

Definitions

11. BOC 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 as to those transferred or assigned network elements. 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.

12. Qwest BOC For the purposes of this engagement, the term "Qwest BOC" includes Qwest Corporation and any successor or assign of such company as described in ¶10. The term "ILEC" (Incumbent Local Exchange Carrier) includes Qwest Corporation and any successor or assign of such company as described in ¶10.

13. Affiliate The 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, and the term "person" includes an individual, partnership, association, joint-stock company, trust, or corporation. (See section 3 of the Communications Act of 1934, as amended.)

14. Section 272 Affiliate The audit 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 term "separate affiliate" or "section 272 affiliate" includes the following companies: Qwest LD Corp. (QLDC), Qwest Communications Corporation (QCC), any other affiliate that originates interLATA telecommunications services in the Qwest BOC region that is subject to section 272 separation requirements, and any affiliate that engages in manufacturing activities as defined in section 273(h). Throughout the procedures which follow, reference is made to the 'section 272 affiliate'. The audit procedures should be performed on all section 272 affiliates, to the extent relevant.

15. Official Services Official Services mean those services permitted by the United States District Court for the District of Columbia in *United States v. Western Electric Co. Inc.* See 569 F. Supp. 1057, 1098, n.179 (1983) (defined as "communications between personnel or equipment of an Operating Company located in various areas and communications between Operating Companies and their customers"), and its progeny.

16. Obtain For purposes of this engagement, the term "obtain" as referred to in the procedures contained herein, shall mean that the practitioner will physically acquire, and generally retain in the working papers, all documents supporting the work effort performed to adequately satisfy the requirements of a procedure. The practitioner, in their professional judgment, shall decide which items are too voluminous to include in the working papers. The practitioner shall include 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.

Conditions of Engagement

17. The practitioner leading this engagement shall be a licensed CPA. The practitioner's team performing the engagement shall be familiar with the standards established for an agreed-upon procedures engagement, the requirements for the Biennial Audit, and its objectives. The team performing the engagement shall also be independent as defined in the Statements on Standards for Attestation Engagements (SSAE 10, paragraphs 1.35-1.38) and in compliance with the independence requirements of the Sarbanes-Oxley Act of 2002. The practitioner shall disclose in its engagement letter to QCII how the team shall comply with the independence requirements of the Sarbanes-Oxley Act of 2002. All members of the team performing the engagement shall have a sufficient general understanding of the relevant information contained in the following documents:

- Sections 271 and 272 of the Communications Act of 1934, as Amended;
- Section 32.27, Transactions with Affiliates, of the FCC's Uniform System of Accounts for Telecommunications Companies (USOA);
- The relevant orders and rules from the following FCC Dockets:
 - a. CC Docket No. 86-111 dealing with the allocation of joint costs between the regulated and nonregulated activities of the telephone company;
 - b. CC Docket No. 96-149 dealing with the implementation of the non-accounting safeguards of sections 271 and 272 of the Act;

- c. CC Docket No. 00-199 dealing with the implementation of the accounting safeguards of section 271 and 272 of the Act;
 - d. CC Docket No. 96-150 dealing with the implementation of the accounting safeguards of sections 271 and 272 of the Act;
 - e. CC Docket No. 96-98 dealing with the implementation of the local competition provisions of the Act (the interconnection orders);
 - f. CC Docket No. 96-115 dealing with the use of customer proprietary network information;
 - g. Notice of Proposed Rulemaking, FCC 01-339, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-321, Performance Measurements and Standards for Interstate Special Access Services; CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended; RM 10329, AT&T Corp. Petition to Establish Performance Standards, Reporting Requirements, and Self-Executing Remedies Need to Ensure Compliance by ILECs with Their Statutory Obligations Regarding Special Access Services. The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.
 - h. Notice of Proposed Rulemaking, FCC 01-331, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-318, Performance Measurements and Standards for Unbundled Network Elements and Interconnection; CC Docket No. 98-56, Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance. The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.
- QCII's section 271 application(s) and related FCC approval(s);
 - Orders issued by state commissions approving interconnection agreements that are covered in the scope of the engagement;
 - Petitions for arbitration with the BOC for those agreements tested within the

engagement.

18. In addition, to the extent the practitioner determines procedures included in this plan cannot be performed, the practitioner will propose alternate procedures to the Oversight Team, as appropriate. The practitioner will inform the Oversight Team if the practitioner determines it is necessary to modify the agreed upon procedures or the scope of the engagement, in order to provide the specified parties with all of the information needed to determine compliance with the various requirements. The practitioner shall include any additional hours and fees that would result from revisions of the procedures or of the scope of the engagement. After the practitioner informs the Oversight Team of any revisions to the final audit program or to the scope of the audit, the Oversight Team shall inform QCII about these revisions. These revisions will be subject to the procedures described in paragraph 3 above.

