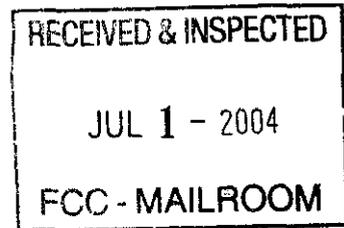




IDT Corporation
520 Broad Street
Newark, New Jersey 07102-3111



June 30, 2004

VIA OVERNIGHT MAIL

Secretary
Federal Communications Commission
Office of the Secretary
9300 East Hampton Drive
Capitol Heights, MD 20743

**Re: In the Matter of Implementation of the Pay Telephone Reclassification
and Compensation Provisions of the Telecommunications Act of 1996
CC 96-128**

Dear Secretary:

On behalf of IDT Corporation, its affiliates and subsidiaries (collectively "IDT")¹ and in accordance with 47 C.F.R. 64.1320, IDT hereby provides its System Audit Report. IDT also provides the following information in accordance with 47 C.F.R. 64.1320(e):

IDT is the Completing Carrier, as that term is defined in 47 C.F.R. 64.1300(a).

The persons responsible for handling payphone compensation and disputes with payphone service providers over compensation are:

Mr. Mark Rabizadeh
IDT Corporation
520 Broad Street
Newark, New Jersey 07102
(973) 438-4459

Billing Concepts, Inc.
7411 John Smith Drive, Suite 200
San Antonio, Texas 78229-4898
(210) 949-7000

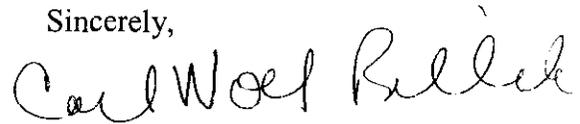
¹ Including, but not limited to IDT Telecom, Inc., IDT Domestic Telecom, Inc., IDT Telecom, LLC, IDT America, Corp., Winstar Communications LLC and its affiliates and subsidiaries and Entrix Telecom, Inc. but not including Net2Phone, Inc.

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All requests for payment and all disputes must be initially filed with Billing Concepts, Inc., IDT's payphone compensation clearinghouse. Any disputes not resolved by Billing Concepts, Inc. should be filed with Mr. Rabizadeh, with a copy to Mr. Carl Wolf Billek at the above-listed address.

Sincerely,

A handwritten signature in cursive script that reads "Carl Wolf Billek". The signature is written in dark ink and is positioned to the right of the word "Sincerely,".

Carl Wolf Billek
IDT Corporation

Enclosure

Section 1

System Audit Report for IDT Corporation

This System Audit Report ("SAR") has been drafted in accordance with the rules set forth in 47 C.F.R. 64.1300 *et seq.* (collectively, "FCC payphone regulations.") The SAR is comprised of three sections: (1) IDT's representation concerning its compliance with FCC payphone regulations during the period of March 1, 2004 – June 15, 2004, including, but not limited to, those regulations set forth at 47 C.F.R. 64.1320(c); (2) the opinion of Hoberman, Miller, Goldstein & Lesser, P.C. ("HMGL"), IDT's independent auditor, concerning IDT's representation of its compliance; (3) the SAS 70 Report of Billing Concepts, Inc. ("Billing Concepts"), which details all aspects of Billing Concepts' performance on behalf of IDT relevant to this SAR.

IDT intends to use Billing Concepts as its dial-around compensation clearinghouse. However, because FCC rules in effect as of the date of this SAR prohibit IDT from directly remitting per-call compensation to PSPs, IDT is not presently using Billing Concepts as a clearinghouse. Additionally, as of the date of this SAR, IDT remains in negotiations with Billing Concepts to secure the use of Billing Concepts' services. IDT anticipates that it shall enter into an agreement with Billing Concepts on or around July 1, 2004. Regardless of the date of the agreement between IDT and Billing Concepts, IDT intends Billing Concepts to serve as IDT's clearinghouse for all applicable calls completed on and after July 1, 2004. Accordingly, any description of the services provided by Billing Concepts are on a prospective basis and are not in operation on the date of this SAR. However, IDT's description of the services Billing Concepts shall provide is, to the best of IDT's knowledge and belief, accurate. IDT has made a copy of its pending agreement available to HMGL. To the degree the attestation of HMGL addresses the services provided by Billing Concepts, HMGL's attestation is limited to its review of the pending agreement between IDT and Billing Concepts and the SAS 70 Report provided by Billing Concepts.

In accordance with 47 C.F.R. 64.1320(c), IDT hereby demonstrates its compliance with the following factors in establishing a call tracking system required under 47 C.F.R. 64.1310(a)(1):

47 CFR 64.1320(c)(1)

All calls sent through IDT's switch are contained in a database table. IDT runs a query on the database table containing the aforementioned calls that seeks all calls that contain the payphone infodigit 27 or 29 or 70. Upon recognition of the originating ANI containing the applicable infodigits, the query records all relevant call detail information required under the Commission's regulations including whether the call was completed, as well as its originating ANI, terminating ANI and date and time of call. Whether a call is completed is determined by whether IDT receives answer supervision from the called party.

