

BUSINESS TELECOMMUNICATION SERVICES, INC.

EXAMINATION REPORT

FOR THE PERIOD ENDED JUNE 30, 2006

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Federal Communications Commission
Business Telecommunication Services, Inc.

We have examined Business Telecommunication Services, Inc.'s ("BTS") compliance with the nine factors outlined by the Federal Communications Commission (FCC) pursuant to section 64.1310(a)(1) during the period ended June 30, 2006. Management is responsible for BTS' compliance with those requirements. Our responsibility is to express an opinion on BTS' compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about BTS' compliance with the nine factors outlined by the FCC and performing such other procedures, as we considered necessary in the circumstances. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on BTS' compliance with the specified requirements.

In our opinion, BTS complied, in all material respects, with the aforementioned requirements for the period ended June 30, 2006.

Morrison, Brown, Argiz & Farra, LLP

Miami, Florida
July 05, 2006

Federal Communications Commission (FCC)

On October 3, 2003, the FCC amended its Dial Around Compensation (DAC) rules to require Switch-Based Resellers (SBR) to compensate Payphone Service Providers (PSP) directly. DAC is the process by which PSP receive reimbursement for toll free calls placed from their payphones.

The previous ruling required the first underlying facilities-based interchange carrier to pay PSP and seek reimbursement from the SBR. Under the new rules, carriers that own or lease a switch and use the switch to complete the calls are directly responsible for compensating PSP for each toll free call placed from a payphone.

BTS is a FCC licensed, Florida registered, Miami-based Inter-Exchange Carrier and full service telecommunications provider that act as a Switch-Based Reseller.

FCC Certification & Audit Requirements:

The FCC requires the SBRs to comply with the following criteria:

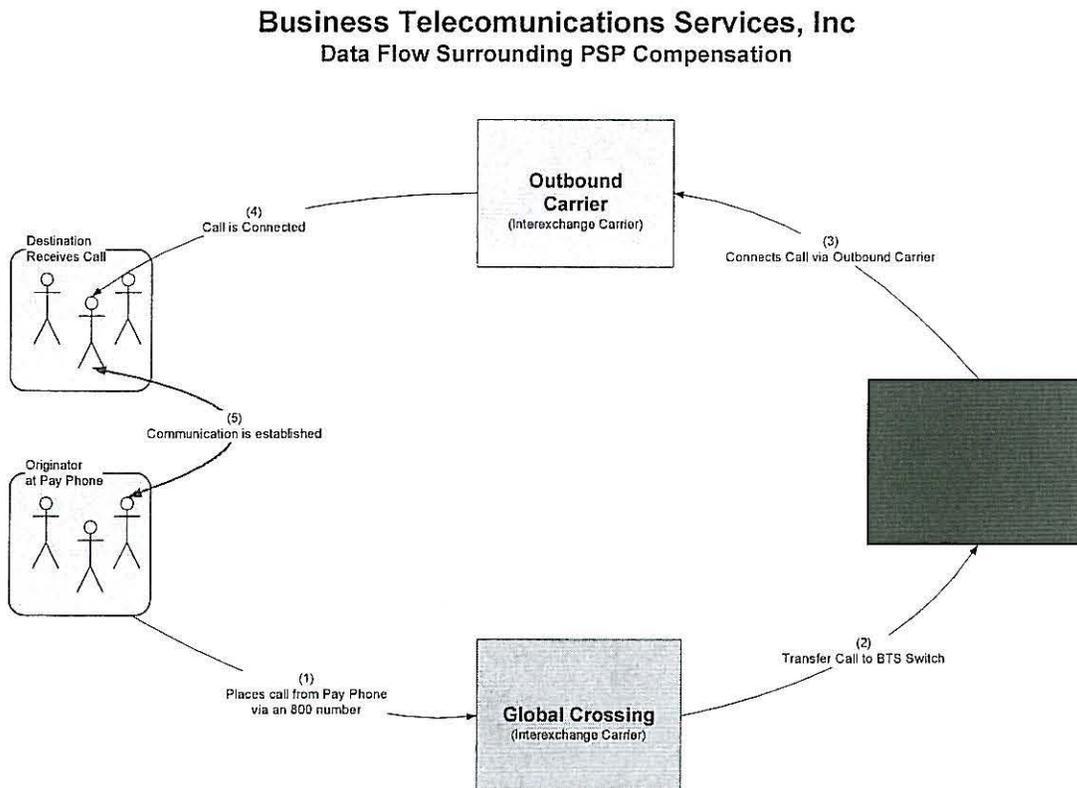
- ❖ Whether the Completing Carrier's procedures accurately track calls to completion. A Completing Carrier is a long distance carrier or switch-based long distance reseller or a local exchange carrier (LEC) that completes a coin less access code or subscriber toll-free payphone call [*CO#21].
- ❖ Whether the SBR has a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone completed calls [*CO#3].
- ❖ Whether the SBR has effective data monitoring procedures [*CO#25].
- ❖ Whether the SBR adheres to established protocols to ensure that any software, personnel or any other network changes do not adversely affect its payphone call tracking ability [*CO#13].
- ❖ Whether the SBR has created a compensable payphone call file by matching call detail records against payphone identifiers [*CO#22].
- ❖ Whether the SBR has procedures to incorporate call data into required reports [*CO#23].
- ❖ Whether the SBR has implemented procedures and controls needed to resolve disputes [*CO#24].
- ❖ Whether the independent third-party auditor can test all critical controls and procedures to verify that errors are insubstantial [*CO#19].

