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May 20, 2004

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: **Notice of Ex Parte Communication**
In the Matter of The Payphone Reclassification and
Compensation and Provisions of the Telecommunications Act of 1996
CC Docket No. 96-128

Dear Ms. Dortch:

In response to the Wireline Competition Bureau ("WCB") staff request for additional information regarding the audit requirements and procedures set forth in its *Report and Order* in the above captioned proceeding,¹ AT&T Corp. ("AT&T") hereby submits this written *ExParte*.

The Statement on Auditing Standards No. 70 ("SAS 70"), *Service Organizations*, is an auditing standard developed by the American Institute of Certified Public Accountants ("AICPA"). Auditors are required to follow the AICPA's standards for fieldwork, quality control, and reporting. The SAS 70 provides guidance to enable the independent auditor to issue an opinion on a service organization's description of controls. The SAS 70 audit is used to gain assurances and represents that a service organization has been through an audit of their control activities, which generally include controls over information technology and related

¹ *In the Matter of The Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, CC Docket No. 96-128, Report and Order, FCC 03-235, released October 3, 2003 ("*Report and Order*"). A summary of the *Report and Order* was published in the Federal Register on November 6, 2003. See 68 Fed. Reg. 62751.

processes. It signifies that a service organization has had its control objectives and control activities examined by an independent accounting and auditing firm. Upon completion of the audit, a formal report, including the auditor's opinion, is issued to the service organization.

A SAS 70 audit is generally applicable when an auditor is auditing an entity that receives services from another organization. This is particularly important when the service organization is providing services to multiple entities. Consequently, because payphone clearinghouses serve an important role, on behalf of the Completing Carriers, to distribute compensation and reporting data to the Payphone Service Providers ("PSPs"), a SAS 70 serves a significant function in the auditing process. Rather than subjecting the payphone clearinghouses to multiple audits by each Completing Carrier's auditor, the SAS 70 is utilized in the auditing world to achieve the same result.

Payphone clearinghouses, such as the National Payphone Clearinghouse ("NPC") provide the Completing Carrier with two types of SAS 70 reports, commonly referred to in the industry as a SAS 70 Type I report and a SAS 70 Type II report.

A Type I report describes the service organization's description of controls at a specific point in time. In a Type I report, the service auditor will express an opinion on whether the service organization's description of its controls presents fairly, in all material respects, the relevant aspects of the service organization's controls that had been placed in operation as of a specific date, and whether the controls were suitably designed to achieve specified control objectives.

A Type II report not only includes the service organization's description of controls, but also includes detailed testing of the service organization's controls over a minimum six (6) month period. In a Type II report, the service auditor will express an opinion on the same items as in a Type I report, and whether the controls that were tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives were achieved during the period specified.

In this example, KPMG LLP, NPC's independent auditor, performed both examinations (the Type I and the Type II reports). The Type I report covered the processing period from January 1, 2004 to March 31, 2004. The Type II report covered the processing period from July 1, 2003 to December 31, 2003. In both reports, the control objectives closely map to the services that the NPC provides to the Completing Carrier. The controls covered included changes to existing

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applications, data receipting, load process, traffic submission, validation, dispute resolution, calculation, payment processing, and reporting. With respect to the reports prepared by KPMG LLP, on behalf of the NPC, neither report contained an adverse or qualified opinion.

If you require any further information or have any additional questions, please feel free to contact the undersigned.

Sincerely,

/s/

Martha Lewis Marcus

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