47 CFR 64.1320(c)(2)

Carl Billek and Mark Rabizadeh are jointly responsible for drafting necessary business requirements.

Rob Blackin and others under Mr. Blackin's direction are responsible for developing and maintaining systems to create payphone call records from switch records.

Rob Blackin, Mark Rabizadeh and others under Mr. Blackin and Mr. Rabizadeh's direction are responsible for implementing and maintaining procedures that create reports containing completed call records which shall be sent to Billing Concepts.

In the event any IDT employee has a question or concern pertaining to the tracking, reporting and/or compensating of calls under 47 C.F.R. 64.1300 *et seq.*, that employee is directed to present the issue to Mark Rabizadeh and Carl Billek and they shall resolve the issue in a manner consistent with the FCC's rules and regulations.

Billing Concepts shall be responsible for developing certain compensation tracking reports on IDT's behalf (i.e., tracking payphone service providers ("PSPs") that have been compensated).

Billing Concepts shall remit on IDT's behalf per call compensation at \$0.24 per completed call which is, as of the date of this SAR, the FCC's default per-call compensation rate. If, in the future, the FCC or a court of competent jurisdiction revises the default per-call compensation rate, IDT shall direct Billing Concepts to remit, on IDT's behalf, per-call compensation at the revised rate, provided that the determination setting the rate is a final, non-appealable decision.

All initial disputes must be filed with Billing Concepts at Billing Concepts, Inc., 7411 John Smith Drive, Suite 200, San Antonio, Texas 78229-4898, (210) 949-7000. Where a dispute is not resolved by Billing Concepts, all disputes must be submitted to Mr.

Rabizadeh with a copy to Mr. Billek at 520 Broad Street, Newark, NJ 07102-3111. Messrs. Rabizadeh and Billek and/or others working with them will resolve all disputes. Where a dispute resolution requires a signature by one or more corporate officers, Messrs. Rabizadeh and/or Billek shall procure the required signatures.

IDT maintains verification data to support its quarterly reports submitted pursuant to 47 C.F.R. 64.1310(a)(4) and (c) for no less than 18 months after the close of that quarter.

47 CFR 64.1320(c)(3)

Mr. Blackin and Mr. Rabizadeh and/or those under their direction, monitor call data information and take action, where necessary to address anomalies in the data. Mr. Blackin can prepare the following reports on a daily, weekly, monthly, quarterly or yearly basis:

Payphone call counts, number called and infodigits;

Trends of switch traffic volumes entering payphone compensation systems;

Trends of excluded calls (e.g., non-completed calls); and

Other reports, as may be created at IDT's discretion.

Prior to sending any file to Billing Concepts, Rob Blackin shall confirm that IDT has determined that it has: (1) used the proper infodigits; (2) confirmed that dial around calls are otherwise properly captured; (3) not included incomplete calls or calls that are otherwise not compensable; (4) populated switch data in a manner consistent with these guidelines; and (5) (if applicable) excluded commissioned calls.

IDT shall make reports available to PSPs solely at IDT's discretion, except where such report is compelled by Commission law or Order of a court of competent jurisdiction.

47 CFR 64.1320(c)(4)

Access to call tracking data and the call tracking system is limited to Mark Rabizadeh, Rob Blackin, Peter Leone and employees working under their supervision

Any software changes affecting payphone compensation that may need to be made are done by or under the supervision of Rob Blackin.

The installation of any new software or the modification of any existing software that may, in the opinion of Rob Blackin, impact IDT's ability to track, report and/or compensate completed calls in a manner consistent with this SAR shall not be implemented until Mr. Blackin has tested the software against an existing file to determine that the new and/or modified software shall not prevent and/or significantly

alter IDT's ability to track, report and/or compensate completed calls in accordance with its obligations under the FCC's rules and any Certifications made thereunder.

Access to payment disbursement systems shall be controlled and monitored by Billing Concepts. Details regarding Billing Concepts' payment disbursement systems are set forth in Billing Concepts SAS 70 Report, which is included in this SAR.

47 CFR 64.1320(c)(5)

All calls sent through IDT's switch are contained in a database table. IDT runs a query on the database table containing the aforementioned calls that seeks all calls that contain the payphone infodigit 27 or 29 or 70. Upon recognition of the originating ANI containing the applicable infodigits, the query records all relevant call detail information required under the Commission's regulations including whether the call was completed, as well as its originating ANI, terminating ANI and date and time of call.

47 CFR 64.1320(c)(6)

At the conclusion of each quarter, IDT shall submit to Billing Concepts, in a computer readable format, a file on that quarter that includes: (1) A list of the toll-free access numbers dialed from each payphone by ANI; (2) the volume of calls for each PSP ANI completed by IDT; (3) the name, address, and phone number of the person or persons responsible for handling IDT's payphone compensation; and (4) the carrier identification code ("CIC") of all facilities-based long distance carriers that routed calls to IDT, categorized according to the list of toll-free and access code numbers identified by IDT.

