BST in accordance with the affiliate transactions rules. We noted FMV was determined through an independent valuation, performed by Boston Consulting Group, based on existing arms-length sales agency relationships. We tested all invoices.

   We noted that none of the 9 invoices contained unit charges. BST billed joint marketing to BSLD at FMV for the months of June 2002 – December 2002. In order to record revenue for this service in accordance with affiliate transactions rules of the Commission, at the higher of FMV or Fully Distributed Cost (FDC), BST recorded an adjusting journal entry at year-end. We noted, no additional true-up billings were issued. For January and February 2003, we noted BST had again billed BSLD the FMV for joint marketing service. BST management indicated that these charges are adjusted to the higher of FDC or FMV only at year-end and therefore January and February 2003 will not be adjusted in the books of BST until December 2003.

   For each of the 9 invoices, we compared the amount BSLD recorded in its books to the amount BSLD paid to BST and noted no differences.

b. We obtained a listing of all services provided by BST to BSLD that were also provided to non-affiliated third parties as well as the corresponding charges for these services. From a population of 7,345 invoices, we randomly selected a statistically valid sample of 100 invoices. We obtained the invoices, checks, and amounts recorded in the BST and BSLD general ledgers for the 100 sampled items. We compared the amounts recorded for the sampled services in the books of BST with the amounts recorded for the sampled services in the books of BSLD, and with amounts BSLD paid to BST for the sampled services. We noted the following results:

   - For 95 of the 100 transactions, the amounts recorded in the books of BST, the amounts recorded in the books of BSLD, and the amounts BSLD paid BST were the same.
   - For 1 of the 100 transactions, BSLD recorded and paid $2.21 less than the billed amount due to a dispute.
   - For 1 of the 100 transactions, BSLD recorded and paid $0.10 more than the invoiced amount because a past due amount was also paid.
   - For 1 of the 100 transactions, BSLD did not record an amount or a payment for the $64.37 invoiced amount because the total amount due on the billing telephone number was a credit balance.
   - For 1 of the 100 transactions BSLD recorded the same amount recorded in the books of BST; however, BSLD paid $609.97 more than the invoice because a past due amount was also paid.
   - For 1 of the 100 transactions BSLD recorded the same amount recorded in the books of BST; however, BSLD paid $37.76 less than the invoiced amount because there was a credit balance remaining from a prior month.

7. We requested and obtained from BSLD management a listing of all services rendered by month to BST by BSLD during the period from June 1, 2002 through February 28, 2003. BSLD

management indicated that only one service, Corporate Communications, was provided by BSLD to BST during that period. BSLD management indicated that Corporate Communications involves BSLD providing three types of services to BST: interstate access, intrastate access, and international access. Management indicated that all services encompassed under the Corporate Communications offering are priced pursuant to the Affiliate Long Distance Service Agreement (Service Agreement) obtained in Objective V/VI, Procedure 4. The rates for the Service Agreement were determined by a FMV analysis performed by an independent valuation consultant.

We requested and obtained from BSLD management the "Fair Market Value Study of Corporate Communication Services for BellSouth Long Distance" (the "FMV Study") prepared by an independent valuation consultant. We noted that the study compares the price that BSLD charges BST and its other affiliates for communication services to the prices charged by other carriers based on tariff filings with various regulatory bodies. By using these different rates, a corresponding FMV range was developed. The independent valuation consultant concluded, "the prices that BSLD charged for the corporate communication service transactions reviewed in this report met the FMV standard." From a population of 38 rates included in the FMV Study, we judgmentally selected 14 and compared them to the Service Agreement, noting no differences.

To determine whether these services were recorded in the books of BST in accordance with the affiliate transactions rules, we requested unit charges to compare to tariff, prevailing market price (PMP), fully distributed cost (FDC) or fair market value (FMV) rates, as appropriate. We requested a listing of all corporate communications invoices billed by BSLD to BST for each month from June 1, 2002 to February 28, 2003. From this listing of 5,548 invoices, we selected a random sample of 100 items.

After reviewing our sample, BSLD management indicated a significant number of zero accounts (2,791 items) and accounts for BellSouth affiliates other than BST (non-BST affiliates) were present and that there were no services rendered to BST for these items. BSLD management explained that since our sample was selected from the invoice register, both active and inactive accounts were included in the population. Further, inactive accounts can be associated with zero balances since they represent old accounts or accounts never activated. Invoices for accounts with zero-dollar balances are not sent to customers. It was also indicated that a billing system consolidation for all affiliates subscribing to corporate communications caused a significant number of affiliate billing errors because the affiliate customer's previous telecommunications provider had significant inaccuracies in the previous provider records. To correct the problem, BSLD moved affiliates to new accounts; this created excessive inactive zero balance accounts. BSLD management indicated that these billing errors were restricted to affiliates. In October 2001, BSLD management began the efforts to correct the billing errors, which impacted records from periods prior to October 2001 through December 2002. Management stated that BSLD successfully corrected these billing inaccuracies by December of 2002.

From that same population of 5,548 invoices, we randomly selected additional invoices in order to obtain valid selections and replace zero and non-BST selections. This selection process resulted in a statistically valid sample of 118 invoices, including the valid selections in our first sample. We requested and obtained copies of the selected invoices and checks.

For the sample of 118 invoices selected, we noted that:

117 of the invoices included interstate charges
98 of the invoices included intrastate charges
16 of the invoices included international charges

Testing of Interstate Charges

We noted that the 117 invoices related to interstate charges included a summary of total hours, minutes and seconds billed (collectively referred to as "total time billed") and the corresponding charges. We tested all interstate charges. In order to test the unit charges for interstate calls, we calculated the average rate per minute for each invoice selected (the "average rates") by dividing the total interstate charges included on the bill by the total time billed. We compared the average rates calculated to the rate published in the Service Agreement. We noted no differences for 98 of the invoices. We noted that in 19 of the 117 invoices selected, the average rates we calculated were different from the amounts in the Service Agreement. For the interstate items selected the differences ranged from $0.01 to $0.12.

We inquired of BSLD management who indicated that the reason for the variances was the fact that calls are billed using minimum billing increments (i.e. minimum of 18 seconds and 6 second increments thereafter). These minimum billing increments cause the average rates to be higher than the rates in the Service Agreement. We noted the minimum billing increments were published in the Service Agreement.

We multiplied the total time billed by the published rate in the Service Agreement to compute the total charges that would have been billed if no minimum incremental billing existed. We compared this total amount with the total amount actually billed for each of the invoices sampled, noting an aggregate difference of $1,832.44. This difference represents 0.66% of the total billings sampled, which totaled $276,115.69.

Testing of Intrastate Charges

We noted that the 98 invoices related to intrastate services were comprised of 127 separate intrastate charges and included a summary of total hours, minutes and seconds billed (collectively referred to as "total time billed") related to those charges. We tested all intrastate charges. In order to test the unit charges for intrastate calls, we obtained the intrastate call details and we calculated the average rate per minute (the "average rates") for each product and each state on the invoice selected. The average rate was calculated by dividing the total intrastate charges for each product and state included on the bill by the total time billed for each product and state. We compared the average rates calculated to the rate published in the Service Agreement. For 105 of the charges, we noted no differences. We noted that in 22 of the 127 selected items from the 98 invoices, the average rates we calculated were different from the amount in the Service Agreement. For the intrastate items selected the differences ranged from $0.01 to $0.09.

We inquired of BSLD management who indicated that the reason for the variances was the fact that calls are billed using minimum billing increments (i.e. minimum of 18 seconds and 6 second increments thereafter). These minimum billing increments have the affect of causing the average rates to be higher than the rates in the Service Agreement. We noted the minimum billing increments were published in the Service Agreement.

We multiplied the total time billed for each product and state by the published rate in the Service Agreement to compute the total charges that would have been billed if no minimum incremental billing existed. We compared this total amount with the total amount actually billed for each of the invoices sampled, noting an aggregate difference of $1,076.94. This difference represents 0.69% of the total billings sampled of $155,255.86.

Testing of International Charges:
We noted that the 16 invoices related to international charges included a summary of total hours, minutes and seconds billed (collectively referred to as "total time billed") and the corresponding charges. BSLD management indicated they could provide us with call details for calls made to only 20 of the 30 countries to which calls were made during the test period. This limitation was due to system complexities involved in gathering call detail records for calls made to/from certain countries. Calls made to those 20 countries were included on only three of the 16 selected invoices. We obtained the call details, which included any calls made to any of the 20 different countries included in the three invoices. For the entire population of 180 calls, we utilized the call details and billing information and calculated the rate per minute for each call. We compared the rates calculated to the rate published in the Service Agreement, noting numerous errors. We inquired of management who indicated that the international billing increments listed below in the Service Agreement were transposed. The Service Agreement calls for an initial increment of 30 seconds with additional increments of 1 minute. Management indicated the initial increment should be 1 minute with additional increments of 30 seconds.

After modifying the increments utilized in the calculations in our testing, we noted no differences between the calculated international rates and the rates published in the Service Agreement. We noted Amendment # 2 to the Service Agreement was filed on September 16, 2003 to correct the discrepancy related to time increments.

Subsequent to the completion of our testing, BSLD management provided additional data pertaining to international charges; no testing was performed on this data.

Comparison Results: For our sample of 118 invoices, we compared the amounts BST has recorded for Corporate Communications in its books to the amount BST has paid BSLD, noting the following:

- For 61 of the 118 invoices, we noted no differences.

- For 16 of the 118 invoices, BSLD management indicated the selected accounts had an overall credit balance; therefore there were no payments due. We noted that current bills only decreased the credit balances.

- For 18 of the 118 invoices, BSLD management indicated the selected accounts were transferred or consolidated into other accounts and subsequent payments were made to the new accounts so that the account is current. We were unable to compare the invoiced amount specifically to the amount BST paid.

- For 2 of the 118 invoices, BSLD management indicated the selected accounts were being disputed by BST and after the research was completed the charges were moved to the correct accounts. We were unable to compare the invoiced amount to the amount BST paid.

- For 2 of the 118 invoices, BSLD management indicated the selected accounts were supposed to be transferred to other accounts but because of a keying error, the services were not moved until July 2003. We were unable to compare the invoiced amount specifically to the amount BST paid.

- For 19 of the 118 invoices BSLD management indicated the selected accounts were subsequently paid, but BST was unable to provide us with copies of the payments because they were spread out over several months. Each of these accounts is currently up to date. We were unable to compare the invoiced amount specifically to the amount BST paid.

8. We requested and obtained from BSLD management the balance sheet and detailed listing of fixed assets for BSLD as of February 28, 2003. We performed the procedures indicated for Objective II, procedure 2 of the GSP, which included, but was not limited to: a) agreeing the amounts from the balance sheet to the detailed listing and b) reporting the type of information included on the detailed listing.

   We requested and obtained from BSLD management a listing of items purchased from BST and obtained the book value of those items. BSLD management indicated the assets purchased from BST could be categorized under three headings: collocation, BTAC testing services, and the non-recurring portion of tariffed circuit charges. For the asset categories noted above, we performed the following procedures:

   Collocation Charges
   We noted BSLD's detailed listing of fixed assets included capitalized collocation charges that were a result of costs incurred to prepare a BST central office for occupancy by BSLD equipment. From a population of four collocation charges we selected all four charges to test. We requested and obtained from BSLD management invoices to support the amounts recorded on the books and records. We compared the invoices to the amounts recorded and noted no differences.

   BTAC Testing
   We noted BSLD's detailed listing of fixed assets included capitalized charges related to both BTAC testing services and the non-recurring portion of tariffed circuit charges. Further discussion with BSLD management indicated that the BTAC testing services were coded as fixed assets in error. BSLD management also indicated that a journal entry to expense these items was recorded in April 2003. We reviewed the journal entry recorded and noted that the net book value of the items expensed through the adjusting entry, $76,514, differed from the detailed fixed asset listing by $1,132. Management indicated this difference related to the depreciation incurred between February 28, 2003 and April 3, 2003 related to the assets.

   Circuit Charges
   We also noted that BSLD's detailed listing of fixed assets included capitalized charges for the non-recurring portion of tariffed circuit charges. Management indicated that an accounting policy change was made in the first quarter 2002, and at that time these charges should have been

expensed. However, management indicated the entry to expense these items was not recorded until April 2003. We reviewed the journal entry recorded and noted that the net book value of the items expensed through the adjusting entry, $1,276,958, differed from the detailed fixed asset listing by $91,049. Management indicated that this difference related to the depreciation incurred between February 28, 2003 and April 3, 2003 related to the assets.

We requested from BST management a listing of items sold by BST to BSLD, including the FMV and net book cost of those items. BST management stated that it did not sell or transfer assets to BSLD. After receiving the information noted above from BSLD management, we again requested a listing of fixed assets sold to BSLD, specifically requesting collocation, BTAC testing and circuit charges along with their fair market values and net book values. BST management indicated those items are not considered assets by BST. They also indicated that due to the fact that these services are tariffed, the Company is not required to determine an FMV for those items and, therefore, FMVs for those items were not provided.

We requested and obtained from BSLD management a listing of all items purchased from affiliates other than BST and obtained the book value of those items. We noted BSLD's listing contained 29 entries with a current value of approximately $779,000. Management of the affiliate listed (BellSouth Communication Systems) confirmed that none of the items purchased from them were originally obtained from BST. BSLD management confirmed there were no items transferred from another affiliate.

For the items purchased from BST since February 8, 1996, we inquired of management as to how BST made an equal opportunity available to unaffiliated entities to obtain ownership of the facilities. BST management indicated that all items provided to BSLD, including collocation, BTAC testing services, and the non-recurring portion of tariff circuit charges, are made available to unaffiliated entities through the BST website and are provided on a non-discriminatory basis to all carriers upon the execution of an appropriate agreement.

9. We requested from BST management a list of assets and/or services purchased by BSLD priced pursuant to Section 252(e) or Section 252(f). BST management indicated that "...BellSouth Long Distance, Inc. ("BSLD") and BellSouth Carrier Professional Services, Inc. ("BCPS") have not purchased any services or assets from BST that are priced pursuant to Section 252(e) or Section 252(f) of the Telecommunications Act of 1996 ("1996 Act")."

10. We inquired of BST Management as to whether any part of BST's Official Services network was transferred or sold to BSLD at any time. BST management indicated that BST has not, at any time, transferred or sold any part of the Official Services network to BSLD.

**Objective VII: Determine whether or not the Bell Operating Company has discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards.**

1. We requested from BST the procurement awards made to the Section 272 affiliate during the period June 1, 2002 through February 28, 2003. Management indicated that BST had not made any sourcing/procurement awards to BSLD. They also indicated that all sourcing/procurement awards are required to be made through Supply Chain Services (SCS), a separate organization within BellSouth Corporation. Management indicated that during the period June 1, 2002 through February 28, 2003, SCS had not made a sourcing/procurement award to BSLD either.

