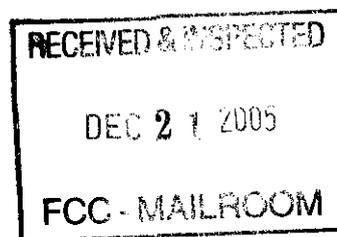


DOCKET FILE COPY ORIGINAL

December 15, 2005

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
Office of the Secretary
445 12th Street, SW
Washington, DC 20554



Section 272 Biennial Report for AT&T Inc.
EB Docket No. 03-199

Dear Ms. Dortch:

Pursuant to Section 31(e) of the "General Standard Procedures for Biennial Audits Under Section 272 of the Communications Act of 1934, as Amended, for the Period July 10, 2003 through July 9, 2005" in the above referenced matter, Ernst & Young is filing our Report of Independent Accountants on Applying Agreed-Upon Procedures with the following appendices:

- Appendix A – Results of Agreed-Upon-Procedures
- Appendix B – Comments from AT&T Inc.
- Appendix C – Final General Standard Procedures dated November 21, 2005

This document will also be filed electronically through the Federal Communication Commission's Electronic Comment Filing System.

Sincerely,

A handwritten signature in cursive script that reads "Michael H. Stoltz".

Michael Stoltz
Partner

cc: AT&T Inc.

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California Public Utilities Commission
Connecticut Department of Public Utility Control
Illinois Commerce Commission

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REPORT OF INDEPENDENT ACCOUNTANTS ON APPLYING
AGREED-UPON PROCEDURES

AT&T Inc.
December 15, 2005

BINDER 1

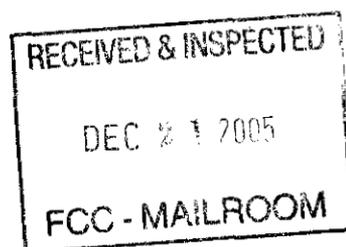


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Report of Independent Accountants on Applying Agreed-Upon Procedures

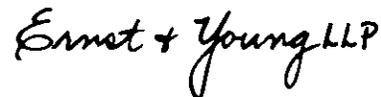
To the Management of AT&T Inc.¹

We have performed the procedures enumerated in Appendix C, which were agreed to by management of AT&T Inc. (AT&T) and the Joint Federal/State Oversight Team (Joint Oversight Team)² (collectively, the Specified Parties), solely to assist these Specified Parties in evaluating AT&T's compliance with the requirements of section 272 of the Communications Act of 1934, as amended (Section 272 Requirements)³, during the period from July 10, 2003 to July 9, 2005 (the Engagement Period). This engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Specified Parties of the report. Consequently, we make no representation regarding the sufficiency of the procedures described in Appendix C either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results obtained are documented in Appendix A.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on AT&T's compliance with the Section 272 Requirements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of AT&T and the Joint Federal/State Oversight Team, and is not intended to be and should not be used by anyone other than these Specified Parties. However, this report is a matter of public record and its distribution is not limited.

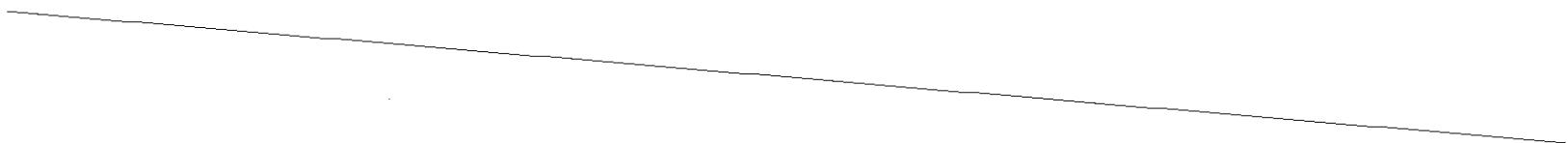


December 15, 2005

¹ SBC Communications Inc. changed its corporate name to AT&T Inc. effective November 18, 2005.

² The "Joint Federal/State Oversight Team" is composed of staff members from 10 state regulatory agencies and the Federal Communications Commission (FCC). The AT&T Bell operating companies operate in the following 13 states: Arkansas, Kansas, Missouri, Oklahoma, Texas, California, Nevada, Illinois, Indiana, Michigan, Ohio, Wisconsin, and Connecticut. Representatives from Michigan, Nevada and Oklahoma did not participate with the Joint Federal/State Oversight Team.

³ These requirements are contained in 47 U.S.C. section 272(b), (c) and (e) of the Communications Act of 1934, as amended (the Act), and in 47 C.F.R. section 53.209(b) of the FCC's rules and regulations.



