<u>OBJECTIVE IX</u>. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has to its affiliate required under section 272 that operates in the same market.

STANDARDS

The FCC in CC Docket No 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, indicates that a BOC may not discriminate in favor of its section 272 affiliate in the following manner:

- by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its section 272 affiliate. (See First Report and Order, para. 16)
- by not making available facilities and services to others on the same terms, conditions and prices that it provides to its section 272 affiliate. (See First Report and Order, para. 316)

PROCEDURES

This objective is closely related to Objective XI which contains procedures for the provision by the BOC of interLATA facilities and services. Therefore, these procedures may be performed in conjunction with the procedures for Objective XI.

1. Obtain a list of exchange access services and facilities with their related rates offered to each section 272 affiliate and inspect to determine whether the Qwest BOC makes these services and facilities available at the same rates and on the same terms and conditions to all carriers. For this purpose, obtain and inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services. Using a statistically valid sample of the exchange access services and facilities from the list obtained above, compare rates, terms, and conditions offered to each section 272 affiliate with those offered to unaffiliated carriers for each form of media used for each service tested. Note in the report all exceptions.

2. a. Select three months at random from the audit test period. For each of the three months selected, obtain a listing of all exchange access services and facilities rendered to the section 272 affiliate(s) and other interexchange carriers (IXCs). From the listing of all exchange access services and facilities that were rendered during the audit test period by the BOC/ILEC(s) to both unaffiliated entities and any section 272 affiliate in any

state, determine the 10 exchange access services/facilities (services/facilities should be identified as discretely as possible) billed to unaffiliated third parties with the highest billing volume in dollars (determination should be made based on accumulated billing to all unaffiliated entities). Determine which billing system the BOC/ILEC(s) uses to bill each of the selected exchange access services and facilities, and disclose in the report whether the same system(s) is used for the billing of both section 272 affiliates and other IXCs.

1. Inquire and document the BOC/ILEC procedures for ensuring that the applicable tariff or agreement rate is billed to both the section 272 affiliate and nonaffiliates (e.g., the same rate table is used for all carriers). For each exchange access service and facility selected, and for each billing system used to bill the section 272 affiliates, obtain the billing system rate tables, including any applicable discounts, surcharges, late fees, etc. used to bill the selected service. Determine if the rate tables in place reflect the current tariff or agreement rates, and disclose in the audit report. For the services selected, determine whether the applicable rates used to bill the section 272 affiliates are equal to or greater than that billed to nonaffiliates. Inquire and document the BOC/ILECs' procedures for updating the rate tables for the audit test period.

2. For each billing system identified that is used to bill section 272 affiliates, document in the workpapers the practices and processes the BOC/ILEC has in place to ensure the billing system bills the section 272 affiliates and nonaffiliates at the same rates and under the same terms and conditions. Document in the audit report the BOC's internal controls and procedures designed to ensure non-discriminatory billing. Include in the description of internal controls a summary of controls in place for overseeing the system, e.g., who has access to the systems to examine bills for accuracy, who authorizes changes if there is an error, and who has control and access over changing the rate tables (or the equivalent mechanized/system controls). Include in the audit report a discussion that outlines in summary format what each billing system is, what services are billed under that system, and what controls are present for each system and whether the controls apply equally to both the section 272 affiliates and nonaffiliates. Also include a summary of the controls that the BOC/ILEC(s) has in place for recording billed amounts as revenue, and the controls in place for recognizing and recording when the billed amount is actually paid. For each control identified, document how these controls exist and apply equally to both the section 272 affiliates and nonaffiliates.

b. For each month selected in step a, obtain the billing records for three Billing Authority Numbers ("BAN") that were billed for each of the 10 "highest billing volume" services identified in step a above that were billed to section 272 affiliates (total of 30 BANs for each month). Billing records should be for all BOC/ILECs, all states. For each BAN, randomly select one billing transaction (e.g. one USOC). For each billing transaction (a billing transaction is equivalent to a single billed item) selected, test each transaction for the proper application of the rate tables in effect at the time, including all applicable discounts, surcharges, late fees, percent interstate use (PIU) factors, shared use factors, etc. If historic rate tables are not available, perform the test with the current rate tables obtained in step a above, including all applicable discounts, surcharges, late fees, etc. Determine if the amount calculated to be billed was calculated using the appropriate rate in the rate table. For the transactions selected, test that the rates listed on the rate tables used to bill the section 272 affiliates are equal to or greater than the rates listed in the rate tables used for nonaffiliates. Also test that the transaction was properly recorded as revenue by the BOC/ILEC, and that the billed amount was paid. This can be accomplished, for example, by inspecting the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of all relevant screens/summaries for the work papers. Disclose in the audit report each instance where a discrepancy is found in the billing or recording by the BOC/ILEC of the billing of the service to the section 272 affiliate, and each instance where the payment of the bill was not properly recorded, or not recorded. Also test that the transaction (and the same amount) was properly recorded as expense by the section 272 affiliate, and that the same amount was paid by the section 272 affiliate. Document in the audit report each instance where the payment by the section 272 affiliate was not properly recorded, and where any differences were found in the recorded vs. paid amounts unless those differences are attributable to the consolidation of transactions or invoices. If transactions are consolidated within the amounts paid and/or recorded, insure that the transactions selected are included in the consolidated total.

c. For each billing system that is used by the BOC/ILEC(s) to bill exchange access services or facilities to an unaffiliated entity that is different than a billing system used to bill the same services or facilities to the section 272 affiliates, perform the procedures listed under steps a.1. and a.2. above. For each "highest billing volume" service identified in step a, compare the rates (including all terms and conditions, discounts, surcharges, late fees, etc.) charged for the service (in this system to bill unaffiliated entities) to the comparable rate charged in the system used to bill the service to a section 272 affiliate. Disclose in the report any differences. Disclose the results of all the billing system testing, outlined above, in the audit report.