19. The practitioner may use the services of a specialist for assistance in highly technical areas. The practitioner and the specified parties shall explicitly agree to the involvement of any specialist to assist in the performance of the engagement. The specialist shall not be affiliated in any form with Qwest Corporation or any affiliate of Qwest Communications International, Inc.

20. The practitioner's use of internal auditors shall be limited to the provision of general assistance and the preparation of schedules and gathering of data for use in the engagement. Under no circumstances shall the internal auditors perform any of the procedures contained in this document. All the procedures in this document shall be performed by the practitioner.

21. The practitioner shall not use or rely on any of the procedures performed during any of the Qwest Corporation cost allocation manual (CAM) audits to satisfy any of the requirements in Objectives V/VI.

Representation Letters

22. The practitioner shall obtain three types of representation (assertion) letters. The first type of representation letter shall address all items of an operational nature (see para.22). The second type of representation letter shall address all items of a financial nature (see para.23). The third type of representation letter shall state that all section 272 affiliates have been disclosed (see para.24). The following paragraphs detail the contents of each type of representation letter.

23. The representation letters related to operations issues shall be signed by the Chief Operating Officer or the equivalent of the Qwest BOC and each section 272 affiliate and shall include the following:

a. acknowledgement of management responsibility for complying with specified requirements;

b. acknowledgement of management responsibility for establishing and maintaining an effective internal control structure over compliance;

c. statement that the company has performed an internal evaluation of its compliance with the specified requirements;

d. statement that management has disclosed or will disclose to the practitioner all known noncompliance with section 272 occurring up to the date of the draft report;

e. statement that management has made available all documentation related to compliance with the specified requirements;

f. statement that management has disclosed all written communications from regulatory agencies, internal auditors, external auditors, and other practitioners, and any written formal or informal complaints to regulatory agencies from competitors, concerning possible noncompliance with the specified requirements, including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report;

g. statements that: each section 272 affiliate operates independently from the Qwest BOC; no Qwest BOC owns any facilities jointly with the section 272 affiliate; prior to March 30, 2004, no Qwest BOC, or other affiliates other than the section 272 affiliate itself, provided any operations, installation, and maintenance functions over the facilities owned by the section 272 affiliate, or leased by the section 272 affiliate from unaffiliated entities; prior to March 30, 2004, no section 272 affiliate provided any operations, installation, and maintenance functions over the BOC/ILEC's facilities; and no Qwest BOC is providing and did not provide any research and development that is a part of manufacturing on behalf of the section 272 affiliate pursuant to section 272(a);

h. statement that each section 272 affiliate has separate officers, directors, and employees from those of any Qwest BOC;

i. statement that no Qwest BOC discriminated between itself or the section 272 affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards (on the Qwest BOC's representation letter only);

j. statement that the Qwest BOC subject to section 251(c) of the Act has fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates (on the Qwest BOC's representation letter only);

k. statement that the Qwest BOC subject to section 251(c) of the Act has 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 made available to its section 272 affiliate(s) that operate in the same market (on the Qwest BOC's representation letter only).

24. The representation letters related to financial issues shall be signed by the Chief Financial Officer or the equivalent of each Qwest BOC and each section 272 affiliate and shall include the following:

a. statement that each section 272 affiliate maintains separate books, records, and accounts from those of the Qwest BOC and that such separate books, records, and accounts are maintained in accordance with GAAP;

b. statement that each section 272 affiliate has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Qwest BOC;

c. statement that management has identified to the practitioner all assets transferred or sold and services rendered: (i) by the Qwest BOC to each section 272 affiliate; (ii) by each section 272 affiliate to the Qwest BOC; and that these transactions have been accounted for in the required manner;

d. statement that the Qwest BOC subject to section 251(c) of the Act has charged its section 272 affiliate, 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 (on the Qwest BOC's representation letter only);

e. statement that, if the Qwest BOC and an affiliate subject to section 251(c) of the Act make available and/or have provided any interLATA facilities or services to its interLATA affiliate, such facilities or services are made available to all carriers at the same rates and on the same terms and conditions, and the associated costs are appropriately allocated (on the Qwest BOC's representation letter only);

f. statement that management has not changed any of the Qwest BOC processes or procedures (as they relate to transactions of any kind with the section 272 affiliate) and that these procedures and processes have continued to be implemented on a consistent basis, since the execution of these agreed-upon procedures without apprising the practitioner, before the date of the draft report (on the Qwest BOC's representation letter only).

25. The representation letter related to the disclosure of all section 272 affiliates shall be signed by the Chief Financial Officer of Qwest Communications International, Inc., and shall state that each section 272 affiliate has been identified, accounted for in the required manner, and disclosed in the required manner.

