Verizon Communications Inc.

Section 272 Biennial Agreed-Upon Procedures Report
For the Period January 3, 2005 to January 2, 2007

Volume 1

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June 14, 2007

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
Office of the Secretary
9300 East Hampton Drive
Capitol Heights, MD 20743

RE: Section 272 Biennial Report for Verizon Communications Inc. EB Docket No. 03-200

Dear Ms. Dortch:

Pursuant to paragraph 31 (e) of the "General Standard Procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, As Amended, for the Period January 3, 2005 through January 2, 2007" in the above referenced matter, Deloitte & Touche LLP is filing our Independent Accountants' Report on Applying Agreed-Upon Procedures with the following appendices:

- Appendix A - Results of Agreed-Upon Procedures
- Appendix B - General Standard Procedures
- Appendix C - Comments from Verizon Communications Inc.

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

Very truly yours,

Deloitte & Touche LLP

cc: Connecticut Department of Public Utility Control
D.C. Public Service Commission
Delaware Public Service Commission
Maine Public Utilities Commission
Maryland Public Service Commission
Massachusetts Dept. of Telecom and Energy
New Hampshire Public Utilities Commission
New Jersey Board of Public Utilities
New York Public Service Commission
Pennsylvania Public Utility Commission
Rhode Island Public Utilities Commission
Vermont Public Service Board
Virginia State Corporation Commission
West Virginia Public Service Commission
Verizon Communications Inc.

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Management of
Verizon Communications Inc.
New York, NY

We have performed the procedures enumerated in Appendix B, which were agreed to by the management of Verizon Communications Inc. ("Verizon") and the Joint Federal/State Oversight Team (collectively, the "Specified Parties"), solely to assist these Specified Parties in evaluating Verizon's compliance with the requirements of section 272 of the Communications Act of 1934, as amended ("Section 272 Requirements") during the period from January 3, 2005 through January 2, 2007. Verizon management is responsible for Verizon's compliance with the Section 272 Requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Appendix B either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results obtained are documented in Appendix A. These procedures and the results of performing such procedures are not intended to be an interpretation of any legal or regulatory rules, regulations, or requirements.

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

This report is intended solely for the information and use of the Specified Parties and is not intended to be and should not be used by anyone other than the Specified Parties.

Deloitte & Touche LLP

June 14, 2007

Appendix A enumerates the results of procedures performed in connection with the Bell Operating Companies ("Verizon BOC")[1] *and Incumbent Local Exchange Carriers ("ILEC")*[2] *of Verizon Communications, Inc. (collectively referred to as the "Verizon BOC/ILEC" or the "Company" or "Management"), and the section 272 affiliates*[3]*. Appendix B enumerates the Agreed-Upon Procedures to be performed.*

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

1. We inquired 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.

   Management indicated the following changes:

   - Verizon Global Solutions Inc./Verizon Select Services Inc. – Merger Certificate filed to reflect the merger of Verizon Global Solutions Inc. into Verizon Select Services Inc. – March 1, 2005. We obtained and inspected the Merger Certificate noting that the name of the surviving corporation of the merger was Verizon Select Services Inc.

   - CODETEL International Communications Inc. – Certificate of Incorporation amended to reflect name change to Verizon International Communications Services Inc. - August 2, 2006. We obtained and inspected the Certificate of Incorporation noting the amendment.

2. We obtained and inspected Verizon's corporate entities' organizational charts.

   We confirmed with legal representatives of the Verizon BOC/ILEC, section 272 affiliates, and Verizon Communications, the legal, reporting, and operational corporate structure of the section 272 affiliates. We obtained written confirmations from the legal representatives noting that:

   - VLD is owned by Verizon Communications Inc.

[1] For the purposes of this document, Bell Operating Companies refers to Verizon New York Inc.; Verizon New England Inc.; Verizon – Washington D.C., Inc.; Verizon – Maryland Inc.; Verizon – Virginia Inc.; Verizon – West Virginia Inc.; Verizon – New Jersey Inc.; Verizon – Pennsylvania Inc.; Verizon – Delaware LLC.

[2] For the purposes of this document, Incumbent Local Exchange Carrier refers to Verizon California Inc.; Verizon Florida LLC; Verizon Mid-States (Contel of the South Inc.); Verizon North Inc.; Verizon Northwest Inc.; Verizon South Inc.; Verizon Southwest (GTE Southwest Inc.); Verizon West Coast Inc.; Puerto Rico Telephone Company.

[3] For the purposes of this document, the section 272 affiliates are Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance) ("VLD"); NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions) ("VES"); Verizon Global Networks, Inc. ("GNI"); MCI Communications Services, Inc. (d/b/a Verizon Business Services) ("VBS"); MCI International Services, Inc. ("MISI"); MCI International, Inc. ("MII"); MCI Network Services of Virginia, Inc.("MNSV"); MCImetro Access Transmission Services LLC (d/b/a Verizon Access Transmission Services) ("VATS"); MCImetro Access Transmission Services of Virginia, Inc. (d/b/a Verizon Access Transmission Services of Virginia) ("VATSV"); MCImetro Access Transmission Services of Massachusetts, Inc. (d/b/a Verizon Access Transmission Services of Massachusetts) ("VASTM"); Metropolitan Fiber Systems of New York, Inc. ("MFSNY"); Teleconnect Long Distance Services and Systems Co. ("TLDSS"); Skytel Corp.("SC"); TTI National Inc. ("TTIN"); Verizon Select Services Inc. (formerly GTE Communications Corp.) ("VSSI"); Verizon International Communications Services Inc. ("VICSI" (formerly Codetel International Communications Inc. ("CICI")).

