



**SBC Payphone Per Call Compensation
2005 Audit Report**

June 28, 2005

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1.0 Introduction

SBC Finance Operations engaged the services of the Engel Consulting Group to perform an audit of changes made to their Payphone Per Call Compensation (PCC) processes and procedures since the June 30, 2004 filing of their FCC PCC System Audit Report. The audit included an attestation of SBC's continued compliance with the FCC criteria to establish a call tracking system to compensate Payphone Service Providers (PSPs) for IntraLATA 8YY calls completed by SBC. This examination is in accordance with the provisions set forth in Appendix C – Final Rules of FCC 03-235/CC Docket No. 96-128 dated October 3, 2003, which obligates Completing Carriers to engage an independent third-party auditor to verify on an annual basis that no material changes have occurred concerning the Completing Carrier's compliance with the prior year's System Audit Report and the FCC audit criteria.

2.0 Executive Summary

To fulfill the requirements specified in FCC Orders 03-235/CC Docket No. 96-128 and FCC 04-182/WC Docket No. 03-225, SBC Finance Operations made changes to their processes and procedures for payment of Per Call Compensation to PSPs for IntraLATA 8YY calls. These required changes included 1) the provision of quarterly PCC reports, 2) the sworn statement of PCC accuracy by the Chief Financial Officer (CFO), 3) the shift in PCC payment responsibility from the call-originating to the call-completing carrier, and 4) the increase in the default compensation rate. In addition, FCC 04-251/CC Docket 96-128 clarified data retention requirements and provided additional clarification on the quarterly reports, requiring additional modifications to SBC procedures.

The 2005 PCC audit plan was designed to validate that SBC implemented the mandated changes and remained in compliance with the FCC call tracking system criteria outlined in the Final Rules of FCC 03-235/CC Docket No. 96-128. A test plan, mapping a specific validation test with each of the SBC assertions of compliance, was created and a data request was fulfilled. This enabled the Audit Team to review the updated process documentation; examine examples of reports, correspondence, and files; trace the generation and distribution of reports through the process; and test the accuracy of the outputs.

Using the business rules outlined in the process documentation, the Audit Team independently processed call detail records and compared the results with the PCC reports created by SBC to validate that the reports accurately represented the compensation paid and that no eligible calls were excluded from payment. The quarterly CFO sworn statements of PCC accuracy were observed on the SBC website and copies of the supporting documentation were examined. To validate that the rate change had been properly applied, samples of the actual bill feeds and compensation calculation reports were reviewed and analyzed.

Based upon the data and procedures examined and tested during the audit process, the audit team concludes that SBC Finance Operations has satisfied the requirements specified in the aforementioned FCC Orders. SBC's assertions of compliance with the FCC criteria specified in §64.1320 of the Final Rules are fairly stated and the audit team attests that the SBC call tracking system remains in compliance with the stated criteria.

3.0 Audit Approach

SBC Management disclosed the specific PCC processes and procedures where changes had been made as a result of implementing the requirements specified in FCC Orders 03-235/CC 96-128, FCC 04-182/WC 03-225, and FCC 04-251/CC 96-128, and documented assertions of compliance with the FCC call tracking system criteria outlined in the Final Rules of FCC 03-245/CC 96-128. These were used as the basis of the audit test plan, which was designed to validate SBC's continued compliance with the FCC criteria. Per the FCC requirements, the 2005 Audit focused exclusively on those changes made to the SBC PCC Call Tracking System since the initial System Audit Report filed on June 30, 2004, and included the following:

- Quarterly 8YY PCC Reports to the PSPs
- Quarterly CFO Sworn Statements of PCC Accuracy
- Default Compensation Rate Increase
- Change in the Retention Period for the Quarterly Report Data
- Exclusion of Calls for Payment by SBC Completed by Facilities-Based CLECs
- PCC Processes for Incoming IntraLATA 8YY Calls from another Carrier

Following the AICPA Standards for attestation engagements, the audit methodology combined an examination of process documentation, a sampling of reports, independent processing of call detail records, and interviews of key personnel to test SBC compliance with the FCC criteria.