Engagement Process

26. The original General Standard Procedures (GSPs), which were drafted through the cooperative efforts of Federal and State Regulators and various industry groups and sent to the RBOCs via letter on December 18, 1998, were intended to provide general areas of audit work coverage and uniformity of audit work among all regions, to the extent possible, considering state regulatory and corporate differences, and to serve as a model for the audit procedures to be used in section 272 biennial audit engagements. The standards identified throughout this updated version of the General Standard Procedures are based on the original GSPs, as well as more recent Commission rules, and are not legal interpretations of any rules or regulations. To the extent that these updated standards conflict with any FCC rules and regulations, the FCC rules and regulations govern. Accordingly, by agreeing to these procedures to be used for the current audit engagement, neither the FCC nor QCII concede any legal issue or waive any right to raise any legal issue concerning the matters addressed in these procedures.

27. The original (model) General Standard Procedures, as well as the GSPs used in prior engagements, shall be used by QCII as a guide for drafting the preliminary audit requirements, including the proposed scope of the audit, as prescribed in section 53.211(a) and (b) of the Commission's rules. In addition, the Oversight Team may provide QCII with some suggested procedures that include modifications and/or additions from the prior engagement. Under the rules in section 53.211(a) and (b), QCII shall submit the preliminary audit requirements, including the proposed scope and extent of testing, to the Oversight Team before engaging an independent accounting firm to conduct the Biennial Audit. The preliminary audit requirements to be submitted by QCII and scope of the audit shall be similar to the original

General Standard Procedures (and suggested GSPs, if applicable) and shall cover all the areas described in that model. The Oversight Team shall then have 30 days to review the preliminary audit requirements to determine whether they are adequate to meet the audit requirements in section 53.209 of the Commission's rules and "determine any modifications that shall be incorporated into the final audit requirements" (section 53.211(b)). QCII shall not engage any practitioner who has been instrumental during the past two years in designing any of the systems under review in the Biennial Audit. After QCII has engaged a practitioner to perform the Biennial Audit as outlined in the final audit requirements, the process for drafting detailed procedures shall proceed as follows:

- The Oversight Team and the practitioner shall perform a joint survey of each section 272 affiliate and the relevant Qwest BOC. The Oversight Team and the practitioner shall coordinate with QCII to determine the nature, timing and extent of this survey at a mutually agreeable time and location. The survey shall provide the practitioner and the Oversight Team with an overview of the company's structure and policies and procedures such as record keeping processes, the extent of affiliate transactions, and Qwest BOC procedures for processing orders for services received from affiliates, unaffiliated entities, and its own end-user customers. The survey shall be conducted between five to seven months before the end of the period to be covered by this engagement.
- The practitioner shall develop a detailed audit program based on the final audit requirements and submit it for review to the Oversight Team (section 53.211(d)).
- The Oversight Team shall have 30 days to review the detailed procedures for consistency and adequacy of audit coverage and shall provide to the practitioner any modifications that shall be incorporated into the final audit program (section 53.211(d)). These modifications will be subject to the procedures described in paragraph 3 above.

28. Access to all information during the section 272(d) biennial audit shall be restricted to: (a) FCC staff members; (b) state commission staff members where the state commission by statute protects company proprietary data; (c) state commission staff members who have signed a protective agreement with QCII; (d) state commission staff members of any participating state that has confidentiality procedures in effect covering all staff and that requires the Chairman or designee to sign the protective agreement on behalf of the entire commission including commission staff; and (e) state commission staff members who have not signed the protective agreement, but that QCII does not object to provide oral or written information, provided that they do not take possession of such information.

29. The detailed examination of transactions shall begin at such time as the practitioner deems appropriate to complete the engagement in accordance with the time schedule set forth in section 53.211 and section 53.213 of the Commission's rules.

30. During the conduct of this engagement, and until issuance of the final report to the Commissions, the practitioner shall schedule monthly meetings with the Oversight Team and, at the discretion of the practitioner and the Oversight Team, with QCII to discuss the progress of the engagement. The practitioner shall inform the Oversight Team well in advance, but not less than 10 days, of plans to meet with representatives of QCII for the following reasons: to discuss plans and procedures for the engagement; to survey QCII operations; to review QCII procedures for maintaining books, records, and accounts; and to discuss problems encountered during the engagement. It shall not be necessary for the practitioner to inform the Oversight Team of meetings with the client to ask for clarification or explanation of certain items, explore what other records exist, or request data. The practitioner shall immediately inform in writing the Oversight Team of any deviation from, or revisions to, the final detailed audit procedures and provide explanations for such actions. The practitioner shall submit to the Chief, Enforcement Bureau, and shall copy the Oversight Team and, at the practitioner's discretion, QCII, any rule interpretation necessary to complete the engagement. The practitioner shall advise the Oversight Team of the need for additional time to complete the engagement in the event that the Oversight Team requests additional procedures (see 31c. below). Finally, the practitioner shall immediately inform the Oversight Team, in writing, of any failure by QCII to respond to requests for information during the engagement.

