

OBJECTIVE VIII. Determine whether or not the BOCs 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 they provide such telephone exchange service and exchange access to themselves or their affiliates.

1. Documented in the working papers the practices and processes the SBC BOCs have in place to fulfill requests for telephone exchange service and exchange access service for the Section 272 affiliates, other affiliates and non-affiliates in each state where SBC has been authorized to provide in-region interLATA services. SBC represented that all exchange access services and local exchange services purchased by the Section 272 affiliates are purchased under tariff. The Section 272 affiliates do not have interconnection agreements or individual case basis agreements with the SBC BOCs. Noted no differences between how the Section 272 affiliates, the SBC BOC itself and the other BOC affiliates were treated compared to the non-affiliates. Both the Section 272 affiliates and non-affiliates order telephone exchange service through the SBC BOCs retail business offices; no differences were noted in the processing procedures related to telephone exchange service orders placed by the Section 272 affiliate and non-affiliates.

Noted the following SBC BOC internal controls and procedures designed to implement its duty to provide nondiscriminatory service: customer billing and provisioning of service is driven by the order process; and, affiliates and non-affiliates use the same processes and procedures to order exchange access services and to submit an access service request ("ASR").

SBC has adopted a siloing policy designed to prevent sharing of non-public BOC information with the Section 272 affiliates. Under SBC's siloing policy, "siloing" refers to the safeguard deployed through the use of structural separation within an organization of certain employees to protect SBC BOC nonpublic information from being transferred inadvertently to the Section 272 affiliates. The term "siloing" means that within a single affiliate that provides services for the entire SBC family of companies, employees are segregated between services performed on behalf of the SBC BOC and those performed on behalf of the Section 272 affiliate. Siloing requires that employees below the fourth level of management (senior level decision maker) employee cannot work on both SBC BOC and Section 272 projects. Employees who perform services for a Section 272 affiliate must be separated away from employees with access to BOC nonpublic information. Siloing requirements must be determined by looking at the specific functions of each work group. A thorough analysis of the functions must be performed to determine whether those functions require access to SBC BOC nonpublic information, and whether the functions may be provided by a non-BOC, non-272 affiliate for a Section 272 affiliate. Siloing is not required if the employee performing the service(s) solely utilizes information from third party vendors and sources or utilizes publicly available information disclosed by the BOC. Siloing is designed to avoid the inadvertent sharing of

BOC nonpublic information to a Section 272 affiliate, which would in turn impose a nondiscrimination obligation on the BOC under Section 272 (c)(1). Any deviations or modifications of the above guidelines should only be done after consultation with legal counsel and SBC's Section 272 Oversight Team.

SBC enforces the policy through extensive mandatory Section 272 compliance training to all affected employees, affiliates and organizations, as well as widespread internal dissemination of these policies via officer letters, broadcast email messages to all employees and posting on the SBC Intranet site.

2. For each state where SBC has been authorized to provide in-region interLATA services, documented in the workpapers the process and procedures followed by the SBC BOC to provide information regarding the availability of facilities used in the provision of special access service to its Section 272 affiliates, BOC and other BOC affiliates and non-affiliates and noted no differences. SBC represented that their policy is that no employees of the Section 272 affiliates, or BOC and 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. SBC policy includes siloing guidelines that prevent the sharing of non-public BOC information with the Section 272 affiliates that could result in discriminatory treatment. SBC represented that this policy is enforced through extensive mandatory Section 272 compliance training to all affected business units as well as widespread internal dissemination of the policies and guidelines, such as officer letters, broadcast e-mail messages to all employees and posting of the policies on the SBC Intranet site

SBC represented that they inquired of the management of the SBC Industry Markets organization, and received responses from the management of Industry Markets that they had identified no instances where a Section 272 affiliate employee had access to or obtained information regarding the availability of special access facilities in a manner different than how the information is provided to non-affiliates. The management of SBC Industry Markets indicated that there were instances where a Section 272 affiliates and non-affiliates obtained information directly from the SBC BOC network organization rather than contacting their Industry Markets account manager. SBC represented that these requests were handled in the same manner for both the Section 272 affiliates and non-affiliates.