- ❖ Whether the SBRs have adequate and effective business rules for implementing and paying payphone compensation, including rules used to: (i) identify calls originated from payphones; (ii) identify compensable payphone calls; (iii) identify incomplete or otherwise non-compensable calls; and (iv) determine the identities of the PSPs to which the SBR owes compensation [*CO#2].

*CO – Control Objective

We have performed various procedures to determine whether BTS is in compliance with the nine factors stated above. Refer to Control Objective Matrix for the details of the procedures performed.

Payphone Service Provider Compensation Data Flow



As demonstrated in the sketch above, an originator places a phone call by using one of the 8XX number assigned to BTS by Global Crossing, the inbound carrier. The call is then transferred to an outbound carrier through the BTS switch. This outbound carrier connects the call to its final destination.

All calls are assigned a two digits code, known as *info digits* (payphone indicator), by the

Local Exchange Carrier (LEC) and passed on to the switch indicating the type of phone where the call originated. The info digit is used to differentiate whether the call originated from a payphone. Payphone indicator values include "08" which represents a call originating from an Owner Payphone, "70" which identifies all calls originating from a payphone line which do not use network provided coin control signaling, "27" which identifies calls originating from a payphone line which uses network provided coin control signaling, and "29" is used to payphone within a confinement/detention facility that are intended for inmate/detainee use and require outward call screening and restriction.

An automated script is executed automatically once a month. This program connects to the database, and runs a query with the following parameters to identify payphone-completed calls:

- Dialing an 800 number (Search the switch for the DNIS Number) and/or
- Payphone originated calls (Search the switch for calls with payphone specific info digits) and
- completed (answered duration > 0) and
- over specific defined trunk groups (23, 26, and 54)

Once the Call Detail Records (CDRs) are obtained, the information is formatted with the specifications provided by Atlantax Systems Inc, the third party retained as the clearinghouse for dial around compensation.

Atlantax Systems, Inc.

For the purpose of accurately compensating PSPs for all connected calls originating from payphones, BTS has retained the services of Atlantax Systems, Inc. Atlantax Systems, Inc. is a ten year old privately owned company with offices in Atlanta, Georgia and Torrence, California. Atlantax offers both license and service bureau tax compliance solutions, including tax relating to dial around compensation clearinghouse services for the telecommunication, utility and retail industries. Atlantax requires, that on a monthly basis, an electronic file (see current file layout below) be transmitted to them incorporating all completed payphone originated toll free calls identified on BTS' network.

Atlantax Fields Layout – Required Fields for DacPac:

Header Record:

Position	Description	Values Accepted
1-8	SBR ID	Provided by Atlantax
9-12	Claim Period	YYMM

Our systems require a carriage return / line feed (CR/LF) at the end of each record.