Billing Concepts shall match the ANIs contained in the file to a list of PSP ANIs that Billing Concepts possesses. Billing Concepts shall then submit a report to IDT demonstrating IDT's per-call compensation obligations and request payment for those obligations. Upon IDT's review and acceptance of this report, IDT shall forward payment to Billing Concepts for the completed calls and Billing Concepts will remit payment on IDT's behalf to PSPs and/or their agents for each completed call contained in the file at the FCC-mandated rate (presently \$0.24 per completed call) on IDT's behalf. Billing Concepts shall be responsible for validating PSP ANIs, including ownership changes, etc. Details regarding Billing Concepts' processes for providing these functions are set forth in Billing Concepts SAS 70 Report, which is included in this SAR.

IDT does not provide service as an Intermediate Carrier, as the FCC and its rules and regulations define that term. Accordingly, it is not responsible for providing information under 47 CFR 64.1310(c)(1-4).

47 CFR 64.1320(c)(7)

Billing Concepts shall be contractually permitted to resolve certain disputes raised by a PSP with IDT. Details regarding Billing Concepts' processes for resolving disputes are set forth in Billing Concepts SAS 70 Report, which is included in this SAR. Where Billing Concepts is unable to resolve a dispute with a PSP, PSPs have been provided

information in this SAR that provides them contact information, so they may file a dispute with IDT.

Because IDT maintains records containing all information required under the FCC's rules and regulations, it is IDT's opinion that it is capable of responding to any legitimate inquiry when presented with a dispute. IDT, at its sole discretion, may produce additional reports not required by FCC rule and/or regulation in order to resolve a dispute. IDT stores its data for a period of no less than 6 calendar quarters beyond the initial payment due date.

This SAR is being filed by IDT with the Commission's Secretary, IDT's facilities-based long distance carriers and Billing Concepts (to be made available to PSPs on behalf of IDT). If IDT's address and/or phone number and/or the contact information for the person or persons responsible for handling IDT's payphone compensation and for resolving disputes with payphone service providers over compensation contracts changes, this information shall be updated within 60 days of any changes.

One year after the filing of the System Audit Report, and annually thereafter, IDT shall engage an independent third-party auditor to: (1) verify that no material changes have occurred concerning IDT's compliance with the criteria of the prior year's SAR; or (2) if a material change has occurred concerning IDT's compliance with the prior year's SAR, verify that the material changes do not affect compliance with the audit criteria required. IDT shall fully disclose any material changes concerning its call tracking system in its representation to the auditor. IDT shall file and provide copies of all SARs pursuant to the procedures set forth by the Commission.

47 CFR 64.1320(c)(8)

In this SAR, IDT has set forth the critical controls and procedures which IDT employs to ensure that its call tracking and per-call compensation procedures can be tested by a third party auditor to verify that errors, if any, are insubstantial. Additional critical controls and procedures which IDT employs which are considered trade secrets have not been included in this SAR but have been made available to its third-party auditor.

47 CFR 64.1320(c)(9)

The policies and procedures set forth in this SAR demonstrate IDT's compliance with all relevant requirements for tracking, reporting and compensating calls under 47 C.F.R. 64.1300 *et seq.* and act as IDT's business rules.

Accordingly, these business rules demonstrate the following:

- (1) IDT identifies all calls containing the payphone infodigit 27 or 29 or 70 as originating from a payphone.

- (2) Where a call contains the payphone infodigit 27 or 29 or 70 and IDT receives answer supervision, IDT identifies the call as a compensable payphone call.
- (3) Where a call does not contain the payphone infodigit 27 or 29 or 70, IDT does not identify the call as a payphone call. Calls that do not contain the aforementioned infodigits are not compensable. Where IDT does not receive answer supervision, IDT treats the call as incomplete. Incomplete calls are not compensable.
- (4) IDT shall rely on Billing Concepts to determine the identities of the PSPs to which IDT owes compensation. Accordingly, IDT does not need, nor does it accept information from PSPs in order to compensate them.

Section 2

II. Overview of Operations and Internal Control Features

Overview of Operations

The Dial Around Compensation (“DAC”) system provides customers the service of handling Payphone Service Provider (“PSP”) Compensation Requests and Payments. Every time a person uses a payphone to place a long-distance call and dials a long-distance company other than the one assigned to the payphone, the dialed company must pay the payphone owner a fee.

Billing Concepts, Inc. (“BCI”) provides:

Database Management

- BCI will compile and compare ANI lists submitted by Local Exchange Carriers (“LECs”) and PSPs and provide customers with an up-to-date, comprehensive list of all valid payphones in service. This list can be used at the customer’s option to help identify payphone-originated calls for surcharge and compensation purposes.

Payphone Ownership Validation

- BCI will use a variety of name and address matching algorithms to compare information provided by PSPs with information provided by the LECs in order to identify the legal owner of each payphone prior to issuing any compensation payments (the ANI Master Database).
- BCI will attempt to resolve all disputes between LECs, PSPs, and other parties, where applicable, regarding ownership of payphone ANIs, the in-service dates, and the amount of DAC paid.

Calculation of DAC Obligations

- BCI sorts, matches, and counts customer’s payphone-originated call records to determine the amount of DAC due each PSP.
- BCI calculates customer’s DAC obligations based on variable rates negotiated between applicable carriers and PSPs, and/or based on FCC-formulated default rates.