2. We obtained a list of all goods (including software), services, facilities and customer network services information, (excluding CPNI as defined in Section 222(f)(1) of the Communications Act of 1934, as amended, and exchange access services and facilities (inspected in Objective IX) made available to the Section 272 Affiliate by BST. For the entire population of 58 items, we inquired of management as to the existence of the media used by BST to inform unaffiliated entities of the availability of the same goods, services, facilities, and information at the same price, and on the same terms and conditions. For the 58 items, selected we inspected the appropriate media and noted the following media are used to inform carriers of such items:

   - BellSouth's website at www.interconnection.bellsouth.com
   - Tariffs filed with Federal and State Regulatory Authorities
   - BSLD contracts posted at www.bellsouthcorp.com/policy/transactions
   - Account Teams for wholesale customers. Every Interconnection Services affiliated and non-affiliated customer has assigned Account Executives for Interconnection Services.
   - An ongoing newsletter mailed to customers and posted on www.interconnection.bellsouth.com
   - BellSouth's general brochure used mainly at industry trade shows.

3. Using the 58 goods (including software), services, facilities and customer network services listed in Procedure 2 above, we obtained a list from BST of all unaffiliated entities who have purchased the same goods as BSLD during the period from June 1, 2002 through February 28, 2003. These services were segregated into two groups; services billed from Carrier Access Billing System (CABS) and services billed from Customer Record Information System (CRIS).

   For the services billed from CABS, which includes Billing and Collections, Exchange Access, and InterLATA Services and Facilities, management indicated that approximately $47.8 million was purchased by BSLD and $1.7 billion was purchased by unaffiliated entities. For the services billed from CRIS, which included Telephone Exchange, management indicated that $890,000 was purchased by BSLD and $7.9 billion was purchased by unaffiliated entities.

From a population of 6,572 CABS and CRIS products and services by month, we selected a statistically valid sample of 100 items to test. Our sample yielded 59 CABS items and 41 CRIS items which management indicated as services made available to both parties. From our sampled items we obtained all BSLD billed items and the unaffiliated entity's billed items. We selected one BSLD billed item and one unaffiliated billed item to compare rates. The billed items were for Monthly Recurring Charges (MRCs), Other Credits & Charges (OCCs) and Usage charges (Usage).

**CABS Billing Items**

To identify similar CABS services billed to BSLD and non-affiliates, the following criteria were used:

- MRCs - State, Basic Class of Service, USOC and Bill Date,
- OCCs - State, Basic Class of Service, USOC, Description of OCC and Bill Date, and
- Usage - State, Basic Class of Service, Rate Category, Rate Element, Jurisdiction and Bill Date.

We judgmentally selected one non-affiliate for each sampled BSLD billed item. We inspected the billed items and compared the rates charged to BSLD and with those charged to non-affiliates for the same services and noted the following:

- For 52 of the 59 BSLD billed items, we noted no differences.
- For 7 of the 59 BSLD billed items, we noted different rates were charged to non-affiliates.

The following summarizes the 7 rate and billing differences noted above:

- We noted that one non-affiliate customer was charged a Usage fee with a rate and billing amount of $.001177, which is approximately $.001154 more than BSLD. BSLD purchased 1 unit and the non-affiliate purchased 23 units of this USOC.
- We noted that one non-affiliate customer was charged a Monthly Recurring Charge with a rate of $650 more than BSLD.
- We noted that one non-affiliate customer was charged a Monthly Recurring Charge with a rate of $600 more than BSLD.
- We noted that one non-affiliate customer was charged a Monthly Recurring Charge with a rate of $320 less than BSLD.
- We noted that one non-affiliate customer was charged an Other Charge or Credit that was $4.12 less than BSLD.
- We noted that one non-affiliate customer was charged an Other Charge or Credit that was $.09 more than BSLD.
- We noted that one non-affiliate customer was charged an Other Charge or Credit that was $10.20 less than BSLD.

**CRIS Billing Items**

To identify similar CRIS services billed to BSLD and non-affiliates, the following criteria were used:

USOC's - State, Bill Date, and Billing Telephone Number (BTN)

We judgmentally selected one non-affiliate for each sampled BSLD billed item. We inspected the billed items and compared the rates charged to BSLD and with those charged to non-affiliates for the same services and noted no differences in any of the 41 items selected.

We requested and obtained from management the check copies, wire transfers and, if necessary, summaries of invoiced amounts for the items selected above. We compared the amounts paid to the amounts recorded above, noting the following 14 differences:

- For 7 of the 14 differences noted above, no payment was received as noted below:
  - One item was an instance where the current charges had not been paid
  - Six items were instances where the final bill was a credit balance

- For 6 of the 14 differences noted above, BSLD paid BST less than the current charges:
  - For 5 of the 6 items, BSLD paid BST less than the current charges due to disputed amounts.
  - For 1 of the 6 items, BSLD paid BST $79.39 less than the current charges of $207.66.

- For 1 of the 14 differences noted above, BSLD paid $29,344.69 more than the current charges of $25,655.74. However we noted that this satisfied the bill in total due to previous charges carried forward.

4. We inquired of management regarding how BST disseminates information about network changes, the establishment or adoption of new network standards, and the availability of new network services to the Section 272 affiliate and to unaffiliated entities. Management indicated all Network Disclosures, whether short term or normal interval, are posted on BellSouth's publicly accessible website located at: www.interconnection.bellsouth.com/notifications/index.html. Network Change Notices are initiated by BellSouth's network or technical personnel who are involved with modifications to the network when there are interoperability impacts.

   Prior to adopting a new standard into BellSouth's network, BellSouth will disseminate this information to all interconnecting carriers through the Network Change Notice process. When new standards are introduced, it is often in conjunction with new services. After Network Services makes a decision that a change needs to be made in the BellSouth Network, Network Services notifies Interconnection Services of the change by sending, via email, a completed Notice of Network Change template. There are four standard templates for network changes. These standard templates cover the following types of changes:

   - Central Office Conversions
   - New Services being deployed
   - Changes to Outside Plant (e.g., Copper to Fiber, etc.)

- Tandem Rehomes

Copies of the templates, along with instructions are posted to the BellSouth intranet website at: www.interconnection.bls.com/mktg/downloads/index.html.

The Notice of Network Change template contains the following information:

- Date the Change(s) are to occur
- Location of Change(s)
- Description of Change(s) Planned
- Description of Reasonably Foreseeable Impact of the Planned Change(s)

Interconnection Services reviews the information from Network Services to ensure that all necessary information has been furnished. If so, Interconnection Services initiates an internal review of the Network Disclosure. Departments involved in this review are the original contributor, Federal Regulatory, and the Legal Department. After the review process has been completed, the Network Disclosure is ready for posting to the BellSouth Interconnection Services web site. To ensure the integrity of the Network Disclosure, the document is converted to PDF file. Once converted, Interconnection Services forwards the PDF document to the Interconnection Services web team for posting to the Internet. Network Disclosures can be found on the ICS web site at: http://www.interconnection.bellsouth.com/ notifications. In the event the change to the network is to occur in less than six months, BellSouth will mail to each of its network customers a hard copy of the Network Disclosure. Once the Network Disclosure has been posted to the Interconnection Services website, Interconnection Services sends the following information to Federal Regulatory for filing with the FCC:

- Cover Letter with date Network Disclosure needs to be posted to the FCC's web site.
- Hardcopy of the Network Disclosure.
- Diskette of softcopy of the Network Disclosure.
- If the change is to occur in less than six months, ICS also certifies to the FCC that its wholesale customers were notified by U.S. mail and a copy of the customers' address file is provided.

Federal Regulatory will follow-up to ensure that the Network Disclosures were posted to the FCC's web site. BellSouth Federal Regulatory will notify the FCC if the FCC fails to post such disclosures.

We noted no differences in the manner in which information regarding network changes, establishing or adopting new network standards, and the availability of new network services is disseminated to the Section 272 affiliate and to unaffiliated entities.

5. We obtained and inspected scripts that BellSouth Telecommunications, Inc.'s customer service representatives recite to new customers calling, or visiting service centers, to establish new local telephone service at the following customer acquisition centers: Jackson, MS, Ft. Lauderdale, FL, Charlotte, NC, Louisville, KY and Miami, FL for consumers; Memphis, TN for Small Business; and Jacksonville, FL for Large Business. We noted that the scripts informed the consumers of other providers of long distance along with the Section 272 affiliates. The script heard includes the following statement: "I can read from a list all the companies available for selection, but I'd like to recommend BellSouth Long Distance."

   We inspected the written content of BST's website http://www.bellsouth.com for online ordering of new service. The small business site can be found at http://www.bellsouth.com/smallbusiness. We noted that the website informed the customers of other providers of long distance services along with BSLD.

6. a) The 5 consumer acquisition call centers noted in Procedure 5 above represent all of the consumer call centers that may respond to requests for new service. The Small Business Services Call Center represents 1 of the 19 call centers that may respond to requests for new services. The BellSouth Business Systems Large Business Call Center represents 1 of 2 call centers that may respond to requests for new services from large businesses. We selected the large and small business call centers for testing using a random number generator.

   We observed and listened into customers calling from Alabama, Florida, Georgia, Kentucky Louisiana, Mississippi, North Carolina, South Carolina and Tennessee, including one multilingual call center.

   For each selected location, we listened to BST customer service representatives who attempted to market the Section 272 affiliate's interLATA service to callers requesting to establish new local telephone service, or move an existing local telephone service. We accepted the first 140 inbound calls that met these criteria.

   For the first 140 inbound callers requesting new local telephone service, or movement of existing local telephone service, to whom the sales representatives attempted to market the Section 272 affiliate's interLATA service, we listened to the conversations between customer service representatives and inbound callers. Specifically, we noted whether the customer service representative steered the customer toward the Section 272 affiliate, whether the customer was informed of the list of other providers, and whether the customer was informed of their right to choose a provider. For the purposes of this test, a customer was considered to be steered toward the 272 affiliate if the customer service representative did not ensure the caller was appropriately informed of their right to choose a long distance provider in a timely manner during the call.

**Customer Acquisition Center**

We spent 20 days observing calls made to the following call centers (with the following results):

**Table 12**

| Location | Call Center | Number of Calls | Steered | Did Not Inform Caller | Did Not Read Script | Total Exception Calls |
|---|---|---|---|---|---|---|
| Jackson, MS | Consumer | 20 | 2 | 2 | 2 | 2 |
| Ft. Lauderdale, FL | Consumer | 20 | 0 | 2 | 2 | 2 |
| Charlotte, NC | Consumer | 20 | 0 | 0 | 0 | 0 |
| Louisville, KY | Consumer | 20 | 0 | 4 | 4 | 4 |
| Miami, FL | Consumer | 20 | 0 | 0 | 0 | 0 |
| Memphis, TN | Small Business | 30 | 6 | 16 | 16 | 16 |
| Jacksonville, FL | Large Business | 10 | 0 | 0 | 0 | 0 |
| Total | | 140 | 8 | 24 | 24 | 24 |

b) We compiled a listing of BST sales and support call centers that might incidentally respond to inbound callers requesting to establish new local telephone service or to move an existing local telephone service. We spent two days observing calls at two different types of call centers, Sales and Support and Repair. We selected five call centers for observation using a random number generator (See table below). We observed and listened into customers calling from Augusta, Charleston, Miami, Birmingham and Jackson.

**Sales and Support and Repair Centers**

**Table 13**

| Call Center Type | Number of Call Centers in Population | Sample Selected | Number of Calls | Exceptions |
|---|---|---|---|---|
| Sales & Support | 18 | Augusta, GA, Charleston, SC and Miami, FL | 60 (20 per city) | 0 |
| Repair | 8 | Birmingham, AL and Jackson, MS | 40 (20 per city) | 0 |
| **Total** | **26** | **5** | **100** | **0** |

To obtain our statistically valid sample of 100 inbound calls that might incidentally respond to inbound callers requesting to establish new local telephone service or to move existing local telephone service, we accepted the first 100 calls received by the customer service representatives (20 per call center).

We listened to the conversations between customer service representatives and inbound callers, specifically, callers requesting to establish new local telephone service or to move existing local telephone service. We noted one instance in which a customer called the Sales and Support call center requesting to re-establish local telephone service with BST. The customer service representative transferred the customer to the appropriate business office. No other instances of this type of request were noted.

7. We obtained a listing of all BellSouth Telecommunication Inc.'s inbound telemarketing centers in which representatives of third-party contractors might incidentally respond to inbound callers requesting to establish new local telephone service or to move existing local telephone service. We spent two days observing calls at third party contractor call centers. We observed and listened into customers calling into the following centers:

**Thirty Party Contractor Call Centers**

**Table 14**

| Call Center Type | Number of Call Centers in Population | Telemarketing Center | Number of Calls | Exceptions |
|---|---|---|---|---|
| Inbound Product Support / Inbound Winback BSLD | 1 | Faneuil | 25 | 0 |
| Inbound Product Support | 1 | TeleTech | 25 | 0 |
| Inbound Acquisition | 1 | Aegis | 50 | 0 |
| **Total** | **3** | | **100** | **0** |

To obtain our statistically valid sample of 100 inbound calls in which representatives of third-party contractors might incidentally respond to inbound callers requesting to establish new local telephone service or to move existing local telephone service, we accepted the first 100 calls received by the customer service representatives.

We listened to the conversations between customer service representatives and inbound callers, specifically callers requesting to establish new local telephone service or to move an existing local telephone service. We noted one instance in which a caller requested to establish new local telephone service. The customer service representative transferred the caller to the appropriate business office. We noted no other instances of this type of request.