Detail Record:

Position	Description	Values Accepted
1-2	Category	"01"
3-4	Group	"01"
5-6	Record Type	"25"
7-12	Call Date	YYMMDD (Year, Month, Day)
13-14	From Number Length	"10"
15-24	From Number (Origination)	NPANXXNNNN
28-29	800 Number Dial Length	"10"
30-39	800 Number	800NNNNNNN
40-41	Final Connect Number Length	"10"
42-51	Final Connected Number	NPANXXNNNN (If International use 42-54)
55-60	Connect Time	HHMMSS (Hour, Minute, Second)
81-82	Pay phone indicator	"8", "08" or "70" or "27" or "29"
83-86	CIC Code	Carrier Identification Code of the Facilities Based Carrier that Routed call to Completing Carrier
87-97	Client Defined	Client Defined
98-150	Filler – Atlantax Reserve	Zero Fill or Leave Blank

Our systems require a carriage return / line feed (CR/LF) at the end of each record.

Trailer Record:

Position	Description	Values Accepted
1-2	ZZ	"ZZ"
3-10	Atlantax Reserve	Leave Blank
11-22	Total Record Count	XXXXXXXXXXXX (Right Justified)

A carriage return / line feed (CR/LF) is required at the end of each record.

If you only have a DNIS for the 800 Number, Zero Fill the first three positions.

Payphone Indicator Values:

"8" or "08" – if just "8" then character must appear in position 82. Owner Payphone.

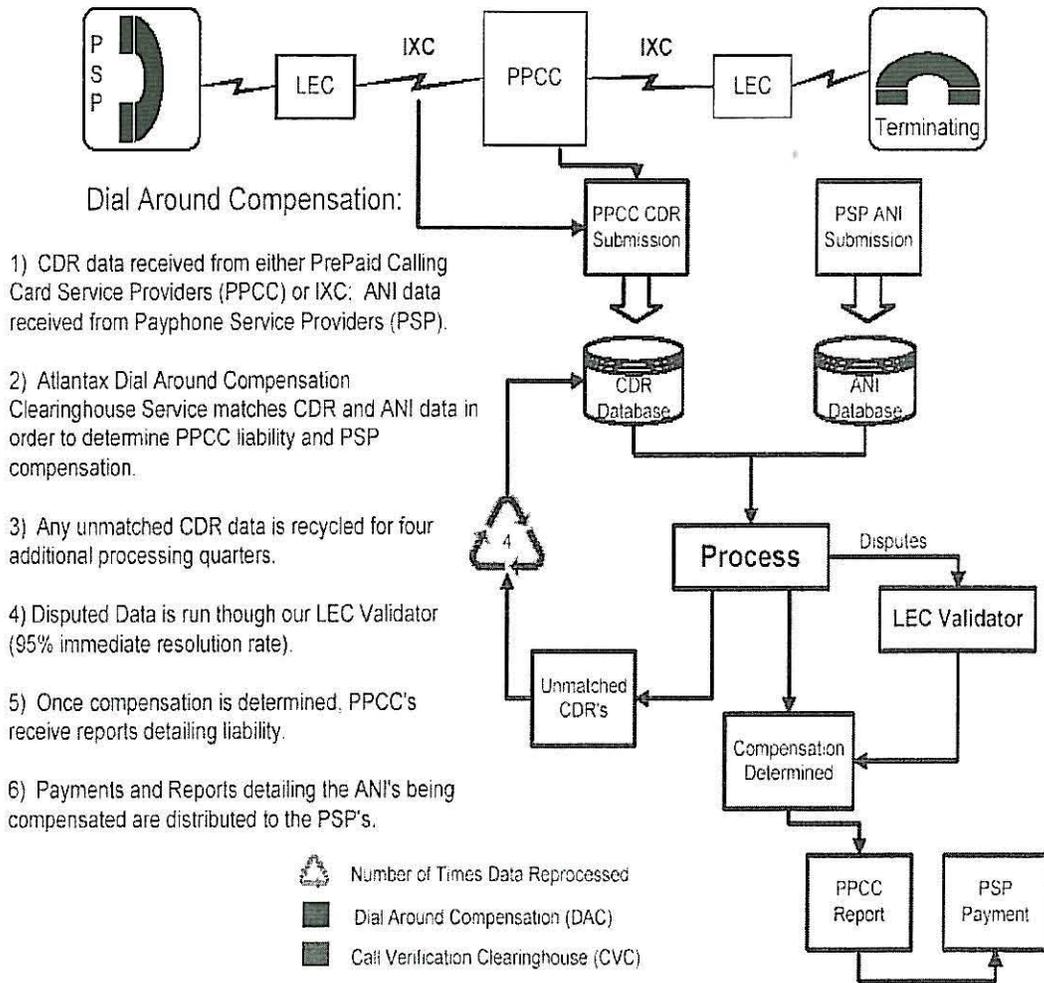
"70" – Flex Ani 70- Identifies calls originating from a payphone line which does not use network provided coin control signaling.