4.0 Audit Test Plan

The test plan was broken down into the six audit areas mapped against each of the SBC Assertions of compliance with the FCC requirements and audit criteria:

4.1 Quarterly Reports Process

FCC 03-235/CC Docket No. 96-128 Appendix C – Final Rules §64.1310: Completing Carriers are responsible for payment of PCC and must provide the PSPs with quarterly reports of 8YY calls completed by the carrier that include:

- (i) A list of the toll-free and access numbers dialed from each of that payphone service provider's payphones and the ANI for each payphone
- (ii) The volume of calls for each number that was completed by the Completing Carrier
- (iii) The name, address, and phone number of the person or persons responsible for handling the Completing Carrier's payphone compensation

FCC 04-251/CC Docket 96-128 Appendix B: Completing Carriers are only responsible for providing to PSPs on quarterly reports those 8YY numbers for calls completed by the Carrier and those 8YY numbers called to access numbers or subscriber toll-free numbers that a LEC maintains.

SBC Management Assertion	Validation Test
<ul style="list-style-type: none"> SBC Finance Operations has technical procedures and processes in place to identify and collect SBC completed call data for the purpose of quarterly reports provided to PSPs 	<ul style="list-style-type: none"> Examine process documentation and procedures for incorporating payphone call data into the reports Sample 4Q2004 reports and compare with compensation payments
<ul style="list-style-type: none"> The Finance Operations Associate Director is the Team Manager and is responsible for assigning the appropriate Team resources to execute various functional PCC processes and procedures associated with identification, collection, compilation, and distribution of quarterly reports 	<ul style="list-style-type: none"> Examine SBC control procedures for determining PSP-selected options for receiving reports Interview Team Manager to determine resource assignment for the processes and procedures associated with the quarterly reports
<ul style="list-style-type: none"> SBC Finance Operations has implemented procedures and controls needed to resolve disputes 	<ul style="list-style-type: none"> Simulate a claim or issue arising from the reports process and walk through resolution Examine dispute/issue log

4.2 CFO Sworn Statements of Accuracy

FCC 03-235/CC Docket No. 96-128 Appendix C – Final Rules §64.1310: Completing Carriers are responsible for payment of PCC and must provide the PSPs with quarterly sworn statements by the CFO of PCC accuracy. At the conclusion of each quarter, the chief financial officer of each Completing Carrier makes available to each payphone service provider to which compensation is tendered a sworn statement that the payment amount for that quarter is accurate and is based on 100% of all completed calls that originated from that payphone service provider's payphones.

SBC Management Assertion	Validation Test
<ul style="list-style-type: none"> SBC Finance Operations has procedures in place to provide quarterly a CFO-signed statement of PCC accuracy 	<ul style="list-style-type: none"> Examine criteria used by CFO to determine PCC accuracy Review supporting documentation Obtain 4Q2004 CFO statement

4.3 Increase in Default Compensation Rate

FCC 04-182/WC Docket No. 03-225 Appendix A – Final Rule: Completing Carriers will increase the default compensation rate paid to Payphone Service Providers on each call that qualifies to receive compensation made from a payphone. In the absence of an agreement, the carrier is obligated to compensate the payphone service provider at a per-call rate of \$.494.

SBC Management Assertion	Validation Test
<ul style="list-style-type: none"> Finance Operations has implemented business and technical processes and procedures necessary to pay PCC accurately at the new mandated rate. 	<ul style="list-style-type: none"> Examine the process documentation and business rules used to implement the new rate Sample September 2004 and October 2004 compensation payments

4.4 Retention Period of the Quarterly PCC Reports Data

FCC 04-251/CC Docket No. 96-128 Appendix B – Final Rules: Completing Carriers are responsible for retaining records for payment of PCC for 27 months.

SBC Management Assertion	Validation Test
<ul style="list-style-type: none"> SBC Finance Operations has implemented business and technical processes and procedures necessary to collect, report, and retain data associated with SBC payment of PCC as clarified in the <i>Order of Reconsideration</i> 	<ul style="list-style-type: none"> Examine process documentation, specifically the section on Data Retention

4.5 Exclusion of Calls Completed by Facilities-Based CLECs

FCC 03-235/CC Docket No. 96-128 Appendix C – Final Rules §64.1310: Completing Carriers are responsible for payment of PCC and have procedures in place to accurately track payphone calls to completion. A Completing Carrier that completes a coinless access code or subscriber toll-free payphone call from a switch that the Completing Carrier either owns or leases shall compensate the payphone service provider for that call at a rate agreed upon by the parties or as specified in FCC 04-182/WC Docket No. 03-225.