8. We requested from management written policies and procedures utilized by BST and third party contractors hired for inbound telemarketing to ensure compliance with Section 272 regulations. Management provided limited written procedures, mainly pertaining to training. Therefore, we visited certain call centers, interviewed personnel, and observed them performing their duties to ascertain the controls in place for inbound telemarketing. The following compares the controls we noted for inbound acquisition between BST and third party contractor call centers:

**Internal Controls Comparison with Third Party Contractor Locations**

**Table 15**

| Control Category | BST | Third Party Contractor |
|---|---|---|
| Training- BST certified trainers are required to train customer service representatives (CSR) prior to commencing work. | ▪ Initial Training (8 weeks) – prior to commencing work<br>▪ Fast Track (2 weeks) – highly monitored on-the-job training<br>▪ CSRs receive informal and formal feedback from their coaches as needed<br>▪ Coaches receive continuous training and updates | ▪ Initial Training - BST training is modified and taught by certified BST trainers<br>▪ CSRs receive feedback from Coaches from observations performed |
| Systems - The CSRs must login and utilize specific computer systems when negotiating with the customer. | ▪ Regional Negotiation System (RNS) is utilized by CSRs to perform all aspects of customer service. RNS contains all the customer's information, including history, products and services subscribed, current billing info, etc. | ▪ Vendor Negotiation System (VNS) is a sub-section of RNS and contains only information pertinent to the current call and not any additional customer information<br>▪ VNS is driven by product code or call type, which determines the script utilized |
| Scripts - CSRs are required to read scripts when negotiating with customers in order to comply with regulations. | ▪ Every CSR is required to maintain and utilize the BSLD Mandatory Offer Scripts | ▪ Once the CSR inputs the caller's telephone number into VNS, the required script pops up on the screen |
| Call Observation- Calls are randomly monitored and assessed to ensure appropriate customer service and compliance with regulations. | ▪ Supervisors (coaches) observe a minimum of 25 calls per week<br>▪ Center Leader observes a minimum of 25 calls per week (section-wide)<br>▪ Center Leader holds "Triad Meetings" (meeting with CSR, Coach and Center Leader) to provide feedback to both the Coach and CSR regarding performance based on observation | ▪ Third party supervisors observe 2-3 hours of calls per week<br>▪ Vendor Managers and BST Managers observe calls together for 2-3 hours per week. A checklist, that includes a regulatory section, is used to create an average score for the call<br>▪ A separate BST |

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|---|---|---|
| | | department representative at headquarters observes 2-3 hours of calls per week |
| Monitoring- Systems are in place to certify suitable performance and compliance. | ▪ Coaches and Center Leaders record findings during call observations on Observation Feedback Form<br>▪ Coaches provide nightly observation feedback to the Center Leader and Director<br>▪ Coaches maintain a file for each CSR containing performance reports, attendance records, training records, etc. | ▪ Coaches and Vendor Managers record findings during call observations |
| Business Continuity- A plan has been developed to keep operations running when systems fail or are not functioning as intended. | ▪ A business continuity plan has been developed where manual forms are used to take orders when systems fail<br>▪ BST has the ability to re-route calls to alternative call centers, should the need arise | ▪ A business continuity plan has been developed where manual forms are used to take orders when systems fail<br>▪ BST has the ability to re-route calls to alternative third party vendors, should the need arise |
| Compliance- In accordance with FCC requirements, CSRs are required to inform callers of information prior to negotiating a sale. | ▪ Scripts are used by all CSRs.<br>▪ Disciplinary action is taken for non-compliance by CSRs<br>▪ Each rep receives an informal disciplinary action for first offense (in accordance with their union contract)<br>▪ Any subsequent non-compliance actions are noted by the Center Leader and tracked in the Centralized Personnel Services Group Database (CPSG)<br>▪ Third Party Verifiers (TPV) are used to close re-acquisition orders and a code is required by the software to close a sale | ▪ Scripts are used by all CSRs<br>▪ Disciplinary action is taken for non-compliance by CSRs<br>▪ A TPV listing is agreed to the Vendor Call Listing; the Vendor is only paid for the verified calls |

9. We requested and obtained from management the contracts between BST and the third party vendors hired for inbound telemarketing. PwC reviewed the three third party vendor contacts and noted the following controls relating to Section 272 contained in the contracts:

**Table 16**

| Control Category | AEGIS | TeleTech | Faneuil |
|---|---|---|---|
| Training- BST certified trainers are required to perform training to customer service representatives (CSR) prior to commencing work. | ▪ Buyer (BST) provides start-up training and/or methods and procedures<br>▪ Seller shall develop all training, and obtain pre-approval from the buyer before conducting formal training for each program | ▪ Buyer may provide start-up training and/or methods and procedures<br>▪ Seller shall develop all training, and obtain pre-approval from the buyer before conducting formal training for each program | ▪ Buyer may provide start-up training and/or methods & procedures, including ordering and background materials as required for each program<br>▪ Seller shall develop all training, with pre-approval by buyer, for all ongoing and organized training programs for inexperienced workers |
| Systems - The CSRs must login and utilize specific computer systems when negotiating with the customer. | • Passwords are required to log into the BellSouth System and their systems<br>• Passwords will not be used for longer than 60 days, are required to include certain characters, and have to be at least six alphanumeric characters | ▪ All contractors and supplier's employees and subcontractors shall have individual IDs for BellSouth computer systems and networks<br>▪ No password shall be used for longer than 60 days, no previously used password shall be reused, and passwords have to be at least six characters in length | ▪ All contractors and supplier's employees and subcontractors shall have individual IDs for BellSouth computer systems and networks<br>▪ No password shall be used for longer than 60 days, no previously used password shall be reused, and passwords have to be at least six characters in length |
| Scripts - CSRs are required to read scripts when negotiating with customers in order to comply with regulations. | ▪ Seller will develop initial sales script for sales programs based on program information provided by the buyer<br>▪ Buyer will review and approve all scripts before the program begins and before any changes are implemented | ▪ Seller will develop an initial sales script for sales programs based on program information provided by the buyer<br>▪ The scripts will be reviewed and approved by the buyer before the program begins and before any changes are implemented<br>▪ The buyer shall identify any required verbatim | ▪ Seller will develop an initial sales script, to include Q&A verbiage for overcoming objections, for any assigned program based on the information provided by the Buyer<br>▪ The scripts will be reviewed and pre-approved by the buyer and final approved script materials will be provided to the seller |

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|---|---|---|---|
| | | scripting up front | |
| Call Observation- Calls are randomly monitored and assessed to ensure appropriate customer service and compliance with regulations. | ▪ Buyer requires remote, unassisted, customer contact monitoring capabilities to monitor calls handled in the seller's program<br><br>▪ The buyer may conduct solitary, non-scheduled monitoring sessions | ▪ Buyer will provide seller with an observation form that outlines the quality standards and scoring methodology<br><br>▪ Buyer requires that a valid, random sampling of 18 calls per month, per program will be jointly scored and averaged in order to calculate an overall monthly score for each program | ▪ Seller shall monitor in such a way to attain a representative sampling of calls per representative, per month, per program, to assure quality of service is meeting BellSouth's standard of performance and to communicate to buyer the performance of the calls that are monitored |
| Monitoring- Systems are in place to certify suitable performance and compliance. | ▪ Seller is required to provide feedback and development on a minimum of 12 calls per representative, per month, per program, outside of the joint monitoring sessions | ▪ Seller shall monitor and provide feedback and development on a minimum of 12 calls per representative, per month, per program, outside of the joint monitoring sessions, to further ensure that the quality of service provided is meeting Buyer's standards<br><br>▪ Seller shall report the quality of service monitoring results to the buyer on a weekly basis. For each representative the results include the number of contacts monitored, the quality score for each contact, and a narrative on actions taken as a result of the performance observed | ▪ Buyer requires remote monitoring capabilities to monitor quality of Seller's program. Buyer may also request jointly scheduled monitoring and/or individual non-scheduled monitoring.<br><br>▪ Seller shall provide a representative to monitor all agents calling on each program |
| Business Continuity- BST has the ability to re-route calls to alternative call centers, should the need arise. | ▪ Seller must be financially responsible for using call transfer out and drop capabilities, allowing for calls to be transferred in order to handle the customer contact appropriately | ▪ Seller must be financially responsible for using call transfer out and drop capabilities, allowing for calls to be transferred in order to handle the customer contact appropriately | ▪ Seller must have call transfer out and drop capabilities which allow customer calls to be transferred to other BellSouth Affiliates for any request for billing, sales, service and repair |

| | | | |
|---|---|---|---|
| | ▪ Seller is required to provide a pool of representatives with the appropriate skill levels and qualifications for each program | ▪ Seller is required to provide a pool of representatives with the appropriate skill levels and qualifications for each program | assistance |
| Compliance- In accordance with FCC requirements, CSRs are required to inform callers of information prior to negotiating a sale. | ▪ Long Distance requires third party verification. These calls will originate from both buyer business offices and authorized third party sales agents. Verification consists of validating customer specific data, recording the complete call, retaining and retrieving verification data, and trending and reporting performance | ▪ Long Distance requires third party verification. These calls will originate from both buyer business offices and authorized third party sales agents. Verification consists of validating customer specific data, recording the complete call, retaining and retrieving verification data, and trending and reporting performance | ▪ Seller will verify all initial sales within 24 hours. Orders shall not be processed until fully verified for sale and service order accuracy<br><br>▪ If not verified within 5 business days the order shall be returned to the seller for resolution. The order will not be deemed a sale until verified |
| Reports – BST has the ability to review third party reports. | ▪ Buyer shall design and seller shall provide daily, weekly, monthly, quarterly, and yearly performance reports in a timely manner<br><br>▪ Some of the required reports include performance reports, Invoice Re-Cap reports, and programming hourly itemization | ▪ Buyer shall design and seller shall provide daily, weekly, monthly, quarterly, and yearly performance reports in a very timely manner<br><br>▪ The following are some of the required reports: performance reports, invoice re-cap report, and programming hourly itemization reports | ▪ The parties shall mutually design report formats and provide a spreadsheet for daily, weekly, monthly, and end of the program data reports |

**Objective VIII: The BOC shall not discriminate against any entity in the fulfilment of requests for services.**

1. **Practices and Processes**

We inquired of management regarding the practices and processes BST has in place to fulfill requests for telephone exchange service and exchange access service for the Section 272 Affiliate, the BOC and other affiliates, and non-affiliates in each state where BST has been authorized to provide in region interLATA services.

BellSouth has issued Executive Directive No. 008 (Affiliate Transactions), which is a two page document that summarizes BST's policy governing transactions between BellSouth's entities and references FCC regulations regarding Bellsouth's 272 compliance.

For access transactions, BST utilized procedures recorded in the "Access Service Request Ordering Guide", which is the Industry Support Interface Guideline under ATIS/OBF-ASR-000. This has been written by the Alliance for Telecommunication Industry Solutions (ATIS) on behalf of the ATIS-sponsored Ordering and Billing Forum (OBF). Applicable procedures and systems are the same throughout BST's territory. Tutorials and detailed information can be found at: (www.interconnection.bellsouth.com)

**Internal Controls**

We inquired of management regarding BST's internal controls and procedures designed to implement its duty to provide nondiscriminatory service in fulfilling requests for telephone exchange service and exchange access service. Management indicated that the following internal controls and procedures have been designed to implement its duty to provide nondiscriminatory service:

- BST and BSLD perform extensive training to educate all employees regarding BST's obligation to not discriminate in favor of BSLD in any manner. Specifically, the only method in which BSLD may order or receive telephone exchange service and exchange access service is through BST's mechanized ordering systems that are utilized by all carrier customers. Those systems are:
    - www.cafe.bellsouth.com - Carrier Administrative Front End (CAFÉ) is an ordering system available to all carriers and CLECs to submit orders for transport, data, and switched services. CAFÉ provides Firm Order Confirmation (FOC) and Design Layout Record (DLR). CAFÉ also provides a NC/NCI validation tool, an address validation tool, and a tool to inquire if facilities are available at the DS 1 level.

- www.interconnection.bellsouth.com - This website is available to all carriers and CLECs. It contains information regarding products, guides, ordering systems, tariffs, carrier notifications, and performance reports. It also provides links to additional systems, like CAFÉ, for ordering services and provides practices and processes under the GUIDES section. This website provides provisioning intervals for various services. This site may be personalized by each customer for individual preferences.

- The BellSouth employee body has mandatory training, in both management and non-management ranks, in order to be familiar with the Affiliate Transaction rules.

- In addition to training, there are other means of employee notification and reminders, such as broadcast e-mail and the company employee publication "Connections."

- The BellSouth systems used internally for ordering, provisioning and maintenance are uniform for all orders requested by Interexchange Carriers.

- During the ordering, provisioning and maintenance processes, the sequence in which tasks are handled for each carrier is based on a "first in, first out" method.

- The Goal or index for each process, especially at the non-management level, is measured by "tasks per day" for productivity, not specific to any carrier. An example from the maintenance arena described BellSouth's management expectation that each field Electronic Technician complete 6 tasks per day, regardless of the customer name or location.

- If facilities are not available to complete a carrier's order, the build-out of same is handled in a "first come, first served" manner.

Regarding BST's internal controls and procedures, mentioned above, designed to implement its duty to provide nondiscriminatory service in fulfilling requests for exchange access service, we inspected the following:

- "Connections" and "NewsSource" articles
- Training manual for the "Section 272 Long Distance Training Compliance"
- Interconnection website (www.interconnection.bellsouth.com)

We noted that the "Connections" and "NewsSource" articles and the training manual addressed Section 272 compliance and provided an explanation of each of the requirements. We also noted that the Interconnection website contains guides and tutorials pertaining to the processing of access service transactions.

We obtained from management the "Coordinator's Guide for Section 272 Long Distance Training Compliance and noted that any BST employees who meet any of the following criteria are required to complete the detailed Long Distance Compliance Training:

1. The employee has direct business contact with BSLD employees, BellSouth BSE (the CLEC) employees, or BellSouth Carrier Professional Services, Inc. employees (collectively "BSLD").
2. The employee participates in the provisioning of any non-tariffed service to BSLD.
3. The employee participates in the development of any long distance product or service or in the planning for any aspect of BellSouth's long distance business.
4. Management employees that have customer service responsibilities or support customer service operations.
5. Employees that have subordinates that meet any of the above criteria.

The training provides an overview of the long-distance rules, a list of commonly asked questions and answers, and an electronic means for BST employees to acknowledge that they are aware of the requirements and that they understand that BellSouth's compliance is mandatory.

We also obtained the correspondence dated August 13, 2002 to the Training Coordinators and noted that it explains the purpose for the training and that managers are responsible for being aware of the long distance compliance requirements, and for ensuring that their employees and contractors performing work on behalf of BellSouth understand the implications.

2. We inquired of management regarding the processes and procedures followed by BST to provide information regarding the availability of facilities used in the provision of special access service to its Section 272 Affiliate, the BOC or other BOC affiliates, and non-affiliates. Management indicated that the procedures and processes that BST uses to provide information to all carriers regarding the availability of facilities used in the provision of special access is available through the Internet at cafe.bellsouth.com CAFE (Carrier Administrative Front End) is an ordering system available to all carriers and CLECs to submit orders for transport, data, and switched services. CAFE provides a network code interface validation tool, an address validation tool, and a tool to inquire if facilities are available at the DS 1 level only. When facilities are pending, or not available, a notification is sent back to the wholesale customer advising them of same.

   We inquired of management whether any employees of the Section 272 Affiliate or BOC and/or other BOC affiliates have access to, or have obtained information regarding, special access facilities availability in a manner different from the manner made available to non-affiliates. Management indicated that Section 272 affiliates are treated in the same manner as all carrier customers and have not obtained information regarding special access facilities available in a manner different from the manner made available to non-affiliates.