d. Using the same three randomly selected months from step a, and the same 10 "highest billing volume" service identified in step A, obtain the billing records for three BANs containing billing for each of the 10 "highest billing volume" services from each billing system used by the BOC/ILEC(s) to bill exchange access services or facilities to nonaffiliates that is different than the billing system used to bill the same services to the section 272 affiliates. Billing records should be for all BOC/ILECs, all states. For each BAN, randomly select one billing transaction, (e.g., one USOC). For each billing transaction selected, test each transaction for the proper application of the rate tables tested in step b above, including all applicable discounts, surcharges, late fees, etc. If historic rate tables are not available, perform the test with the current rate tables obtained in step a above, including all applicable discounts, surcharges, late fees, etc. Determine if the amount billed was calculated using the appropriate rate in the rate table and disclose in the audit report. For the services selected, test that the rates listed on the rate tables used to bill the section 272 affiliates are equal to or greater than the rates listed on the rate tables used for nonaffiliates. Also test that the transaction was properly recorded as revenue by the BOC/ILEC, and that the billed amount was paid. This can be accomplished, for example, by inspecting the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of all relevant screens/summaries for the work papers. Disclose in the audit report each instance where a discrepancy is found in the billing or recording by the BOC/ILEC of the billing of the service to the third party, and each instance where the payment of the bill was not properly recorded, or not recorded unless those differences are attributable to the consolidation of transactions or invoices. If transactions are consolidated within the amounts paid and/or recorded, ensure that the transactions selected are included in the consolidated total.

<u>OBJECTIVE X</u>. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have charged its separate affiliate under section 272, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service.

<u>STANDARDS</u>

The FCC has issued rules and regulations in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. These rules require that,

- A BOC may not discriminate in favor of its section 272 affiliate by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its section 272 affiliate (See First Report and Order, para. 16). This requirement is met,
    - If the affiliate purchases exchange service and exchange access service at tariffed rates. (See First Report and Order, para. 256)
    - If the affiliate acquires services or unbundled elements from a BOC at prices that are available on a nondiscriminatory basis under section 251. (See First Report and Order, para. 256)
    - If the BOC files with the State Commission a statement of generally available terms pursuant to section 271(c)(1)(B) which would include prices that are available on a nondiscriminatory basis in a manner similar to tariffing, and a BOC's section 272 affiliate obtains access or interconnection at a price set forth in the statement. (See First Report and Order, para. 256)
    - If a BOC makes volume and term discounts available on a nondiscriminatory basis to all unaffiliated interexchange carriers. (See First Report and Order, para. 257)
- BOCs are required to charge nondiscriminatory prices, and to allocate properly the costs of exchange access according to the affiliate transactions and joint cost rules. (See First Report and Order, para. 258)
- For integrated operations (for operations performed within the company and not under a separate affiliate), a BOC must impute to itself an amount for access to its telephone exchange service and exchange access that represents tariffed rates (See First Report and

Order, para. 256). This tariffed rate must be the highest rate paid for access by unaffiliated carriers. The BOC may consider the comparability of the service provided. (See CC Docket No. 96-150 Report and Order, para. 87)

PROCEDURES

1. Obtain a list of interLATA services offered by the Qwest BOC and discuss list with appropriate Qwest BOC employees to determine whether the list is comprehensive. Compare services appearing on the list with interLATA services disclosed in the Qwest BOC's Cost Allocation Manual (CAM) and note any differences in the report. Compare the nonregulated interLATA services listed in the Qwest BOC's CAM with those defined as incidental in section 271(g) of the Act and those interLATA services allowed under FCC order (for example E911) and note any differences and disclose in the report.

2. From the list of services obtained in Procedure 1 above, by using a statistically valid sample of interLATA services offered by the Qwest BOC and not through an affiliate, determine whether the Qwest BOC is imputing (charging) to itself an amount for access, switching, and transport throughout the engagement period. If imputation is not occurring for any interLATA service offered by the Qwest BOC, inquire of management and document in the report why this situation is occurring. For each service for which imputation is performed, obtain usage details and tariff rates for each of the access, switching, and transport elements. Match rates used in calculations with the tariff rates or the highest rates charged other interexchange carriers (IXCs) for the relevant period. Note any differences in the report. Trace amount to the journal entry and to the general ledger of the Qwest BOC. The entry should be a debit to nonregulated operating revenues (decrease) and a credit to regulated revenues (increase). If the process followed by the Qwest BOC is different from the one described above, disclose in the report.

3. For each of the following categories of services, i.e., exchange access services, local exchange services, and unbundled network elements, provided by the Qwest BOC to any section 272 affiliate for the 12 months of the engagement period ending September 30, 2005, document the total amount the section 272 affiliate has recorded as expenses for those services in its books, and compare the amounts booked as revenues by the Qwest BOC to the amounts recorded by the section 272 affiliate. Also compare the amount recorded as expense to the amount paid by the section 272 affiliate to the Qwest BOC. Where there is a difference in any of the comparisons, inquire as to the reason(s) why, and disclose in the report unless those differences are attributable to the consolidation of transactions or invoices. If transactions are consolidated within the amounts paid and/or recorded, insure that the transactions selected are included in the consolidated total.

<u>OBJECTIVE XI</u>. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have provided any interLATA facilities or services to its interLATA affiliate and made available such services or facilities to all carriers at the same rates and on the same terms and conditions, and allocated the associated costs appropriately.