Timetables

31. In order to complete the engagement in a timely manner, the following time schedule for completion of certain tasks is provided:

a. Within 60 days after the end of the engagement period, but prior to discussing the findings with QCII, the practitioner shall submit a draft of the report to the Oversight Team for all procedures.

b. The Oversight Team shall have 45 days to review the findings and working papers and offer its recommendations, comments, and exceptions concerning the conduct of the engagement to the practitioner. The exceptions of the Oversight Team to the findings and conclusions of the practitioner that remain unresolved shall be included in the final report.

c. If the Oversight Team requests additional procedures, the practitioner shall advise the Oversight Team and QCII of any need for additional time to perform such procedures. Otherwise, within 15 days after receiving the Oversight Team's recommendations and making the appropriate revisions, the practitioner shall submit the report to QCII for its comments on the findings, and to the Oversight Team. At the time the report is provided to QCII, the practitioner may provide QCII with an itemized list of all data and information previously identified as proprietary or confidential by QCII that the practitioner included in the report.

d. Within 30 days after receiving the report, QCII will comment on the findings and send a copy of its comments to both the practitioner and the Oversight Team. QCII will also provide the practitioner and the Oversight Team notification of all items contained in the draft report, which QCII contends to be confidential. The BOC's response shall be included as part of the final report.

e. Within 10 days after receiving QCII's comments, the practitioner may respond to QCII's comments and shall make available for public inspection the final report by filing it with the regulatory agencies having jurisdiction over QCII. The final report shall contain the procedures employed with the related findings, the Oversight Team's comments, QCII's comments, the practitioner's reply comments, and a copy of these procedures as executed.

f. Interested parties shall have 60 days from the date the report is made available for public inspection to file comments with the Commission and/or any state regulatory agency.

Report Structure

32. Consistent with the AICPA standards for AUP engagements, the practitioner must present the results of performing the audit procedures in the form of findings, including dollar amounts, resulting from application of the audit procedures. The presentation of findings related to each of the specified procedures shall include sufficient detail and specificity that a reader may draw a reasonable conclusion as to whether the respective Objective has or has not been met. The detail and specificity of the findings related to each of the specific procedures shall be consistent with QCII's prior biennial audit report. The practitioner shall include in the report all the information required to be included in the report by the procedures and any further information required by the Oversight Team subject to the provisions of paragraph 3. The practitioner must avoid vague or ambiguous language in reporting the findings and shall describe in the final report all instances of noncompliance with section 272 or its related implementing rules that were noted by the practitioner in the course of the engagement, or disclosed by QCII during the engagement and not covered by the performance of these procedures. Where samples are used to test data, the report shall identify the size of the universe from which the samples were drawn, the size of the sample, the sampling methodology used and, where appropriate, the standard deviation and mean. The final report shall contain the procedures employed with the related findings, the Oversight Team's comments, QCII's comments, the practitioner's reply comments, and a copy of these procedures as executed. The practitioner's report must also contain the following elements:

- a. A title that includes the word independent.
- b. Identification of the specified parties.

- c. Identification of the subject matter (or the written assertion related thereto) and the character of the engagement.
- d. Identification of Qwest Communications International, Inc. as the responsible party.
- e. A statement that the subject matter is the responsibility of the responsible party.
- f. A statement that the procedures performed were those agreed to by the specified parties identified in the report or as directed by the Bureau or the Commission, as specified in paragraph 3.
- g. A statement that the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the AICPA.
- h. A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures.
- i. A list of the procedures performed (or reference thereto) and related findings.
- j. A statement that the practitioner was not engaged to and did not conduct an examination of the subject matter, the objective of which would be the expression of an opinion, a disclaimer of opinion on the subject matter, and a statement that if the practitioner had performed additional procedures, other matters might have come to his or her attention that would have been reported.
- k. This report becomes a matter of public record via the practitioner's filing the final report with the FCC and the state regulatory agencies having jurisdiction over QCII.
- l. A description of any limitations imposed on the practitioner by the BOC/ILEC or any other affiliate, or other circumstances that might affect the practitioner's findings.
- m. A description of the nature of the assistance provided by specialists and internal auditors.