A

APPENDIX A

Results of Agreed-Upon Procedures

OBJECTIVE I. Determine whether the separate affiliate¹ required under section 272 of the Act has operated independently of the BOCs².

1. Inquired of management whether there have been any changes in the certificates of incorporation, bylaws and articles of incorporation of section 272 affiliates³ covered in this biennial report and whether there have been any legal and/or “doing business as” (DBA) name changes since July 9, 2003. Management represented that there were no changes in the certificate of incorporation, bylaws, and articles of incorporation of SBC Communications Services, Inc. (SBCS) during the Engagement Period.⁴ The legal name of SBCS was changed to SBC Long Distance, Inc. on August 9, 2004. SBC Long Distance, Inc. was converted to a Delaware limited liability corporation (LLC) under the name SBC Long Distance, LLC (SBCLD) on April 28, 2005. Inspected the Certificate of Conversion and Certificate of Formation filed with the State of Delaware that perfected the name change to SBCLD.
2. Obtained⁵ and inspected the corporate entities’ organizational charts of the SBC BOCs⁶, section 272 affiliates and AT&T Inc. (the Parent Company, formerly SBC

¹The term “affiliate” shall refer to a person that (directly or indirectly) owns or controls, is owned or controlled by, or is under common ownership or control with, another person. For this purpose, the term “own” means to own an equity interest (or the equivalent thereof) of more than 10 percent. (See section 3 of the Communications Act of 1934, as amended.)

²“BOC” refers to Bell Operating Company. If the BOC transfers or assigns to an affiliated entity ownership of any network elements that must be provided on an unbundled basis pursuant to section 251(c)(3), such entity shall be subject to all of the requirements of the BOC. For purposes of this engagement, in the event that the BOC provides exchange and/or exchange access services on a retail or wholesale basis exclusively through one or more of its subsidiaries or affiliates, or through one or more other subsidiaries, divisions, etc., of the parent Regional Holding Company, and the same services cannot be purchased directly from the BOC, then these entities shall also be subject to all of the relevant nondiscriminatory requirements of Objectives VII through XI of this document. Affiliates that merely resell the BOC’s exchange services and/or exchange access services or lease unbundled elements from the BOC, or engage in permissible joint marketing activities (see section 272(g)(1) of the Act), shall be excluded from these requirements.

³ The agreed-upon procedures are required to be performed, unless otherwise specified, on all section 272 affiliates as defined by the Act. For the purposes of this engagement, the terms “section 272 affiliate” and “separate affiliate” shall refer to SBC Long Distance, LLC, formerly known as Southwestern Bell Communications Services, Inc., doing business as SBC Long Distance (the corporate name was changed in August, 2004), as well as any other affiliate that originates interLATA telecommunications services in the SBC Communications Inc. region that is subject to section 272 separation requirements, and any affiliate that engages in manufacturing activities as defined in section 273(h).

⁴ The “Engagement Period” is defined in the procedures as July 10, 2003 to July 9, 2005.

⁵ For purposes of this engagement, the term “obtained” referred to in Appendix A and “obtain” as referred to in the procedures listed in Appendix C, shall mean that E&Y physically acquired, and generally retained in the working papers, all documents supporting the work effort performed to adequately satisfy the requirements of a procedure.

Communications Inc.) and confirmed with legal representatives of the SBC BOCs, section 272 affiliates and the Parent Company the legal, reporting and operational corporate structure of the section 272 affiliates. Noted the following changes to the section 272 affiliate's corporate structure during the Engagement Period:

- SBC Communications Inc. contributed 100% of the common stock of SBC Long Distance, Inc. to SBC Telecom, Inc. on April 26, 2005.
- Also on this date, SBC Communications Inc. contributed 100% of the stock of SBC Telecom, Inc. to SBC Teleholdings, Inc, a wholly-owned subsidiary of SBC Communications Inc.
- SBC Long Distance, Inc. was converted to a Delaware LLC under the name SBC Long Distance, LLC on April 28, 2005.
- SBC Telecom, Inc. and SBC Long Distance, LLC entered into an Asset Contribution Agreement to contribute all SBC Telecom, Inc. assets (except its interest in SBC Long Distance, LLC) and liabilities to SBC Long Distance, LLC on May 4, 2005.

Noted that the inspected organizational charts and written confirmations obtained from legal representatives of Management⁷ represented that SBCLD is wholly owned by SBC Telecom, Inc., SBC Telecom, Inc. is wholly owned by SBC Teleholdings, Inc. and SBC Teleholdings, Inc. is 100% owned by the Parent Company.