<u>STANDARDS</u>

Valuation and recording procedures for sales or transfers of any interLATA or intraLATA facilities to each section 272 affiliate, leasing of any unbundled network elements, or provision of any service by the BOC to each section 272 affiliate are covered in Objectives V and VI of this program, under the affiliate transactions rules.

BOC network services and unbundled network elements made available under section 251 to each section 272 affiliate must also be made available at the same price to unaffiliated companies. (See CC Docket No. 96-149, First Report and Order, para. 256)

<u>PROCEDURES</u>

This objective is closely related to Objective IX which contains procedures for the provision by the BOC of exchange access services. Therefore, these procedures may be performed in conjunction with the procedures for Objective IX.

1. Obtain a list from the Qwest BOC of interLATA services and facilities with their related rates offered by the Qwest BOC to each section 272 affiliate. Determine whether the Qwest BOC makes these services and facilities available at the same rates, terms, and conditions to all carriers. For this purpose, also obtain and inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services.

   Compare the list obtained from the Qwest BOC to the services found in the obtained information media and note any differences in the audit report. In addition, compare the list obtained from the Qwest BOC to the list of interLATA services obtained in Objective V/VI, Procedure 4, and to the list of interLATA services obtained in Objective X, Procedure 1 (after comparison to the CAM). Document in the audit report any instance where services were found in either the list of services from Objective V/VI, Procedure 4, the list of services from Objective X, Procedure 1, or in advertising media that were not reported by the Qwest BOC in response to this procedure. Also document in the audit report any interLATA services that are offered to any section 272 affiliate, but which are not covered by any written agreements or tariffs.

2. Using the information media obtained in Procedure 1, select a statistically valid sample of such media. Compare the rates, terms, and conditions offered each section 272 affiliate with the rates, terms, and conditions offered unaffiliated carriers. Disclose any differences in the audit report.

3. a. Obtain a listing of all interLATA services and facilities rendered to the section 272 affiliate(s) and other interexchange carriers (IXCs) during the audit test period. From the listing of all interLATA services and facilities that were rendered during the audit test period by the BOC/ILEC(s) to both unaffiliated entities and any section 272 affiliate in any state, determine the 10 interLATA services/facilities billed to unaffiliated third parties with the highest billing volume in dollars (determination should be made based on accumulated billing to all unaffiliated entities). If there were not 10 different interLATA services/facilities rendered to unaffiliated entities, for purposes of this procedure select each interLATA service or facility rendered to an unaffiliated entity. Determine which billing system the BOC/ILEC(s) uses to bill each of the selected interLATA services and facilities, and disclose in the report whether the same system(s) is used for the billing of both section 272 affiliates and other IXCs.

   1. Inquire and document the BOC/ILEC procedures for ensuring that the applicable tariff or agreement rate is billed to both the section 272 affiliate and nonaffiliates (e.g., the same rate table is used for all carriers). For each interLATA service and facility selected, and for each billing system used to bill the section 272 affiliates, obtain the current billing system rate tables, including any applicable discounts, surcharges, late fees, etc., used to bill the selected service. Determine if the rate tables in place reflect the current tariff or agreement rates, and disclose in the audit report. For the services selected, determine whether the applicable rates used to bill the section 272 affiliates are equal to or greater than that billed to nonaffiliates. Inquire and document the BOC/ILECs' procedures for updating the rate tables for the audit test period.

   2. For each billing system identified that is used to bill section 272 affiliates, document in the workpapers the practices and processes the BOC/ILEC has in place to ensure the billing system bills the section 272 affiliate and nonaffiliates at the same rates and under the same terms and conditions. Document in the audit report the BOC's internal controls and procedures designed to ensure non-discriminatory billing. Include in the description of internal controls a summary of controls in place for overseeing the system, e.g., who has access to the systems to examine bills for accuracy, who authorizes changes if there is an error, and who has control and access over changing the rate tables (or the equivalent mechanized/system controls). Include in the audit report a discussion that outlines in summary format what each billing system is, what services are billed under that system, and what controls are present for each system and whether the

controls apply equally to both the section 272 affiliate and nonaffiliates. Also include a summary of the controls that the BOC/ILEC(s) has in place for recording billed amounts as revenue, and the controls in place for recognizing and recording when the billed amount is actually paid. For each control identified, document how these controls exist and apply equally to both the section 272 affiliate and nonaffiliates.

b. Randomly select three individual non-consecutive months during the audit test period. For each month selected, obtain the billing records for the 10 "highest billing volume" services identified in step a above that were billed to section 272 affiliates. Billing records should be for all BOC/ILECs, all states. For each "highest billing volume" service, randomly select 10 billing transactions (a billing transaction is equivalent to a single billed item) from the three months of billing records. If fewer than 10 "highest billing volume" interLATA services/facilities are used for this procedure, continue selection of billing transactions at random until 100 such transactions are selected. For each billing transaction selected, test each transaction for the proper application of the rate tables in effect at the time, including all applicable discounts, surcharges, late fees, etc. If historic rate tables are not available, perform the test with the current rate tables obtained in step a above, including all applicable discounts, surcharges, late fees, etc. Determine if the amount billed was calculated using the appropriate rate in the rate table. For the services selected, test that the rates listed on the rate tables used to bill the section 272 affiliates are equal to or greater than the rates listed on the rate tables used for nonaffiliates. Also test that the transaction was properly recorded as revenue by the BOC/ILEC, and that the billed amount was paid. This can be accomplished, for example, by inspecting the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of all relevant screens/summaries for the work papers. Disclose in the audit report each instance where a discrepancy is found in the billing or recording by the BOC/ILEC of the billing of the service to the section 272 affiliate, and each instance where the payment of the bill was not properly recorded, or not recorded. Also test that the transaction (and the same amount) was properly recorded as expense by the section 272 affiliate, and that the same amount was paid by the section 272 affiliate. Document in the audit report each instance where the payment by the section 272 affiliate was not properly recorded, and where any differences were found in the recorded vs. paid amounts unless those differences are attributable to the consolidation of transactions or invoices. If transactions are consolidated within the amounts paid and/or recorded, insure that the transactions selected are included in the consolidated total.