3. We requested of management written methodology used by BST for documenting time intervals for processing orders, provisioning of service and performing repair and maintenance services for the Section 272 affiliate, the BOC or other BOC affiliates, and non-affiliates for the services described in Procedure 4 below. Management provided documentation describing how BST documents time intervals for processing orders, provisioning of service and performing repair and maintenance services.

   Management indicated that its Service Quality Measurement Plan (SQM) Version 1.05, dated April 26, 2003 is the written methodology that BST follows to document time intervals for processing orders, provisioning of service and performing repair and maintenance services.

Management indicated that from a system perspective, key date and time information is recorded or automatically captured in the source systems from which detailed transactions are extracted and used to compute the various measures and prepare the 272 Performance Measure reports.
The following is a brief description of the methodology that BST follows to document time intervals for processing orders, provisioning of service and performing repair and maintenance services.

**Firm Order Confirmation (FOC) Timeliness**

The reporting of Firm Order Confirmation (FOC) Timeliness is derived from information contained in the underlying Operational Support Systems and specific time stamps applied in those systems based on time stamps obtained from the Exchange Access Control and Tracking ("EXACT") system. We noted that the time stamps applied included the FOC Date and ASR Received Date.

**Order Completion Interval, Average Intervals - Requested/Offered/Installation & Percent Installation Appointments Met**

The reporting of the Order Completion Interval and the Average Intervals - Requested/Offered/Installation are derived from information contained in the underlying Operational Support Systems and specific time stamps applied in those systems. We noted that the time stamps applied included the Application Date, Completion Date, ASR Received Date, Customer Desired Due Date and FOC Due Date. Management indicated that these time stamps are obtained from the EXACT and Service Order Control System ("SOCS"). The Percent Installation Appointments Met metric is not an interval calculation but reports the percentage of installation commitments completed on or before the FOC Due Date. Management indicated that the reporting of the Percent Installation Appointments Met is derived using the Missed Appointment Code as obtained from SOCS.

**Average PIC Change Interval**

The reporting of the Average PIC Change Interval is derived from information contained in the underlying Operational Support Systems and specific time stamps applied in those systems. We noted that the time stamps applied included the Cycle Time Stamp, Positive Acknowledgement Time Stamp, Application Date and Completion Date. Management indicated that these time stamps are obtained from the following systems: Customer Account Record Exchange ("CARE") and SOCS. In addition, we noted that the timestamp from MARCH, an operations system that processes switch-related service orders, was used by BST to determine the PIC Change Completion Date for orders processed in SOCS.

**Trouble Report Rate and Average Repair Interval**

The reporting of the Trouble Report Rate and Average Repair Interval is derived from information contained in the underlying Operational Support Systems, line counts and specific time stamps applied in those systems. We noted that the time interval applied was the Responsible Duration. Management indicated that this time interval and line counts are obtained from the Work Force Administration ("WFA") system.

4. We requested from BST performance data maintained during the engagement period, by month, indicating intervals for processing orders (for initial installation requests, subsequent requests for improvement, upgrades or modifications of service, or repair and maintenance), for provisioning of service, and for performing repair and maintenance services for the Section 272 affiliate, the BOC and other BOC affiliates, and non-affiliates, as separate groups for the following services:

- Telephone exchange services (where any of the separate groups resells local service or intraLATA toll service).
- Exchange access services for DS0, DS1, DS3, feature group D, and OCn (including for the BOC and other BOC affiliate groups, services provided to end users on a retail basis, and services provided to affiliates on a wholesale basis).
- Unbundled network elements (where any of the separate groups purchases unbundled network elements).
- Presubscribed Interexchange Carrier (PIC) change orders for intraLATA toll services and interLATA services.

The reports provided by management under this procedure are included in Attachment A to this report.

We noted that management did not provide telephone exchange service or unbundled network elements performance data. We inquired of management and management indicated the following:

- "No BST affiliate, including BST itself, has purchased UNE's from BST during the period May 24, 2002 through May 23, 2003";

- "Except for intraLATA toll service, BellSouth Long Distance, Inc. ("BSLD") did not purchase any telephone exchange service for resale during the period May 24, 2002 through May 23, 2003. Although BSLD did purchase intraLATA toll service for resale purposes during the period, intraLATA toll was not purchased by any other affiliate or non-affiliate for resale purposes during that period."

- Only one affiliate of BST, BellSouth BSE, Inc. ("BSE"), has purchased Telephone Exchange Services for resale purposes from BST during the period May 24, 2002 through May 23, 2003.

We obtained confirmation from the JOT that since BellSouth's 272 Affiliate does not buy local telephone exchange service for resale and since the amount of local telephone exchange services purchased for resale by "the BOC or BOC affiliates" is very small, the local exchange category is not relevant and therefore BST is not required to provide performance data for local telephone exchange services. Also, while intraLATA toll was purchased by the Section 272 Affiliate, we received confirmation from Management of BST that no other affiliates or non-affiliates purchased intraLATA toll for resale. In addition, we obtained confirmation from the JOT that, due to the small amount of intraLATA toll purchased by the 272 Affiliate (approximately $2.1 million) out of the total amount sold by BST (approximately $336 million annually), and because the Section 272 Affiliate stopped purchasing intraLATA toll for resale from BST through termination of the contract on June 28, 2003, BST is not required to provide performance data for intraLATA toll.

We noted that the performance data provided by management included results for the following performance measures:

- Firm Order Confirmation Timeliness
- Order Completion Interval
- Percent Installation Appointments Met
- Average Intervals – Requested/Offered/Installation
- Trouble Report Rate
- Average Repair Interval
- Average PIC Change Interval

We noted several instances in the performance data where the numerator, denominator and result cells did not contain data. We inquired of management and management indicated that a blank cell and a zero mean the same thing. A blank is populated on the 272 Performance Measurement charts when there is no volume for an entire state and entity combination. A zero is populated when there is at least one record for one of the products under a particular state and entity, but the product in question has no volume.

We noted several instances where the Standard Deviation Column has been "blacked out." Management indicated that the calculating of standard deviation is not required for any rate or proportional type measures. This includes both Trouble Report Rate and Percent Installation Appointments Met.

We examined the performance measurement reports provided by management and compared the reported intervals for the Section 272 affiliate, and BOC and other BOC affiliates groups to the reported intervals for the non-affiliates. We noted certain instances where the reported intervals for fulfillment of requests from non-affiliates took longer than for either the Section 272 Affiliate or the BOC or other BOC affiliates. We inquired of management and management provided the following responses:

Management indicated that the approach utilized in the determination of equity for mean, proportion, and rate measures, within the BellSouth 272 Metrics, is the statistical comparison of affiliate and other affiliate performance data to non-affiliates performance data, based upon the "Modified Z" methodology. These calculations are only considered appropriate for determining equity of performance as long as there are 30 or more observations each for affiliate, other affiliates, and the non-affiliates in the current time period. When the number of observations is less than 30, the sample size is too small to make a reasonable estimation of the true performance of the process.

Regarding the Trouble Report Rate measure, management indicated that equity was determined only where, in addition to a volume of 30 or more circuits in service, there was a numerator of trouble reports greater than zero.

Management also indicated that of the three provisioning measurements in its 272 Service Quality Measurement Plan (SQMP), P-1, Average Installation Interval, P-1A, Average Intervals - Requested/Offered/Installation, and P-2, Percent Installation Appointments Met, only measurement P-2 could be used to assess parity. Management indicated, "Because each IXC customer operates

under a different business plan, one IXC may "buy down" the standard interval routinely while another may always ask for an interval longer than the standard. Therefore, the Average Installation Interval (P-1) and the Average Intervals – Requested/Offered/Installation (P-1A) in BellSouth will only reflect the business decisions of the customer base and cannot be used for a parity comparison. Thus, the only true provisioning measurement for parity purposes is the Average Installation Appointments Met (P-2), which measures whether BellSouth meets the committed due date once it has been determined. BellSouth meets this measurement better than 98% of the time."

Management provided responses where the reported intervals for fulfillment of requests from non-affiliates took longer than for either the Section 272 Affiliate or the BOC or other BOC affiliates for months following Section 271 approval in each state.

**Firm Order Confirmation Timeliness**

- In the state of Florida, for the product DS3 Non-Optical during March and for the product Feature Group D during January and February, the performance measurement data indicates that the Section 272 Affiliate received more timely firm order confirmations than non-affiliates.

  Management indicated that the analysis of data revealed that there were ASRs submitted which should have been Project Managed, but did not contain a Project ID. This resulted in the ASRs being erroneously incorporated into this measure. Project Managed ASRs are excluded from the report as outlined in the SQM. Also identified were ASRs where a subsequent FOC date, rather than the initial FOC date, was used to calculate the FOC interval. The subsequent FOC dates were attributed to BST's customer requesting a copy of the FOC. There were also ASR's, which were delayed due to a BST representative inadvertently holding the ASRs. These occurrences resulted in the inflation of the FOC interval.

- In the state of Georgia, for the product DS3 Non-Optical, during March, the performance measurement data indicates that the Section 272 Affiliate received more timely firm order confirmations than non-affiliates.

  Management indicated that the analysis of data revealed that there were ASRs submitted which should have been Project Managed, but did not contain a Project ID. This resulted in the ASRs being erroneously incorporated into this measure. Project Managed ASRs are excluded from the report as outlined in the SQM. Management also identified ASRs where a subsequent FOC date, rather than the initial FOC date, was used to calculate the FOC interval. The subsequent FOC dates were attributed to BST customers requesting a copy of the FOC. There were also ASR's, which were delayed due to a BST representative inadvertently holding the ASRs. These occurrences resulted in the inflation of the FOC interval.

**Average PIC Change Interval**

- Regarding the entire region during January, the performance measurement data indicates that the Section 272 Affiliate received more timely PIC change intervals than non-affiliates.

Management indicated that the analysis of data revealed that an IXC submitted an abnormally high volume of PIC change requests, with short intervals, for the same NPA's. Due to the high volume, BST's switches were overwhelmed delaying the conversion process. Management also indicated that this was an isolated occurrence and BST has established guidelines for ensuring that future occurrences are minimized by establishing procedures and submitting a Customer Notification letter stating that, "All Customer based conversions or large Customer Accounts exceeding 1000 per NPA, per Day, per Carrier must be referred to a BellSouth Account Team or Equal Access Customer Support Manager for negotiations and Project Management.

**Trouble Report Rate**

We noted the performance measurement data indicated that the Section 272 Affiliate reported a lower trouble report rate than non-affiliates for the following products in the months indicated:

**Table 17**

| State | Product | Months |
|---|---|---|
| Alabama | DS1 | October, December, February, March, April, May |
| Alabama | Feature Group D | April |
| Florida | DS1 | December to May |
| Florida | Feature Group D | December |
| Florida | DS0 | January, February, April, May |
| Georgia | DS1 | June, July, August, September, October, November, January, February, March, May |
| Georgia | Feature Group D | August, October, November, January |
| Kentucky | DS1 | October, November, February, March |
| Louisiana | DS1 | June, July, August, September, October, January, March |
| Louisiana | Feature Group D | August, November, April |
| Mississippi | DS1 | October, December to May |
| North Carolina | DS1 | November, December, February to May |
| South Carolina | DS1 | October, November, January, March, May |
| South Carolina | Feature Group D | December |
| Tennessee | DS1 | February, March, April, May |

We elicited a response from management who reviewed the data for the twelve-month period from June 2002 to May 2003. Management indicated that overall service levels during the period were high and that over a fourth of the trouble tickets received for the months indicated above were No Trouble Found or Tested OK. The following table summarizes the information provided by management to indicate the percentage of:

- Trouble reports received during the months indicated above that had No Trouble Found or Tested OK;
- Trouble free DS0 Access circuit base during the twelve month period;
- Trouble free DS1 Access circuit base during the twelve month period;

- Trouble free Switched Access (Feature Group 'D') circuit base during the twelve month period; and
- Trouble free circuit base for DS0, DS1, DS3 Non-Optical, DS3 Optical and Switched Access (Feature Group 'D') services combined for Affiliates and Non-Affiliates during the twelve month period.

**Table 18**

| State | No Trouble Found/ Tested OK | DS0 Access circuit base | DS1 Access circuit base | Switched Access (Feature Group 'D') | Combined Services |
|---|---|---|---|---|---|
| Alabama | 26% | | 97% | 99.95% | 98.5% |
| Florida | 27% | 96.98% | 97% | 99.91% | 98.6% |
| Georgia | 29% | | 97.5% | 99.8% | 98.4% |
| Kentucky | 26% | | 97.6% | | 98.7% |
| Louisiana | 28% | | 97.1% | 99.9% | 98.6% |
| Mississippi | 27% | | 96.8% | | 98.0% |
| North Carolina | 26% | | 97.5% | | 98.9% |
| South Carolina | 27% | | 97.4% | 99.9% | 98.6% |
| Tennessee | 27% | | 97.6% | | 98.6% |

**Average Repair Interval**

- In the state of Florida, for the product Feature Group D during May, the performance measurement data indicates that the Section 272 Affiliate received more timely repair intervals than non-affiliates.

  Management indicated the out of equity condition was caused by one ticket. The trouble ticket was received on 5/30/03 requesting that BST adjust equipment levels. The ticket was inadvertently held, delaying the level adjustments. This was a holiday week and the organization involved was working with fewer technicians than normal.

  Management also indicated that after reviewing six months of data for Florida's Average Repair Interval, this was the only occurrence of this nature identified, however, the importance of more timely ticket screening has been stressed.

- In the state of Georgia, for the product DS1 during December and May, the performance measurement data indicates that the Section 272 Affiliate received more timely repair intervals than non-affiliates.

  Management indicated the analysis of the data revealed that the small difference in duration between the Non-Affiliates and Other-Affiliates was attributed to Cut, Wet, or Damaged Cables/Fiber Facilities.

5. Using a random sampling method, we selected the state of Louisiana and the month of February 2003 for which to perform the metric replications. For the selected state and month, we obtained the related underlying performance metric data files from management. We also obtained, from management, the BellSouth Service Quality Measurement Plan (SQM), which contains business rules used to calculate the metrics stated in Procedure 4. We applied these business rules to all stages of the metric calculation process, including definitions, exclusions, calculations and reporting structure. The SQM contains business rules for the following services:

- Special Access,
- Switched Access, and
- Resale.

Because telephone exchange services (i.e., resale) were not required as a result of Procedure 4, we replicated the metrics per the business rules contained in the SQM only as they applied to special access and switched access. We independently developed, based on our review of the business rules for the calculation of the performance measures, program code to apply the algorithms and calculation criteria for the replication of the performance measures to the underlying performance metric data we obtained. Using our independently developed program code, we replicated the numerator, denominator and result for each of the performance measures for the selected state and month. We performed the performance measure replications for each of the service types (i.e., DS0, DS1, etc.) and reporting segmentations (i.e., 272 affiliate, other affiliates and non affiliates.) as required by the procedures.