- GNI is owned by Verizon Communications Inc.

- VES is owned by Bell Atlantic Worldwide Services Group, Inc., which in turn is owned by NYNEX Corporation, which is owned by Verizon Communications Inc.

- VSSI is indirectly wholly owned by Verizon Communications Inc., through GTE Corporation, which is owned by Verizon Communications Inc., NYNEX Corporation and Bell Atlantic Global Wireless, Inc.

- VICSI (was CICI before August 2, 2006) is indirectly wholly owned by Verizon Communications Inc., through GTE Corporation, which is owned by Verizon Communications Inc., NYNEX Corporation and Bell Atlantic Global Wireless, Inc.

- VBS is owned by Verizon Business Network Services Inc., which in turn is owned by MCI Communications Corporation, which is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

- MISI is owned by MCI International Inc. (and 2.6% by Verizon Business Network Services Inc.), which in turn is owned by MCI Communications Corporation, which is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

- MII is owned by MCI Communications Corporation, which in turn is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

- MNSV is owned by Verizon Business Network Services Inc., which in turn is owned by MCI Communications Corporation, which is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

- VATS is owned by Verizon Business Network Services Inc., which in turn is owned by MCI Communications Corporation, which is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

- VATSV is owned by MCImetro Access Transmission Services LLC, which in turn is owned by Verizon Business Network Services Inc., which in turn is owned by MCI Communications Corporation, which is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

- VASTM is owned by Verizon Business Global LLC, which in turn is owned by Verizon Communications Inc.

- MFSNY is owned by MCImetro Access Transmission Services LLC, which in turn is owned by Verizon Business Network Services Inc., which in turn is owned by MCI Communications Corporation, which is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

- TLDSS is owned by Telecom*USA, Inc., which in turn is owned by Verizon Business Financial Management Corporation, which is owned by MCI Communications Corporation (and 8.17% by MCI International Telecommunications Corporation), which is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

- SC is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

- TTIN is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

3. We inquired of management whether the Verizon BOC/ILECs perform any research and development ("R&D") activities on behalf of the section 272 affiliates during the period from January 3, 2005 to September 30, 2006 (the "Test Period").

   Management indicated the following:

   > "*The Verizon functional structure does not assign to the BOCs/ILECs any responsibility to perform R&D activities, either for themselves or for other entities. All work on behalf of the Verizon BOCs/ILECs related to technology evaluation, to include any activity that might be characterized as research and development, is centralized in the Verizon Technology Organization, which is not in the BOC/ILEC organizational structure. The Verizon Technology Organization evaluates technology (equipment and software) developed by the third party suppliers, determines network architecture, and tests equipment and software that will be deployed in the Verizon network.*"

4. We obtained the balance sheet and detailed fixed asset listing as of September 30, 2006 for the following section 272 affiliates:

   - VLD
   - VES
   - GNI
   - VSSI (including Card, VSSI/GSI, GTELD and Strategic Markets)
   - VBS (including MCI Communication Services Inc., BLT Technologies Inc., and Digex Inc.)
   - MISI
   - MII
   - MNSV
   - VATS
   - VATSV
   - VATSM
   - MFSNY
   - TLDSS
   - SC
   - TTIN

   We compared the net fixed asset balances in the balance sheets to the NBV total listed in the detailed fixed asset listings, including capitalized software, and noted the following:

   - For VLD we noted in the balance sheet that there were two amounts, $1,635,482 from account 131025 and $51,986 from account 131061 that were not included in the fixed asset detail listing. We inquired of management and obtained a written response explaining the two accounts were construction-in-process accounts included in the balance sheet but not yet recorded in the asset management system.

- For GNI we noted there were thirteen accounts totaling an amount of $106,654,287, which were included in the balance sheet but not in the fixed asset detail listing. We inquired of management and obtained a written response explaining that the thirteen accounts were construction-in-process accounts not recorded into the asset management system. Additionally, differences were attributed to accumulated depreciation included in the balance sheet but not in the asset management system as well as Network Hardware and accumulated depreciation that was not included in the balance sheet but in the asset management system.

- For VSSI - Card we noted that the balance sheet had $1,178 more than the fixed asset listing. We inquired of management and management provided a reconciliation sheet explaining that the difference was attributed to Plant Under Construction included in the balance sheet but not yet recorded into the asset management system.

- For VSSI/GSI we noted that the balance sheet had $1,451 more than the fixed asset listing. We received a written response from management stating that the discrepancy could not be identified.

- For VSSI - Strategic Markets we noted that the balance sheet was $252,000 more than the fixed asset listing. We inquired of management and obtained a written response explaining that the discrepancy was attributed to Acquisition Clearing Accounts and Depreciation Expense for EDS/WYHR Wire Trans included in the balance sheet but not in the asset management system.

- For VBS - MCI Communication Services Inc. we noted that the balance sheet was $594,010,000 more than the fixed asset listing. We obtained a reconciliation sheet from management explaining that the difference was attributed to construction-in-process accounts that were included in the balance sheet but not yet recorded into the asset management system, a plant inventory amount included in the balance sheet but not yet recorded into the asset management system, and other adjusting entries not yet recorded into the asset management system.

- For VBS - Digex Inc. we noted that the balance sheet was $7,251,121 less than the detailed fixed asset listing. We obtained a reconciliation sheet from management explaining that the difference was attributed to accumulated depreciation and various adjustments not yet recorded in the asset management system.

- For MII we noted that the balance sheet was $5,440,176 more than the detailed fixed asset listing. We obtained a reconciliation sheet from management explaining the difference was attributed to construction-in-process amount and adjusting entries that were included in the balance sheet but not yet recorded into the asset management system.