c. For each billing system that is used by the BOC(s) to bill interLATA services or facilities to an unaffiliated entity that is different than the billing system used to bill the same service to the section 272 affiliates, perform steps a.1. and a.2. above. For each "highest billing volume" service identified in step a, compare the rates (including all terms and conditions, discounts, surcharges, late fees, etc.) charged for the service (in this system to bill unaffiliated entities) to the comparable rate charged in the system used

Procedures for Subsequent Events

1. Inquire of management whether processes and procedures for either the Qwest BOC or any section 272 affiliate have changed since the time of execution of these procedures and the end of the engagement period. If so, identify those changes and re-perform the related procedures to determine continued compliance with those requirements. Disclose in the report changes and results of the procedures re-performed.

2. Inquire of and obtain written representation from management of both the Qwest BOC and all section 272 affiliates as to whether they are aware of any events subsequent to the engagement period, but prior to the issuance of the report, that may affect compliance with any of the objectives described in this document. Disclose in the report any such event.

to bill the service to a section 272 affiliate. Disclose in the report any differences. Disclose the results of all the billing system testing, outlined above, in the audit report.

d. Using the same three randomly selected months from step b, and the same 10 "highest billing volume" services identified in step a, obtain the billing records for the "highest billing volume services" from each billing system used by the BOC/ILEC(s) to bill interLATA services or facilities to nonaffiliates that is different than the billing system used to bill the same services/facilities to the section 272 affiliates. Billing records should be for all BOC/ILECs, all states. If there were not 10 different interLATA services/facilities rendered to unaffiliated entities, for purposes of this procedure select each interLATA service or facility rendered to an unaffiliated entity. For each "highest billing volume" service, randomly select 10 billing transactions (a billing transaction is equivalent to a single billed item) from the three months of billing records. If fewer than 10 "highest billing volume" interLATA services/facilities are used for this procedure, continue selection of billing transactions at random until 100 such transactions are selected. For each billing transaction selected, test each transaction for the proper application of the rate tables tested in step c above, including all applicable discounts, surcharges, late fees, etc. If historic rate tables are not available, perform the test with the current rate tables obtained in step c above, including all applicable discounts, surcharges, late fees, etc. Determine if the amount calculated to be billed is calculated using the appropriate rate in the rate table, and disclose in the audit report. For the services selected, test that the rates listed on the rate tables used to bill the section 272 affiliates are equal to or greater than the rates listed on the rate tables used for nonaffiliates. Also test that the transaction was properly recorded as revenue by the BOC/ILEC, and that the billed amount was paid. For this purpose, inspect the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of all relevant screens/summaries for the work papers. Disclose in the audit report each instance where a discrepancy is found in the billing or recording by the BOC/ILEC of the billing of the service to the third party, and each instance where the payment of the bill was not properly recorded, or not recorded.

Appendix C

Qwest
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Qwest.
Spirit of Service™

June 7, 2006

Via E-Mail and Overnight Mail

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Via E-Mail and U. S. Mail

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445 12th Street, S.W., Room 6-B411
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Mr. Joe Paretti
Federal Communications Commission
6 Durham Lane
Suffern, NY 10901

RE: Qwest's Comments to Section 272 Agreed-Upon Procedures Engagement

Dear Ms. Clausen, Ms. Herauf and Mr. Paretti:

Qwest submits its attached comments to Ernst & Young's ("E&Y") draft report related to the rules and regulations regarding Section 272 of the Telecommunications Act of 1996. Pursuant to 47 C.F.R. § 53.213(b), Qwest is sending its comments to E&Y, with a copy to the Joint Federal/State Oversight Team ("JOT"), to be included in the Final Report.

Qwest believes that the results of the Agreed-Upon Procedures and supplemental evidence attached to Qwest's comments provide confirmation that Qwest is in overall compliance with the rules and regulations associated with Section 272. Qwest has worked diligently to create effective policies and procedures and to implement internal controls designed to ensure its compliance with all such rules and regulations. Due to the nature of an agreed-upon procedures engagement, the practitioner has performed the agreed procedures and has reported all results, regardless of materiality. Qwest's comments provide additional information to specific issues where explanation or clarification is needed.

Sincerely,

/s/ Ed Henry

Enclosure

Section 272 Audit Report	Qwest Response
<u>Objective I: Procedure 6. b & c:</u> b. …From the 2,338 capital assets acquired from January 2, 2004 to June 30, 2005, identified 1,173 transmission and switching assets. Randomly selected 61 transmission and switching assets acquired from January 2, 2004 to June 30, 2005 and inspected documentation supporting QCC ownership (invoices, journal entries, purchase orders, labor activity reports, internal transfer records and internal payroll records) for each asset. Differences noted are discussed in procedure c. below. c. …From the 1,174 capital assets acquired from July 1, 2005 to September 30, 2005, identified 758 transmission and switching assets. Randomly selected 39 transmission and switching assets acquired from July 1, 2005 to September 30, 2005 and inspected documentation supporting QCC ownership (invoices, journal entries, purchase orders, labor activity reports, internal transfer records and internal payroll records) for each asset. Differences noted for the sample of 100 transmission and switching assets acquired during the Audit Test Period (61 assets tested in procedure b. above and 39 assets tested in procedure c.) are listed below. • For two of the 100 assets tested, QCC could not provide documentation that indicated QCC's ownership of the asset. Management represented that these assets were purchased prior to 2004 (but placed in-service during the Engagement Period) and documentation was not available.	E&Y's Draft Report indicates that Qwest Communications Corporation (QCC) provided adequate documentation to support its ownership of 95 of the 100 sampled assets. Two of the remaining transactions involved assets for which the initial information provided to E&Y reflected incorrect asset addresses. This information was subsequently corrected. The address information does not impact ownership, and the other supporting documentation for these two transactions showed that the assets were correctly booked to QCC accounts. Therefore Qwest believes the documentation provided to E&Y "substantiated QCC's 100% ownership of the asset" for 97 out of 99 of the sampled assets. (The sample of 100 is effectively reduced to 99 since one transaction was excluded by E&Y because asset ownership documentation was not applicable--see E&Y bullet two).