We noted no differences between our results and those reported by management based on our independent replications, except as noted below:

**All Performance Measures**

We noted several differences between our numerators and BST's numerators for each of the performance measures. For 45 of the 182 numerators we calculated for Louisiana in February 2003, we noted the following differences:

- For 44 of the 45 instances, we noted differences that ranged from 0.000004 to 0.1548. Due to the small size of the differences and because BST rounds the numerators to whole numbers, we noted no differences in the reported metric results.
- For 1 of the 45 instances, we calculated a different numerator than BST as noted below:

**Table 19**

| No. | Trouble Report Rate | BST Numerator | PwC Numerator | BST Volume | PwC Volume | BST Result | PwC Result |
|---|---|---|---|---|---|---|---|
| 1 | FGD Non-Affiliates | 0 | 4 | 89,445 | 89,445 | 0.00% | 0.00% |

We inquired of management and management provided the following response:

> "BellSouth's Multi-state Report Generator (MSRG) used to produce charts for all 272 measures is designed to accept denominator and the calculated metric values for each measure. It multiplies these two values together to calculate the numerator for 272 chart purposes. Due to the rounding of the metric value to 2 decimal places prior to being passed to the MSRG, there is the possibility the derived numerator displayed on the 272 charts could vary slightly from the actual numerator count. This only occurs when the numerator and denominator values are large numbers. Also, this difference in numerators does not affect BellSouth being in or out of parity. BellSouth is currently evaluating two methods of eliminating these discrepancies in a future release, i.e. either modifying the 272 programs to pass the full 15-decimal metric value to MSRG (as is done with the 271 charts), or modify MSRG to accept a numerator and denominator value and use these to calculate the metric value."

The performance measurement reports provided by management, included in Attachment A to the report, do not include numerator values.

**Firm Order Confirmation (FOC) Timeliness**

When calculating FOC intervals, service requests received after 3pm are given a received date of the following day. For example, a service request received on Monday at 4pm is given a Tuesday received date. If such a FOC is sent for the service request on Tuesday, it is considered a 0 day interval for performance metric reporting.

We noted that when calculating the FOC interval, BST excludes weekends, but only until the interval becomes 1 day. Therefore, the exclusion of weekend days would not cause an interval to be 0 days. For example, a service request that was received on Friday at 4pm that had a FOC sent on the following Monday would be given a FOC interval of 1. This is inconsistent with the application of other calculation criteria applied by BST that allows for zero day intervals. We calculated the metric allowing for zero day intervals, as stated in the SQM, and noted the following difference (Reference Table 20):

**FOC Internal**

**Table 20**

| No. | Product/Affiliate Group/ Bucket | BST Volume | PwC Volume | BST Result | PwC Result |
|---|---|---|---|---|---|
| 1 | DS1 / Non-Affiliates / Average FOC Interval | 573 | 573 | 1.39 days | 1.38 days |

**Order Completion Interval, Average Intervals - Requested/Offered/Installation and Percent Installation Appointments Met**

- We noted that BST included only one of the two circuit formats that represent message trunks when calculating the Order Completion Interval, Average Intervals - Requested/Offered/

Installation and Percent Installation Appointments Met measures. Circuits with the circuit format of '1' were not included by BST in the metric calculations. This circuit format identifies message trunks, which should be included in the switched access metric calculations.

To determine the impact on the calculated results for the months of May 2002 through May 2003, BST ran a query to identify all service orders where the circuit format was '1' and the service orders met the criteria for the switched access product, Feature Group D. In this 13-month period, BST found no service orders that met these criteria. Therefore, the difference had no impact on the 272 calculated results for this period. BST issued a change request to correct the calculation criteria to include circuits with the format of '1.'

We included the circuit format of '1' in our calculation of the Order Completion Interval, Average Intervals – Requested/Offered/Installation and Percent Installation Appointments Met metrics and noted no differences between our results and those reported by BST for Louisiana in February 2003, based on the application of these criteria.

- The SOCS Subsequent Due Date table contains all due dates and missed appointment codes for orders processed in SOCS. The missed appointment codes identify the cause of the missed appointment and are used when applying the exclusion for end user misses. When identifying the missed appointment code for an order, the SOCS Subsequent Due Date table is used, along with the SOCS table, for orders that contained multiple due dates. We noted that when a service order number has been reused and appears more than once in the SOCS Subsequent Due Date table, BST is, at times, misidentifying the valid missed appointment code associated with the order. BST issued a change request to correct the missed appointment code identification in the SOCS Subsequent Due Date table. We calculated the Order Completion Interval measure using the appropriate criteria to identify a valid missed appointment code and noted no difference between our results and those reported by BST for Louisiana in February 2003, based on the application of this criterion.

- We noted that for the Percent Installation Appointments Met metric calculation, BST identifies orders to be included in the denominator where the Completion Date is during the reporting period. Upon review of the SQM, we noted that it states that the denominator for the Percent Installation Appointments Met metric should be determined using "orders committed to completion during the reporting period." We inquired of management and management indicated that although the wording is not particularly clear, BST interpreted the wording to mean that they should only include records that were completed in the specified reporting month. We included only orders completed during the report period when calculating the Percent Installation Appointments Met metric. Therefore, we noted no difference between our results and those reported by BST for Louisiana in February 2003, based on the application of this criterion.

- The SQM for the Percent Installation Appointments Met metric states to exclude "misses for end user reasons except [subscriber prior] 'SP' and [subscriber later] 'SL'." Management interpreted this to mean that misses for end user reasons should be excluded from the count of missed appointments and therefore included in the numerator and denominator calculations. The reason for this is because BST takes the position that the record was met by BST and the "missed appointments" only include records where BST missed the appointment.

When calculating the Percent Installation Appointments Met metric, we counted end user misses as "met" appointments and included them in both the numerator and denominator calculations. Therefore, we noted no difference between our results and those reported by BST for Louisiana in February 2003, based on the application of this criterion.

**Trouble Report Rate and Average Repair Interval**

- Access service types do not include Unbundled Network Elements (UNE) and CLEC records for local service and, therefore, should be excluded from the access metric calculations. We noted that BST did not apply the appropriate criteria to exclude these records from the access calculations for the Trouble Report Rate and Average Repair Interval measures. UNE/CLEC records for local services are identified using the Network Channel (NC) code. BST should have used part of the circuit field in the WFA table to identify the NC code. However, they used a different field that did not accurately represent the NC code. BST issued a change request to correct the metric calculation. We calculated the results using the circuit field to identify the NC code and noted the following differences (Reference Table 21 and Table 22):

**Table 21**

| No. | Trouble Report Rate | BST Numerator | PwC Numerator | BST Volume | PwC Volume | BST Result | PwC Result |
|---|---|---|---|---|---|---|---|
| 1 | DS1 Non-Affiliates | 443 | 448 | 18,767 | 18,767 | 2.36% | 2.39% |
| 2 | DS3 272 Affiliate | 0 | 1 | 114 | 114 | 0.00% | 0.88% |
| 3 | DS3 Non-Affiliates | 4 | 5 | 1,623 | 1,623 | 0.25% | 0.31% |

**Table 22**

| No. | Average Repair Interval | BST Numerator | PwC Numerator | BST Volume | PwC Volume | BST Result (Hours) | PwC Result (Hours) |
|---|---|---|---|---|---|---|---|
| 1 | DS1 Non-Affiliates | 1,936 | 1,943 | 443 | 448 | 4.37 | 4.34 |
| 2 | DS3 272 Affiliate | 0 | 2 | 0 | 1 | 0 | 1.58 |
| 3 | DS3 Non-Affiliates | 8 | 9 | 4 | 5 | 1.93 | 1.79 |

- We noted that BST excluded records with the Network Channel and Network Channel Interface (NC/NCI) code of "LX/04FCF.X" from the Trouble Report Rate and Average Repair Interval metric calculations. The NC/NCI code "LX/04FCF.X" represents an access product and should

be included in the calculation. We inquired of management as to why this product is excluded and management provided the following response:

> "One of the exclusions for M&R did not have an exception that ordering had for the Network Channel (NC) code of 'LX' and the Network Channel Interface (NCI) code of '04FCF.X'. The WFA record set currently does not contain the NCI code, therefore we could not show the exception to the exclusion the way ordering was handling it. We checked a long time ago and the number of records affected was very small. Currently, the number or records affected is 13, based on April data. We had a single trouble on one of the circuits to a chargeable code. We have entered a change request to correct the error. To effect the change, a join to a new table (TIRKS_NCI) will have to be done to obtain the NCI code for the records and not exclude those where the NC code is 'LX' and the NCI code is '04FCF.X'. From discussions with the development staff, the target date for implementation is the June data month. We will update the master RDD's concurrent with the deployment."

**Average PIC Change Interval**

We noted that the following business rules contained in the SQM for the Average PIC Change Interval measure were not specifically applied by BST to the metric calculations:

Exclude "Invalid PIC Change Requests"
Exclude "PIC Change Requests processed manually"

We inquired of management and management provided the following response:

> "<u>Invalid PIC Change Requests</u> – When PIC change requests are submitted electronically, "Invalid" requests are those requests that are flawed in format or content to the point that the CARE system cannot process the request and it is rejected. These requests "never make it in the door". Therefore, these requests are not actually in the data to be excluded. As discussed in our interview, the SQMP, in order to add clarity, sometimes shows exclusions that are not available in the data or are not "included" by the code because this may not always be apparent to the CLEC/IXC/User.
>
> <u>PIC Change Requests processed manually</u> – A small number of PIC change requests that are submitted electronically are flawed in some manner that causes them to "fall out" of the Customer Account Record Exchange (CARE) system. When this happens, a Service Representative in the Equal Access Service Center (EASC) will manually process them. Once the records are corrected, they are resubmitted to CARE to continue the mechanized processing. Although the SQM currently states that these manually processed PIC change requests are excluded, they are actually captured in the service order activity and included in the metric calculation."

6. We inquired of management as to how and where BST makes available to unaffiliated entities information regarding service intervals in providing any service to the Section 272 Affiliate, the BOC or other BOC affiliates, and non-affiliates. Management provided the following response:

"Any unaffiliated entity may request to see aggregate information regarding service intervals BST sustains in fulfilling service requests to itself or its affiliates. This request should be made in writing to the unaffiliated entity's account team manager, if the unaffiliated entity has one, or to the BST-Sales AVP - Interconnection Services, 675 West Peachtree St., Atlanta, GA 30375. The review may take place during normal business hours, 8:30 a.m. to 5:00 p.m. Monday - Friday. Upon receipt of the written request from the unaffiliated entity, BST personnel will contact the requesting entity to establish a date and time for the review. To allow BST to accommodate the request comfortably, the request should include the number of people who plan on participating in a review of the information. The requesting unaffiliated entity may take notes while the service interval information is being made available, however, copies of the information will not be provided.

If any information is publicly available on BellSouth's website, BST personnel will direct the requesting unaffiliated entity to the appropriate web link. The information provided will be substantially in the format of Appendix C of *In the Matter of Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended,* CC Docket No. 96-149, *First Report and Order and Further Notice of Proposed Rulemaking,* 11 FCC Rcd 21905 (1997). Although this format is part of the Commission's Further Notice of Proposed Rulemaking proceeding, and not a required format, it provides guidance on the format necessary to fulfill the disclosure requirement."

Management indicated that BST has received no requests from any entity to make available information regarding service intervals in which BST provides service to BSLD, BCPS, its other affiliates, or to itself.

We inspected the standard service intervals for various products and services contained on the Interconnection website at www.interconnection.bellsouth.com. From this page, users can select, in the Guides section, ordering procedures for IXC's and CLEC's. The guides fully document options for service intervals (including the standard service interval) available for various products. We inspected the Interconnection website and noted that it contains the standard service intervals available for both Special and Switched Access products/services.

**Objective IX: Determine whether or not the Bell Operating Company and an affiliate subject to Section 251(c) of the Act have made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has to its affiliate required under Section 272 that operates in the same market.**

1. We obtained from BST management a list of exchange access services and facilities offered by BST to BSLD. The list provided cross-referenced Universal Service Order Codes (USOCs) that identify each of the related exchange access services and facilities offered. Management indicated that all exchange access services and facilities offered by BST to BSLD were priced pursuant to either a publicly filed tariff or a publicly filed contract with BSLD.

   Management indicated that all BSLD contracts and general agreements, such as the BellSouth Physical Collocation Master Agreement, are located on the BellSouth website at http://www.bellsouthcorp.com/policy/transactions. We noted that hyperlinks to the tariffs are available through the BellSouth website using the "small business services" and the "large business services" drop-down menu. The hyperlinks lead to the web page containing the tariff menu, http://www.bellsouth.com/tariffs. This web page provides details of BellSouth Tariff Documents by State.

   From a population of 311 USOCs, we randomly selected a statistically valid sample of 100 items to test. For those items selected, we utilized the USOC information and entered the appropriate website containing tariff information or contract information. We tested to determine if the tariff or contract information was included, thereby, making it available to all carriers at the same rates and conditions. We noted the following:

   - 89 of the USOCs selected had rate, term and conditions information included at the appropriate website.

   - 11 of USOCs selected were determined to be "Provisioning USOCs" and no rates, terms or conditions information was included at any of the websites noted above. A provisioning USOC is a code used to communicate information about the service being ordered that is essential to the proper installation of the service. This would include information about circuit termination parameters, dispatch requirements, service options, etc. These provisioning USOCs do not impact the charges that are to be rendered to the customer for the service and, while they may appear on the customer's service record, there are no rate elements associated with these provisioning USOCs.

   We requested listings of all informational media used to inform carriers of the availability of the exchange access services and facilities. BST management indicated that the informational media used to inform carriers of the availability of these services includes the BellSouth interconnection website at http://www.interconnection.bellsouth.com, Account Team contacts, trade show programs and industry newsletters. We inspected the industry newsletters but noted no rates, terms, and conditions were included. BST management indicated the industry letters are made available through the BellSouth Interconnection website, which provides links to pricing information.

2. We requested a listing of all Exchange Access Services and facilities billed items, for February 2003 (month determined by the Joint Oversight Team) rendered by BST to the Section 272 Affiliate

from the Carrier Access Billing System (CABS billing database). Management indicated that the CABS billing database contains Exchange Access, Billing and Collections and Wholesale National Directory Assistance (WNDA) services. We obtained from management of BST a listing of all Section 272 Affiliate billed items from the CABS billing database rendered by BST to the Section 272 Affiliate for February 2003. The billed items were for Monthly Recurring Charges (MRCs), Other Credits & Charges (OCCs) and Usage charges (Usage). We extracted all Section 272 Affiliate Exchange Access Services billed items and noted a population of 118,072 billed items. From the population of Section 272 Affiliate Exchange Access Services billed items, we selected a statistically valid, random sample of 100. For each selected billed item, we requested and obtained a listing of all non-affiliates billed for similar services.