- For VATS we noted that the balance sheet was $63,837,333 more than the detailed fixed asset listing. We obtained a reconciliation sheet from management explaining that the difference was attributed to a construction-in-process amount and adjusting entries that were included in the balance sheet but not yet recorded into the asset management system.

- For MFSNY we noted the balance sheet was $4,989 less than the detailed fixed asset listing. We obtained a reconciliation sheet from management explaining that the difference was attributed to an adjustment included in the asset management system but not in the balance sheet.

- For SC we noted that the balance sheet was $1,609,042 more than the detailed fixed asset listing. We obtained a reconciliation sheet from management explaining that the difference was attributed to adjusting entries which were included in the balance sheet but not in the asset management system.

- For TTIN no fixed assets were listed on the balance sheet.

- For VSSI-GTELD, TLDSS, VATSM, VATSV, MNSV, MISI, VBS - BLT Technologies Inc., and VES we noted no differences.

We reviewed each section 272 affiliate's fixed asset detail (with the exception of TTIN which had no fixed assets listed on its balance sheet) to verify the detailed listings included a description and location of each item, date of purchase or acquisition, price paid and recorded, and from what BOC/ILEC or affiliate purchased or transferred (if purchased from a nonaffiliate, then indicate "Nonaffiliate"). There were 44,622 total instances in which information was missing from a section 272's detailed listing as follows:

- For GNI, 312 items with a total net book value of $147,919 did not have an asset description. Also, 1 item with a net book value of $275,948.78 did not have a location identifier.

- For VSSI - Strategic Markets, 1,729 items with a total net book value of $5,635,575 did not have a location identifier.

- For VSSI/GSI, 59 items with a total net book value of $686,805.40 did not have the purchasing affiliate.

- For VLD, 1 item with a net book value of $0 did not have an asset description.

- For VES, 2 items with a total net book value of $0 did not have the purchasing affiliate.

- For SC, 8 items with a total net book value of $3,692.40 did not have a location identifier.

- For VATS, 147 items with a total net book value of $65,224.96 did not have a location identifier.

- For MII, 159 items with a total net book value of $0 did not have a location identifier.

- For VBS - MCI Communication Services Inc., 697 items with a total net book value of negative $12,720,337.05 did not have a location identifier.

- For VBS - Digex Inc., 38,065 items with a total net book value of $19,602,921.64 did not have the "Date of Purchase" and 22 items with a total net book value of $67.52 did not have an asset description. In addition, 3,420 items with a total net book value of $1,429,684.04 did not have a location identifier.

- For VSSI - Card, VSSI - GTELD, TLDSS, VATSV, VATSM, MFSNY, MNSV, MISI, and VBS - BLT Technologies Inc. no information was missing.

We examined the fixed asset detail listings received and noted there were 11,033 transmission or switching facilities and 5,626 capitalized software items added since January 3, 2005 (for fMCI affiliates, since January 6, 2006).

We requested copies of titles and/or other documents, which reveal ownership, for a statistically valid sample of 95 items and noted the following:

- For 33 out of 95 items selected, we found no instances in which the provided documents list joint ownership with the BOC/ILEC.

- For 25 out of 95 items selected, items represented capitalized interest or capitalized labor.

- For 24 out of 95 items selected, items represented reclassifications to fixed assets from inventory.

- For 12 out of 95 items selected, items represented were cross year MCI assets created or capitalized prior to January 6, 2006 and reclassified in 2006.

- For 1 out of 95 items selected, no supporting documentation was provided as the Net Book Value was $0.

<u>OBJECTIVE II.</u> 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.

1. We obtained the separate general ledgers maintained for VLD, VES, GNI, VSSI, VBS, VATS, VATSV, VATSM, MISI, MII, MNSV, MFSNY, TLDSS, SC, and TTIN as of the end of the Test Period.

   As prescribed by Objective I, Procedure 1, we noted VSSI was the only domestic affiliate which adopted changes to its Certificates/Articles of Incorporation since the last engagement period.

   We noted that VSSI maintains four general ledgers for various divisions (Card, Strategic Markets, GTELD, and VSSI/GSI). We noted that although the title on the general ledger of VSSI/GSI is not identical to that of the VSSI Certificate of Incorporation, a separate general ledger is maintained by the section 272 affiliate. The name difference was the result of the merger between GSI and VSSI in March of 2005.

   We reviewed the separate general ledgers of VLD, VES, GNI, VSSI, VBS, VATS, VATSV, VATSM, MISI, MII, MNSV, MFSNY, TLDSS, SC, and TTIN and did not identify special codes which link the above section 272 affiliates' general ledgers to the general ledgers of the Verizon BOC/ILECs.

2. We obtained the financial statements (balance sheet and income statement) as of the end of the Test Period for each of the following domestic section 272 affiliates:

   - VLD
   - VES
   - GNI
   - VSSI - separate balance sheet and income statement for accounting entities: Card, VSSI/GSI, GTELD, and Strategic Markets.
   - VBS - separate balance sheet and income statement for accounting entities: MCI Communications Services Inc., BLT Technologies Inc. and Digex Inc.
   - VATS
   - VATSV
   - VATSM
   - MISI
   - MII
   - MNSV
   - MFSNY
   - TLDSS
   - SC
   - TTIN

3. We obtained a list of lease agreements which were entered into or modified during the Test Period. We reviewed the list and identified no leases with an annual obligation of $500,000 or more.

<u>OBJECTIVE III.</u> 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.

1. We inquired of management and management indicated that each of the section 272 affiliates and each of the Verizon BOC/ILECs maintain separate boards of directors, separate officers and separate employees.