**QWEST COMMUNICATIONS INTERNATIONAL, INC.
BIENNIAL ENGAGEMENT PROCEDURES**

Follow-up Procedures on the Prior Engagement

1. The following matters were noted in the prior engagement's Qwest Communications International Inc., Report of Independent Accountants on Applying Agreed-Upon Procedures, Ernst & Young (EY), LLP, dated June 8, 2004:
 - a. As part of the reconciliation of the differences between the detailed fixed asset listing and the balance sheet, there is a \$6,549,000,000 item for restatements and asset impairment that has been deducted from the balance sheet but not yet spread to the detailed asset listing. (See I-5.)
 - b. For one lease of an IRU, QCC was invoiced and paid to the lessor \$614,675, however, QCC recorded the expense as \$848,600. In addition, for a subagreement of that same lease, QCC failed to amortize the capital lease. (See II-2.)
 - c. There were nine instances where a Qwest BOC provided service to a section 272 affiliate before a written agreement was in place. (See V/VI-4.)
 - d. Fifty-two (52) affiliate agreements were posted to the Internet more than ten days after their effective date. (See V/VI-5.)
 - e. For services made available to the section 272 affiliates and not to third parties (joint marketing) six of 53 instances were billed incorrectly. (See V/VI-6.)
 - f. For 13 of 100 bill records tested, the basic rate charged by the section 272 affiliate (QCC) to the Qwest BOC did not agree with the price posted in the affiliate agreements. These differences are listed on Attachment A-6. For 75 of the 100 bill records tested, including 3 of the 13 initial rate differences listed on Attachment A-6, QCC applied a discount of varying amounts (63 of the 75 bill records) or added a surcharge of \$0.05 (52 of the 75 bill records) to the billed amounts. The discount and surcharge were applied in addition to the basic rate charged and were not included in the affiliate agreements posted on the Qwest Internet site. (See V/VI-7.)
 - g. The Qwest BOC purchased a switch from a third party vendor at a price for \$16,708,608 and immediately transferred it to QCC at the same price. This switch was not made available to third parties. (See V/VI-8.)

- h. The list, provided to E&Y, of services made available to the section 272 affiliates by the Qwest BOC that should also have been made available to third parties contained items that should not have been included and was inadequate for E&Y's testing purposes. (See VII-2.)
- i. For 1,643 of the 14,845 customer accounts billed from the Qwest BOC's CRIS system, the rates charged the section 272 affiliates were different than the rates charged non-affiliates. (Attachment A-7.) For 61 of the sample of 100 billed instances of rates charged to QCC, there was a difference from the rates charged non-affiliates. (Attachment A-8a.) For 45 of the sample of 100 billed instances of rates charged to QLDC, there was a difference from the rates charged non-affiliates. (Attachment A-8b.) (See VII-3a.)
- j. There were 19 instances where the Qwest BOC customer service representative marketed Qwest long distance service but did not inform the customers of their right to choose a long distance provider. (See VII-6a.)
- k. The Qwest BOC refused to provide E&Y with copies of three vendor contracts that E&Y had requested. (See VII-9)
- l. There were numerous instances where the Qwest BOC provided a lower quality of service to competing interLATA service providers than the service it provided to its section 272 affiliates. (See VIII-4.)
- m. The Qwest BOC did not provide E&Y with appropriate data with which to compare rates charged, and terms and conditions applied, to each section 272 affiliate with those charged and applied to a sample of IXCs for the same services. (See IX-2.)
- n. The Qwest BOC imputed for access, switching and transport for the National Directory Assistance (NDA) service and E911 service during the engagement period. For NDA, the Qwest BOC could not provide supporting documentation for the quotes used in the cost study. For E911, the rate published in the tariff was different than the rate used in the OCS study for 20 of 100 rates tested. Also for E911, the USOCs used in the OCS study were not available on the Qwest Tariff Library Website for 61 of the 100 rates tested. (See X-2.)
- o. The total amount paid by the section 272 affiliates to the Qwest BOC exceeded both the amount recorded as expense and the amount billed them for local exchange service and exchange access service from the BOC by over \$20 million. Also, QCC and QLDC could not identify amounts paid for exchange and

exchange access per the procedure, yet neither section 272 affiliate notified the JOT of this situation until the audit report was written. (See X-3.)

2. When performing the procedures related to the above matters, the practitioner will note in the report whether these matters continued to exist beyond the previous engagement period, what action management took to ensure their non-recurrence or improvement, and the effective date of such action.

**QWEST COMMUNICATIONS INTERNATIONAL, INC.
BIENNIAL ENGAGEMENT PROCEDURES**

Procedures for Structural Requirements

OBJECTIVE I. Determine whether the separate affiliate required under section 272 of the Act has operated independently of the Bell operating company.