3. For each state where SBC has been authorized to provide in-region interLATA services, obtained written methodology that the SBC BOC followed to document time intervals for processing of orders (for initial installation requests, subsequent requests for improvement, upgrades, or modifications of service, or repair and maintenance), provisioning of service, and performance of repair and maintenance services for the Section 272 affiliates, BOC and other BOC affiliates and non-affiliates for exchange access services and presubscribed interexchange carrier ("PIC") charge orders. SBC

represented that during the Engagement Period that SBC did not report Section 272(e)(1) performance measures for the exchange telephone service category since the Section 272 affiliates did not resell local service.

During the Engagement Period SBC tracked monthly results by state (starting in the first full month following Section 271 authorization) for the following performance measurements (“PMs”) for BOC and affiliates and non-affiliates from July 2001 through December 2002 and for the Section 272 affiliates, BOC and other BOC affiliates and non-affiliates from January 2003 through June 2003:

- PM 1 – Exchange Access: Successful Completion According to Desired Due Date (measured in a percentage).
- PM 2 – Exchange Access: Time from BOC Promised Due Date to Circuit being placed in service (measured in terms of percentage installed within each successive 24 hour period, until 95% installation completed).
- PM 3 – Exchange Access: Time to Firm Order Confirmation (measured in terms of percentage received within each successive 24 hour period, until 95% completed).
- PM 4 – PIC: Time from PIC change request to implementation (measured in terms of percentage implemented within each successive six-hour period, until 95% completed)
- PM 5 – Exchange Access: Time to Restore and trouble duration (percentage restored within each successive 1 hour interval, until resolution of 95% of incidents).
- PM 6 – PIC: Time to restore PIC after trouble incident (measured by percentage restored within each successive 1 hour interval, until resolution of 95% restored)
- PM 7 – Exchange Access: Mean time to clear network /average duration of trouble (measured in hours).

The business rules used by SBC to report each of these measures are listed in Attachment A-6. The SBC business rules refer to the PMs as service categories. SBC prepared results quarterly and made them available upon request. In order to document these measures, the Company developed detailed business rules and reporting criteria for each of the seven PMs. Reports are produced from the SBC reporting systems including Acquisition of Statistical Knowledge Made Easy (“ASKME”) and Open Query System (“OQS”). The data providers review the raw data from ASKME and OQS, and the results are reviewed quarterly for completeness by SBC Industry Markets Group. SBC also performs party comparisons, investigates out-of-party results and performs root cause analyses in order to provide recommendations to improve performance.

4. Obtained the performance data maintained by SBC BOCs during the Engagement Period, by month, by state, indicating time intervals for processing of orders (for initial installation requests, subsequent requests for improvement, upgrades, or modifications of

service or repair and maintenance), provisioning of service, and performance of repair and maintenance services for the Section 272 affiliates, BOC and other BOC affiliates and non-affiliates for exchange access services and PIC charge orders. During the Engagement Period, SBC did not report Section 272(e)(1) performance measures for the exchange telephone service category. For exchange access services, SBC did not report any Feature Group D measurements during the Engagement Period and included OCN activity in the exchange access service measurements for DS3 and above. From this data, prepared comparisons, shown in Attachment A-7, of the differences in time in fulfilling each type of request for the same service for the Section 272 affiliates (BOC and affiliates from July 2001 through December 2002) and the non-affiliates. Requested explanations from SBC where fulfillment of requests from non-affiliates took longer than for the Section 272 affiliates Prepared linear graphs, at Attachment A-8, for each state, for each performance measure, for each service, over the Engagement Period, depicting the performance for the Section 272 affiliates, BOC and other BOC affiliates and non-affiliates.