   We obtained a list and written confirmation from the Corporate Secretary's Office of names of directors and officers for the Verizon BOC/ILECs and the section 272 affiliates, including the dates of service for each Board member and officer for the engagement period. We compared the list of names of directors and officers of each Verizon BOC/LEC with the list of names of directors and officers of each section 272 affiliate. We noted there were no directors or officers who served simultaneously as a director and/or officer of any Verizon BOC/ILEC and any section 272 affiliate during the engagement period.

2. We obtained a list of names and social security numbers of all employees of the section 272 affiliates and of the Verizon BOC/ILECs for the engagement period. We compared all names and social security numbers of the employees on the section 272 affiliates' lists to the names and social security numbers of the employees on the Verizon BOC/ILEC's lists. We noted that there were no names appearing on both lists simultaneously.

<u>OBJECTIVE IV.</u> 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.

1. We requested from management a list and copies of each section 272 affiliates' debt agreements/instruments and credit arrangements with lenders and major suppliers of goods and services from the Test Period (January 3, 2005 through September 30, 2006 (fMCI section 272 affiliates from January 6, 2006 through September 30, 2006)). Major suppliers are those having $500,000 or more in annual sales as stated in the agreement.

   We inspected the copies of the section 272 affiliates' debt agreements/instruments and credit arrangements with lenders and major suppliers. No indication of guarantees of recourse to the Verizon BOC/ILEC's assets, either directly or indirectly through another affiliate were noted.

2. We obtained the list of lease agreements entered into or modified during the Test Period used in Objective II, Procedure 3. We did not identify any lease agreements in which the annual obligation amount was $500,000 or more.

3. We mailed out and requested positive confirmations for all of the 8 debt instruments, leases, and credit arrangements, that were entered into or modified during the Test Period, maintained by each section 272 affiliate in excess of $500,000 of annual obligations and for a judgmental sample of 10 debt instruments, leases and credit arrangements that are less than $500,000 in annual obligations to loan institutions, major suppliers and lessors to verify the lack of recourse to Verizon BOC/ILEC's assets.

   We sent confirmations confirming non-recourse for the 18 selected sample items. Responses were received for 9 of the 18 confirmations. All the positive confirmations returned from loan institutions, major suppliers and lessors attested to the lack of recourse to the Verizon BOC/ILEC's assets.

<u>OBJECTIVE V.</u> 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.

<u>OBJECTIVE VI.</u> 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.

1. We requested, obtained and included in our working papers the procedures used by the Verizon BOC/ILECs to identify, track, respond, and take corrective action to competitor's complaints with respect to alleged violations of the section 272 requirements.

   We requested of management to provide (1) a list of all FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716 and any written complaints made to a state regulatory commission from competitors involving alleged noncompliance with section 272 for the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the engagement period and (2) a list of outstanding complaints from the prior engagement period.

   Management indicated the following:

   > *"There were no written state complaints, filed or open, made to a state regulatory commission from competitors alleging noncompliance with Section 272 relating to the provision or procurement of goods, services, facilities, and information, or in the establishment of standards during the period from January 2, 2005 through January 2, 2007.*
   >
   > *There have been no FCC formal and informal complaints from competitors alleging noncompliance with Section 272 relating to the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the engagement period.*
   >
   > *In addition, there were no complaints open as of January 2, 2005 that alleging noncompliance with Section 272 relating to the provision or procurement of goods, services, facilities, and information, or in the establishment of standards."*

2. We obtained from the Verizon BOC/ILECs and each section 272 affiliate current written procedures for transactions with affiliates. We compared these procedures with the FCC rules and regulations indicated as Objective V & VI "standards" in the General Standards procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, as amended. We noted the Company's written procedures included the FCC Rules and Regulations indicated as standards above and noted no differences.

3. We inquired how the Verizon BOC/ILEC and each section 272 affiliate disseminate the FCC rules and regulations and raise awareness among employees for compliance with the affiliate transaction rules. We noted the type and frequency of training, literature distributed, company's policy, and nature of the supervision received by employees responsible for affiliate transactions as follows:

"Verizon has a comprehensive program for affiliate transaction and Section 272 training and communication. The Affiliate Transaction Compliance Office (AICO) regularly conducts training sessions by conference call or face-to-face sessions targeted toward Section 272 employees and others interfacing with the Section 272 affiliate. AICO maintains up-to-date training materials that cover an overview of the Telecommunications Act of 1996 and related FCC rules; identification of the Section 272 affiliates; the consequences of non-compliance with the rules; the structural, accounting and nondiscriminatory compliance requirements; information sharing; and joint marketing. Training efforts begun shortly after the passage of the Telecommunications Act on Section 272 and have continued through 2006. During 2005 and 2006, at least 3,000 employees attended training sessions sponsored by the affiliate organization.

The Verizon BOC/ILEC and each section 272 affiliate provides training and disseminates the FCC rules and regulations and raise awareness among employees for compliance with the affiliate transaction rules as follows:

VSSI, GNI & MCI –

- *Affiliate Transaction Compliance Office provides training as needed.*
- *An Affiliate Compliance training session was taped and is available via the web-based "Global Learning and Development" Training site.*
- *Information session on 272 requirements and information sharing were conducted with Senior Vice President Verizon Business direct reports down to director level.*
- *Interviews were conducted individually with Verizon Business's President Operations and Technology direct reports to insure each group had 272 controls in place, and was aware of existing posted contracts between GNI, VSSI, and/or MCI and a Verizon BOC/ILEC.*
- *Verizon Business Human Resources includes information on how to retrieve the President Operations and Technology memo in new hire training packet and in the main new hire presentation for Operation and Technology employees, which highlight the 272 rules.*

VLD - Affiliate Transaction Compliance Office provides training as needed.