3. Inquired of Management, and noted that, during the period July 10, 2003 to March 30, 2004, SBC Services Inc.'s Information Systems Operations group provided software support to SBCLD for two platforms with multiple instances and supporting systems that were used in providing certain services, such as calling card and toll-free services. SBCLD represented that these platforms did not provide traditional switching services. Noted that nonaffiliated third-party entities performed operations, installation and maintenance functions (OI&M) over facilities either owned by SBCLD or leased from a

E&Y used professional judgment to decide which items were too voluminous to include in the working papers. E&Y included a narrative description of the size of such items as well as any other reasons for their decision not to include them in the working papers.

⁶ For the purposes of this engagement, the term "SBC BOCs" shall refer to the SBC Bell Operating Companies, operating as incumbent local exchange carriers (ILECs), and include the following: Illinois Bell Telephone Company (Illinois Bell); Indiana Bell Telephone Company, Incorporated (Indiana Bell); Michigan Bell Telephone Company (Michigan Bell); The Ohio Bell Telephone Company (Ohio Bell) and Wisconsin Bell, Inc. (Wisconsin Bell), (or collectively SBC Midwest or Ameritech); Nevada Bell Telephone Company (Nevada Bell or SBC Nevada) and Pacific Bell Telephone Company (Pacific Bell or SBC California) (or collectively SBC West); Southwestern Bell Telephone, L.P. (SWBT or SBC Southwest); and any successor or assign of such company as described in paragraph 11 of the procedures. Although The Southern New England Telephone Company and The Woodbury Telephone Company (collectively referred to as SBC SNET) are not BOCs as defined by the Act, for purposes of the Biennial Audit, they will be treated as SBC BOCs with respect to the structural, transactional, and nondiscriminatory requirements of sections 272(b) and 272(e) to the extent they are included in Objectives I through XI.

⁷ "Management" refers to officers, directors, managers or other employees of the Parent Company or administrative services affiliates reporting directly to the Parent Company who have management responsibility for the SBC BOCs and the section 272 affiliate.

third party by SBCLD for the period July 10, 2003 to March 30, 2004. A list of the third-party entities that provided OI&M services to the SBCLD is included in the workpapers.

a. Obtained the following definition and interpretation of OI&M functions from Management:

- “Operations” are defined as day-to-day network operations, including monitoring of switching and transmission facilities for outages or over-capacity and alerting appropriate personnel of any such instances.
- “Installation” is defined as engineering and installation of switching and transmission facilities and associated software, and testing of circuits during the installation process.
- “Maintenance” is defined as the care of switching and transmission facilities and associated software, both on a routine basis and in emergencies, including activities such as performing trouble isolation on a circuit in response to trouble reports or network alarms, and the repair of diagnosed problems.

Management also indicated that OI&M also includes higher level activities, such as network planning and engineering (NP&E) and design and assignment (D&A). NP&E includes activities that relate to both installation and maintenance of network facilities – for example, projecting customer demand and maintaining inventories of network equipment; assessing the adequacy of existing facilities to meet projected demand and determining where and when additional equipment needs to be deployed; placing orders for network equipment; making arrangements for collocation space; and arranging for delivery of network equipment. D&A is more customer-specific. It involves the design of a particular customer’s service (e.g. identification of facilities and routing) and the assignment of facilities needed to provision that service. It can also include work activities, such as loop conditioning, that may be necessary to ready those facilities for the service in question. In addition, D&A includes the identification and ordering of services obtained from other affiliates or third parties that may be needed to provision the service to the customer.

OI&M does not include, high-level fundamental architecture and technology planning, such as the following:

- providing annual network deployment guidelines to ensure consistency of approach, direction, and methodology for network deployment;
- issuing high-level enterprise-wide deployment plans developed in response to regulatory mandates, network modernization initiatives, and new services;
- developing high-level integrated technology plans for the embedded network;
- providing economic analysis for different proposals;
- assisting in business-case development and recommendations of initiatives; and
- selecting company-wide approved vendors and technologies.

- b. Management represented that, for the period July 10, 2003 to March 30, 2004, none of the above described OI&M services were performed by the SBC BOCs on facilities either owned by the section 272 affiliate or leased from a third party by the section 272 affiliate. Management represented that SBC Services, Inc.'s Information Systems Operations group did provide the software support services on the two platforms owned by SBCLD during the period July 10, 2003 to March 30, 2004 as described above.
- c. SBCLD represented that, for the period July 10, 2003 to March 30, 2004, none of the above-described OI&M services were performed by the section 272 affiliate on facilities either owned by SBC BOCs or leased from a third party by SBC BOCs.
4. Inquired of Management, and identified the following entities that provided OI&M services on facilities either owned by the section 272 affiliate or leased from a third party by the section 272 affiliate as of the end of the Engagement Period.
- a. Management represented that, as of the end of the Engagement Period, the SBC BOCs performed the following OI&M services over facilities that SBCLD ordered from unaffiliated third parties:

| Table 1: OI&M Services Provided By SBC BOCs to SBCLD during the Engagement Period | | | | | |
|--|----------------|------------------------------|---|-----------------------|--|
| | SBC BOC | Section 272 Affiliate | Contract Name/Service | Effective Date | Cost Allocation Manual (CAM) Service Category |
| 1 | SBC Illinois | SBCLD | Single Point of Contact (SPOC) for National Account Customers/Major Account Customers (NAC/MAC) Support | September 9, 2004 | Customer Care |
| 2 | SBC SNET | SBCLD | SPOC for NAC MAC Support | September 9, 2004 | Telecommunication Services |
| 3 | SBC California | SBCLD | SPOC for NAC MAC Support | September 9, 2004 | Customer Care |
| 4 | SBC Southwest | SBCLD | SPOC for NAC MAC Support | September 9, 2004 | Customer Care |
| 5 | SBC Southwest | SBCLD | Business Process Development and Design | January 16, 2005 | Business Process Development and Design |
| 7 | SBC SNET | SBCLD | Power Management Support | May 1, 2005 | Telecommunication Services |
| 8 | SBC Southwest | SBCLD | Computer Services Access Network Standards (CSCANS) | May 1, 2005 | CPE & Wire Services |

Management represented that, as of the end of the Engagement Period, the following other non-272 affiliates have provided OI&M services to SBCLD effective as of the indicated date:

- Effective April 1, 2004 – Advanced Solutions Inc., Ameritech Advanced Data Services of Illinois, Inc., Ameritech Advanced Data Services of Indiana, Inc., Ameritech Advanced Data Services of Michigan, Inc., Ameritech Advanced Data Services of Ohio, Inc., and Ameritech Advanced Data Services of Wisconsin, Inc.
- Effective July 15, 2004 – SBC Telecom, Inc.
- Effective September 15, 2004 – Pacific Bell Internet Services, Prodigy Communications Corporation, Southwestern Bell Internet Services, Inc., SNET Diversified Group, Inc., and Ameritech Interactive Media Services, Inc. (collectively “SBC Internet Services” or SBCIS)

The OI&M services provided by each of the non-272 affiliates listed above included:

- day-to-day network operations;
- engineering and installation of switching and transmission facilities and associated software, and testing of circuits during the installation process;
- the care of switching and transmission facilities and associated software, both on a routine basis and in emergencies;
- activities relating to both installation and maintenance of network facilities;
- the design of a particular customer’s service and the assignment of facilities needed to provision that service, and may include work to ready those facilities for the service in question; and
- identifying and ordering service obtained from other affiliates or third parties that may be needed to provision the service to the customer.

b. SBCLD represented that, as of the end of the Engagement Period, SBCLD had not provided any OI&M services to the SBC BOCs.

5. Management represented that the SBC BOCs did not provide or offer research and development activities or services to the section 272 affiliates or unaffiliated entities during the Audit Test Period⁸. The research and development/technology affiliate, SBC Laboratories, Inc. (formerly Technology Resources Inc.), conducts shared strategic projects that are high level projects for which numerous affiliates share the cost (some of which include SBCLD). In addition, SBC Laboratories, Inc. conducts company specific projects that are fully funded by the affiliate for which the project is being conducted (some of which are done for SBCLD).

6. Obtained the balance sheet of SBCLD as of the end of the Audit Test Period, and a detailed listing of all fixed assets, including capitalized software. Noted that the fixed

⁸ The “Audit Test Period” is defined in the procedures as July 10, 2003 to March 31, 2005.

asset balance shown on the balance sheet of \$139,776,000 agreed with the total of the detailed fixed asset listing and the construction work in progress detailed listing as of March 31, 2005 (collectively fixed asset listing).

Reviewed the detailed fixed asset listing for the inclusion of information in the five fields of data required by this procedure: description; location of each item; date of purchase; price paid and recorded; and from whom the asset was purchased or transferred. Noted that 224 assets with original cost totaling \$22,269,605 and a net book value of \$325,672 all of which were placed in service on or before September 13, 2001, did not include information in the field "from whom purchased or transferred."

Determined by obtaining verification from Management and by reviewing the descriptions of the assets which fixed asset accounts related to transmission and switching facilities, including capitalized software, and the land and buildings where those facilities are located. Reviewed the dates on the listing and identified the assets included transmission and switching facilities general ledger accounts that were placed in service since July 10, 2003.