Management Reports and Invoice Processing

- BCI provides customers with reports, electronic files, and information detailing payment obligations and payments made on behalf of its customers.
- BCI receives requests for compensation from PSPs and aggregators on behalf of customers and will serve as the customer’s representative.

Section 3

- BCI pays the appropriate PSPs and aggregators on behalf of its customers. Payments will be approved in advance by our customers and accompanied by itemized payment reports and supporting files in accordance with FCC requirements.

Customer Service

- BCI provides on-line customer service representatives who handle inquiries concerning DAC services and payments.

Processing Summary

- Each PSP sends BCI a Request for Payment (“RFP”) which includes a list of payphone ANIs the PSP claims.
- To validate PSP ownership of the ANIs being claimed, every LEC is required by the FCC to provide a list of payphone ANIs and owners for whom the LEC provided dial tone service on the last day of each quarter. The LECs also provide lists of ANIs that have been disconnected during the quarter. BCI matches the LEC information with the PSP data to determine the actual owner of each ANI. When software cannot determine the owner of an ANI, DAC staff members will examine the ANI data to determine (if possible) the true owner. One consideration in the system processing is that the LECs are required to submit only data that has changed from quarter to quarter. Most submit complete quarterly data, but in the absence of current quarter LEC data, previous quarter information must be presumed valid.
- Each PSP receives a status report of the ANIs submitted. Where the owner of an ANI could not be determined (mismatched data or no LEC data), the PSP must contact the servicing LEC to have proper documentation submitted. This documentation is used by the DAC staff for assigning proper PSP owner to the ANIs.
- BCI customers send their completed call records for each quarter. These records are summarized by ANI, 800 number, and call month, and matched to the ANI Master Database. Call payment information for each eligible PSP is calculated and presented to the customers for approval. Once payments are approved (and funds received), BCI pays each PSP. Both the customer and PSP receive data files that detail the calls being compensated.

Processing Detail

In the first month after the end of the quarter, activity centers around receiving, logging, and verifying LEC payphone disconnect and payphone owner data and PSP claim data.

Some LECs and PSPs submit their information as a spreadsheet file. These files must be converted manually to a fixed spacing text file (*.prn) before being processed by the system, or the users may use program DACPCXLS.exe (it works for both sources). LECs also submit files containing disconnect data; these files are merely copied to a directory on the file-server for processing.

Some of the submissions arrive on paper or in an e-mail that must be printed. The printed information must be put into disk files for processing by the data entry section using the DAC Utility program. That program has screens for entering the LEC or PSP information which is formatted and written into a file with a designated name associated with the submitter. For PSPs that have submitted data in prior quarters, the filename is obtained from the prior quarter's TransDtl##### table and adjusted for the current quarter; otherwise the data entered in the "FileName" edit window is used. The file is written to the SQL Server's "LECs" or "PSPs" directory, as appropriate.

Most of the data arrives on either diskette or CD. Disconnect data files (text or Excel spreadsheet files) are copied to the file-server's "\Discons" folder. LEC Owner data files and PSP claim files are copied to a DAC Technician's hard disk where they can be checked by LEC editing software or PSP editing software and then manually re-edited for validation. Aggregator files are first processed by the Aggregator Organizer program to ensure that the PSPs are properly grouped by company number. Properly formatted files are copied to the server. PSPs are able to make compensation claims against the current and the last 6 prior quarters.

When all the files have been validated and are ready to be processed, the new quarter database tables must be created. The DAC Utility is used to start the program that creates and initializes the table structures and data. After this, the Utility may be used to start the Disconnect program to process the Disconnect files. Then the LEC files are processed and then the PSP files (prior quarter files may be processed at the same time as current quarter files). The processing programs each create a processing report file in the server's "RPTs" directory, as well as a report file for each input file. Each processed file is also stored in a backup file, either "SLECYyqq.ZIP" or "SPSPyyqq.ZIP", for archiving to CD.

At this point, ownership errors must be checked for possible correction. Extract files of the Resolution Detail tables are created via the DAC Utility Schedule function to be used by the DAC Utility's ResDtl##### Correction process in which the clerk looks at the errors to see if there is enough data available to determine the correct PSP owner.

If a PSP's ANI has been processed that is incorrect (such as, digits transposed) a program is run to attempt to correct the entry by comparing to previous quarter data. If the ANI is not located, it will be reported to the PSP (processes that update ANI ownership status also update the payment information).

Once the errors have been corrected, ANI Status report files are created for each PSP to show the status of all ANIs submitted. The ANI Master List file which is provided to the customers is also created. This DAC Utility process creates several disk files from the ANI Master table: a file of the ANIs, a file of ANIs and assigned PSP IDs, a file of the PSP IDs with PSP names, and certain other customer specific files, as requested.

At any time during the quarter, LECs may submit prior quarter documentation for establishing ANI Ownership. This information must be processed to remove owner conflicts from ANIs.

Approximately 45 days after the end of the quarter, customers' call records begin to be received. These files must be checked for format. Once validated, the files are archived to CD, copied to the server, and processed.