"27" – Identifies calls originating from a payphone line which uses network provided coin control signaling.

"29" – Identifies calls originating from within a confinement/detention facility that are intended for inmate/detainee use and require outward call screening and restriction.

The Atlantax Dial Around Compensation Clearinghouse provides a complete mechanism for complying with the FCC dial around compensation directives. Atlantax uses a proprietary program, which provides reliable, automated processing, calculation, remittance, and dispute resolution.

Atlantax's procedures with regards to reimbursement is outlined in the diagram below:



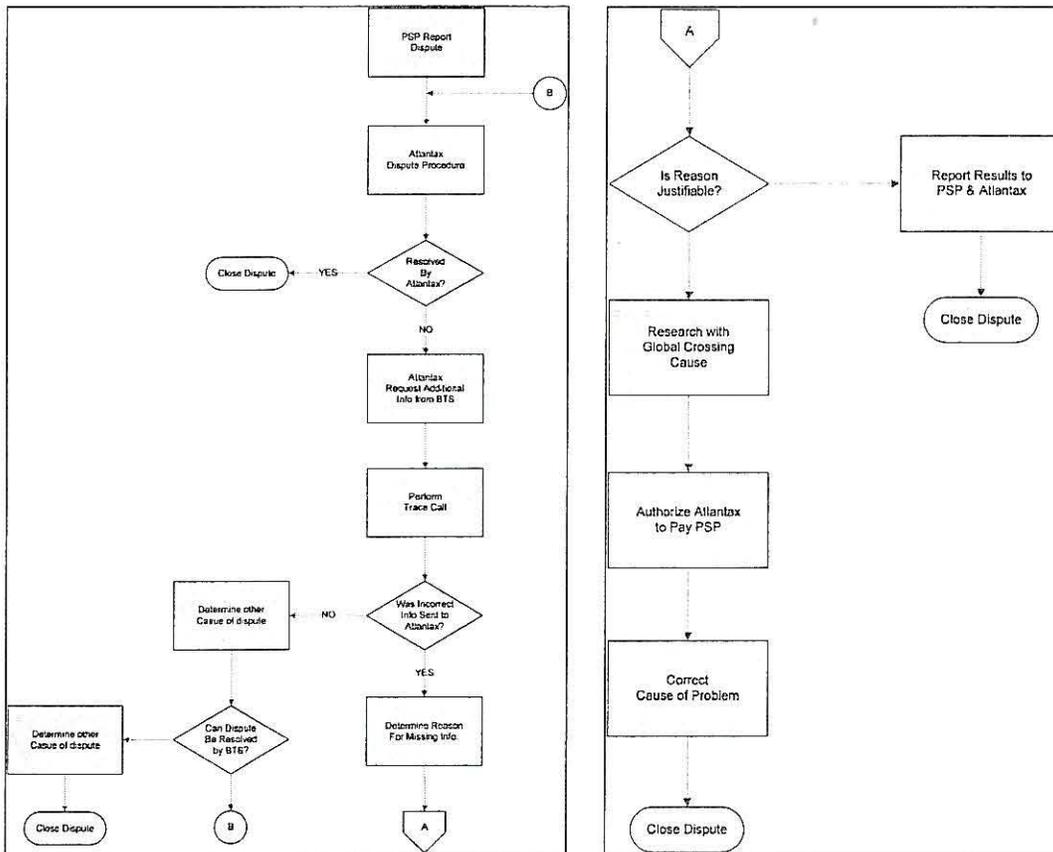
There are two types of disputes that can arise from an 8XX toll free traffic as follows:

- (1) Different PSP claiming ownership of the same payphone.
- (2) PSP requesting payment for more calls than the number of compensable calls identified in the carrier's network, however such disputes are very rare.