SBC represented that their internal statistical analysis of the differences noted on Attachment A-7 indicated that the differences were not statistically significant, except for certain results from PM 3, as noted in the summary of out-of-party analysis provided by SBC and included in the workpapers, and that the differences were merely the result of random variations (i.e., the statistically significant differences were random occurrences and not systemic). SBC represented that they evaluate Section 272(e)(1) PM results when an out-of-party condition (i.e., the difference is statistically significant) occurs in any three consecutive month period or when situations indicate that the results do not include merely random variations. SBC performs an extensive root-cause analysis when these situations occur. SBC also indicated that the business rules for PM 1 will be changed effective July 2003 to use the desired due date objective, which considers both the customer desired due date and the standard interval, rather than the customer desired due date used during the Engagement Period. SBC's internal statistical analysis noted that if the desired due date objective had been used during the Engagement Period, the PM 1 results would produce no statistically significant differences.

5. Using the reported data (i.e., by state, by service, by performance measure, by month) in Procedure 4 above, randomly selected the following months:
 - September 2001, December 2002 and January 2003 for Kansas, Oklahoma and Texas;
 - July 2002, December 2002 and January 2003 for Arkansas and Missouri;
 - February 2003 and May 2003 for California; and,
 - May 2003 for Nevada

For the selected months, applied the business rules to the underlying raw data and compared the results to those tracked and maintained by the SBC BOC for that performance metric. Application of the business rules considered the definitions, exclusions, calculations and reporting structure included in the business rules. All differences noted for PMs 1, 2, 4, 5, 6 and 7 are included in the workpapers. Differences greater than 1% and all differences in the day, six-hour or one-hour increment that 95% was achieved are listed in Attachment A-9. No differences were noted for PM 3.

- 6 Inquired how and where the SBC BOCs make available to unaffiliated entities information regarding service intervals in providing any service to the Section 272 affiliates, themselves or their affiliates and to unaffiliated entities. SBC represented that the Director Negotiations – Industry Markets Support is responsible for making the Section 272(e)(1) reports available to interested parties upon request. The Project Manager-Merger Compliance within the Industry Markets Group maintains the most recent copy of the reports, responds to the request within seven days and the log of requests received from interested parties. Other carriers can contact their account team manager within Industry Markets to request the Section 272(e)(1) reports. SBC represented that they received no requests for the Section 272(e)(1) PMs during the Engagement Period. Since no PMs were requested or provided to unaffiliated entities during the Engagement Period, no inspection of how SBC made the PMs available could be performed by Ernst & Young.

OBJECTIVE IX. Determine whether or not the BOCs 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 they have to their affiliate required under Section 272 that operates in the same market.

1 SBC represented that all exchange access services purchased by the Section 272 affiliates are purchased under tariff. The Section 272 affiliates do not have interconnection agreements or individual case basis agreements with the SBC BOCs. Obtained a list of exchange access services and facilities with their related rates offered to each Section 272 affiliate and noted that these services and facilities were made available at the same rates and on the same terms and conditions to all carriers through publicly filed tariffs. SBC represented that the primary media used to make exchange access services and facilities available is the SBC Internet site <https://www.sbcprimeaccess.com> (“Prime Access website”). Obtained summaries of all exchange access services and facilities. Obtained excerpts from the exchange access tariffs for each SBC state at the SBC Internet site, www.sbc.com. SBC notifies carriers through the use of accessible letters that are mailed or electronically sent and posted on the Prime Access website. Obtained the index to the Prime Access website that listed all accessible letters related to exchange access services and facilities. Noted that all exchange access services and facilities offered via the SBC Internet sites were offered at the same rates, terms and conditions to all carriers. SBC represented that carriers may also obtain information from their account manager or from a customer service representative at the Access Service Center.

SBC represented that media is occasionally created that is not publicly distributed but rather is directly presented to a carrier. For example, an account manager might personally prepare and send a write-up on a product to a customer, either on a prospective basis or at the customer’s request. Also, product managers might meet with a sample of customers before a product is rolled out to discuss a new product and they might use presentations or other media to explain the prospective product. SBC does not require managers to retain copies of these individually created documents, therefore these documents were not provided to the practitioner.