From the total population of 296 transmission and switching facilities fixed assets identified above, randomly selected 80 items plus two additional items judgmentally selected (82 total items tested) and inspected documentation that revealed ownership of the items selected. Noted, per inspection of invoices, that none of the items were jointly owned by the section 272 affiliate and the SBC BOCs.

OBJECTIVE II. Determine whether the separate affiliate required under section 272 of the Act has maintained books, records and accounts in the manner prescribed by the Commission that are separate from the books, records and accounts maintained by the BOCs.

1. Obtained SBCLD's general ledger as of the end of the Audit Test Period, March 31, 2005, and matched the title on the general ledger with the name of the affiliate on the certificate of incorporation. Noted that a separate general ledger was maintained from the SBC BOCs. Reviewed the general ledgers for special codes to link SBCLD to the SBC BOCs and noted none.
2. Obtained SBCLD's balance sheet as of the end of the Audit Test Period, March 31, 2005 and income statement for the three months ended March 31, 2005.
3. Obtained SBCLD's lease agreements as of the end of the Audit Test Period, March 31, 2005. Identified, in the workpapers only, three leases that had annual obligations listed in the lease agreement of \$500,000 or more. Obtained SBCLD's lease accounting policies and noted the policies are in accordance with Generally Accepted Accounting Principles (GAAP). For the three leases identified above, noted the terms and conditions, determined that that the leases appeared to have been accounted for in accordance with GAAP and SBCLD's lease accounting policies.

OBJECTIVE III. Determine whether the separate affiliate required under section 272 of the Act has officers, directors and employees that are separate from those of the BOCs.

1. Inquired of Management and documented that SBCLD and the SBC BOCs maintained separate boards of directors, separate officers and separate employees during the Engagement Period. For each SBC BOC and SBCLD, obtained a list of the names of officers and directors of the SBC BOCs and SBCLD and compared this listing to the Board of Directors' meeting minutes for all meetings held during the Engagement Period. Noted no differences. Noted that the lists included the dates of service for each officer and board member for the Engagement Period. Compared the list of officers and directors of the SBC BOCs with the list of officers and directors of SBCLD, and noted no officers or directors appearing simultaneously on both lists.

2. From their respective Human Resource Departments, obtained a listing of names and social security numbers of all employees of SBCLD and each SBC BOC for the Engagement Period. Ran a program, which compared the names and social security numbers of employees and noted no employees appearing on both lists simultaneously.

OBJECTIVE IV. Determine that the separate affiliate required under section 272 of the Act has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BOCs.

1. Management represented that SBCLD had no debt agreements/instruments or credit arrangements with unaffiliated lenders and major suppliers of goods and services during the Engagement Period.

Documented that, during the Engagement Period, SBCLD had a revolving line of credit with SBC Communications Inc. that extended credit to SBCLD through the consolidated cash management process. Reviewed SBCLD's revolving line of credit agreement and noted no guarantees of recourse to the SBC BOCs' assets, either directly or indirectly through another affiliate.

2. Identified three lease agreements obtained in Objective II, Procedure 3 that were entered into or modified during the Audit Test Period and that had annual obligations greater than \$500,000. Reviewed these lease agreements and documented that there were no instances where the SBCLD lease agreement had recourse to the SBC BOCs' assets either directly or indirectly through another affiliate.
3. Requested positive written confirmation from SBCLD's lessors for four leases with unaffiliated entities that were entered into or modified during the Engagement Period. Confirmations were not requested from affiliates. Received two responses out of four requests sent; the responses confirmed that there was no recourse either directly or indirectly to the assets of any of the SBC BOCs.

OBJECTIVE V. Determine whether the separate affiliate required under section 272 of the Act has conducted all transactions with the BOCs on an arm's length basis with the transactions reduced to writing and available for public inspection.

OBJECTIVE VI. Determine whether or not the BOCs have accounted for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

1. Documented, in the workpapers, the procedures used by the SBC BOCs to identify, track, respond to, and take corrective action to competitors' complaints relating to alleged violations of the Section 272 Requirements.

Obtained from the SBC BOCs a list of all FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716; and any written complaints made to a state regulatory commission from competitors filed during the Engagement Period involving alleged noncompliance with the Section 272 Requirements, including complaints submitted by competitors related to the provision or procurement of goods, services, facilities and information, or in connection with the establishment of standards.