Under Scenario #1, Atlantax manages all disputes until closure is reached. Payments attributable to disputed or unidentified ANI's are suspended pending verification and dispute resolution (Refer below).

Under Scenario #2, BTS provides the PSP with the CDRs of all completed and uncompleted calls originated from the payphone in question with detailed call supervision results explaining the reason calls were marked as not completed.

BTS has appointed and designated their CFO as the person ultimately in charge of resolving disputes concerning payphone completed calls. The following flow chart outlines the process.

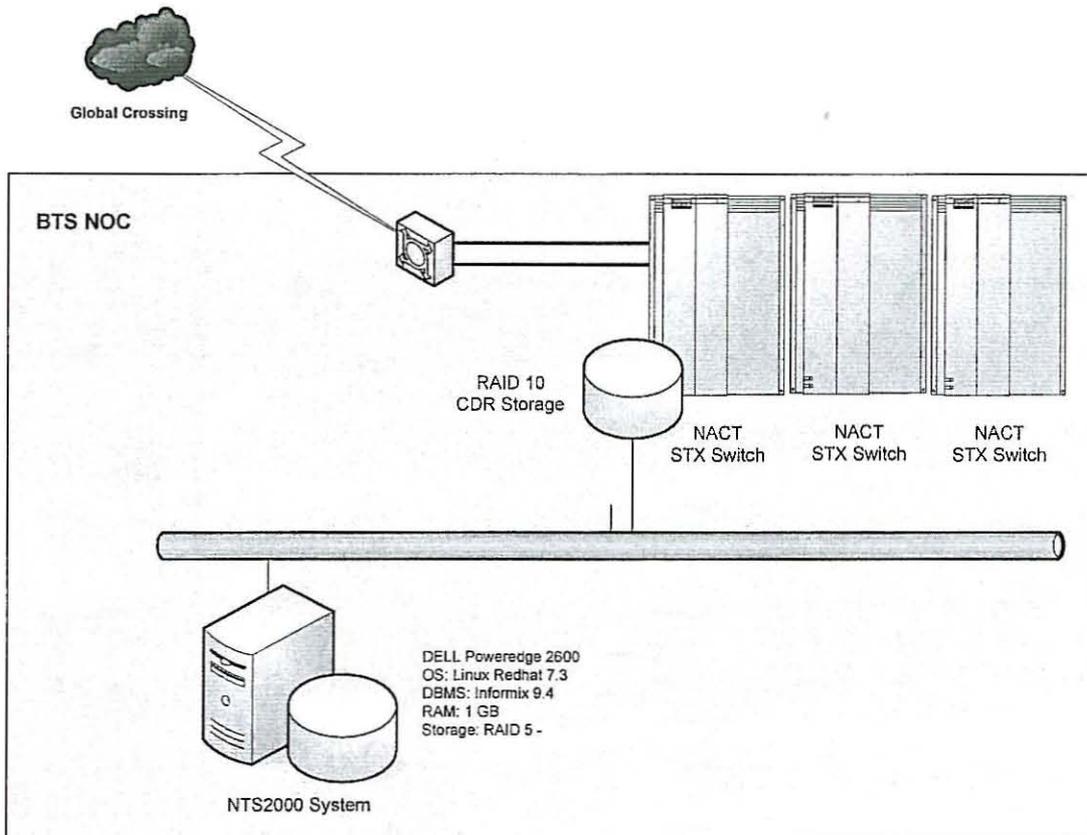


Agreed-upon procedures were performed by certified public accountants to evaluate the adequacy of Atlantax's Dial Around Compensation. Procedures performed were in the following areas:

1. General Control Environment
2. Payphone ANI (i.e., telephone numbers) Data
3. Call Detail Record (CDR) Data
4. Comparison of ANI and CDR Data Sets
5. DAC Program to Determine Liabilities to PSP's

The independent accountants' report on agreed-upon procedures in connection with the Dial Around Process of Atlantax Systems, Inc. dated June 24, 2005 did not reveal any significant deficiencies. Refer to **Appendix C** for a copy of this report.