2 Obtained a listing of all invoices for exchange access services and facilities, by billing account number (“BAN”), rendered by the SBC BOCs operating in Arkansas, California, Kansas, Missouri, Nevada, Oklahoma and Texas for the month of May 2003 to SBCS, and obtained a listing of other carriers purchasing services in those states during May 2003. From the SBCS listing obtained, selected a random sample of 85 BANs billed to the SBCS for review. Obtained, and included in the workpapers, copies of one SBCS invoice per state (the first invoice selected). From the BANs selected, compiled a list of all USOCs billed to SBCS along with the billed rate per USOC. Selected the first 100 USOCs appearing on the compiled list and obtained a report from the SBC BOCs that showed all billings by state for the selected USOCs to all interexchange carriers for the

month of May 2003. Compared the USOC rates billed to SBCS to the rates billed to other interexchange carriers by state and noted the differences listed in Attachment A-10a. Requested explanations of the differences from SBC. SBC's responses are included in Attachment A-10b. Obtained the first page of one BAN for one other carrier per state (13 different carriers) and compared terms and conditions to the SBCS invoices obtained. No differences were noted.

3. For the 85 Section 272 affiliate invoices selected in Procedure 2 above, determined whether the amount invoiced was recorded by the SBC BOC and paid by the Section 272 affiliate. Noted that the 85 invoices selected represented exchange access service billings of \$4,072,592.87 from the SBC BOCs to the Section 272 affiliates. Identified and inspected payments from the Section 272 affiliates to the SBC BOCs for the 85 sampled invoices that totaled \$4,076,321.94. Inspected the method of payment such as cancelled checks, wire transfers, and when needed, summaries of invoices amounts corresponding to the amount paid. For 77 of the 85 invoices, noted that the amount billed by the SBC BOC agreed to the amount paid by SBCS. For 8 of the 85 invoices noted differences between the amount billed by the SBC BOC and the amount paid by SBCS. The differences noted are listed on Attachment A-11. SBC represented that the differences noted were due to charges that were under dispute by the Section 272 affiliate, including four charges of \$675 each for expedited service. SBCS represented that their policy is not to pay expedite charges from any carrier until supporting documentation is provided.

OBJECTIVE X. Determine whether or not the BOCs and an affiliate subject to Section 251(c) of the Act have charged their separate affiliate under Section 272, or imputed to themselves (if using the access for their provision of their own services), an amount for access to their telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service.

1. Obtained a list of interLATA services offered by the SBC BOCs operating in each state in which SBC has received Section 271 approval and discussed the list with the appropriate SBC BOC representative, who indicated that the list was comprehensive. Compared the services appearing on the list with all the incidental interLATA services disclosed in the SBC BOCs' Cost Allocation Manual ("CAM") Section II, Nonregulated Activities and Section III, Incidental Activities. Noted no differences. Compared the nonregulated incidental interLATA services listed in Section II of the SBC BOCs' 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.
2. SBC represented that from the list of services obtained in Procedure 1 above, only SWBT and Pacific Bell imputed amounts for access, switching and transport for the National Directory Assistance ("NDA") service during the Engagement Period. NDA service was not provided to any customers in Nevada during the Engagement Period. In areas serviced by SNET, separate affiliates provide all nonregulated products, including NDA service.

For SWBT, obtained usage details, rates imputed and tariff rates for NDA service for each state for each month of the Engagement Period. For Pacific Bell, obtained usage details, rates imputed and tariff rates for NDA service for December 2002 to June 2003. Compared the rates imputed to the tariff rates and noted no differences. For one month tested, traced the amounts imputed for each BOC to the journal entry and to the general ledger and noted that the entry was a debit to nonregulated operating revenues (decrease) and a credit to regulated revenues (increase).

3. For exchange access services and local exchange services, documented in Attachment A-12a the total amounts that SBCS and ACI recorded as expense in their books during the Engagement Period and compared these amounts to the total amounts booked as revenues by the SBC BOCs during the Engagement Period. Also compared the amounts paid by SBCS and ACI to the SBC BOC revenue amounts during the Engagement Period. For exchange access service, inspected payment summaries by billed BAN for SBCS and ACI payments. For local exchange service, inspected detailed payment listings for the Section 272 affiliates that listed each payment, invoice number and date paid. All differences are noted on Attachment A-12a.