To identify similar services billed to the Section 272 Affiliate and non-affiliates, the following criteria was used:

- MRCs – State, Basic Class of Service and USOC,
- OCCs – State, Basic Class of Service, USOC and Description of OCC, and
- Usage – State, Basic Class of Service, Rate Category, Rate Element and Jurisdiction.

We randomly selected one non-affiliate for each sampled Section 272 Affiliate Exchange Access Services billed item. We inspected the billed items and compared the rates charged to the Section 272 Affiliate and with those charged to non-affiliates for the same services and noted the following:

- For 94 of the 100 Section 272 Affiliate billed items, we noted no differences.
- For 6 of the 100 Section 272 Affiliate billed items, we noted different rates were charged to non-affiliates. Management indicated the following:
  - 3 of the 6 items were billed at different rates because the Section 272 Affiliate and the non-affiliate were on different pricing plans. The Section 272 Affiliate rates were lower because they were on a longer term contract. Management indicated all price plans were made available to third parties, 2 of the price plans were made available via tariffs and the third was made available under contract agreement.
  - 2 of the 6 items were billed different rates due to Alabama usage being billed on a Georgia account. This occurred for an Alabama end office that tends a Georgia Tandem within a Georgia LATA. CABS bills based on LATA and therefore includes a small amount of Alabama usage. Rates for Alabama and Georgia usage are different.
  - 1 of the 6 items was billed a different rate due to the Section 272 Affiliate taking the service in a different rate zone than the non-affiliate.

3. We requested from BST management documentation related to the process by which the listing of billed items obtained in Procedure 2 above are processed in the revenue system of BST. The following narrative summarizes the revenue process:

   All of the usage data captured in Objective IX, Procedure 2 is collected, processed and transmitted to the CABS Customer Database. The MRC and OCC data, also captured in Objective IX, Procedure 2, is gathered in the Service Order Processing system and transferred to the CABS Customer Database where it is combined with the usage data. Once captured in the CABS database, this information is ready to be rated and billed, creating the CABS billing

details. Reconciliations are performed daily to ensure completeness and accuracy of the totals per the CABS billing details and the CABS account database.

The daily CABS billing details are summarized on the monthly CABS journal detail by account. At the end of the month, the daily transactions are downloaded to update the A/R journal by account. A comparison is performed to ensure the amounts are processed completely and accurately.

We compared the listing of all exchange access services and facilities items billed to BSLD by BST for February 2003 obtained from BST management in Procedure 2 above to the amounts recorded as revenue in the BST books and records. We noted a difference of $4,913 between the listing used in Procedure 2 above and the approximate $7.6 million of revenue recorded in the BST books and records. We noted the differences related to taxes and late payment charges.

We requested and obtained from management a reconciliation between the total amounts recorded as revenue in the BST books and records to the amounts recorded by BSLD in its payables system, noting a difference of $260,230. We noted this difference relates to disputed amounts between the two companies.

We requested and obtained from management check copies or wire transfers supporting payment for the items selected above. We compared the amounts paid to the amounts recorded and noted no differences.

During our testing, we noted the BellSouth Affiliate Service Center (BASC) processes disbursements and payables transactions for BSLD, BCPS and other affiliates (the "affiliates"). All vendor invoices received by the affiliates are approved by the appropriate personnel and forwarded to BASC for scanning and processing. When the affiliate employee receives the invoice, they verify the receipt of goods or services and indicate on the invoice the coder name, accounting codes (if required), user ID, and business reason for the expense. The field employee then obtains a certification signature and an approval signature on the invoice. The properly coded invoice is sent to the BASC for processing. Once the affiliate invoices are received and scanned into the system by BASC personnel, the invoice images are immediately available to the appropriate accounts payable (AP) associate for retrieval and entry. After the associate enters the appropriate invoice header information and saves it, then the invoice image is associated with the corresponding transaction and the invoice information is routed for processing. The coder is responsible for coding the invoice to the appropriate account(s) in affiliate AP subsidiary ledger. When the process above is completed and approved, the AP specialist formats and sends the payment file to Disbursements. The creation of a payment file generates a corresponding entry to the appropriate vendor accounts in the accounts payable subsidiary ledger. Reconciliations are performed between the amounts identified by AP and Disbursements. Once the reconciliations are completed and approved, the check file is processed and a disbursement of funds is made in the appropriate amount to the vendor.

**Objective X: Determine whether or not the Bell Operating Company and an affiliate subject to Section 251(c) of the Act have charged its separate affiliate under Section 272, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service.**

1. We obtained the list of interLATA services offered by BST, which consisted of:

   - Enhanced 911 (E911),
   - National Directory Assistance (NDA),
   - Reverse Search,
   - Stand Alone Signaling,
   - Incidental InterLATA Service for Schools in Louisiana,
   - Enhanced Directory Assistance (EDA), and
   - Region-wide Messaging.

   We discussed the list with BST management who indicated that the list was complete. We compared services appearing on the list with the interLATA services disclosed in BST's Cost Allocation Manual (CAM) and noted no differences. We compared the non-regulated interLATA services listed in BST's CAM with those defined as incidental in Section 271(g) of the Act and those interLATA services allowed under FCC order and noted no differences. We noted that for NDA and Reverse Search, BST stated in the CAM that the FCC has granted a petition for forbearance related to these services. For Incidental InterLATA Service for Schools in Louisiana, BST noted in its CAM that forbearance for these services was not necessary.

2. From the list of seven services provided in Objective X, Procedure 1, only four of the services involved imputation. For three services, imputation was not applicable. BST management indicated that EDA was not provided to any parties during the period under review; however, it is listed as a service as it is undergoing testing for future use. Related to Region-wide messaging, BST management indicated that a third party provides the interLATA transport and that the third party vendor's invoices are all coded to non-regulated activity; therefore, given the methodology applied, no imputation study is necessary. BST management indicated Stand Alone Signaling is not a separate billable service. In order to appropriately reflect Stand Alone Signaling revenues, an allocation of regulated revenues would first be made to allocate Stand Alone Signaling charges to non-regulated revenues. Subsequently, another entry in the same amount to reflect imputation charges would have to be made. Given the facts above, BST does not record any entry related to Stand Alone Signaling.

   For the four services for which this procedure was applicable, we requested from management the calculations (imputation studies) prepared by management to support the amounts BST imputed to itself for access, switching and transport. The four services tested were:

   - E911,
   - NDA,
   - Reverse Search, and
   - Incidental InterLATA Service for Schools in Louisiana.

Included in those calculations were the details and tariff rates for the above elements, if applicable. We compared the rates used in the imputation studies with the tariff rates and noted no differences with the exception of the fact that for the NDA service the tariff rates did not match the rates that were being applied for the months of June - November 2002 and March of 2003.

Management provided us with the original calculation of the E911 imputation and indicated that a journal entry would be required to correct the original imputation due to errors noted in those calculations. We noted the required adjusting entry approximated $1 million in 2002. Management also indicated a similar adjustment of approximately $2.1 million was required for 2001. Management provided us with the correcting entries and the supporting detail for each year's entry. In the supporting detail for the correcting entries, we noted input and mathematical errors in the mileage portion of the calculation (the tariff rate is applied to the mileage to derive the imputed charge). These errors caused the 2002 correcting entry to be overstated by approximately $12,000.

For the services selected, we compared BST's imputation study amounts to their journal entries and traced these journal entries to the general ledger. For NDA, Reverse Search and E911, we noted the following instances where the imputation amount calculated did not agree with the amount journalized:

- NDA – The amount recorded in the general ledger was approximately $1,200 more than the imputation amount calculated for the period under review.

- Reverse Search – The amount recorded in the general ledger was $8,000 less than the imputation amount calculated for the period under review.

- E911 – The amount recorded in the general ledger for one state was approximately $171,000 less than the adjusted imputation amount calculated for the calendar year 2002 (i.e. the net calculation needed after making the correcting entries described above).

3. For exchange access services, local exchange services, and unbundled network elements, we requested the total amount BSLD recorded and paid to BST from June 1, 2002 through May 23, 2003. Both BST and BSLD management indicated that BSLD purchased local exchange and exchange access services from BST during the period. Both BST and BSLD management indicated that BSLD did not purchase any unbundled network elements from BST.

   We requested and obtained from BST management a reconciliation of amounts recorded in its books for exchange access services provided to BSLD for the period from June 1, 2002 through May 23, 2003. We noted that BST recorded approximately $74.9 million for exchange access services for the period. We also obtained information from BSLD management indicating they had recorded as expense and remitted approximately $70.9 million to BST for exchange access services for the period. BST management indicated that the $4.0 million of differences related to the following:

   - Approximately $1.1 million relates to revenue/expense classification differences between the two companies (for example wholesale directory assistance is separately classified in BSLD's books and records),
   - Approximately $1.7 million relates to disputed amounts between the companies, and

- Approximately $1.2 million represents the difference between the payments made on items paid during the period but, billed prior to the engagement period and the amounts billed and not paid at the end of the engagement period.

We requested and obtained from BST management a reconciliation of amounts recorded in its books for local exchange services provided to BSLD for the period from June 1, 2002 through May 23, 2003. We noted that BST recorded approximately $1.2 million for local exchange services for the period. We also obtained information from BSLD management indicating they had recorded as expenses and remitted approximately $1.2 million to BST for local exchange services for the period. BST management indicated that of the approximate $60,000 difference, approximately $54,000 related to timing differences for billings and payments outside of the engagement period and approximately $6,000 related to disputed amounts between the companies.

**Objective XI: Determine whether or not the Bell Operating Company and an affiliate subject to Section 251(c) of the Act have provided any interLATA facilities or services to its interLATA affiliate and made available such services or facilities to all carriers at the same rates and on the same terms and conditions, and allocated the associated costs appropriately.**

1. We requested from BST management a list of interLATA network services and facilities with their related rates offered by BST to the Section 272 affiliate. Management indicated Wholesale National Directory Assistance (WNDA) was the only interLATA network service and/or facility rendered by BST to BSLD. This service was also rendered by BST to unaffiliated carriers.

   We requested brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of interLATA network services and facilities. Management of BST indicated that the informational media used to inform carriers of the availability of these services includes a brochure distributed to customer sales contacts at trade shows and other face-to-face venues with potential customers, the BellSouth Interconnection website, and Account Team contacts.

   We inspected the brochure and noted that there were no rates, terms, and conditions, included in the brochure. We also noted that there are no rates, terms, and conditions located on the BellSouth website. We inquired of management and management indicated that the BellSouth Interconnection website refers customers to their Account Team for pricing information. Therefore the only source for rate, term, and condition information is a BellSouth Account Team Representative. Management also indicated that BellSouth's Account Team refers customers to a non-discriminatory contract rate matrix when a customer calls to inquire of related rates. We also noted that the contract between BST and BSLD is posted on the BellSouth Interconnection website, which indicates the related rates, terms, and conditions of the contract.

   We inspected the informational media used to inform carriers of the availability of interLATA network services and facilities and noted that the service was priced pursuant to the same contract as BSLD.

2. We requested a listing of all interLATA services and facilities billed items, for February 2003 (month determined by the Joint Oversight Team) rendered by BST to the Section 272 Affiliate and non-affiliates from the Carrier Access Billing System (CABS billing database). Management indicated that Wholesale National Directory Assistance (WNDA) Service is the only interLATA network service and facility provided by BST to the Section 272 affiliate and non-affiliates. We obtained from management of BST a listing of all WNDA billed items rendered by BST to the Section 272 Affiliate and non-affiliates from the CABS billing database for February 2003. The WNDA billed items contained 44 Section 272 Affiliate billed items and 46 non-affiliate billed items. The billed items were for Monthly Recurring Charges (MRCs), Other Credits & Charges (OCCs) and Usage charges (Usage). For each BSLD billed item, we attempted to match to a similar service using the 46 non-affiliate billed items.

To identify similar services billed to the Section 272 Affiliate and Non-affiliates, we used the following as criteria:

- MRCs – State, Basic Class of Service and USOC,
- OCCs – State, Basic Class of Service, USOC and Description of OCC, and
- Usage – State, Basic Class of Service, Rate Category, Rate Element and Jurisdiction.

We inspected the billed items and compared the rates charged to the Section 272 Affiliate and with those charged to non-affiliates for the same services and noted the following:

- For 5 of the 44 BSLD billed items, we noted no differences.
- For 11 of the 44 BSLD billed items, we noted different rates were charged to non-affiliates. We inquired of management who indicated the following:
  - 3 of the 11 items were billed at different usage rates due to BSLD and the non-affiliate being on different pricing plans. WNDA usage rates are contract services with different rates and terms.
  - 8 of the 11 billed items were for MRCs and OCCs billed to non-affiliates that had declared a Percentage Interstate Usage (PIU) less than 100%. BSLD reports a PIU of 100% and therefore is billed based on interstate rates only. However, Inter-exchange Carriers (IXCs) that report a PIU of less than 100% are subject to intrastate rates for MRCs and therefore OCC credits. In February 2003, interstate and intrastate WNDA monthly recurring rates were different and therefore carriers that reported a PIU of less than 100% were billed different rates for intrastate charges.

- For 28 of the 44 BSLD billed items, we noted that no non-affiliates were billed similar services. We inquired of management and management indicated that all WNDA services are made available to non-affiliates. Management also indicated the following:
  - 16 of the 28 billed items were for services purchased in Florida and North Carolina. BSLD is the only IXC that purchased WNDA in these states. However, WNDA is available to all carriers in Florida and North Carolina.
  - 9 of the 28 billed items were for OCCs due to a change in the tariffed monthly recurring charge rate. BSLD was given a credit for the rate change in February 2003, while the non-affiliates were credited in other months based on their respective bill cycles. For each customer, when the rate change was run on the accounts database, the old rate stopped on the effective date of the new rate and OCCs were created for any gap in time between the tariff effective date and the date the rate change was made. OCCs were created for the difference in rate for the charges that are billed in advance (monthly recurring charges). Because billing is done on different cycles, in the month of the rate change and until all billing (OCCs, fractional billing and credits) gets current, it could appear that one customer is being billed differently than another. For example, if a new rate went into effect on 2/15/03 and the rate change was run prior to the 15th billing cycle, all customers whose bill cycle is after the 15th of the month would have been billed at the new rate, beginning on 2/15/03, and this would be reflected on that customer's February bill. All customers whose bill cycle is prior to 2/15/03, would also have been billed at the new rate, beginning on 2/15/03, but this would not appear until the March bill.
  - 3 of the 28 billed items were for Branded and Returned usage charges in states where only BSLD took that service.