- Allegations of cross-subsidies – Noted no complaints received during the Engagement Period and no complaints open from the prior Engagement Period.
- Allegation of discriminatory provision or procurement of goods, services, facilities customer network services information (excludes customer proprietary facilities, customer network information (CPNI)), or the establishment of standards – Noted no complaints received during the Engagement Period and no complaints open from the prior Engagement Period.
- Allegations of discriminatory processing of orders for, and provisioning of, exchange access and exchange services and unbundled network elements, and discriminatory resolution of network problems - Noted no complaints received during the Engagement Period and no complaints open from the prior Engagement Period.
- Allegations of discriminatory availability of exchange access facilities - Noted no complaints received during the Engagement Period and no complaints open from the prior Engagement Period.
- Allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate – Noted no complaints received during the Engagement Period and one complaint open from the prior Engagement Period.

- On September 22, 2000 (open as of the end of the prior Engagement Period) AT&T Communications of Texas, L.P. filed a complaint with the Public Utility Commission of Texas (PUCT) alleging that the combination of SWBT's high rates for switched access services and SBCS's allegedly predatory prices for long distance services were resulting in a price squeeze designed to drive competitors out of the Texas long distance market. AT&T further alleged that the only way the PUCT could remedy this price squeeze would be to reduce SWBT's switched access rates to cost or, at a minimum, to parity with SWBT's interstate switched access rates. SWBT's motion to dismiss the complaint on the basis that the relief sought exceeded the PUCT's authority was denied by the PUCT. SWBT then sought relief in the courts and eventually obtained a temporary injunction against the PUCT. On December 5, 2001, AT&T amended its complaint before the PUCT and eliminated the allegations or claims related to predatory pricing and attempted predatory pricing. The Austin Court of Appeals heard oral argument on May 14, 2003. On July 11, 2003, the Texas Court of Appeals, Third District, in Austin released its opinion affirming the permanent injunction previously entered by a Travis County District Court judge that barred PUCT from going forward with a complaint brought by AT&T against SWBT and SBC. The PUCT and AT&T filed petitions for review with the Texas Supreme Court. On December 18, 2003, the Texas Supreme Court requested briefs, and the petitions for review were granted on May 28, 2004. Oral argument was heard September 29, 2004. This matter is still pending.
2. Obtained from the SBC BOCs and SBCLD current written procedures for transactions with affiliates and compared these procedures with the following FCC rules and regulations:
- 47 C.F.R. sections 32.27, 53.203(e), 61.45(d)(1)(v), and 64.901;
 - Paragraphs 122, 124, 137, 183, and 265 of the Report and Order in CC Docket No. 96-150, issued December 24, 1996, concerning Accounting Safeguards Under the Telecommunications Act of 1996;
 - Paragraphs 180, 193, and 218 of the First Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 96-149, issued December 24, 1996, concerning Non-Accounting Safeguards under Sections 271 and 272 of the Communications Act of 1934, as amended;
 - CC Docket No. 00-199, In the Matter of 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2; *Report and Order and Further Notice of Proposed Rulemaking*, Appendix F Section 32.27.

- WC Docket No. 03-228, In the Matter of Section 272(b)(1)'s "Operate Independently" Requirement for Section 272 Affiliates; *Report and Order*, Paragraphs 8, 12, 16, 24 and 31

Noted that the SBC BOCs' and SBCLD's written policies and procedures addressed the above FCC rules and regulations except for CC Docket No. 96-150, Report and Order, paragraphs 183 and 265. Management represented that the Section 272 Oversight Team has policies in place to review any regulated facilities transfers to the section 272 affiliate or chained transactions that may come under the requirements of CC Docket No. 96-150, Report and Order, paragraphs 183 or 265.

3. Inquired and documented how the SBC BOCs and SBCLD disseminate the FCC Rules and Regulations and raise awareness among employees for compliance with the affiliate transaction rules by noting that the Section 272 Oversight Team, operating at the parent company level, has overall responsibility to coordinate dissemination of the obligations created by the Section 272 Requirements across the entire company including the SBC BOCs and the section 272 affiliates. Management represented that employees are made aware of the structural, transactional and nondiscrimination obligations of section 272 in various ways. Management represented that the Section 272 Oversight Team established a section 272 compliance Corporate Intranet site and posted various policy, training, and reference materials to this site. Management represented that the Section 272 Oversight Team worked with various business units to designate section 272 compliance coordinators who help assure that management employees are trained on section 272 issues as necessary.

Management represented that the training provided for the SBC BOCs addressed key topics related to the structural, transactional and nondiscrimination obligations of section 272 such as what services could be provided to the section 272 affiliates, the required terms and conditions for providing services, the protection of proprietary information and permitted and prohibited activities when performing joint marketing. Managers with a need to know were trained on section 272 issues. The SBC BOCs developed and/or maintained numerous documents containing the methods and procedures (M&Ps) associated with the Section 272 Requirements. The SBC BOCs used M&P as a primary training tool to ensure employees performed specific business procedures in compliance with the Section 272 Requirements.