SBC represented that the differences noted for exchange access services result from the following reasons:

- SBC BOCs' revenues are recorded at the actual amounts billed and the expenses recorded by the Section 272 affiliates are estimated accruals.
- SBCS and ACI payments include payments made for prior period billings from the SBC BOCs
- SBCS payments do not include amounts billed by the SBC BOCs near the end of the Engagement Period and paid by SBCS after the Engagement Period.

SBC represented that the differences noted for local exchange service are due to the following reasons:

- The timing difference between when the SBC BOCs render the bills and when the Section 272 affiliates pays the bills.
- SBCS and ACI payments include payments made for prior period billings from the SBC BOCs.
- SBC BOC revenues include amounts not yet paid or expensed by the Section 272 affiliates.
- Some local exchange bills rendered to ACI were paid through an intercompany settlement process and were not specifically identified as local exchange payments. The intercompany settlement process is no longer used to pay these bills, but ACI payments made through the intercompany settlement process during the Engagement Period were not included in the ACI payments shown on Attachment A-12a
- SBC BOCs include taxes and surcharges on the bills rendered to the Section 272 affiliates. The taxes and surcharges are not included in SBC BOC revenue but are included in the Section 272 expense and payment amounts.
- SBCS payments do not include amounts billed by the SBC BOCs near the end of the Engagement Period and paid by SBCS after the Engagement Period.

SBC represented that the Section 272 affiliates did not purchase unbundled network elements during the Engagement Period.

For exchange access services, obtained an accounts receivable aging from the SBC BOCs related to the receivables from the Section 272 affiliates for the period July 2002 to June 2003. Attachment A-12b lists amounts from the aging obtained above that were greater than 60 days past due.

For local exchange services, obtained summaries by SBC BOC that showed past due amounts from the Section 272 affiliates. The summary from Pacific Bell included approximately 90% of all Section 272 affiliate accounts and showed all amounts greater than 30 days past due. The summary from SWBT included information on 14 Section 272 affiliate accounts and showed all amounts greater than 60 past due. The summary from Ameritech included Section 272 affiliate accounts and showed all amounts greater than 30 days past due. Attachment A-12b lists past due amounts obtained on the summaries.

Amounts greater than 60 days past due that were not identified on the Pacific Bell and Ameritech summaries.

SBC represented that the reasons for the past due amounts for exchange access services and local exchange services were due to the following reasons:

- Disputes between the Section 272 affiliates and the SBC BOCs over amounts billed
- The inherent delay created in the time lag associated with the various processes occurring between the time the invoice is issued by the SBC BOC and the time the Section 272 affiliate's payment is received by the SBC BOC.

OBJECTIVE XI. Determine whether or not the BOCs and an affiliate subject to Section 251(c) of the Act have provided any interLATA facilities or services to their 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. SBC represented that the only interLATA network service provided to SBCS is wholesale operator assistance service provided by SWBT in all SBC states where SBC has received Section 271 approval. This service is made available under FCC Tariff 73 and Kansas access tariffs. SBC represented that these services are made available to all carriers in all states through the tariffs and affiliate agreements filed on the SBC Internet site, accessible letters posted to the Prime Access website and available through email distribution, sales aids and brochures which can be requested from Account Managers or downloaded from the Prime Access website and from the Account Management/Access Service Center. SBC did not provide copies of sales aids, brochures or other media used to inform carriers of the availability of these services as requested. SBC represented that for the Wholesale Operator Assistance service provided by SWBT to SBCS, SWBT informs carriers of the availability of this service through the FCC Tariff 73 and Kansas access tariffs, but does not maintain other sales aids or brochures and has not issued accessible letters related to Wholesale Operator Assistance service. Obtained a copy of tariffs showing rate information and the affiliate agreement for the interLATA network services and facilities offered by the SBC BOCs, noted no differences in the rates offered to the Section 272 affiliates to those offered to other carriers.
2. Obtained one invoice for wholesale operator assistance service for May 2003 rendered by SWBT to SBCS. This invoice included charges for services to SBCS in all SBC states where SBC had received Section 271 approval. SBC represented that no other interexchange carriers purchased any interLATA network services from any SBC BOCs during the Engagement Period. Compared the rates, terms and conditions on the SBCS invoice to FCC Tariff 73 and the affiliate agreement for designated operator services. Noted that the rates charged to SBCS agreed to the FCC Tariff 73 and the designated operator services affiliate agreement except for the rate charged to SBCS for call recording. SBCS was billed \$0.015 per call compared to the rate of \$0.0125 per call published in the designated operator services affiliate agreement. This rate difference resulted in an overbilling to SBCS of \$51.52 in May 2003. SBC represented that the rate used to bill SBCS was incorrect and SBCS should have been billed at the posted rate of \$0.0125 for call recording.
3. Using the invoice obtained in Procedure 2 above, traced the amount invoiced to the Section 272 affiliate for interLATA facilities and services and determined the amount invoiced was the amount recorded by the SBC BOC and paid by the Section 272 affiliate. For this purpose, obtained screen prints from SBCS's accounting system that was the request for payment of this invoice. Additionally, obtained screen prints from the SBC