SBC Management Assertion	Validation Test
<ul style="list-style-type: none"> SBC Finance Operations has effective data-monitoring procedures in place to identify 8YY calls completed by SBC versus not completed by SBC SBC Finance Operations processes identify and capture payphone call detail for completed calls for payphone calls completed in SBC territory 	<ul style="list-style-type: none"> Examine Exclusion process and supporting documentation Examine and test business rules for determining Facilities-Based CLECs and the control procedures for maintaining the tables
<ul style="list-style-type: none"> SBC Finance Operations has processes, documentation, and personnel assignments necessary to administer the PCC payment responsibility change from call-originating to call-completing carrier, including in-territory versus out-of-territory 	<ul style="list-style-type: none"> Process a sample of call detail files and compare with compensation payments Examine process documentation and review organizational responsibility

4.6 Incoming IntraLATA 8YY Calls from an ILEC

FCC 03-235/CC Docket No. 96-128 Appendix C – Final Rules §64.1310: Completing Carriers are responsible for payment of PCC

SBC Management Assertion	Validation Test
<ul style="list-style-type: none"> SBC Finance Operations has processes, documentation, and personnel assignments necessary to administer the PCC payment responsibility change from call-originating to call-completing carrier, including in-territory versus out-of-territory. 	<ul style="list-style-type: none"> Examine process documentation for handling incoming 8YY calls from an ILEC Examine SBC/ILEC Agreements and documentation of exceptions Review dispute logs and documentation Process a sample of call detail files and compare with compensation payments

5.0 Validation Test Results

5.1 Quarterly Reports Process

The purpose of this series of tests was to validate that SBC has the processes and procedures in place to accurately collect PCC compensation data, compile that data into Quarterly Reports, and distribute those Reports to the PSPs.

Process and Procedures Examination

SBC has updated the process documentation maintained from the 2004 FCC PCC System Audit to include the procedures for generating the Quarterly Reports, maintaining PSP preference for receipt, and tracking delivery. The documentation was reviewed by the Audit Team and SBC addressed questions through a process walk-through and a subsequent update to the material. Any disputes or questions from the PSPs arising from the Reports process are logged and resolved through the normal PCC Dispute Resolution process and copies of the logs were provided to the Audit Team. In addition, examples of inquiries were tracked from the time of receipt through resolution.

The Reports process begins with correspondence sent by SBC to the PSPs regarding SBC's intent to provide Reports and requesting each PSP's preference on Report receipt and the media choice. The PSP responses are logged and tracked in a Master Preference Log, a copy of which was provided to the Audit Team to validate against sample responses received from the PSPs. In addition to tracking PSP Report preferences, SBC also tracks the Reports sent each quarter including the recipient, the media, and whether any problems are encountered in the delivery. The logs for the 3rd and 4th Quarter 2004 Reports were reviewed along with the Finance Operations organizational responsibility matrix for each Report recipient.

Reports Validation

A sample of the Reports was examined and the Audit Team validated that all of the requisite information – the payphone ANI, the 8YY number dialed, the number of calls, and the PCC contact information – was included. For the Reports representing PCC for the 3rd and 4th Quarters of 2004, SBC also included the 8YY numbers for calls completed by facilities-based CLECs, for which compensation responsibility resides with the CLEC rather than SBC. This data, provided by SBC solely for informational purposes, was not a requirement of the FCC and will not be provided on the Reports going forward per FCC 04-251/CC Docket

96-128 which clarified that only the 8YY numbers for calls completed by the Carrier need to be included on the Reports.

To validate that the Reports accurately represented the calls for which the PSPs received compensation, the Audit Team independently processed, using PCC payment logic, call detail records for the 4th Quarter for randomly-selected SBC Public Communications ANIs, Retail PSPs, a CLEC, and an Aggregator. The results were then compared with the 4th Quarter Reports for the selected Providers to determine whether the number of compensated calls reflected on the Quarterly Reports was accurate. In all cases, the number of calls for which compensation was rendered matched the number of calls showing compensation paid on the Quarterly Reports, thereby validating the accuracy of the Reports.