During the processing of call records, the invoice summary table is updated with payment information that is displayed and processed in the DAC Utility to determine the payments required by each customer.

When the call records have been processed and the invoice summary table has been updated, the DAC clerks check for potentially fraudulent ANIs. A threshold was applied during the call record processing based on threshold entries in the FraudANI table (default or per customer). First, the High Calls report is run to see if the thresholds applied were reasonable and to then adjust the value for any customer. Then the FraudANI report is run to see what PSPs had high call count ANIs. If the Threshold should be changed, to either add or delete records from FraudANI status, the DAC Utility Fraud screen will be used. The DAC Utility will execute a program to scan the CallSum### table to add entries if the threshold is lowered; it will do the processing for a raised value itself.

As each customer's final payment schedule is set and saved, the system creates a Detail Invoice file for the customer. This file must be matched to the payment schedule information to create a Payment Detail file for the customer and for the individual PSPs. There is software available to double-check the totals in each of the files should a question arise about the totals.

These quarterly reports summarize call records processed into one of the following categories:

- **No Claim** – reflects calls associated with ANIs recognized based on LEC validation data submitted, yet has not been claimed by a PSP.
- **Claim Validated** – reflects calls associated with ANIs belonging to payphone owners that have requested compensation from users for the applicable quarter and BCI has been able to verify the claimant is the legal owner.
- **Claim Not Validated** – reflects calls associated with ANIs belonging to payphone owners that have requested compensation from users for the applicable quarter, but the LECs have not reported ownership information for the nonvalidated ANIs.

- **Suspense** – reflects calls associated with ANIs involved in an ownership dispute. Ownership disputes can result when the LEC reported ownership information does not match the PSP ownership information, or when multiple PSPs claim ownership of the same ANI and the LEC information does not support any of the claims.
- **Potential Fraud** – reflects calls associated with ANIs that exceeded the user-defined threshold for number of calls per ANI per month. Users may adjust their threshold each quarter. This “potential fraud” is reported to users for further investigation.

When PSP payments are approved by the customers, the payment schedule files are used to create a spreadsheet containing the payment information which will be sent to Accounting. The files will also be used to create Payment Summary Reports that will be sent to each PSP along with their payment check.

Once payments have been sent, the Customer Payment Detail files are used to mark the payment date in the Call Record entries. After this has been done, the Invoice Summary table will be updated again to reflect both the payments and the remaining payment information data.

When a quarter becomes ineligible for new Compensation Requests, unpaid Call Records for the quarter can be marked as Expired (Paid Date is set to 99999999). A program is run that uses the final payment schedule data, saved by the DAC Utility, to determine PSPs whose calls should be expired; and all unclaimed Call Records will be expired by the program.

Each quarter’s information is stored for two years. Periodically, the stored databases are analyzed to ensure the record totals maintained are correct.

If a PSP has a dispute or question about the payment made, the PSP can request that its original file (or a newly submitted file) be checked in more detail. Software can extract the ANI Master data and all call record information from a designated quarter for ANIs in the submitted file. The DAC Manager and/or DAC Administrator can review the report and explain the status and payments to the PSP. If the DAC Manager or Administrator cannot resolve the dispute, then the information will be submitted to the user for additional information. The DAC Manager will coordinate the resolution of the dispute with the PSP and the user.

Internal Control Features

Control Environment Elements

BCI’s organizational structure, its management’s responsibilities, and its culture are important components of the DAC System’s control structure. The DAC System is under the direction of the Executive Vice President and Chief Operating Officer. The assignment of responsibility and authority to deal with the goals and objectives of the DAC System’s goals and objectives, system requirements, including regulatory requirements and customer obligations, have been completed

- **Human Resources** – Human Resources, as it does for the other business segments of BCI, is responsible for maintaining proper policies and procedures relating to the overall work environment. Further, this department, in tandem with the operating departments, has overall responsibility for recruiting, hiring, and training qualified personnel.
- **Delegation of Responsibility and Authority** – BCI has assigned and delegated responsibility and authority to key leaders to carry out their job descriptions including meeting BCI's overall goals and objectives, but more specifically to meet the goals and objectives of the DAC System. While some of these employees have responsibilities in other business segments within BCI, they have no duties, responsibilities, or authority at the user organizations.

BCI has a Mission and Vision Statement that guides the organization's culture. Further, BCI understands that maintaining its core system, software, services, and related business practices, including satisfying customers' needs and meeting relating commitments, are critical to continuing to meet its business goals and objectives.

III. General User Control Considerations

The DAC System has been designed assuming certain control procedures would be implemented by users in order to achieve stated control objectives. Accordingly, users of the DAC System and their auditors should be aware of the following control procedures which are the responsibility of the user:

- **The DAC Services Agreement** – specifies the responsibilities of BCI and the user organization. Users and their auditors should refer to the agreement with respect to these responsibilities.
- **Access Controls** – control and security of systems relating to the user's DAC System and interface with BCI should be maintained by the user.
- **File Completeness and Timeliness** – the DAC System processes for payment call data record files for user-provided files including completed call records for payphone originated calls. Users are responsible for the completeness, accuracy, and timeliness of these initial call record files. Users and their auditors should understand the controls in place to create accurate completed call files for calls originating from PSPs and that such files are submitted to BCI in a timely manner.
- **Payment Authorization** – BCI provides notice to users of the estimated amount of DAC due each PSP based on available information. Users are responsible for reviewing and authorizing BCI to pay the PSPs. Users and their auditors should understand the controls in place to ensure proper approval of PSP payment by the user.