BOC that showed the amount billed by the Carrier Access Billing System ("CABS") billing system. Additionally, agreed the dollar amount per the SBC BOC CABS system to the payment amount per SBCS's accounting system. Obtained a copy of SBCS's cancelled check dated July 23, 2003 that included payment of this invoice along with 18 other invoices to SWBT.

Procedures for Subsequent Events

1. Management represented that the SBC BOCs and SBCS's processes and procedures have not changed since the time of execution of these procedures and the end of the Engagement Period
2. Obtained written representation from management that they were aware of the following event subsequent to the Engagement Period, but prior to the issuance of this report, that may affect compliance with any of the objectives described in this document.
 - On August 25, 2003, SBC filed an ex parte statement with the FCC in the Michigan 271 proceeding disclosing a posting on the SBC Internet site that was a promotional offer, International SaverPlus Special Offer, in Michigan. This promotional offer was posted on the SBC Internet site from May 21, 2003 to August 21, 2003. Customers who logged on to the website were unable to accept this offer, since there was no order button associated with this product. This disclosure was made to the FCC's Secretary and Enforcement Bureau.
 - On or around August 22, 2000, SWBT leased a T-1 facility to a CLEC under an interconnection agreement to enable the CLEC to transport and terminate calls between its Albany and Breckenridge, Texas exchanges, which were situated in different LATAs. Instead of offering the service through SBCS, the circuit was provisioned under the erroneous understanding that because SWBT was allowed to provide services between those exchanges under its EAS waiver, it was also permitted to provide CLECs with facilities to do the same. SWBT is in the process of refunding to the CLEC the associated billing for this circuit, approximately \$15,000, for the period of provisioning up to and including June 30, 2003, the effective Section 272 sunset date for Texas.

Follow-up Procedures on the Prior Engagement

Noted the following actions taken by SBC management to ensure non-recurrence and improvement of prior reported items, and the effective dates of such actions when performing the procedures related to the findings noted in the Prior Report:

- a. Objective V&VI, Procedure 5 – Of the 25 items noted in the Prior Report as not posted on the Internet, SBC represented that 21 were related to either discontinued services that were removed from the Internet site or to joint marketing provided under Section 272(g) and not subject to the non-discrimination provisions of Section 272(c). SBC attributes the remaining error rate of less than 1% to isolated instances of administrative error.

SBC represented that corrective actions were implemented with respect to the 17 items not physically available in the central files by updating the particular pricing addenda or contract. Management implemented improvements to the internal control structure with respect to Central File documents by replacing the multiple paper copies required to maintain a Central File at each BOC principal place of business with a centralized set of scanned documents made available at each BOC principal place of business via SBC's Intranet. However, SBC continues to maintain a hard copy Central File in Connecticut given the nominal volume of affiliate agreements between SNET and the Section 272 affiliates.