5.2 CFO Sworn Statements of PCC Accuracy

The objective of this examination was to validate that SBC has the procedures in place for the CFO to complete the quarterly sworn statements of PCC accuracy and that the statements were completed for the 3rd and 4th Quarters of 2004.

Process and Procedures Examination

The Audit Team examined the briefing package shared with the CFO prior to the completion of the initial statement of PCC accuracy which coincided with the completion of the 3rd Quarter 2004 Reports. The package sufficiently documented the controls in place as audited in the 2004 FCC PCC System Audit Report to meet the FCC criteria for the accurate tracking of calls and the accurate payment of Per Call Compensation.

Sworn Statement Validation

To validate that the sworn statements were actually completed, the Audit Team obtained copies of the sworn statements for the 3rd and 4th Quarters of 2004 and the 1st Quarter of 2005 from SBC as well as from the SBC website, <https://www.sbcprimeaccess.com>.

5.3 Default Compensation Rate Increase

The objective of this analysis was to validate SBC's compliance with the FCC-mandated change in the per call compensation rate from \$.24 to \$.494, which was effective on September 27, 2004.

Rate Change Validation

In tracing a call through the process, the Audit Team noted the following:

- The \$.24 rate is applied to calls made prior to September 27, 2004
- The \$.494 rate is applied to all calls with a connect date of September 27, 2004 or greater
- The application of the rate change only affects calls processed in the September bill period. All calls processed for subsequent bill and report cycles are to be compensated at the higher rate.
- Any fractional values are rounded up to the next whole cent.

Because there was no change in the compensation process *per se*, validating that SBC applied the new rate correctly focused on the application of the correct rate and the reporting of the rates to the PSP. To ensure that the rate change had been properly applied, the three compensation methods – 1) the monthly bill feed for Retail accounts, 2) the quarterly report for Aggregators, and 3) the calculation report for the CLECs –

were evaluated for a sample universe at a point in time where it would be apparent that the rate change had occurred.

The bill feed for a Retail account was evaluated and it clearly itemized the calls at the old rate of \$.24 and the new rate of \$.494 for each combination of Originating/Terminating telephone numbers. In the same manner, the calculation report for a multi-state CLEC was reviewed, where a clear delineation was made between the rates applied for the calls made prior to the change and the calls made after the change. The Aggregator Report for September included for each ANI the applicable compensation rate, the count of calls, and the total value. The October report included the same data elements as the September report except all calls were rated at the higher rate.

The validation of the rate change concluded that SBC was in compliance with the mandatory rate increase. SBC additionally gave the PSP the advantage in that the higher compensation rate was applied in the billing cycle beyond the "rate change month," even if the call was made prior to September 27th. Further, all fractional values were rounded up rather than applying standard rounding procedures to the advantage of the PSP.

5.4 Change in Retention Period for PCC Reports Data

In the FCC *Order on Reconsideration*, the retention period for the supporting data of the quarterly PCC reports was clarified to be 27 months. SBC has updated Appendix F, *Statement of Corporate Compliance Responsibility and Data Retention Policy* in the PSP PCC process documentation to reflect that all Finance Operations data is maintained for a *minimum* of 27 months, thereby remaining in compliance with the clarified requirement.

5.5 Exclusion of Calls Completed by Facilities-Based CLECs

The objective of this series of tests was to validate that SBC is correctly identifying SBC- from non-SBC-completed calls and excluding from payment only those calls completed by a facilities-based CLEC.

Process and Procedures Examination

In order to implement the FCC requirement that per call compensation be paid only on 8YY calls completed by the Completing Carrier, SBC implemented new procedures to distinguish between the 8YY calls completed by SBC and the 8YY calls completed by facilities-based carriers and exclude the latter for payment. The new procedures were reviewed by the Audit Team followed by a walk-through of the process, after which the documentation was updated to address the parts of the process that were unclear.

The process used in the 3rd and 4th Quarters of 2004 to exclude for payment by SBC those calls completed by facilities-based CLECs started with the identification of the OCN (Operating Company Number) associated with the POTS translation of the 8YY number dialed. If the OCN of the terminating number belonged to a facilities-based CLEC, the call was completed by that CLEC who would be responsible for PCC payment. In cases where the OCN of the POTS translation was "Unknown," SBC would default to "Pay." This process was refined during the 1st Quarter of 2005 and effective 04/01/05, if there was an LRN (Local Routing Number) of the translated number signifying that the number was ported to a CLEC, the LRN was used to determine if the completing carrier was facilities-based.