In addition, employees of the SBC BOCs and SBCLD attended training sessions presented by the Section 272 Oversight Team. This training was presented in live sessions at various company locations or by conference calls. Upon obtaining section 271 approval in a particular state, the Company provided employees with reminder notices of their obligations to comply with the Section 272 Requirements, and directed employees to refer to the section 272 employee compliance guide for further information.

The Section 272 Oversight Team also made training materials available to all employees, including those of both the SBC BOCS and SBCLD, via the Corporate Intranet.

In addition, Management represented that employees of the SBC BOCs and SBCLD attended sessions of the section 272 compliance training presented by the Section 272 Oversight Team. This training was presented in live sessions at various company locations or by conference call during the Engagement Period. The materials presented in this training cover history of section 271 and 272 requirements, types of interLATA services, SBC BOC and SBCLD activities subject to the affiliate safeguards, joint marketing exception, structural and transactional requirements, nondiscrimination requirements, accounting requirements, sunset of section 272 and why section 272 compliance is important.

SBCLD was designed to be structurally separate from the SBC BOCs. Separate operating procedures were developed and maintained for SBCLD's business activities, and those procedures specifically addressed the restrictions and requirements on interactions with the SBC BOCs as imposed by the Section 272 Requirements and other FCC rules. SBCLD's M&Ps are designed pursuant to the restrictions and requirements of section 272. Employees use M&Ps as a primary training tool to ensure that they perform specific business procedures in compliance with the Section 272 Requirements.

Management maintained the Corporate Intranet site with various training materials and online courses. Management represented that the following methods of communication were used during the Engagement Period to disseminate section 272 compliance information to employees:

- The Compliance Plan (SNET Consent Decree), posted on the corporate Intranet site.
- The Employee Compliance Guide, posted on the corporate Intranet site.
- Section 272 compliance training
 - 90-minute live training presentations conducted by the Section 272 Oversight Team in various in-region cities annually. Section 272 training sessions were held in the SBC Midwest region to coincide with section 271 approvals.
 - 90-minute conference call training sessions scheduled on a monthly basis.
 - Online, employee-lead training during the 3rd Quarter of 2003.
 - Specialized or targeted training for specific business units as needed.
 - Training schedule and registration is available on corporate Intranet site and through the Learning Management Center website.
- Policy letters to employees to targeted business units or through broadcast e-mail messages.
- Section 272 Oversight Team and business unit 272 compliance coordinators.
- The Affiliate Oversight Group Intranet site
 - Annual reminder
 - Operating Practices (OP) – OP 125 Affiliate Transactions

Frequency of the training varied by region. In the SBC Southwest, and SBC West regions where long distance approval was obtained between 2000 and early 2003, refresher training was provided. In the SBC Midwest region where long distance approval was obtained in mid-2003, Management focused on initial training.

Code of Business Conduct

Management represented that each employee is expected to abide by the standards embodied in the Code of Business Conduct. Toward this objective, all employees have the following annual responsibilities with regard to the code's administration.

- Ensuring that each employee they supervise annually receives and reads a copy of the Code of Business Conduct and signs a copy of the Acknowledgment Form annually;
- Ensuring that employees are aware that they may make a good faith report of a violation or suspected violation of the law or the code without fear of reprisals;
- Ensuring that any standards and procedures developed for their areas comply with the code and are communicated to affected employees; and
- Reporting any possible violations of the Code of Business Conduct and/or situations, which could result in code violations or be perceived as code violations to higher level management.

Competition Guidelines

Management represented that the Company's Competition Guidelines are supplemental to the Code of Business Conduct, and management employees are required to review the Competition Guidelines every three years (annually in Texas) with the review documented in the employee's personnel record/file.

Section 272 Employee Compliance Guide

Management represented that the Section 272 Oversight Team developed an employee compliance guide specifically for the Section 272 Requirements. This guide is available to employees on the corporate Intranet site and employees are required to review the Section 272 Compliance Guide as a part of their annual mandatory coverages. Management also represented that upon obtaining section 271 authorization in a particular in-region state, employees are provided with reminder notices of their obligations to comply with the Section 272 Requirements and are directed to refer to the Section 272 Employee Compliance Guide.

Interviewed those employees responsible for developing and recording in the books or records of the affiliate transactions affected by these rules and noted that they were aware of and demonstrated knowledge of the Section 272 Requirements and affiliate transaction rules. These employees included fifteen employees of SBC Services, Inc. that are assigned to the Affiliate Oversight Group: three employees that are responsible for affiliate transactions for SBC Midwest, two employees that are responsible for affiliate transactions for SBC SNET, four employees that are responsible for affiliate transactions for SBC Southwest, two employees that are responsible for affiliate transactions for SBC West and four employees who are responsible for affiliate transactions for all regions.