STANDARDS

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

- A BOC and its section 272 affiliate cannot jointly own transmission and switching facilities, broadly defined as local exchange and exchange access facilities, or the land and buildings where those facilities are located. (See 47 C.F.R. Section 53.203(a)(1) and First Report and Order, paras. 15, 158, 160)
- Prior to March 30, 2004, a section 272 affiliate shall not perform operating, installation or maintenance functions associated with the BOC's facilities. Likewise, prior to March 30, 2004, a BOC or any BOC affiliate, other than the section 272 affiliate itself, shall not perform operating, installation or maintenance functions associated with the facilities that each section 272 affiliate owns or leases from a provider other than the BOC with which it is affiliated. (See 47 C.F.R. section 53.203(a)(2), (3) and First Report and Order, paras. 15, 158, 163)
- To the extent that research and development is a part of manufacturing, it must be conducted through a section 272 affiliate. If a BOC seeks to develop services for or with its section 272 affiliate, the BOC must develop services on a nondiscriminatory basis for or with other entities pursuant to section 272(c)(1). (See First Report and Order, para. 169)

PROCEDURES

1. Inquire of management whether there have been any changes in the certificate of incorporation, bylaws, and articles of incorporation of the section 272 affiliates covered in this biennial audit, and whether there have been any legal and/or "doing business as" (DBA) name changes since the last engagement period. For each such change reported by management, and for any section 272 affiliate established or formed since the last engagement period, inspect the certificate of incorporation, bylaws, and articles of incorporation to determine whether these affiliates were established as corporations

separate from the Qwest BOC. Note in the report the results of this procedure.

2. Obtain and inspect corporate entities' organizational chart(s) as of January 1, 2006, and confirm, as appropriate, with legal representatives of the Qwest BOC, section 272 affiliates, and Qwest Communications International, Inc., the legal, reporting, and operational corporate structure of the section 272 affiliates. Disclose these facts in the report. Document and disclose in the report who owns the section 272 affiliates.
3. For the period prior to March 30, 2004, inquire of management, identify and document which entity performs operations, installation and maintenance functions over facilities either owned or leased by each section 272 affiliate, or leased from a third party by each section 272 affiliate.
 - a.) Obtain management's definition and interpretation of operations, installation, and maintenance (OI&M) functions. Describe in the report management's definition of OI&M.
 - b.) For the period prior to March 30, 2004, disclose in the report whether or not any of these OI&M services described above in step (a) are being performed by the Qwest BOC and/or other non-section 272 affiliate(s) on facilities either owned by any section 272 affiliate or leased from a third party by any section 272 affiliate. For each such service being performed by the Qwest BOC or other non-section 272 affiliate(s), disclose in the report what service is being performed by what entity.
 - c.) For the period prior to March 30, 2004, disclose in the report whether or not any of these OI&M services described above in step (a) are being performed by any section 272 affiliate on facilities either owned by the Qwest BOC or leased from a third party by the Qwest BOC. For each such service being performed by any section 272 affiliate, disclose in the report what service is being performed.
4. For the period after March 30, 2004 until the end of the engagement period, inquire of management, identify, and document in the report which entity performs OI&M functions over facilities either owned by each section 272 affiliate, or leased from a third party by each section 272 affiliate.
 - a. Disclose in the report whether or not any of these OI&M services are being performed by the Qwest BOC and/or other non-section 272 affiliate(s) on facilities either owned by each section 272 affiliate or leased from a third party by a section 272 affiliate. For each such OI&M service, disclose in the report what service is being performed by what entity, e.g., the Qwest BOC, or other non-section 272 affiliate. Also disclose the date upon which each service was first provided.

- b. Disclose in the report whether or not any of these OI&M services are being performed by any section 272 affiliate on facilities either owned by the Qwest BOC or leased from a third party by the Qwest BOC. For each such service being performed by a section 272 affiliate, disclose in the report what service is being performed by what entity, the name of the section 272 affiliate, and the date upon which the service was first provided.
5. Through inquiry of management, determine whether the Qwest BOC performs any Research and Development (R&D) activities on behalf of the section 272 affiliates. If yes, obtain descriptions of R&D activities performed by the Qwest BOC for the audit test period, January 2, 2004 through September 30, 2005, and note any R&D related to the activities of each section 272 affiliate. For R&D related to the activities of each section 272 affiliate, obtain from Qwest BOC personnel more details, such as the extent of R&D provided, progress reports, cost, and whether the section 272 affiliate has been billed and has paid for this service. Disclose in the report all information obtained. Inquire and disclose in the report whether or not R&D service is offered and/or has been performed when requested by unaffiliated entities.
6. Obtain for each section 272 affiliate as of the end of the audit test period, September 30, 2005, the balance sheet, a detailed listing of all fixed assets including capitalized software, and a detailed listing of all operating leases between each section 272 affiliate and QNLP. The detailed listing of all fixed assets should include the capital leases of each section 272 affiliate.