Exclusion Process Validation

To validate that SBC paid on calls completed by SBC and excluded only those calls terminated by a facilities-based CLEC, the Audit Team independently processed the call detail records for the 4th Quarter for randomly-selected SBC Public Communications ANIs, Retail PSPs, a CLEC, and an Aggregator. The results were compared with the 4th Quarter Reports for the selected Providers and it was determined that SBC paid PCC on all calls completed by SBC and only excluded calls completed by a facilities-based CLEC. As noted in the process examination, as a default, SBC did pay PCC on a few calls where the OCN of the terminating number was "Unknown." In a few instances, PCC was also paid on calls where the OCN of the translated number belonged to SBC whereas the OCN of the LRN, signifying that the number was ported to a CLEC, was associated with a facilities-based carrier. These types of calls would be excluded for PCC payment by SBC in the post-04/01/05 refined process for identifying facilities-based CLECs.

The test concluded that while SBC did pay compensation on calls where the completing carrier was "Unknown" and on some calls where the LRN corresponded to a facilities-based carrier, compensation was correctly paid on all calls completed by SBC and the only calls correctly excluded from payment were those completed by a facilities-based CLEC.

5.6 Process for Incoming IntraLATA calls from an ILEC

The objective of this examination was to validate that SBC has procedures in place for handling per call compensation for incoming IntraLATA calls from an ILEC (Incumbent Local Exchange Company). There are a small number of call scenarios where an IntraLATA 8YY payphone call originates in ILEC territory, but terminates in SBC territory. The reverse is also true, but in both cases, only the carrier originating the call has the data to determine to whom per call compensation is due. To ensure that the PSPs are compensated for these types of calls, SBC has negotiated an Agreement with Verizon and other ILECs whereby each party will pay PCC on 8YY calls within the LATA *originating* in its territory but *terminating* in the other's territory. In addition, SBC has sent a letter to all non-Verizon ILECs requesting a response to a similar arrangement if they have payphones in their territories. Presently, SBC pays PCC on such calls originating in its territory regardless of the identity of the terminating ILEC.

Process and Procedures Examination

The Audit Team reviewed the Verizon Agreement along with documentation of a dispute from a PSP who questioned the compensation on a call originated in Verizon territory but terminated in SBC territory. In addition, the letter and response form sent to the non-Verizon ILECs along with samples of the completed responses from some of the ILECs were also reviewed.

Process Validation

To validate that SBC was paying compensation on IntraLATA 8YY calls originating in its territory but terminating in ILEC territory, the Audit Team first reviewed and validated the logic for determining whether the POTS translated number of the 8YY dialed number corresponded to an ILEC. To test whether this was actually occurring, the call detail records from a sample of PSPs for the 4th Quarter of 2004 were independently processed using logic for determining that the OCN of the POTS translated number corresponded to an ILEC. In all cases, SBC paid compensation where the call originated in SBC territory but was completed by an ILEC.

6.0 Audit Conclusions and Findings

Based on the results of the detailed examination and testing of the changes made to the SBC PCC processes and procedures, the audit team concludes that SBC Finance Operations has satisfied the implementation requirements specified in FCC 03-235/Docket No. 96-128, FCC 04-182/WC Docket No. 03-225, and FCC 04-251/CC Docket 96-128. The audit team further attests that the SBC call tracking system for PCC remains in compliance with the FCC criteria specified in §64.1320 of the Final Rules of FCC 03-235/CC Docket No. 96-128 and that SBC's assertions of compliance with the aforementioned requirements and criteria are fairly stated in all material respects.

6.1 Contact Information

Please direct any questions regarding this audit to SBC, the LEC, Finance Operations:

- Email (PCCDISPUTE@sbc.com)
- Hotline (866-556-5055)

7.0 Appendices

<u>Appendix</u>	<u>Document</u>
A	SBC Assertions
B	Audit Plan
C	Quarterly Reports Process Flow
D	Examples of 8YY Call Flows