Section 272 Audit Report	Qwest Response
• For two of the 100 assets tested, the address identification numbers on the ownership documentation provided did not match the address identification number of the tested asset. • For one of the 100 assets tested, noted that labor was incorrectly capitalized and subsequently reversed. The asset item selected for testing was the entry to reverse the capitalization. As this entry was the removal of an asset recorded in error, documentation of ownership was not applicable. • For 95 of the 100 assets tested, documentation provided substantiated QCC's 100% ownership of the asset. For 16 of the 95 assets, the purchaser listed on the supporting invoices was listed as "Qwest Communications". Management represented that "Qwest Communications" refers to QCC.	

Section 272 Audit Report	Qwest Response
Objective V/VI: Procedure 5: 5. Using the sample of 80 affiliate agreements selected in procedure 4 above, viewed each Section 272 Affiliate's section of the Qwest Internet site, www.qwest.com, and compared the prices, terms and conditions of services and assets shown on this site to the copies obtained in Procedure 4 above. Noted that 19 of the 80 affiliate agreements tested terminated [and] had been removed from the Qwest Internet site before the testing date of October 26, 2005. Management represented that these 19 affiliate agreements terminated during the Engagement Period and were removed from the Internet site one year after termination. Obtained the termination dates for the 19 agreements and noted that the terminations dates were over one year prior to the testing date of October 26, 2005. For 61 of the 80 affiliate agreements, noted no differences. On December 19, 2005, physically inspected the information made available for public inspection for the 61 active affiliate agreements at the principal place of business for the Qwest BOC, 1801 California, 6th Floor, Denver, Colorado, 80202. Compared the tested agreements inspected at the Qwest BOC principal place of business to the copies of the tested agreements obtained above. Noted no exceptions. Using the sample of 80 agreements selected in Procedure 4 above, documented in the working papers the dates when the agreements were signed and/or when the services were first rendered (whichever took place first) and the dates of posting on the Internet. Noted that	Over one-half of the late postings identified in the Draft Report are postings that Qwest had previously found and independently disclosed. Qwest continues to emphasize the importance of the 10 day posting requirement through both general and targeted training. For example all Qwest managers are currently in the process of completing their required Telecom Act annual training which must be completed by July 14, 2006. In addition Affiliate Transaction Managers (ATMs) responsible for documenting the transactions between the Qwest BOC and its Section 272 affiliates regularly interact with the Qwest business units and the Section 272 regulatory and legal advice team. Strengthened methods and procedures for handling affiliate agreements have been previously implemented and Company performance, as evidenced by this audit, has significantly improved. In the 2004 Qwest audit 52 late-postings were identified. In comparison during this audit, a total of 24 late postings were identified, with a positive trend of 19 in or prior to 2004 and only five in 2005. In addition to the late postings listed in E&Y attachments A-1 and A-2 to the Draft Report, in 2006 Qwest recently late-posted five additional transactions to address contract and pricing issues identified during the audit or independently by Qwest. During the course of the audit Qwest

Section 272 Audit Report	Qwest Response
eight of the 80 agreements tested were posted to the Qwest Internet site more than ten days after their test date.[1] Attachment A-1 lists the eight affiliate agreements that were posted to the Internet more than ten days after their effective date. Requested the reasons as to why these late postings occurred and included Management responses received for each late posting in Attachment A-1. In addition to the affiliate agreements tested above, Management disclosed additional affiliate agreements and/or amendments that were posted to the Internet more than ten days after their effective date during the Engagement Period. The listing of late postings disclosed by Management is shown at Attachment A-2.	also determined that its posted list of USOCs for tariffed or cataloged services purchased by QCC/QLDC was not complete. This omission occurred because the individual then responsible for maintaining the USOC list, believed certain USOCs were only applicable to order writing and provisioning and were not "billing USOCs". The posted USOC list has been updated to reflect all billing USOCs for services purchased by QCC/QLDC. The Company regularly reviews the posting information for completeness and accuracy as evidenced by the Company's self-disclosure of late posted transactions reflected on E&Y Appendix A-2. Nearly 50% of these agreements were late posted by less than 10 days. In all instances of late postings, services being performed by QC (1) were already being purchased by other IXCs or customers, (2) are not required to be made available (joint marketing) or (3) have not been requested by any unaffiliated entity.
<u>Objective V/VI: Procedure 6. a:</u> 6. Obtained a listing and dollar amounts of all non-tariffed services rendered by month by the Qwest BOC to each Section 272 Affiliate during the Audit Test Period and identified services made available to the Section 272 Affiliate that were not made available to third parties and which services were made available to both the Section 272 Affiliate and to third parties. Determined that the services not made available to third parties included only joint marketing activities.	Nine transactions with billing rate differences were identified. As described on E&Y attachment A-3, one billing rate difference occurred due to a delay in updating annual pricing caused by Qwest's restatement process. This impacted two invoices and true-up invoices were issued for both of these transactions in April 2004. The remaining seven differences all were associated with billing

[1] The test date of the agreement was determined as the earlier of the date the agreement was signed by all parties or the date that services were first rendered or provisioned under the agreement.