VES - Affiliate Transaction Compliance Office provides training as needed.

VICSI (CICI) – Each new employee is scheduled for Verizon Section 272 Compliance training as a requirement of the VICSI's new employee orientation process. A copy of the Verizon Compliance Training package is distributed to individuals in the orientation package. All VICSI employees are scheduled to attend Verizon Section 272 Compliance training annually.

BOC/ILECs - Affiliate Transaction Compliance Office provides training as needed.

- *In addition, PRT required that all Directors and Managers attend a special compulsory training prepared and given by the Regulatory Accounting Department on July 13, July 20, August 3, and September 30, 2005.*

Employees are sent global e-mails which remind them of their responsibility to follow the regulations summarized in the Affiliate Transaction Policy. In addition, target letters with similar reminders are sent to specific organizations. As examples, the Senior VP-

Regulatory Compliance and Senior VP and Deputy General Counsel issued a joint letter to the "Directors and above" managers on June 24, 2005 emphasizing the importance of complying with Section 272 obligations with MCI companies that originate interLATA telecom services in former Bell Atlantic states became Section 272 "long distance affiliates of Verizon telephone companies for regulatory accounting purposes following Verizon's purchase of more than 13 percent of the MCI stock on May 17, 2005. The Senior VP-Regulatory Compliance and Senior VP and Deputy General Counsel issued a joint letter to the "Directors and Above" managers on February 1, 2006 with an addition letter on February 2, 2006 to the "Verizon Business Directors and above" managers, emphasizing the importance of complying with Section 272 obligations.

In these communications the senior managers are asked to assure their organizations are aware of, and follow, the rules. Summaries of the Section 272 rules or links to the internal corporate affiliate web sites were included in the correspondence. The VP – General Counsel, Senior VP Verizon, and Senior VP and Deputy General Counsel issued a letter to the "Directors and above" managers in Verizon Corporate Staff, Verizon Partner Solutions and Verizon Business on October 19, 2006, emphasizing the importance of complying with Section 272 obligations.

The importance of adhering to all affiliate regulations, including Section 272, was emphasized through corporate-wide emails sent to all employees on July 27, 2005. In order to further explain the rules, a website address was provided to locate Verizon's Affiliate Transaction Policy.

The Affiliate Transactions Policy is also located on the Company's intranet website. The Affiliate Interest Compliance Office Hotline is available to answer questions employees may have on the subject.

Also, each business unit is assigned a specific Compliance Officer who is required to answer any questions employees may have on the subject. In addition, each business unit has an attorney who can be reached to answer questions relative to transactions with Section 272 affiliates."

We also obtained and examined a copy of an "Affiliate Interest Training Presentation" given to employees, which provides guidance on matters such as affiliate regulations, legal affiliates, Verizon business segments, and key affiliate rules.

We conducted interviews with employees responsible for the development and recording of affiliate transactions costs in the books of record of the carrier. The employees interviewed had the following job titles: Senior Staff Consultant – Marketing, Senior Staff Consultant – Account Management, Manager – Accounting, Manager – Real Estate Portfolio Management, and Specialist – Sales Support. Each of these individuals also completed a questionnaire surrounding their awareness of the FCC rules and regulations. Through the employees interviewed and questionnaires completed by employees, we noted that the employees demonstrated knowledge of the FCC rules and regulations.

4. a). We obtained from management a listing of all written agreements for services and for InterLATA and exchange access facilities between the Verizon BOC/ILEC and each section 272 affiliate which were in effect from January 3, 2005 through September 30, 2006 (for fMCI

section 272 affiliates, January 6, 2006 through September 20, 2006). There were 752 agreements and amendments examined. Of those, there were 637 still in effect as of the end of the Test Period. Attachment A-1 lists the 115 agreements which terminated during the Test Period and the termination date, including 37 agreements which terminated prematurely (prior to the contract termination date) and the reasons for termination provided by management.

We inquired of management and management provided instances where services were provided between the Verizon BOC/ILEC and a section 272 affiliate at some point during the engagement period without a written agreement between the parties. The following represents management's response:

> *"The following services were provided during the engagement before written agreements were executed and have not been included in prior audit reports:*
>
> *1. Inside Wire services associated with special access to VSSI, VLD and MCI. In the past, Verizon affiliates ordered special access services from the tariff with the inside wire options. Inside Wire is not part of the special access tariff, so an agreement was executed on June 16, 2006.*
>
> *2. Amendment 1 of the Master Service Agreement provided IP ports to VGNI in near out of franchise situations. Services were provided beginning July 25, 2005. The tariff was effective November 11, 2005. The contract covering the period between July 25, 2005 and November 10, 2005 was executed May 4, 2006.*
>
> *3. Amendment 4 to the Master Service Agreement provides cabinet space and power to the ILEC by VGNI and MCI in a data center. Service was provided March 1, 2005 and the contract was executed December 26, 2006.*
>
> *4. Call Management Signaling Service (CMSS). VLD, VES and VSSI purchased CMSS, a tariffed wholesale access service, from the LECs beginning in September 2004. A Section 272 contract was in place covering this tariff. Verizon subsequently discovered that the tariffed service was not provisioned by the LEC in the manner described in the tariff. The LEC modified its corresponding Network Disclosure and filed it with the FCC March 2, 2007. The updated network disclosure became effective on May 11, 2007 and tariffs were filed on May 31, 2007 and are to become effective June 15, 2007.*
>
> *5. Pole Attachments and Conduit*
>
> - *Pole Attachments and conduit occupancy in Virginia was provided to VGNI. Services were provided starting on February 7, 2005 and a contract was executed March 1, 2005.*
>
> - *Conduit Letter of Occupancy was provided to MCI for a total of 41' of 1" conduit. Service provided May 30, 2006 and a contract was executed July 26, 2006.*
>
> *6. Miscellaneous Administrative corrections provided at some point during the engagement period without a written agreement:*
>
> - *Agreement for Use of Riser Cable Agreement was for services provided to Verizon New York by MCI (one time access). The service was temporarily (erroneously)*

provided between March 28, 2006 and April 21, 2006 and the contract was executed September 25, 2006 for this three week period.