- **Completeness of Records Processed** – BCI provides users with quarterly reports summarizing the number of records received and the results of the processing of those records, including those detailing payments made on behalf of the user. The users are required to review these reports and notify BCI of any inaccuracies within 15 days of the date of such reporting. Users should understand the controls in place to review these reports, reconcile the number of records processed, paid or otherwise categorized, to the total number of call records submitted.
- **Dispute Resolution** – BCI serves as the principal point of contact in matters of dispute resolution with respect to PSP payments and related issues. While BCI attempts to resolve such disputes, many times the resolution of disputes requires input of the user. It is the responsibility of the user organizations to identify and communicate specific personnel responsible for dispute resolution in their organization. Users and their auditors should understand the controls in place for ultimate resolution of disputes. Note, however, that any disputes involving ANI ownership, the information provided by the LECs will prevail.
- **Payment Rate** – payments to PSPs are based on either rates negotiated by users and PSPs or the FCC default rate. The user is responsible for communicating to BCI any exceptions to the FCC default rate. Users and their auditors need to understand the controls in place to ensure that proper rates are used in determining payment to PSPs.
- **Fraudulent Call Identification** – users are required to define the threshold for number of calls per ANI per month. Users may adjust their threshold each quarter. This threshold is the basis for identifying potentially illegitimate calls. These calls are reported to users for further investigation. Users are responsible for establishing the thresholds and ultimately resolving matters with respect to potentially illegitimate calls. Users and their auditors should understand the policies and procedures with respect to establishing such thresholds and how identified calls are reviewed and ultimately resolved.
- **Regulatory Requirements** – users are required to obtain and keep current all applicable federal, state, and local licenses; tariffs; certifications; and approvals and to fully comply with, and have full responsibility to comply with, all other applicable federal, state, and local regulations; laws; rules; and tariffs. BCI assumes no responsibility for such compliance, except as where specifically stated in the DAC Services Agreement. Users and their auditors should understand the controls in place to ensure that the user is in compliance with all such regulatory requirements.
- **Contingency Procedures** – if the services of BCI were unavailable or inoperative due to system or communications failure, the user could expect some delay before the backup system used by BCI is established. Each user organization should establish procedures to ensure continued operations during the interim period.

- **DAC System Documentation** – BCI supplies users with technical information relating to file format and other procedures as it relates to submitting call records and other information. If changes are required, such changes are communicated to representatives at each user organization. It is the user organizations' responsibility to ensure that all such changes are appropriately updated in their user manuals in a timely manner.

IV. Summary of Significant Control Objectives

The principal objectives of the system of internal controls pertaining to recordkeeping, reporting, and payment services provided by BCI to its DAC customers include:

- Policies and procedures are in place to ensure payment rates conform to FCC rules.
- Policies and procedures are in place relating to the reporting elements as required in the DAC Services Agreement.
- Data is stored for a period at least as long as required by FCC rules.
- Procedures are in place to establish proper PSP ownership.
- Specific personnel have been identified as responsible for drafting and maintaining necessary business requirements relating to BCI's DAC System requirements.
- BCI has identified specific personnel responsible for developing compensation tracking reports.
- BCI has identified specific personnel responsible for handling the initial customer service role in dispute resolution.
- Quarterly reports are prepared for each user organization on payphone call counts, PSP identities, numbers called, and infodigits (if used).
- Reports are prepared that identify potentially fraudulent calls and are submitted to carriers for resolution.
- Reports are available for users to monitor call trends.
- Policies and procedures are in place to provide the availability to create customized reports to assist customer service and the user organizations to assist in the resolution of disputes. Such reports and call data are maintained for at least six quarters.
- Payments are authorized by users, and controls are in place that limit access to the disbursement system.

- Policies and procedures are in place regarding controls over changes to applicable software, including persons responsible, management of the changes, and validation of such changes that ensure the changes do not negatively affect integrity of the records processed or the results of processing such records.
- Policies and procedures are in place to properly report compensable calls originated from valid payphone ANIs. In addition, such reports are maintained for the period required by the FCC.

V. Description of Controls and Tests Performed

Our tests of the effectiveness of controls included such tests as we considered necessary in the circumstances to evaluate whether those controls, and the extent of compliance with them, is sufficient to provide reasonable, but not absolute, assurance that the specified control objectives were achieved during the period from January 1, 2004 to March 31, 2004. Our tests of the operational effectiveness of controls were designed to cover the period from January 1, 2004 through March 31, 2004. In selecting particular tests of the operational effectiveness of control, we considered the (a) nature of the items being tested, (b) the types and competence of available evidential matter, (c) the nature of the control objectives to be achieved, (d) the assessed level of control risk, and (e) the expected efficiency and effectiveness of the test.