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a. Identified the following six services not made available to third parties (joint marketing) during the Audit Test Period: • Retail Markets Joint Marketing • National Consumer Markets Joint Marketing • Information Technologies Services • Wholesale Sales • Business Markets Group Joint Marketing • Directory Assistance Promotional Brand ... 2. For the 42 billed items tested in step 1, tested each transaction for the proper application of billing rates, including all applicable discounts, surcharges and late fees. Differences noted are listed on Attachment A-3. Also tested that the billed amount was paid by the Section 272 Affiliate and recorded as expense by the Section 272 Affiliate. No differences were noted for the amounts paid and expensed by the Section 272 Affiliate....	for a single service and were due to a personnel change when the billing responsibility transferred from one employee to another at about the time of the price change in September 2004. A true-up for invoices issued from October 2004 through September 2005 was issued in January 2006 to correct the billing for those affected months, including the sample months.
<u>Objective V/VI: Procedure 6. b:</u> b. From the services made available to both Section 272 Affiliates and to third parties: 2. Randomly selected the months of June 2004, August 2004 and November 2004 for testing.... For the 100 billed items selected, determined whether the amounts recorded for the services in the books of the Qwest	Nine transactions with billing rate differences were identified. As described on E&Y attachment A-4, one billing rate difference occurred due to a clerical error in applying the billing rate. A true-up was made in February 2006 to correct the billing for affected months including the sample month. The remaining eight transactions all involved a single service, Space and Furniture, for which there is a system generated invoice. A system limitation exists whereby the pricing on the

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BOC were in accordance with the section 32.27, affiliate transactions rules of the Commission. Compared unit charge to FDC or FMV as appropriate. Noted for the 100 billed items that the billed amounts were priced at the higher of FDC or FMV in accordance with the affiliate transaction standards and were recorded in the books of the Qwest BOC in accordance with the affiliate transaction standards except as listed in Attachment A-4. For each transaction tested for the proper application of billing rates, including all applicable discounts, surcharges and late fees. Differences noted are listed on Attachment A-4. Also tested that the billed amount was recorded as revenue by the Qwest BOC, the billed amount was paid by the Section 272 Affiliate, the payment was recorded by the Qwest BOC and that the Section 272 Affiliate properly expensed the transaction. No differences were noted. Obtained copies of relevant supporting documentation from the Qwest BOC and Section 272 Affiliate.	original system generated invoice does not match the price that is posted on the web. Therefore, each month a supplemental invoice is issued to true-up the billing to the correct price in the same month. The web-posted price was applied correctly with the true-up each month and there was never actually any under-billing.
Objective V/VI: Procedure 8 8. Obtained a listing of all services rendered by month during the Audit Test Period by QCC to the Qwest BOC and performed the following procedures. Management represented that no services were provided by QLDC to the Qwest BOC during the Audit Test Period. a. Determined the 11 services, listed in Table 2 below,	 E&Y sampled 103 transactions for the top eleven services QCC billed to QC during the audit test period. E&Y concluded that 92 of these transactions billed accurately. The billing discrepancies identified in E&Y's report, in addition to those identified through QCC's own further review of billing to QC, relate to QCC's LATIS billing for the following metered and

[2] Information Technologies Services had no billing activity during the months selected for testing.

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with the highest billing volume in dollars during the Audit Test Period. Randomly selected the months of November 2004, June 2005 and August 2005 for testing.

Table 2:
Top Eleven Services Billed by QCC to the Qwest BOC During the Audit Test Period

Line	Service	System Used by QCC to Bill the Qwest BOC
1	Private Line- LI	LATIS – Non-Metered
2	LATIS Rebiller Switched Inbound	LATIS- Metered
3	Information Technologies Services[2]	BART
4	Private Line-LL	LATIS – Non-Metered
5	Space and Furniture Rental	BART
6	Lease of Fiber Optic Lines	BART
7	LATIS Rebiller Dedicated Outbound	LATIS- Metered
8	Access	LATIS – Non-Metered
9	LATIS Rebiller International	LATIS- Metered
10	Dedicated Services	LATIS – Non-Metered
11	Lease of Equipment, Space, and Power	BART

For each month selected for testing, obtained the billing records for the services listed in Table 2 above. From the billing records obtained, randomly selected ten billing transactions for each service (13

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non-metered telecommunications services.

Metered:
LATIS Switched Inbound LATIS Dedicated Outbound
Non-Metered:
Private Line - LI (PL-LI) Private Line - LL (PL-LL) Access (DIA) Dedicated Services

Qwest provides the following additional information regarding these 11 transactions and the results of its own billing review. The first two transactions with a total billing difference of two cents (Draft Audit Report page 23, bullets 1-2) relate to two metered services calls carried by QCC. The differences were caused by a phased implementation of a new contract (Wholesale Services Agreement or WSA) between QCC and QC. The appropriate rates were implemented through that process and prior to the audit. However, because it took some time for QCC to convert the entire group of QC metered services to the new billing code and WSA rates, some QC accounts were charged at pre-WSA rates during late 2004 and early 2005. For the nine private line/access/dedicated services related transactions tested and identified by E&Y (Draft Report page 22, bullets 3-6), QCC either had already identified and corrected the billing or has now corrected the billing going forward.