- b Objective V&VI, Procedure 5 – SBC represented that the three agreements noted in the Prior Report that were posted beyond the required 10 days were isolated instances of administrative error, one of which was that the effective date of one of the agreements was incorrect, and based on the correct effective date, that agreement was actually posted within the 10-day deadline. As a result, only two of 100 agreements sampled were posted late.

SBC represented that the 12 instances in which the date of posting could not be verified and the 39 cases where posting documentation consisted of internal correspondence or employee file notes were attributed to activity which occurred prior to implementation of an automated system to arrange for Internet posting of affiliate agreements in September 2000. Affiliate agreements posted subsequent to September 2000 through the automated process have a system-documented posting date.

Additional Occurrences & Management Action

Additional instances of late Internet postings were noted during the current Engagement Period. SBC identified the following reasons for the late postings and implemented the internal control improvements:

- System Freezes – Occasionally, the system through which affiliate agreements are posted temporarily suspends updates to all subject Internet pages. SBCS has made arrangements with the responsible systems group to ensure SBCS Internet postings will not be subject to the update suspensions.
- Employee Transfers – The responsibility for processing affiliate agreements for Internet Posting was transferred from one employee to another and agreements were posted late during the gap before the new employee fully was trained. SBCS management has since cross-trained other employees to cover Internet posting responsibilities.
- Employee Errors – An employee responsible for processing affiliate agreements for Internet posting did not post all agreements on a timely basis. The employee is no longer with SBCS and SBCS management implemented monitoring procedures for tracking Internet posting

timeliness on a monthly basis to identify any errors and apply remedial action as necessary.

- c. Objective V&VI, Procedure 6 – For the transaction noted in the Prior Report, noted that a time and motion study was completed in August 2000 to support billing rates of \$2.19 and \$1.30 per listing, based on the staff level providing the service (compared to a general \$1 00 per listing billing rate noted in the Prior Report). These revised billing rates were based on 54.1 listings per hour, and hourly labor costs of \$118.42 and \$74.72, respectively. A true-up billing was processed in December 2001.

Additional Occurrences & Management Action

Three additional occurrences of inaccurate affiliate billing were noted in Objective V, VI, Procedure 6 of this report. In all three cases, the Section 272 affiliate was overbilled and the SBC BOCs have issued correcting credits.

- d. Objective V, VI, Procedure 7 – SBC represented that the differences in the amounts on the sampled invoices varied from the amounts shown on the summary listing due to billing disputes and adjustments made during the interim period between the two requests. The Prior Report noted that each invoice was billed by SBCS in accordance with the affiliate transactions standard.

Additional Occurrences & Management Action

Additional occurrences of inaccurate affiliate billings from the Section 272 affiliates to the SBC BOCs were noted in Objective V, VI, Procedure 7 of this report. See Attachments A-3a1 and A-3b. SBC represented the following actions regarding the four differences noted on Attachment A-3a1.

- One difference was corrected by SBCS before the end of the Engagement Period.
- SBCS is correcting two of the four differences.
- SBCS plans to write off the remaining balance of one difference.

- e. Objective VIII, Procedure 4 – SBC represented that the results of the performance data cannot be attributed to the behavior of the SBC BOC alone. Customers may request due dates that are longer or shorter than the SBC BOCs' standard due dates, or may extend originally requested installation dates based on changes in their plans or capabilities. SBC represented that their root cause analysis for the measurement related to customer desired due date reveals that non-affiliates requested due dates less than or equal to the standard due date interval about twice as often as affiliates. Such differences in behavior can greatly skew the results of the measures. Therefore, the raw data alone do not indicate whether differences in

performance data are attributable to the SBC BOCs' performance or to other customer-specific issues.

- f. Objective IX, Procedure 2 – As represented by SBC in the Prior Report, the differences between the rates billed to the Section 272 affiliates and rates billed to unaffiliated carriers were due to zone, term, and/or volume differences.

Additional Occurrences & Management Action

Differences between the USOC rates billed to the Section 272 affiliates and rates billed to unaffiliated carriers due to zone, term, and/or volume differences are again noted in this report