- *Amendment 5 to the National Directory Assistance Agreement covers certain end users listings provided to VLD. Service was provided beginning March 24, 2005 and there was a one day delay before the contract was executed on March 25, 2005.*

- *Amendment 19 to the General Service Agreement and Amendment 11 to the Service Agreement covers use by VLD and VES of several ILEC employees providing service company-type staff in support of the long distance Voice Wing product. Service was provided beginning January 1, 2006 and the contract was executed August 1, 2006.*

- *Memorandum of Understanding for Tariffed Telephone Service provided to Verizon International Communications Services by Puerto Rico Telephone Company. Service provided July 18, 2005 pursuant to tariff and a contract was executed on October 27, 2006.*

- *Amendment 6 to VSSI Telecommunications Services Agreement provides to the ILEC additional locations to the OC transport service route for fios video transport in a previously executed contract. This contract was executed on February 5, 2007.*

- *Amendment 3 to the Operator Service Agreement is an administrative correction which adds VES as a party to the Directory Assistance and Call Recording and Rating Services. Services already provided under a written contract to its sister company, VLD.*

- *Additional office space agreements were executed to add the following locations:*
  (a) ILEC employees in VSSI space: Carrolton, TX, Earth City, MO, Houston, TX, Irvine, CA, Portland, OR
  (b) VSSI employees in ILEC space: Tampa, FL, Thousand Oaks, CA.
  (c) GNI employees in ILEC space: Bloomington IL.

In addition, the items below were disclosed in the prior audit and the remedial activity spanned into the 2005-2006 audit period.

7. Amendment 16 to General Service Agreement for long distance settlement services."

b). We obtained listings of all written agreements, amendments, and addenda for services and for interLATA and exchange access facilities between the Verizon BOC/ILEC and each section 272 affiliate that became effective during the Test Period. Forty-three statistically valid random selections were made from a population of 212 total written agreements, amendment, and addenda. Copies of each selected agreement, amendment, or addenda were obtained and included in the workpapers.

5. Using the sample of agreements, amendments, and addenda obtained in Procedure 4b, we viewed each company's website on the internet and compared prices and terms and conditions of services and assets shown on this site to the agreements provided in 4b above.

a). For each individual web posting comparison for accuracy, we completed “Form 1 – Assessing Individual Web Postings” (columns D and E) as provided in the General Standard Procedures. We noted two instances where an agreement contains an item that does not agree with the corresponding item on the internet. Taking those instances, or lack thereof, where an agreement contains an item that does not agree with the corresponding item on the internet, we developed the error rate as a percentage by utilizing Form 1 (columns D and E) and summarized the results on “Form 2 – Summary of Web Posting Completeness and Accuracy Results” (columns B and C) at Attachment A-2 to this report.

b). For each individual web posting comparison for completeness, we completed “Form 1 – Assessing Individual Web Postings” (columns G and H) as provided in the General Standard Procedures. Taking those instances where the internet did not contain sufficient details, we were to develop the error rate as a percentage by utilizing Form 1 (columns G and H) and summarized the results on “Form 2 – Summary of Web Posting Completeness and Accuracy Results” (columns D and E) at Attachment A-2 to this report. We noted no instances where the internet did not contain sufficient details.

A copy for each of the web postings is included in the workpapers.

c). Using the same sample as above, we obtained a list of the principal places of business (BOC headquarters) where these agreements are made available for public inspection. We selected a judgmental sample of five locations which was agreed to by the Joint Oversight Team. These locations were Verizon Maryland, Contel of the South, Inc. d/b/a Verizon-Mid States, Verizon New York, Verizon-Pennsylvania, and Verizon-Washington, D.C.

We inquired of management and management indicated all agreements, amendments and certification statements are electronically available at any public inspection site. We visited one location, 600 Hidden Ridge, Irving, Texas, and accessed the shared drive and located forty-two out of the forty-three agreements sampled. One agreement could not be located. For the remaining locations, we visited and confirmed that the Company's electronic access was operational and available to interested parties and the certification statements relating to the sampled agreements/amendments were available for public inspection.

d). For each of the 43 sampled agreements, we documented in the workpapers 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. Of the 43 sampled items, 5 instances were noted where posting took place after ten days of signing of agreement or provision of service (whichever took place first). The following table listed these five instances and management's responses:

Section 272 Affiliate	Name of Agreement	Issue Description	Verizon Management Response
MCI	Amendment No. 4 to the Interconnection, Resale and Unbundling Agreement (MCImetro Access Transmission Services LLC, as successor in interest to Metropolitan Fiber Systems of Florida, Inc.)	The transaction was not posted within 10 days of the signing of the agreement or the Effective Date. Post Date = 2/1/2006 Effective Date = 12/12/2005 Signing Date = 1/25/2006 Transaction was posted 51 days after the Effective Date.	Provided in Verizon's response to "services without a contract" included in the audit under Objective V/VI procedure 4. The agreement was posted within the 10 days once the agreement was executed.
MCI	Agreement for Use of Riser Cable	The transaction was not posted within 10 days of the signing of the agreement or the Effective Date. Post Date = 10/3/2006 Effective Date = 3/24/2006 Signing Date = N/a (No Date Noted) Transaction was posted 193 days after the Effective Date.	Provided in Verizon's response to "services without a contract" included in the audit under Objective V/VI procedure 4. The agreement was posted within the 10 days once the agreement was executed (9/25/06).
VGNI	License Agreement for Pole Attachments and/or conduit occupancy in VA	The transaction was not posted within 10 days of the signing of the agreement or the Effective Date. Post Date = 9/16/2005 Effective Date = 3/8/2005 Signing Date = 3/8/2005 Transaction was posted 192 days after the Effective Date.	Provided in Verizon's response to "services without a contract" included in the audit under Objective V/VI procedure 4.
VSSI	Revocable License Agreement (Everett, WA) Amendment 1	The transaction was not posted within 10 days of the signing of the agreement or the Effective Date. Post Date = 6/27/2006 Effective Date = 1/1/2004 Signing Date = 6/26/2006 Transaction was posted 908 days after the Effective Date.	Provided in Verizon's response to "services without a contract" included in the audit under Objective V/VI procedure 4. The agreement was posted within the 10 days once the agreement was executed.
VSSI	Revocable License Agreement (Houston, TX)	The transaction was not posted within 10 days of the signing of the agreement or the Effective Date. Post Date = 12/6/2005 Effective Date = 11/15/2004 Signing Date = 11/30/2005 Transaction was posted 386 days after the Effective Date.	Provided in Verizon's response to "services without a contract" included in the audit under Objective V/VI procedure 4. The agreement was posted within the 10 days once the agreement was executed.

Management indicated the execution date is the date when the agreement was executed by all the parties to the agreement, or if signatures were not dated, the date written into the contract by the ILEC Account Executive ("AE") reflecting the date that the last signature was secured. We verified four out of the five agreements/amendments were posted within ten days once executed. The remaining agreement was not posted within ten days of either the effective date or the execution date.

We requested, obtained from management, and documented in the workpapers the procedures that of all the related 272 affiliates had in place for posting transactions on a timely basis.

6. We obtained a listing and amounts of all nontariffed services rendered by month by the Verizon BOC/ILECs to each section 272 affiliate during the Test Period. From the listing, we determined which of these services were made available to both the section 272 affiliates and to third parties.

a). From the services not made available to third parties:

We identified the 9 services/bill detail lines with the highest billing volume in dollars over the Period (total Verizon including all BOC/ILECs and all states) that were billed to the section 272 affiliates (total Verizon including all section 272 affiliates). In addition, we randomly selected one service from among the remaining services for a total of 10 services to be tested. The services selected were:

- Installation & Maintenance
- Marketing and Selling - ESG
- Marketing and Sales - Consumer & Sm. Business
- Care Repair Processing
- Post Sale Fulfillment
- Network Mgmt Services
- Slamming Investigation
- Call & Trouble Ticket Mgmt
- Offline Center Services

We randomly selected three individual non-consecutive months (February 2005, October 2005 and July 2006). For each month selected, we obtained the section 272 affiliate billing records for all states, all BOC/ILECs, for the 10 services selected above. For each of the 10 services selected, we randomly selected 10 billing transactions from three months of billing records. For each service in which more than 10 billing transactions were available from the three months of billing records, we randomly selected 10 billing transactions. For services in which less than 10 billing transactions were available from the three months, we selected the entire population of billing transactions. A total of 65 billing transactions were selected.

For each billing transaction selected, we requested the Fully Distributed Cost ("FDC") and the Fair Market Value ("FMV") unit charges for the services, copies of the Verizon BOC/ILEC invoice, and journal entries for the Verizon BOC/ILEC. We compared unit charges to FDC or FMV as appropriate. We noted the following:

- For 50 of the 65 transactions, we compared the unit charges in the invoice to FDC and FMV and noted the unit charges were priced at the higher of either the FDC or FMV.

- For 15 of the 65 transactions, the unit charges were priced at FDC. FMV was not developed for each of the transactions, as the annual value of service provided was less than $500,000.

- No instances were noted where differences existed between the amount recorded in the Verizon BOC/ILEC financial records, the amount billed by the BOC/ILEC, and the amount charged in accordance with the affiliate transaction rules.

- No instances were noted where differences existed in the application of billing rates, including all applicable discounts, surcharges, late fees, etc.

- No instances were noted where differences existed between the amount billed and recorded by the BOC/ILEC and the payment amount received from the section 272 affiliate. Copies of relevant BOC/ILEC financial records are maintained in the workpapers.

- No instances were noted where differences existed between the amount recorded on the section 272 affiliate's books agreed to the amount paid by the section 272 affiliate.

b). From the services made available to both the section 272 affiliates and to third parties:

We identified the 9 services/bill detail lines with the highest billing volume in dollars over the Period (total Verizon including all BOC/ILECs and all states) that were billed to the section 272 affiliates (total Verizon including all section 272 affiliates). In addition, we randomly selected one service from among the remaining services for a total of 10 services to be tested. The services selected were:

- Billing & Collection
- One Coin Plus Sent Paid
- Marketing & Sales - Consumer & Small Business
- Live & Automated Operator Services
- Dial Around
- National Directory Assistance
- National Operator Assistance
- Call Center - M&A
- Real Estate
- Prepaid Calling Card

We randomly selected three individual non-consecutive months (September 2005, December 2005 and July 2006). For each month selected, we obtained the section 272 affiliate billing records for all states, all BOC/ILECs, for the 10 services selected above. For each of the 10 services selected, we randomly selected 10 billing transactions from three months of billing records. For each service in which more than 10 billing transactions were available from the three months of billing records, we randomly selected 10 billing transactions. For services in which less than 10 billing transactions were available from the three months, we selected the entire population of billing transactions. A total of 76 billing transactions were selected.