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transactions were selected for LATIS Rebiller Switched Inbound) with activity during November 2004, June 2005 and August 2005, for a total of 103 billing transactions selected for testing. For the 103 transactions, determined that the transactions were recorded by the Qwest BOC in accordance with the affiliate transactions rules of the Commission (section 32.27) by comparing the unit charges to FDC, FMV or prevailing market price (PMP) as appropriate. Management represented that "there were no QCC assets or services provided to the Qwest BOC that were obtained from another nonregulated affiliate. In some cases, the Qwest BOC may purchase services from an affiliate that may utilize QCC services in the affiliate's operations or products, but Management does not believe such arrangements constitute 272 chaining transactions under existing FCC rules" For the 103 transactions tested, noted the following differences that resulted in overbillings from QCC to the Qwest BOC: • For one transaction, QCC overbilled the Qwest BOC by \$0.0189 per unit for 0.4 minutes, resulting in a total overbilling of \$0.01. • For one transaction, QCC overbilled the Qwest BOC by \$0.0137 per unit 0.9 minutes, resulting in a total overbilling of \$0.01. • For one transaction, QCC overbilled the Qwest BOC by \$50. QCC billed the DS3 rate instead of a DS1 rate. • For three transactions, QCC billed a monthly rate of \$4,500 instead of the correct rate of \$1,800 for two partial month units and one monthly unit, resulting in a total overbilling for all three transactions of \$5,587.09. • For three transactions, QCC billed a monthly rate of \$268	Qwest also reviewed other services and rates included in the implementation of the new WSA as well as services outside of the samples and discovered there were additional billing issues that include applying prospective rates to embedded services; failure to implement some revised pricing; or pricing based on inaccurate or incomplete information previously entered into the ordering or billing system. It was determined that QCC over-billed for some services and under-billed for others. To determine the billing adjustment, prices for some services were calculated based on analysis of individual circuits and component elements, while for services with component elements that numbered in the hundreds, a sampling procedure, like that which QCC utilizes with third parties, was applied. Finally with regard to the three transactions E&Y did not test (Draft Report Page 22 bullet 7), QCC has concluded and informed E&Y that one of these circuits (a 579 mile circuit from Denver to Salt Lake City, with a mileage difference of 6 miles and approximately \$12 in the monthly pricing calculation) was actually covered by the existing task order and existing pricing will be maintained. QCC believes this difference is likely attributable to a change in or a choice of the table originally used to determine private line mileage dating from when the circuit was first provisioned. For the two remaining circuits a QCC task order with circuit specific pricing has been posted. QCC and QC have addressed the past aggregate over-billing and under-billing for private line, DIA, dedicated services and metered services as part of a comprehensive settlement between the companies of all billing issues, including those identified in the audit for the sample months. The total of all adjustments is a

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instead of the correct rate of $150, resulting in an overbilling of $354. • For two transactions, QCC did not bill for channelized DS1 service that was provided with DS3 service. QCC corrected this underbilling in March 2005 and July 2005. • Rates for three transactions were not tested as they were billings for circuits that were not covered in a task order (affiliate agreement). Also tested that the transaction was recorded as an expense by the Qwest BOC and documented that amount paid by the Qwest BOC for each transaction. No differences were noted. b. For the 103 billing transactions tested in procedure a. above, tested that the transactions were properly recorded as revenue by QCC and that the billed amount was paid by the Qwest BOC. No differences were noted. [2] Information Technologies Services had no billing activity during the months selected for testing.	billing credit to QC of approximately $2.35 million. Of this approximately 75% of the credit relates to billing adjustments for services provided prior to 2004. The portion of the credit related to 2004-2006 ($600,000) equals approximately 1.5% of QCC's total LATIS billing to QC. As part of the settlement, QCC and QC have agreed, and the WSA has been amended to provide, that the embedded base of Dedicated services and DIA Services will be billed consistent with the WSA. The amended WSA and the settlement agreement have been posted to the 272 website. PL-LL services will continue to be priced on a circuit specific basis utilizing the same pricing tools and tables QCC uses with non-affiliated customers. Qwest is implementing new procedures to help prevent future errors. During second quarter 2006, management of QC accounts in the QCC LATIS billing system will be transitioned to the Wholesale service organization. QCC believes that organization, with its broad experience handling similar non-affiliated company accounts, will be able to apply its processes and expertise for improved implementation of new contract rates and for billing validation of the QC accounts. QC order activity will be sent to the same QCC order processing group that processes external orders and its expertise is expected to help assure future orders are written and entered correctly.

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Objective VII: Procedure 4. a: 1. Randomly selected the months of June 2004, September 2004 and November 2004 for testing in this procedure. a. Obtained a listing of all goods (including software), services, facilities and customer network services information (excluding CPNI), and excluding exchange access services and interLATA services, (collectively referred to as "Other Services") purchased by the Section 272 Affiliates from the Qwest BOC for the Audit Test Period on January 17, 2006 and similar supplemental listing on February 20, 2006. From these two listings, determined the 13 services with the highest volume billed to unaffiliated third parties during the Audit Test Period. The selected services are listed in Table 4 below. **Table 4:** **Thirteen Other Services with the Highest Volume Billed to Unaffiliated Third Parties during the Audit Test Period.**	On its Attachment A-6, E&Y lists 114 items billed from the QC CRIS billing system that it believes reflect a mismatch between rate tables and applicable tariffs or agreements. QC provides the following information and for ease of reference has organized its response by subject and E&Y "Item #". For some responses reference is made to relevant attached tariff or catalog pages. Directory Assistance, Item #s 1,7,12,13,17,21 and 22: Each of these seven items reflects the end-user (retail) Directory Assistance (DA) charge for a DA call from a QC payphone. State regulation of these charges was preempted by the FCC as a result of the 1996 Telecommunications Act. In 2004 QC sold its payphone operations to FSH, which is allowed to continue using the "Qwest" brand and logo. FSH is now responsible for the retail DA service from its payphones and establishes its own retail charges and no QC retail rate is applicable. As part of this transaction and transition, QC also contracted with FSH to manage a limited number of payphones that QC continues to own but which are currently being removed or will be sold to FSH in late 2006. The DA payphone charges continue to appear in the rate tables and apply to these QC phones but there are relatively few associated calls. To provide published notice of the DA charge until all of the payphones are sold the DA payphone charge will be added to the state catalogs. Directory Assistance, Item #s 2-5,8,9,11,14-16,18,20 and 23-26: Each of these 16 items relates to QCs retail offering of "National Directory Assistance Service". All QC retail DA service is jurisdictionally intrastate and is provided consistent with state