Noted that the individuals interviewed above were part of the Affiliate Oversight Group and Regulatory Accounting and were supervised by the Executive Director of Regulatory Accounting.

4.

- a. Obtained a listing of all written agreements for services and for interLATA and exchange access facilities provided under affiliate agreements and contracts between the SBC BOCs and SBCLD that were in effect during the Audit Test Period. Noted which agreements were still in effect. For those agreements no longer in effect, indicated the termination date. Management represented that no agreements were terminated prematurely during the Audit Test Period because the service agreements between the SBC BOCs and the section 272 affiliates are not term agreements.

Inquired and documented that there were three incidents during the Audit Test Period where an SBC BOC provided services to a section 272 affiliate without a written agreement:

- SBCLD received and was billed for Customer Account Records Exchange (CARE) services from Nevada Bell since October 30, 2001, but did not execute a written agreement until December 11, 2003. This agreement was then posted to the Internet. This instance was carried forward from the Report of Independent Accountants on Applying Agreed-Upon Procedures dated December 15, 2003 (Prior Report).
- In January 2005, SBCLD requested SBCLD Digital Switching 3 (DS3) and SBCLD Private Line time interval information (customer contract signature time versus sale date). In response to this request, SBCLD was inadvertently provided DS3 and private line interval information for the customers of SBC Southwest, SBC Midwest and SBC West. When three SBCLD employees received this information, they immediately realized they had BOC information and notified the SBCLD regulatory contact, who in turn notified a member of the 272 Oversight Team. The 272 Oversight Team directed that affiliate agreements be executed to cover this information disclosure and that these agreements be posted on the Internet site, www.sbc.com.

Immediately thereafter, SBC Southwest, SBC Midwest and SBC West developed affiliate agreements, memorializing this transaction and the agreements were posted to the Internet site, www.sbc.com. Billing pursuant to the contract terms from each of the SBC BOCs to SBCLD occurred in February 2005.

- Management represented that, in late 2003, it noted since January 2003, SBC Southwest and SBC West service representatives had access to Primary Interexchange Carrier (PIC) verification (also known as PIC freeze verification) while performing joint marketing. In December 2003, affiliate

agreements were executed between SBC Southwest and SBCLD and SBC West and SBCLD for PIC verification service. In March 2004, SBC Southwest and SBC West back billed SBCLD for this service.

- b. Obtained a listing of all written agreements, amendments and addenda (collectively, agreements) that became effective during the Audit Test Period. Noted that there were 262 items included in the listing. From this listing, randomly selected 80 agreements and obtained copies of the selected agreements. Noted that four of the agreements selected were terminated more than one year ago and copies of the agreements were no longer available. Therefore, these four agreements were replaced with four additional agreements that were randomly selected and copies of the replaced agreements were obtained.
5. Using the sample of 80 agreements selected in Procedure 4.b., viewed each section 272 affiliate's section of the Internet site, www.sbc.com/gen/public-affairs and compared the prices, terms and conditions of services and assets shown on this site to the copies obtained in Procedure 4 above. Noted no differences.

On June 30, 2005, physically inspected the information made available for public inspection at the principal place of business for Pacific Bell, 140 New Montgomery, San Francisco, California. Management represented that the central files of all required affiliate agreements and certification statements are maintained on the Corporate Intranet site for all states. This site is made available to interested parties and for public inspection at each BOC headquarters and all other corporate locations also have access to this site. For 77 of the 80 agreements obtained in Procedure 4 above, noted no differences between the copies of the agreements obtained and the agreements viewed on the Corporate Intranet site at the BOC headquarters. For the three remaining agreements, the following was noted:

- One agreement, from SBC California to SBCLD for Temporary Labor Services (25% Transfer Fee), effective November 22, 2004, was not accessible on June 30, 2005. The agreement was listed on the Corporate Intranet but it could not be opened or viewed.
- One agreement, from SBCLD to SNET for Employee Referral for Telco Products, effective November 13, 2003, was not accessible on June 30, 2005.
- One agreement, from SBCLD to SBC Southwest for Local Exchange Carrier Calling Card Agreement No. 03031715, Appendix B, posted on the Corporate Intranet site was a superseded version of the sampled agreement.

Visited the corporate headquarters at 175 E. Houston, San Antonio, Texas, on July 28, 2005 and viewed these three agreements again. Noted that, as of July 28, 2005, the agreements posted to the corporate Intranet site agreed to the sampled agreements.