3. We requested from BST management documentation related to the process by which the billed items obtained in Procedure 2 above are processed in the revenue system of BST. The following narrative summarizes the revenue process:

> All usage data captured in Objective XI, Procedure 2 is collected, processed and transmitted to the CABS Customer Database. The MRC and OCC data, also captured in Objective XI, Procedure 2, is gathered in the Service Order Processing system and transferred to the CABS Customer Database where it is combined with the usage data. Once captured in the CABS database, this information is ready to be rated and billed, creating the CABS billing details. Reconciliations are performed daily to ensure completeness and accuracy of the totals per the CABS billing details and the CABS account database.
>
> The daily CABS billing details are summarized on the monthly CABS journal detail by account. At the end of the month, the daily transactions are downloaded to update the A/R journal by account. A comparison is performed to ensure the amounts are processed completely and accurately.

As noted above, WNDA represents the only interLATA services or facilities provided to BSLD by BST. We compared the listing of all WNDA items billed to BSLD by BST for February 2003 obtained from BST management in Procedure 2 above to the amounts recorded as revenue in the BST books and records. We noted a difference of $358 between the listing used in Procedure 2 above and the approximate $19,000 of revenue recorded in the BST books and records. We noted the differences related to taxes and late payment charges.

We requested and obtained from management a reconciliation between the total amounts recorded as revenue in the BST books and records to the amounts recorded by BSLD in its payables system, noting a difference of $5,802. We noted this difference relates to two credits included in February books and records that related to previous months.

We requested and obtained from management check copies or wire transfers supporting payment for the items selected above. We compared the amounts paid to the amounts recorded and noted no differences.

During our testing, we noted the BellSouth Affiliate Service Center (BASC) processes disbursements and payables transactions for BSLD, BCPS and other affiliates (the "affiliates"). All vendor invoices received by the affiliates are approved by the appropriate personnel and forwarded to BASC for scanning and processing. When the affiliate employee receives the invoice, they verify the receipt of goods or services and indicate on the invoice the coder name, accounting codes (if required), user ID, and business reason for the expense. The field employee then obtains a certification signature and an approval signature on the invoice. The properly coded invoice is sent to the BASC for processing.

Once the affiliate invoices are received and scanned into the system by BASC personnel, the invoice images are immediately available to the appropriate accounts payable (AP) associate for retrieval and entry. After the associate enters the appropriate invoice header information and saves it, then the invoice image is associated with the corresponding transaction and the invoice

information is routed for processing. The coder is responsible for coding the invoice to the appropriate account(s) in affiliate AP subsidiary ledger. When the process above is completed and approved, the AP specialist formats and sends the payment file to Disbursements. The creation of a payment file generates a corresponding entry to the appropriate vendor accounts in the accounts payable subsidiary ledger. Reconciliations are performed between the amounts identified by AP and Disbursements. Once the reconciliations are completed and approved, the check file is processed and a disbursement of funds is made in the appropriate amount to the vendor.

**Appendix B enumerates the procedures performed by PricewaterhouseCoopers LLP ("PwC" or "we") in connection with the Bell Operating Company (BellSouth BOC) of BellSouth Corporation (the "BellSouth BOC", or "BST", or the "Company", or "Management"), and BellSouth Carrier Professional Services (BCPS).**

**Objective I: Determine whether the separate affiliate required under Section 272 of the Act has operated independently of the Bell Operating Company.**

1. We obtained and inspected the certificates of incorporation and bylaws for BCPS. We noted that BCPS was established as a Delaware corporation separate from BST. Management of BST indicated that the Delaware General Corporation Law refers to the articles of incorporation as the certificates of incorporation.

2. We obtained and inspected BellSouth Corporation's (BSC) organizational charts as of February 28, 2003. BSC is the ultimate corporate parent of all BellSouth subsidiaries. We confirmed with legal representatives of the BellSouth BOC and of BCPS the legal, reporting, and operational corporate structure of BCPS. We obtained written confirmations from the legal representatives noting that:

   BST is a direct and wholly-owned subsidiary of BellSouth Corporation
   BCPS is a direct and wholly-owned subsidiary of BellSouth Corporation

3. We inquired of management which entities perform operations, installation, and maintenance (OI&M) functions on facilities either owned by the Section 272 Affiliate, or leased from a third party by the Section 272 Affiliate. BCPS Management confirmed the following:

   BCPS employees performed OI&M functions on BSLD network facilities and also managed and supervised vendors that performed OI&M functions for BSLD network facilities.

   We noted that BCPS performs OI&M as defined in 47 C.F.R. Section 53.203(a)(2), (3) (Section 53.203) and First Report and Order, paragraphs 15, 158, 163 (First Report and Order). We noted that Section 53.203 and the First Report and Order prohibit a BOC or BOC affiliate from performing OI&M functions on facilities either owned by the Section 272 Affiliate, or leased from a third party by the Section 272 Affiliate. We also noted that BST filed a petition for forbearance with the Federal Communications Commission related to the OI&M services mentioned above.

   a) BST Management's definition and interpretation of OI&M functions is:

      "Operations, Installation, and Maintenance (OI&M) functions in BST are those functions that involve the construction, installation, maintenance and monitoring of the network we use to provide service to our wholesale and retail customers."

b) Management indicated that BST does not perform any OI&M functions for BSLD owned or leased facilities. BCPS performs the following OI&M functions on BSLD network facilities:

- Network Planning
- Engineering
- Installation
- Operations
- Maintenance
- Fraud Management
- Provisioning
- Service Assurance
- Customer Care

c) Management indicated that neither the Section 272 Affiliate nor BCPS perform OI&M on facilities either owned or leased by the BellSouth BOC.

4. We obtained a list and description of all services provided by BCPS to the Section 272 affiliate during the engagement period. The list indicates whether each of the services is made available to third parties, and how the service is made available:

**Table 23**

| BCPS Services | Description of OI&M Function | Amount Charged to BSLD | Provided to 3rd Party | Made available to 3rd Party |
|---|---|---|---|---|
| Network Planning | Planning and Engineering of the BSLD Network | * | No | No |
| Engineering | Planning and Engineering of the BSLD Network | * | No | No |
| Installation | Vendor Management of the OI&M of the BSLD Network | * | No | No |
| Operations | Vendor Management of the OI&M of the BSLD Network | * | No | No |
| Maintenance | Vendor Management of the OI&M of the BSLD Network | * | No | No |
| Fraud Management | Fraud Management | * | No | No |
| Provisioning | Service and Infrastructure Provisioning | * | No** | No** |
| Service Assurance | Service Assurance and Trouble Management | * | No** | No** |
| Customer Care | Customer Care | * | No** | No** |

* We inquired of management as to the amount that BCPS charged to the Section 272 Affiliate by service. Management indicated that they are unable to provide us with the amount BCPS billed BSLD by service; however, we noted that BCPS charged BSLD $43,775,791 for the aggregate amount of services provided from May 24, 2002 through May 23, 2003, while BCPS billed approximately $4.5 million to affiliates other than BSLD. BCPS does not charge BSLD on a per service basis. Instead, each month BCPS bills BSLD for the services that BCPS provided to BSLD.

The amount that BCPS bills BSLD each month is total cost incurred by BCPS, plus a rate of return calculated on BCPS's total salaries and wages for the month, less the cost of providing services to other BellSouth companies.

Management indicated that BCPS does not provide these services to third parties. From the services listed above, Network Planning, Engineering, Installation, Operations, Maintenance and Fraud Management, are used by BSLD for internal maintenance only and are not used in products marketed to third parties.

**Provisioning, Service Assurance and Customer Care are not, directly, made available or provided to third parties. During the engagement period, BSLD had a service agreement with a third party. Under the agreement, BSLD was to provide, among other things, Provisioning, Service Assurance and Customer Care to the third party. BSLD subcontracted these services to BCPS. BCPS performed the services and billed BSLD directly for the work performed.

5. We inquired of BST management as to the existence of any research and development activities of BST in progress from June 1, 2002 through February 28, 2003 related to BCPS. Management indicated that BST did not perform any research and development activities on behalf of BCPS. Management indicated this representation was made based on the definitions of research and development as set forth in (1) Financial Accounting Standards Board Statement No. 2 and (2) 47 C.F.R. Part 32.6727 both of which essentially provide:

   (a) This account shall include costs incurred in making planned search or critical investigation aimed at discovery or new knowledge. It also includes translating research findings into a plan or design for a new product or process or for a significant improvement to an existing product or process, whether intended for sale or use.
   (b) This excludes making routine alterations to existing products, processes, and other ongoing operations even though those alterations may represent improvements.

   During this period, BST did provide equipment test and verification services on a commercial basis to BCPS and other external companies through the BellSouth Technology Assessment Center, a department within BST. These equipment test and verification services did not involve research or the development of new services or functions.

   BST did not offer, was not requested to perform, and did not provide research and development services to unaffiliated entities during the period June 1, 2002 through February 28, 2003.

6. We obtained the balance sheet as of February 28, 2003 for BCPS. We requested a fixed asset detail from BCPS management. BCPS management indicated that BCPS does not own any fixed assets and, therefore, does not maintain a detailed fixed asset listing. Further, management indicated that BCPS does not jointly own any assets with BST.

**Objective II: Determine whether the separate affiliate required under Se ction 272 of the Act has maintained books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell Operating Company.**

1. Due to the voluminous nature of BCPS's general ledger, we obtained the separate trial balance maintained for BCPS as of February 28, 2003. In order to test the validity of the trial balance, we randomly selected 10 accounts from the BCPS trial balance, obtained the corresponding account balance from the BCPS general ledger and compared the account balance per the trial balance to the account balance per the general ledger. We noted no differences. We compared the title on the trial balance with the name on the certificates of incorporation and noted no differences.

   We reviewed all account descriptions and noted no reference to BST, and no special codes that may link BCPS's trial balance to the trial balance of BST.

2. We obtained and inspected BCPS's balance sheets and income statements and listings of lease agreements for which BCPS is either the lessor or lessee, as of February 28, 2003. We identified a population of eleven total leases, each of which had an annual obligation of $8,796, for a total BCPS annual obligation of $96,756. For the ele ven leases, we obtained and inspected the lease agreements and noted the terms and conditions. Based on the procedures performed, it appears the leases were recorded in accordance with Generally Accepted Accounting Principles in the United States of Americ a (GAAP).

   We requested the BCPS accounting policy regarding leases. It appears that BCPS does not have its own accounting policy related to leases, but rather utilizes the BellSouth Corporate Financial Accounting policy related to leases. We obtained and inspected the BellSouth Corporation Financial Accounting policy related to leases. We noted that the policy refers the reader to GAAP literature including SFAS 13 *Leases* and Securities and Exchange Commission financial reporting guidelines; therefore, the policy appears to be in accordance with GAAP.

**Objective III: Determine whether the separate affiliate required under Section 272 of the Act has officers, directors, and employees that are separate from those of the Bell Operating Company.**

1. We inquired of management who indicated that BCPS and BST maintain separate board of directors, separate officers, and separate employees.

   We obtained a list of officers' and directors' names for BST and BCPS, including the dates of service for each Board member and officer, from June 1, 2002 to May 23, 2003. We manually compared the list of officers' and directors' names for BST and BCPS for the period and noted no individual who appeared on both lists as a director or officer for BCPS and BST simultaneously.

2. We obtained a list of names and social security numbers of all employees of BCPS and BST for the period June 1, 2002 through February 28, 2003. We designed and executed a program, which compared the names and social security numbers of the employees on the BCPS list to the names and social security numbers of the employees on the BST list. We noted the names of 78 individuals whose names appeared on both BCPS's and BST's lists. We inquired of management the reasons for the 78 names appearing on both the BCPS list and the list of BST. Management provided detailed employment histories for the 78 individuals from the Company's payroll systems. We compared the employees' termination date per the payroll records of their former employer to the commencement date of their new employer's payroll records and noted all 78 employees appeared on both lists due to a system requirement that makes termination from BCPS and employment by BST appear to be on the same day, when, in fact, a day of separation existed. By reference to this supporting data, we noted no instances where an individual was simultaneously employed by BCPS and BST.

**Objective IV: Determine that the separate affiliate required under Section 272 of the Act has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell Operating Company.**

1. We requested from BCPS management copies of BCPS's debt agreements/instruments and credit arrangements with lenders and major suppliers of goods and services. Major suppliers are those having $500,000 or more in annual sales as stated in the agreement or having $375,000 in sales from June 1, 2002 to February 28, 2003. We obtained vendor payment detail for BCPS and selected all vendors with payments greater than $375,000, resulting in a population of 1 agreement. We reviewed the agreement for recourse provisions. We noted no agreements indicating recourse to the assets of BST. Management indicated that BCPS "…does not have any debt agreements/instruments. All credit arrangements with vendors, major suppliers and affiliates are of normal business nature (e.g., net 30 days)."

2. We requested from BCPS management copies of the lease agreements where the annual obligation is $500,000. Management indicated that there were no BCPS lease agreements meeting this criterion.

3. We requested and obtained a listing of all loan institutions, lessors, creditors and vendors (collectively referred to as "creditors"). From that listing we determined all creditors with annual obligations in excess of $500,000. We also selected a judgmental sample of 10 creditors with an annual obligation of less than $500,000. We excluded creditors that represented taxing authorities and providers of tariffed services. We mailed confirmations to 8 creditors. We requested the creditors to positively confirm lack of recourse to BST assets. We received responses from 4 of the 8 creditors confirming they did not have recourse to BST assets. We received no replies from the other 4 creditors.

**Objective V: Determine whether the separate affiliate required under Section 272 of the Act has conducted all transactions with the Bell Operating Company on an arm's length basis with the transactions reduced to writing and available for public inspection.**

**Objective VI: Determine whether or not the Bell Operating Company has accounted for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.**

2. We requested and obtained BST's and BCPS's current written procedures for transactions with affiliates and compared these procedures with the FCC Rules and Regulations indicated as "standards" in the General Standard Procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, as amended (the "GSP"). We noted the BellSouth Corporate Policy relating to affiliate transactions is documented in Executive Directive No. 008, which also references pertinent FCC regulations. Due to expanded regulatory requirements, BST, BSLD and BCPS have all developed separate, distinct and more stringent policies of their own. BSLD and BCPS utilize the same policy. We noted BST's policies and procedures had not been updated since 2001. We also noted the Company's written procedures included the FCC Rules and Regulations indicated as standards above with the following exceptions:

   GSP Excerpt 1 - "Exception: Threshold. Carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of asset(s) reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular asset for the first time, the carrier must perform market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules. When the total aggregate annual value of the asset(s) does not reach or exceeds $500,000, the asset(s) shall be recorded at net book cost."