Line	USOC	Description
1	RSX	Centrex Station Line
2	NNK	Calling Name & Number Delivery
3	32104	Directory Assistance Intrastate
4	BC&I	Billing and Collections

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5	JZ3PD	Interoffice Channel Mileage - Flat Rate 1.544
6	NPU	Non Published Listing
7	ND2	Direct Inward Dialing Service – Central Office – Electronic Switching System - Central Office Trunk Termination – Two-way Digital; With Answer Supervision
8	23505	Last Call Return
9	BAFHB	Integrated Services Digital Network (ISDN) Flat Rate Package
10	1FB	Flat Line Business
11	AFK	Additional Business Line
12	Z4D	ISDN
13	PT352	ISDN Dedicated Trunking

Management represented that these 13 services are billed to both the Section 272 Affiliates and non-affiliated entities from the Billing, Collection and Invoice system (BC&I) and Customer Record Information System (CRIS). Management further represented that for the services billed from each system, these same services are billed to both the Section 272 Affiliates and non-affiliated entities and no different system is used to bill these services to non-affiliated entities.

1. For each service listed in Table 4 above, obtained rate tables used to bill the Section 272 Affiliates from the BC&I billing system for one of the services and the CRIS system for 12 of the services and compared the rates, discounts, surcharges and late fees listed in the rate tables to current tariff or agreement rates. Noted the following:

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tariffs or catalogs. In each referenced item the tariff rate matches the rate table. As noted by E&Y on its Attachment A-6, QC in its tariffs and catalogs states that it "furnishes Directory Assistance Service whereby customers may request assistance in determining telephone numbers within or outside this state." For QC "National Directory Assistance" is synonymous with "assistance in determining number...outside this state". Therefore, QC does not believe there is any substantive difference between its tariff description of its retail national directory service and rates and the identical rates as labeled in the applicable rate table.

<u>Directory Assistance, Item #6:</u>
No rate was being billed for this DA service and no catalog exists for this service. QC is determining if a charge should be established, and if so will make an appropriate catalog and rate table change.

<u>Directory Assistance, Item #s 10 and 19:</u>
For both of these items QC has located the published tariff pages and they are attached as Q Attachments for A-6, items 10 and 19.

<u>Primary or First Line Business Service (1FB), Item #s 27 and 101:</u>
Due to a conversion between Rate Groups and Rate Zones the Iowa business service tariff refers only to rate zones, but the rate table still includes both Rate Groups and Rate Zones until all business customer accounts are converted to Rate Zones. Each customer service record is being reviewed and converted to the appropriate Rate Zone. When complete, Rate Group prices for business service will be eliminated from the rate tables. An

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• For the one service, BC&I, billed from the BC&I system, compared 2,464 rates listed in the rate table used to bill the Section 272 Affiliates to tariffs or agreements. No differences were noted. • For the 12 services billed from the CRIS system, compared 1,782 rates listed in the rate table used to bill the Section 272 Affiliates to tariffs. Noted 103 differences. Noted that 16 of these 103 differences were due to no specific mention of "National Directory Assistance" in the applicable tariffs, however, the tariffs did state "The Company furnishes directory Assistance Service whereby customers may request assistance in determining telephone numbers within or outside this state." Differences are listed on Attachment A-6. • For the three of the 12 services billed from the CRIS system, compared 38 rates listed in the rate table used to bill the Section 272 Affiliates to agreements. Noted 11 differences. Differences are listed on Attachment A-6.	Iowa tariff/catalog filing will be made to clarify that residential service is classified by Rate Group and business service by Rate Zone. <u>Primary or First Line Business Service (1FB), Item #s 28,30,32,34-36,38,40-45,47-63,65,66,68,69,71,72,74,75,77-81,91-100:</u> Each of these 58 items involves QC local exchanges which have been sold and where QC is no longer a local exchange service provider. In each instance the tariffs or price catalogs for 1FB service have been withdrawn, but the previously applicable price remains in the rate table. QC has made the business decision to not incur the costs of updating the rate tables. Since the service is not being provided and is not available there is no indication of price discrimination or failure to tariff. Similarly <u>Item #s 33, 67, 70, 73 and 76</u> relate to two NPA/COs that are not QC exchanges and no customers were billed under the identified USOCs. The NPA/CO of V250 has been eliminated from the rate table and work is underway to eliminate the second NPA/CO (R314). <u>Primary or First Line Business Service (1FB), Item #s 29 and 31:</u> These rate table prices apply to service in Comstock (NPA/CO F585) and Sabin, MN (NPA/CO F789) and are the same rate as Moorhead, MN ($35.50). The rate is composed of the 1 FB "outstate" base rate of $34.61 plus mandatory $.89 EAS additive. A MN tariff filing will be made to clarify that Comstock and Sabin pay the same EAS additive as Moorhead based on having the same calling areas.