For each section 272 affiliate, perform the following:

- a. Reconcile the amount of the detailed listing of all fixed assets to the amount of fixed assets shown on the Balance Sheet. If the list does not reconcile, inquire and document why and disclose in the report any differences between the Balance Sheet and the total amount of the fixed assets on the detailed listing. Identify in the report the types of assets involved in these differences and provide explanations in the report.
- b. Obtain for each section 272 affiliate as of June 30, 2005, a detailed listing of all fixed assets including capitalized software, and a detailed listing of all operating leases between each section 272 affiliate and QNLP. The detailed listing of all fixed assets should include the capital leases of each section 272 affiliate. Combine the detailed listing of all fixed assets and the detailed listing of all operating leases with QNLP. Identify in the combined listing all assets/operating leases acquired since January 2, 2004. For a statistically valid sample of these assets/operating leases, verify that the detailed listing includes a description and the location of each item, date of purchase,

price paid and recorded, and from whom purchased or transferred. Disclose in the report any item, including dollar amounts, where any of this information is missing.

Identify in the combined listing of assets/operating leases all transmission and switching facilities acquired since January 2, 2004. These transmission and switching facilities should include capitalized software, the land and buildings where those facilities are located, and any such facilities that are the subject of an operating lease between the section 272 affiliate and QNLP. For a statistically valid sample of these transmission and switching facilities, inspect title and/or other documents, which reveal ownership. Look for and note in the report any transmission and switching facilities that are owned jointly with the Qwest BOC.

- c. Obtain a listing of all assets/leases added between June 30, 2005 and September 30, 2005. Repeat testing above on these new asset/leases .
- d. If any required information or documents for this procedure are not made available, disclose such circumstances in the report

NOTE: The balance sheet and detailed listings obtained in this procedure should also be used to perform Procedure 9 under Objective V/VI.

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 Bell operating company.

STANDARDS

In CC Docket No. 96-150, Implementation of the Accounting Safeguards Under the Telecommunications Act of 1996, the FCC requires that each section 272 affiliate maintain books, records, and accounts, in accordance with generally accepted accounting principles (GAAP), and separate from those of the BOC. (See Report and Order, para. 170)

PROCEDURES

1. Obtain access to the general ledger (G/L) of each section 272 affiliate as of September 30, 2005 and match the title on the G/L with the name of the affiliate on the certificate of incorporation (or other name which uniquely identifies the section 272 affiliate such as the DBA) to determine that a separate G/L is maintained. Look for special codes, if any, which may link this G/L to the G/L of the Qwest BOC and provide documentation (unless such codes are merely common accounting system codes or the like that are used in the general ledgers of all companies produced by such accounting system). State in the report whether or not a separate G/L is maintained, and if not, explain why. Note: Linkage at corporate headquarters for consolidations is an accepted practice.
2. Obtain each section 272 affiliate's financial statements (i.e., Income Statement and Balance Sheet) as of the end of the audit test period, September 30, 2005.
3. Obtain a list of lease agreements for each section 272 affiliate as of September 30, 2005 that were entered into or modified during the audit test period. Identify leases for which the annual obligation listed in the lease agreement is \$500,000 or more. Test those leases for which the section 272 affiliate is the lessor as well as those leases for which the section 272 affiliate is the lessee. Obtain a copy of each section 272 affiliate's lease accounting policy. Note any differences between the section 272 lease accounting policy and GAAP. For a statistically valid sample of leases \$500,000 or more for each section 272 affiliate, obtain a copy of the lease agreement, and make a note of the terms and conditions to determine whether these leases have been accounted for in accordance with the section 272 affiliate's lease accounting policy. Disclose in the report any instance where these leases were not accounted for in accordance with GAAP.

4. Inquire and disclose in the report the date when Qwest Communications Corporation merged with Qwest LD Corp, and the extent of services provided by Qwest LD Corp during the engagement period.

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 Bell operating company.

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, interprets the above requirement further by stating the following:

- Separate officers, directors, and employees simply dictates that the same person may not simultaneously serve as an officer, director, or employee of both a BOC and its section 272 affiliate. (See First Report and Order, para. 178.)

PROCEDURES

1. Inquire, document and disclose in the report whether each section 272 affiliate and the Qwest BOC maintain separate boards of directors, separate officers, and separate employees. For each Qwest BOC and section 272 affiliate, obtain a list of the names of directors and officers, including the dates of service for each Board member and officer for the engagement period (January 2, 2004 to January 1, 2006). Confirm this list by comparing it to historical records of consents, minutes of Board of Directors' meetings, etc. Compare the list of the names of directors and officers of the Qwest BOC with a list of the names of directors and officers of each section 272 affiliate. For those names appearing simultaneously on both Qwest BOC and any section 272 affiliate lists, obtain explanations from management and request social security numbers and addresses to ensure that they are not the same individuals. Disclose in the report the number of directors and officers (who have the same social security number and address) who served simultaneously as a director and/or officer of the Qwest BOC and any section 272 affiliate.
2. Obtain from their respective Human Resource Departments a list of names and social security numbers, or similar unique employee identification numbers maintained by Qwest, of all employees of each section 272 affiliate and each Qwest BOC for the engagement period (January 2, 2004 through January 1, 2006) and their employment dates. Design and execute a program which compares names and employee identification numbers and document in the workpapers the names appearing simultaneously on both Qwest BOC and any section 272 affiliate lists. For any employee appearing on both lists simultaneously, inquire and document why in the report. For privacy reasons, do not include the names or employee identification numbers of any Qwest employees in the report.