Overview of BTS Call Tracking System:



The payphone call tracking system is part of BTS' larger infrastructure for other services it provides to its customers and consists primarily of three NACT STX switches, three inbound trunk groups from Global Crossing dedicated to this service, and the NTS2000 Billing/OSS System. All three components are housed in the NOC located at 444 Brickell Avenue.

The NACT consists of two parts: (1) the STX switch and (2) the NTS Billing System. The STX switch is where the physical T1's are connected both incoming and outgoing to either the PSTN or to another switch.

The STX switch is kept redundant by a RAID 10, where CDR's are stored. A daily backup is done on the STX on a DAT 4mm Data Cartridge. There is also redundancy on the power supply.

A proprietary Unix variant called WMCS is the operating system that runs the STX. The STX software is composed of log files, data files and processes that use the information in the data files. Processes are programs written to link pieces of information found in data file records. Log files contain information gathered as a process runs.

Data files store information to be retrieved and linked to other information through various processes. The information found on the data files is organized by fields and records. Certain fields are known as key fields. Key fields have two purposes: first, they must be filled in order for a record to exist. Second, they reference information found in records of other data files.

The NTS is powered by a Dell Power Edge 2600 Server running on Red Hat Linux 7.3. It has a RAID 5 with a dual channel controller. It also has redundancy on the power supply. Data is collected from the STX by the NTS and stored in an Informix database 9.4. Collections can be performed manually or as many times a day as necessary or they can be set up to run automatically as many times a day as necessary through the cron process (Cron is the name of program that enables UNIX users to execute commands or scripts (groups of commands) automatically at a specified time/date).

BTS runs the collection process every two minutes. The NTS connects to the STX via TCP/IP socket and downloads all the new records from the last successful collection.

Data on the STX is maintained for two weeks while the Informix database on the NTS keeps completed calls for one year. In the event that it is necessary to recover data from the STX, it is possible to reconstruct two weeks worth of calls. Both systems also have backup to tape.

Procedures to Submit Test Transactions to Evaluate Effectiveness of Controls

Since there were no significant changes made to the infrastructure we reduced our sample size 20% of last year's. Procedures performed are as follows:

Step 1

We acquired several prepaid cards that are associated with BTS and used them to make select calls in a variety of scenarios:

- Coinless payphone calls with International destination
- Coinless payphone calls with Domestic destination
- Coin payphone calls with International destination
- Coin payphone calls with Domestic destination

- Cell phone calls with International destination
- Cell phone calls with Domestic destination
- Other non-payphone calls with International destination
- Other non-payphone calls with Domestic destination
- Disconnected calls before connection could be established

These calls were made on different days at varying time throughout the day and in two counties. The rate of completed versus uncompleted calls was also mimicked.

Step 2

We then used the PIN for the cards we used to capture all transactions and verify against our logs for completeness. Using the criteria published by the FCC and provided by Atlantax we categorized the calls as follows to ensure that all calls placed were accounted for:

- Total Number of Transactions Created
- Total Number of Compensable Calls
- Total Number of Non-compensable Calls
- Total Number of Uncompleted Payphone Calls
- Total Number of Non-Coinless Non-payphone Calls
- Total Number of Calls from Payphone

Step 3

The third and final step of our analysis was to run the standard query used to identify and transmit compensable payphone calls to Atlantax for compensation to the PSPs and compare the results with that from the previous step.

We were able to account for all of the transactions that we created through the system based on the categorization process and log file comparison mentioned in the above procedure.

Summary:	
Total Number of Transactions Created:	29
Total Number of Compensable Calls:	10
Total Number of Non-compensable Calls:	19
Total Number of Uncompleted Payphone Calls:	4
Total Number of Non-Coinless Non-payphone Calls:	15
Total Number of Calls from Payphone:	14

Business Telecommunication Services, Inc.

Page 12

The standard query used to identify and transmit compensable payphone calls to Atlantax for compensation to the PSPs also resulted in the 10 calls that we had previously tagged as compensable. These samples provided verification that the process was working as intended and designed to identify calls originated from payphones, identify compensable payphone calls, identify incomplete or otherwise non-compensable calls, and determine the identities of the payphone service providers to which BTS owes compensation.

Morrison, Brown, Argiz, & Farra, LLP

June 05, 2006