Test procedures performed in connection with determining the operational effectiveness of controls detailed in Section III are described below:

<u>Test</u>	<u>Description</u>
1. Corroborative inquiry	Made inquiries of appropriate personnel and corroborated responses with other personnel to ascertain the compliance of controls.
2. Observation	Observed application of specific controls.
3. Inspection of evidential material	Inspected documents and reports indicating performance of the controls.
4. Transaction testing	Reperformed application of the controls.

Key Control Objective – Policies and procedures are in place to ensure payment rates conform to FCC rules.

Policy or Procedure

Payment rates can either be based on a rate negotiated between the user and an individual PSP or the FCC default rate. The rates used for each user are established by the applicable user organization. These user-provided rates are entered into the payment system used to calculate the PSP obligation. At this time, all such rates are based on the FCC default rate.

Tests Performed

Padgett, Stratemann & Co., L.L.P. (“PS&Co.”) judgmentally selected invoice summaries provided to users and recomputed the rate per record, comparing the recomputed rate to the FCC default rate to the current FCC rate, noting agreement. In addition, PS&Co. obtained a sample of call record files and recomputed amounts due applicable PSPs using the FCC default rate and agreed the payment amount calculated by BCI, noting agreement.

Key Control Objective – Policies and procedures are in place relating to the reporting elements as set forth in the DAC Services Agreement.

Policy or Procedure

As a part of its DAC services, BCI processes and prepares reports for users and for PSPs on a quarterly basis detailing calls originated from ANIs by owner, including the amount of relating compensation and carrier identification elements. In addition, customized reports are prepared upon request that provide information available to research disputes, potentially illegitimate calls, or other specified call trends.

Tests Performed

PS&Co. inquired of appropriate DAC personnel as to the processes for generating such reports. On a sample basis, PS&Co. reviewed the quarterly reports to determine the reports included the following:

- Identification of PSP
- Identification of ANIs by PSP
- Identification of calls originating by ANI
- Identification of amounts due to PSP
- Summary of potentially fraudulent calls

In addition, PS&Co. reviewed revised record formats to be added July 1, 2004 which include CIC codes and trunk group identifiers.

Key Control Objective – Data is stored for a period at least as long as required by FCC rules.

Policy or Procedure

BCI, as specified in the DAC Services Agreement, maintains call data records and relating reports for a period of two years.

Tests Performed

PS&Co. inquired of appropriate personnel as to the time the data files and relating information is stored, noting agreement of the stated policy.

Key Control Objective – Procedures are in place to establish proper PSP ownership.

Policy or Procedure

See the detail processing narrative above which details the processes for creating the ANI Master File. In summary, on a quarterly basis, BCI receives PSP ownership submissions directly from PSPs listing all ANIs that the submitting PSP claims as owned. BCI populates a database using these submissions, which arrive in several formats, including paper, e-mail, electronic transmission, or files on disk or CD.

To validate PSP ownership of the ANIs being claimed, every LEC is required by the FCC to provide a list of payphone ANIs and owners for whom the LEC provided dial tone service on the last day of each quarter. The LECs also provide lists of ANIs that have been disconnected during the quarter. Most submit complete quarterly data, but in the absence of current quarter LEC data, previous quarter information must be presumed valid. BCI populates a second database of all the LEC submissions.

BCI matches the LEC information with the PSP data to determine the actual owner of each ANI. When software cannot determine the owner of an ANI, DAC staff members will examine the ANI data to determine (if possible) the true owner. One consideration in the system processing is that the LECs are required to submit only data that has changed from quarter to quarter.

Once the validated ANI Master is created, each PSP receives a status report of the ANIs submitted. Where the owner of an ANI could not be determined (mismatched data or no LEC data), the PSP must contact the servicing LEC to have proper documentation submitted. This documentation is used by the DAC staff for assigning proper PSP owner to the ANIs.

Tests Performed

In order to test the creation of the ANI Master File, PS&Co. inquired of appropriate personnel as to the specific procedures performed, noting agreement with the stated policy. To test the actual file, PS&Co. selected a sample of PSP submissions from source documents and agreed pertinent information to the PSP ANI ownership database. In addition, PS&Co. selected a sample of PSPs

from the PSP ownership database and agreed pertinent information to the source document. The same tests were performed for the LEC submissions. PS&Co. also inquired as to the matching of the previous quarter validated ANI Master list to the new quarter's validated ANI Master list. Any ANIs not included in the current quarter that have not been reported as disconnected, are added to the current quarter listing.

Key Control Objective – Specific personnel have been identified as responsible for drafting and maintaining necessary business requirements relating to BCI's DAC System requirements.

Policy or Procedure

BCI has assigned responsibility to members of the DAC Group to ensure the DAC System is adequately assigned. Primary responsibility for the daily DAC Group's responsibilities has been assigned to the DAC Manager.

Tests Performed

PS&Co. made inquiries of appropriate personnel, noting primary responsibility has been assigned to the DAC Manager.

Key Control Objective – BCI has identified specific personnel responsible for developing compensation tracking reports.

Policy or Procedure

BCI has assigned the responsibility for the development of compensation tracking reports to the DAC Management Information System Analyst and the DAC Manager.