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 Bell operating company.

STANDARDS

The FCC in 47 C.F.R. section 53.203(d) indicates that a section 272 affiliate shall not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BOC of which it is an affiliate.

The FCC also expands on this premise 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. In this docket the Commission states that,

- A BOC cannot co-sign a contract or any other instrument with a section 272 affiliate that would allow such section 272 affiliate to obtain credit granting recourse to the BOC's assets. (See First Report and Order, para. 189)
- The BOC parent, or any other non-section 272 affiliate, cannot sign or co-sign a contract or any arrangement with a section 272 affiliate that would allow the creditor to have recourse to the BOC assets. (See First Report and Order, para. 189)
- A section 272 affiliate cannot enter any arrangement with any party that would permit the lender to have recourse to the BOC in the event of a default. (See First Report and Order, para. 189)

PROCEDURES

1. Obtain from management and document in the workpapers each section 272 affiliate's debt agreements/instruments and credit arrangements with lenders and major suppliers of goods and services that were entered into or modified during the engagement period. Look for guarantees of recourse to the Qwest BOC's assets, either directly or indirectly through another affiliate, and document those instances and disclose in the report. Major suppliers are those having \$500,000 or more in annual sales to the section 272 affiliate as stated in the agreement.
2. Using the sample of lease agreements obtained in Objective II, Procedure 3, that were entered into or modified during the audit test period, document any instances in which each section 272 affiliate's lease agreements (where the annual obligation is \$500,000 or more as stated in the agreement) have recourse to the assets of the Qwest BOC, either directly or indirectly through another affiliate, and disclose in the report.

3. For all debt instruments, leases, and credit arrangements maintained by each section 272 affiliate in excess of \$500,000 of annual obligations that were entered into or modified during the audit test period, and for a judgmental sample of 10 debt instruments, leases and credit arrangements that are less than \$500,000 in annual obligations that were entered into or modified during the audit test period, obtain (positive) confirmations from loan institutions, major suppliers, and lessors to attest to the lack of recourse to the Qwest BOC's assets. For any new debt instruments, leases, and credit arrangements that were entered into or modified during the remainder of the engagement period perform the same procedures. Disclose in the report any recourse noted. (NOTE: Testing of recourse herein need not be done for debt instruments, leases, or credit arrangements with affiliates.)

Procedures for Accounting Requirements

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

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

STANDARDS

The FCC in CC Docket 96-150, Implementation of the Accounting Safeguards Under the Telecommunications Act of 1996, interprets the above requirements further by stating:

- A section 272 affiliate shall conduct all transactions with the BOC of which it is an affiliate on an arm's length basis, pursuant to the accounting rules described in 47 C.F.R. section 32.27, Transactions with Affiliates, of the FCC Rules and Regulations, with any such transactions reduced to writing and available for public inspection. (See 47 C.F.R. section 53.203(e)). Section 32.27 requires the following:

For transactions involving the sale or transfer of assets or products between the carrier and affiliates, or chained transactions:

- a. assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariff rate;
- b. nontariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price must be recorded at prevailing price. In order to qualify for prevailing price valuation, sales of a particular asset to third parties must encompass greater than 25% of the total quantity of such product sold by an entity. Carriers shall apply this 25% threshold on an asset by asset basis rather than on a product line basis. See "Exceptions" below;
- c. all other assets sold by or transferred from a carrier to affiliates must be recorded in the books of the carrier at no less than the higher of fair market value or net book cost. See "Exceptions" below;
- d. all other assets sold by or transferred to a carrier from its affiliates must be recorded in the books of the carrier at no more than the lower of fair market value

or net book cost. See “Exceptions” below.

Exceptions:

Floor. When assets are sold by or transferred from a carrier to an affiliate, the higher of fair market value and net book cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Ceiling. When assets are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and net book cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Threshold. Carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds \$500,000, per affiliate. When a carrier reaches or exceeds the \$500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules. When the total aggregate annual value of the asset(s) does not reach or exceed \$500,000, the asset(s) shall be recorded at net book cost.

For transactions involving the provision of services between the carrier and affiliates, or chained transactions:

- a. services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate;
- b. nontariffed services provided between a carrier and its affiliate pursuant to publicly filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly-filed agreements or statements;
- c. nontariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation shall be recorded at the prevailing price. In order to