   We noted per the Company's policies and procedures, both BST and BCPS had current policies and procedures in place to address asset transfers. Those current policies and procedures addressed the appropriate affiliate transaction and asymmetrical rules; however, neither BST's nor BCPS's company policies stated the exception to the rule noted above.

   At both BST and BCPS, we were unable to obtain current written procedures related to the following FCC Rules and Regulations:

   GSP Excerpt 2 - "Provision of exchange and exchange access services and unbundled network elements constitute transactions requiring disclosure (See CC Docket No. 96-150, Report and Order, para. 124). These transactions include the provision of transmission and switching facilities by the BOC and its affiliate to one another. (See CC Docket No. 96-149, First Report and Order, para. 193)"

   GSP Excerpt 3: "Interstate rate base, revenue requirements, and price cap indices of the BOC must be reduced by the costs related to any regulated facilities transferred to each Section 272 affiliate. (See CC Docket No. 96-150, Report and Order, para. 265)."

3. We inquired and documented how BST and BCPS disseminate the FCC rules and regulations and raise awareness among employees for compliance with the affiliate transaction rules. BCPS's Management indicated that BCPS and BSLD share the same policies and training requirements and that the information that applies to BSLD is also applicable to BCPS. BCPS disseminates this fact to employees via the web-based affiliate transaction training and other similar methods. Policies, procedures and types and frequency of training are consistent with those documented in Appendix A, Objective V/VI, Procedure 3.

4. We inquired of BCPS management, who indicated, BCPS did not obtain goods, information, services or interLATA or exchange access facilities, other than tariffed services, from BST during the period from June 1, 2002, through February 28, 2003. Therefore there are no written agreements, or any corresponding amendments between BCPS and BST.

6. a. This step is not applicable, as BST only provided local exchange services to BCPS.

b. We obtained a listing of all invoices provided by BST to BCPS for services that were also provided to non-affiliated third parties. We tested the entire population of 108 invoices obtained. We obtained the invoices, checks, and amounts recorded in the BST and BCPS general ledgers for the 108 items. We compared the amounts recorded for the selected services in the books of BST with the amounts recorded for the selected services in the books of BCPS, and with amounts BCPS paid to BST for the selected services. We noted the following:

- For 96 of the 108 transactions, the amounts recorded in the books of BST, the amounts recorded in the books of BCPS, and the amount BCPS paid BST were the same.

- 5 of the 108 transactions were credits provided by BST to BCPS. BST and BCPS recorded the same amount but no payment was necessary.

  - For 3 of the 5 above differences BST billed a credit to BCPS of $45.51
  - For 2 of the 5 above differences BST billed a credit to BCPS of $20.70

- For 4 of the 108 transactions BCPS recorded the same amount as BST; however, BCPS paid less than the invoiced amount because there was a credit balance remaining from a prior month.

  - For 1 of the differences, BCPS paid $133.10 less than the invoiced amount
  - For 1 of the differences, BCPS paid $128.67 less than the invoiced amount
  - For 1 of the differences, BCPS paid $11.17 less than the invoiced amount
  - For 1 of the differences, BCPS paid $11.07 less than the invoiced amount

- For 2 of the 108 transactions, BCPS recorded the same amount as BST; however, BCPS paid more than the invoiced amount because a past due amount was also paid.

  - For 1 of the differences, BCPS paid $128.44 more than the invoice
  - For 1 of the differences, BCPS paid $58.77 more than the invoice

- For 1 of the 108 transactions, BCPS recorded the same amount as BST; however, BCPS paid $.30 more than the invoiced amount because of an input error in processing the check.

7. We requested from BCPS management a listing of all services rendered by month to BST by BCPS during the period from June 1, 2002 through February 28, 2003. BCPS management indicated that BCPS did not directly provide services to BST from June 1, 2002 through February 28, 2003.

8. We obtained and inspected BCPS's balance sheet as of February 28, 2003. We noted no fixed assets. In addition, BCPS management indicated BCPS does not own any assets jointly with BST. BCPS management indicated that they have not transferred any assets to, or received any assets from BST, BSLD or any other affiliate.

9. We requested from BST management a list of assets and/or services purchased by BCPS priced pursuant to Section 252(e) or Section 252(f). BST management indicated that "...BellSouth Long Distance, Inc. ("BSLD") and BellSouth Carrier Professional Services, Inc. ("BCPS") have not purchased any services or assets from BST that are priced pursuant to Section 252(e) or Section 252(f) of the Telecommunications Act of 1996 ("1996 Act")."

10. We inquired of BST Management as to whether any part of BST's Official Services network was transferred or sold to BCPS at any time. BST management indicated that BST has not, at any time, transferred or sold any part of the Official Services network to BCPS

**Objective VII: Determine whether or not the Bell Operating Company has discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards.**

1. We requested from BST the procurement awards to the BCPS during the period June 1, 2002 through February 28, 2003. Management indicated that BST had not made any sourcing/procurement awards to BCPS. They also indicated that all sourcing/procurement awards are required to be made through Supply Chain Services (SCS), a separate organization within BellSouth Corporation. Management indicated that during the period June 1, 2002 through February 28, 2003, SCS had not made a sourcing/procurement award to BCPS either.

2. We obtained a list of all goods (including software), services, facilities and customer network services information, excluding CPNI as defined in Section 222(f)(1) of the Act, and exchange access services and facilities inspected in Objective IX, made available to BCPS and the Section 272 affiliate by BellSouth Telecommunications, Inc. For the entire population of 58 items, we inquired of management as to the existence of any media used by the BellSouth Telecommunications, Inc. to inform unaffiliated entities of the availability of the same goods, services, facilities, and information at the same price, and on the same terms and conditions. We inspected the appropriate media. Management indicated the media used to inform carriers of such items:

   - BellSouth's website at http://www.interconnection.bellsouth.com
   - Tariffs filed with Federal and State Regulatory Authorities.
   - BSLD contracts posted at http://www.bellsouthcorp.com/policy/transactions
   - Account Teams for wholesale customers. Every Interconnection Services (ICS) affiliated and non-affiliated customer has an assigned Account Executive.
   - An ongoing newsletter mailed to customers posted on http://www.interconnection.bellsouth.com
   - BellSouth's general brochure used mainly at industry trade shows.

3. We noted BST billed no services from CABS, which includes Billing and Collections, Exchange Access, and InterLATA Services and Facilities. For the services billed from CRIS, which included Telephone Exchange, management indicated that approximately $13,000 was purchased by BCPS and $7.9 billion was purchased by unaffiliated entities.

From a population of 610 CRIS billed items, we selected a statistically valid sample of 100 items to test. We selected one BCPS billed item and one unaffiliated billed item to compare rates. To identify similar CRIS services billed to BCPS and non-affiliates, the following criteria was used:

USOC's - State, Bill Date, and Billing Telephone Number (BTN)

We randomly selected one non-affiliate for each sampled BCPS billed item. We inspected the billed items and compared the rates charged to BCPS and with those charged to non-affiliates for the same services and noted the following:

- For 90 of the 100 BCPS billed items, we noted no differences
- For 10 of the 100 BCPS billed items, we noted that the non-affiliates were charged a rate that was $1.10 more than BCPS.

We requested and obtained from management the check copies, were transfers and, if necessary, summaries of invoiced amounts for the items selected above. We compared the accounts paid to the accounts recorded above noting no differences.

4. We inquired of management regarding how BellSouth Telecommunications, Inc. disseminates information about network changes, the establishment or adoption of new network standards, and the availability of new network services to the Section 272 affiliate and to unaffiliated entities. Management indicated all Network Disclosures, whether short term or normal interval, are posted on BellSouth's publicly accessible website located at: http://www.interconnection.bellsouth.com/notifications/index.html. Network Change Notices are initiated by BellSouth's network or technical personnel who are involved with modifications to the network when there are interoperability impacts.

   Prior to adopting a new standard into BellSouth's network, BellSouth will disseminate this information to all interconnecting carriers through the Network Change Notice process. When new standards are introduced, it is often in conjunction with new services. After Network Services makes a decision that a change needs to be made in the BellSouth Network, Network Services notifies Interconnection Services of the change by sending, via email, a completed Notice of Network Change template. There are four standard templates for network changes. These standard templates cover the following types of changes:

   - Central Office Conversions
   - New Services being deployed
   - Changes to Outside Plant (e.g., Copper to Fiber, etc.)
   - Tandem Rehomes

   Copies of the templates, along with instructions are posted to the BellSouth intranet website at: http://interconnection.bls.com/mktg/downloads/index.html. The Notice of Network Change template contains the following information:

   - Date the Change(s) are to occur
   - Location of Change(s)

- Description of Change(s) Planned
- Description of Reasonably Foreseeable Impact of the Planned Change(s)

Interconnection Services reviews the information from Network Services to ensure that all necessary information has been furnished. If so, Interconnection Services initiates an internal review of the Network Disclosure. Departments involved in this review are the original contributor, Federal Regulatory, and the Legal Department. After the review process has been completed, the Network Disclosure is ready for posting to the BellSouth Interconnection Services web site. To ensure the integrity of the Network Disclosure the document is converted to PDF file. Once converted, Interconnection Services forwards the PDF document to the Interconnection Services web team for posting to the Internet. Network Disclosures can be found on the ICS web site at: http://www.interconnection.bellsouth.com/ notifications. In the event the change to the network is to occur in less than six months, BellSouth will mail to each of its network customers a hard copy of the Network Disclosure. Once the Network Disclosure has been posted to the Interconnection Services website, Interconnection Services sends the following information to Federal Regulatory for filing with the FCC:

- Cover Letter with date Network Disclosure needs to be posted to the FCC's web site.
- Hardcopy of the Network Disclosure.
- Diskette of softcopy of the Network Disclosure.
- If the change is to occur in less than six months, ICS also certifies to the FCC that its wholesale customers were notified by U.S. mail and a copy of the customers' address file is provided.

Federal Regulatory will follow-up to ensure that the Network Disclosures were posted to the FCC's web site. BellSouth Federal Regulatory will notify the FCC if the FCC fails to post such disclosures.

We noted no differences in the manner in which information regarding network changes, establishing or adopting new network standards, and the availability of new network services is disseminated to BCPS and to unaffiliated entities.

**Objective VIII: Determine whether or not the Bell Operating Company (BOC) and an affiliate subject to Section 251(c) of the Act have fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates.**

1. We inquired of management regarding the practices and processes BST has in place to fulfil requests for telephone exchange service and exchange access service for the Section 272 affiliate, the BOC and other affiliates, and non-affiliates in each state where BST has been authorized to provide in region interLATA services. Management indicated that; in the event that BCPS becomes a purchasing entity, the same practices and processes would apply to BCPS as apply to the Section 272 Affiliate. Refer to Objective VIII, Procedure 1 for details.

   We inquired of management regarding BST's internal controls and procedures designed to implement its duty to provide nondiscriminatory service for fulfillment of requests for telephone exchange service and exchange access service. Management indicated that; in the event that BCPS becomes a purchasing entity, the same practices and processes would apply to BCPS as apply to the Section 272 Affiliate. Refer to Objective VIII, Procedure 1 for details.

2. We inquired of management regarding the processes and procedures followed by BST to provide information regarding the availability of facilities used in the provision of special access service to its Section 272 affiliate, the BOC or other BOC affiliates, and non-affiliates. Management indicated that; in the event that BCPS becomes a purchasing entity, the same practices and processes would apply to BCPS as apply to the Section 272 Affiliate. Refer to Objective VIII, Procedure 2 for details.

   We inquired of management whether any employees of the Section 272 Affiliate or BOC and/or other BOC affiliates have access to, or have obtained information regarding, special access facilities availability in a manner different from the manner made available to non-affiliates. Management indicated that the response provided for the Section 272 Affiliate applies to BCPS as well. Refer to Objective VIII, Procedure 2 for details.

3. We requested of management written methodology used by BST for documenting time intervals for processing orders, provisioning of service and performing repair and maintenance services for the Section 272 affiliate, the BOC or other BOC affiliates, and non-affiliates for the services described in Objective VIII, Procedure 4. Management provided documentation describing how BST documents time intervals for processing orders, provisioning of service and performing repair and maintenance services and indicated that; in the event that BCPS becomes a purchasing entity, the same practices and processes would apply to BCPS as apply to the Section 272 Affiliate. Refer to Objective VIII, Procedure 3 for details.

6. We inquired of management as to how and where BST makes available to unaffiliated entities information regarding service intervals in providing any service to the Section 272 affiliates, the BOC or other BOC affiliates, and non-affiliates. Management indicated that the service interval information, if requested, would be provided to BCPS in the same manner as it is provided to unaffiliated entities and the Section 272 Affiliate. Refer to Objective VIII, Procedure 6 for details.

**Objective IX: Determine whether or not the Bell Operating Company and an affiliate subject to Section 251(c) of the Act have made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has to its affiliate required under Section 272 that operates in the same market.**

1. Management indicated that BCPS did not purchase exchange access services and facilities from BST, therefore this step is not applicable

**Objective X: Determine whether or not the Bell Operating Company and an affiliate subject to Section 251(c) of the Act have charged its separate affiliate under Section 272, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service.**

3. We requested from BST management the amounts recorded in its books for exchange access services provided to BCPS for the period from June 1, 2002 through May 23, 2003. Management indicated they had not provided any such services to BCPS.

   We requested and obtained from BST management a reconciliation of amounts recorded in its books for local exchange services provided to BCPS for the period from June 1, 2002 through May 23, 2003. We noted that BST recorded approximately $13,270 for local exchange services for the period. We also obtained information from BCPS management indicating they had recorded as expense and remitted approximately $13,250 to BST for local exchange services for the period, resulting in an unidentified difference of $20.

**Objective XI: Determine whether or not the Bell Operating Company and an affiliate subject to Section 251(c) of the Act have provided any interLATA facilities or services to its interLATA affiliate and made available such services or facilities to all carriers at the same rates and on the same terms and conditions, and allocated the associated costs appropriately.**

1. Management indicated that BCPS did not purchase interLATA network services or facilities from BST, therefore this step in not applicable.

## Appendix C – Procedures for Subsequent Events

We inquired of management and obtained written representation as to whether BST's processes and procedures have changed since the time of execution of these procedures and May 24, 2003; management indicated that no changes occurred.

We inquired of management and obtained written representation as to whether they were aware of any events subsequent to the engagement period, but prior to the issuance of the report, that may affect compliance with any of the objectives described in this document. Management did not indicate they were aware of any such items.

We noted that on July 17, 2003, BellSouth Corporation entered into a consent decree with the FCC concerning its compliance with Sections 271 (a) and (b) and Section 272 (g)(2) of the Communications Act of 1934, as Amended. We obtained a copy of this consent decree during the audit.