Tests Performed

PS&Co. made inquiries of appropriate personnel, noting primary responsibility has been assigned to the DAC Management Information System Analyst and the DAC Manager.

Key Control Objective – BCI has identified specific personnel responsible for handling the initial customer service role in dispute resolution.

Policy or Procedure

BCI has assigned the responsibility for dispute resolution to the DAC Manager and the Customer Service Manager.

Tests Performed

PS&Co. made inquiries of appropriate personnel noting primary responsibility has been assigned to the dispute resolution to the DAC Manager and the Customer Service Manager.

Key Control Objective – Quarterly reports are prepared for each user organization on payphone call counts, PSP identities, numbers called, and infodigits (if used).

Policy or Procedure

See the detailed process narrative above for more detail. In summary, on a quarterly basis, BCI processes each user organization's call record file in order to determine originated calls from validated ANIs, nonvalidated ANIs, potentially fraudulent calls and calls from ANIs with an ownership dispute. Reports are prepared which summarize the detail of the processed records.

Tests Performed

For selected users, PS&Co. obtained call record files and performed an analysis to self-determine the number of calls placed by originating ANI and identification of the ANI owner. Using the compensation report generated by PS&Co. from the original completed call files submitted by the selected users, PS&Co. agreed selected PSP call totals and ANI lists to those included in the compensation file generated by BCI.

Key Control Objective – Reports are prepared that identify potentially fraudulent calls and are submitted to carriers for resolution.

Policy or Procedures

BCI runs a report on each call record file to determine whether any call volumes for a particular ANI exceed the specified call volume threshold established by the user. For all ANIs that have originating calls in excess of this threshold, BCI prepares a fraud report that is submitted to the user which includes the PSP, ANI, and call count.

Tests Performed

PS&Co. inquired of appropriate personnel as to the procedures relating to the fraud reporting process, noting agreement with the stated procedures. In addition, PS&Co. obtained a fraud report that had been prepared for a selected user and determined the applicable information had been included for submission to the user.

Key Control Objective – Reports are available for users to monitor call trends.

Policy or Procedure

Data is maintained as set forth in the DAC Services Agreement for a period of two years. The data retained includes the original call record data submitted and all reports generated. As users request, IS can run various adhoc reports specifically designed to provide summary information requested by the user. To ensure the data is properly maintained, BCI regularly runs control totals on stored data to ensure the call record totals remain unchanged.

Tests Performed

PS&Co. inquired of appropriate personnel, noting data is maintained for a period of at least two years in order to run any reports requested by the users to research and identify trends, and that the data is reviewed on a regular basis to ensure call record totals remain unchanged. In addition, we noted the IS department receives occasional requests from the users to generate specific reports, and the reports are created and run on a customized basis.

Key Control Objective – Policies and procedures are in place to provide the availability to create customized reports to assist customer service and the user organizations to assist in the resolution of disputes. Such reports and call data are maintained for at least six quarters.

Policy or Procedure

Data is maintained as set forth in the DAC Services Agreement for a period of two years. The data retained includes the original call record data submitted and all reports generated. To ensure the data is properly maintained, BCI regularly runs control totals on stored data to ensure the call record totals remain unchanged. This information is available to be researched for use in resolution of disputes.

Tests Performed

PS&Co. inquired of appropriate personnel, noting data is maintained for a period of at least two years in order to run any reports requested by the users to research and resolve disputes, and that the data is reviewed on a regular basis to ensure call record totals remain unchanged. In addition, we noted the IS department receives occasional requests from the users to generate specific reports, and the reports are created and run on a customized basis.

Key Control Objective – Payments are authorized by users and controls are in place that limit access to the disbursement system.

Policy or Procedure

Once compensation files are created, they are submitted to the user for review and payment authorization. Once payments are authorized, payments are submitted by the DAC Manager to BCI's Accounting Department. All payments to PSPs are made directly by the Accounting Department, and the DAC group has no access to the disbursement system.

Tests Performed

PS&Co. inquired of appropriate personnel as to access to the disbursement system, noting access is properly limited and segregated from those having direct access to the DAC System.

Key Control Objective – Policies and procedures are in place regarding controls over changes to applicable software, including persons responsible, management of the changes, and validation of such changes, ensuring that the changes do not negatively affect integrity of the records processed or the results of processing such records.

Policy or Procedure

BCI has established policies and procedures regarding system changes, including specific policies regarding:

- Formal system change requests
- System change approval
- Monitoring/evaluation of changes to other systems
- Identification of responsible persons
- System security controls
- Program security controls
- Capabilities to test changes and compare to known results.

Tests Performed

PS&Co. obtained and reviewed written documentation regarding the policies and procedures in place to control, execute, and implement system changes, including limitation of access to make changes without proper authorization. In addition, PS&Co. made inquiries of appropriate DAC and IS personnel, noting consistency with stated policies.

Key Control Objective – Policies and procedures are in place to properly report compensable calls originated from valid payphone ANIs. In addition, such reports are maintained for the period required by the FCC.

See above control objectives for more detailed description of key control objectives, related policies and procedures, and tests performed.