For each billing transaction selected, we requested the Fully Distributed Cost (“FDC”) and the Fair Market Value (“FMV”) unit charges for the services, copies of the Verizon BOC/ILEC invoice, and journal entries for the Verizon BOC/ILEC. We compared unit charges to FDC or FMV as appropriate. We noted the following:

- For 31 of the 76 transactions, we compared the unit charges in the invoice to FDC and FMV and noted the unit charges were priced at the higher of either the FDC or FMV.

- For 43 of the 76 transactions, we noted that sales were greater than 25% of the total quantity of such service sold and accordingly Prevailing Market Price ("PMP") was applied.

- For 1 of the 76 transactions, we noted that FDC, FMV, nor PMP was applied, as the service selected was included as one of several items included one invoice selected; however, the specific service was not purchased.

- For 1 of the 76 transactions, we noted only the FDC was provided as management was not able to locate the FMV rates.

We inquired and obtained from management the general ledger for each BOC/ILEC containing journal entries detailing the amount recorded by the BOC/ILEC. We obtained invoices from management detailing the amount billed to the section 272 affiliate. We also obtained screenshots of payment information received by the BOC/ILECs which included the check number and check amount for each section 272 affiliate. We compared the amount recorded in the financial records by the BOC/ILEC and the payment by the section 272 affiliate recorded by the BOC/ILEC. We noted the following:

- For 75 of the 76 transactions, the amount recorded in the financial records by the BOC/ILEC equaled the payment by the section 272 affiliate as recorded by the BOC/ILEC.

- For 1 of the 76 transactions, the amount recorded in the financial records by the BOC/ILEC was $0.00, accordingly no payment was recorded.

We inspected each of the 76 transactions for the proper application of billing rates, including all applicable discounts, surcharges, late fees, etc. and noted the following:

- For 75 of the 76 transactions in which FDC, FMV, or PMP was applied, the rates developed were accurately applied to each invoice transaction.

- For 1 of the 76 transactions, the review for proper and accurate application of rates was not applicable as the service was not purchased

We obtained from management the payment information for the section 272 affiliates. We obtained and inspected screenshots for each section 272 affiliate which included the check number and check amount. We also obtained screenshots of each section 272 affiliate's journal template, detailing their account payable system. We compared the payment information and the amount recorded on the section 272 affiliate's books and noted the following:

- For 74 of the 76 transactions, the amount recorded on the section 272 affiliate's books agreed to the amount paid by the section 272 affiliate.

- For 2 of the 76 transactions, we did not obtain the amount recorded and paid by the section 272 affiliate as the payment information could not be located.

7. We obtained a listing of all services rendered by each section 272 affiliate to each Verizon BOC/ILEC during the Test Period. The following services were included:

- VSSI – CPE
- VSSI – Long Distance
- VGNI – ATM PVC
- MCI – Data and Long Distance Voice
- VLD – AMS

a). We randomly selected three individual non-consecutive months during the Test Period (May 2005, July 2005 and January 2006) and obtained the billing records for all services identified above that were billed by each section 272 affiliate to the Verizon BOC/ILEC during the months selected. The listings were for all BOC/ILECs, all states, and reflected billings from all section 272 affiliates.

We calculated the percentage of each service as a percentage of total billing dollars and identified two services, VSSI - Long Distance and MCI - Data and Long Distance Voice, comprised 83% of the total billing dollars.

From the population of invoices for the three selected months, we selected a random sample of 50 invoices from the section 272 affiliate to the BOC/ILECs. From each these 50 invoices, we selected 2 billing transactions with different rates. Amongst the 100 billing transactions, 22 transactions (with a total dollar amount of $328,195.79) were billing transactions for MCI's Data and Long Distance Voice service and 63 transactions (with a total dollar amount of $27,962.87) were billing transactions for VSSI Long Distance service. The total dollar amount of the transactions for these two services represented 87% of the total dollar amount of the 100 transactions. After selecting the 100 billing transactions, we consulted the JOT and obtained approval for the sample.

b). For each of the 100 billing transactions selected in step 7a) above, we requested from management the unit charges as well as the PMP, FDC, or FMV, as appropriate. Management responded by stating each of the 100 billing transactions was priced at PMP in accordance with affiliate transaction rules.

Management provided copies of invoices (including the unit charges) for 99 of the transactions sampled. One of the transactions could not be located in the billing system, therefore no invoice could be provided. Based on the documentation provided for the sample transactions (invoices), we noted no chain transactions.

We obtained from management the supporting documents showing the amount paid and the amount recorded by the BOC/ILEC for the 100 sampled transactions (included in the 50 invoices). For each of the selections, we compared the amount paid by the BOC/ILEC and the amount recorded on the BOC/ILEC's books of account and noted the following:

- 39 invoices (86 transactions) we noted no differences.

- 6 invoices (6 transactions) represented credit invoices.

- 1 invoice (3 transactions) we noted a difference between the amount paid by the BOC/ILEC and the amount recorded by the BOC/ILEC.

- 4 invoices (5 transactions) information could not be located.

c). We requested, obtained from management and included in our workpapers, documents showing the amount paid by the BOC/ILEC and amount recorded by the section 272 affiliate for the 100 sampled transactions sampled in step a). For each of the samples, we compared the amount paid by the BOC/ILEC and the amount recorded on the 272 affiliate's books of account. We noted the following:

- 24 invoices (73 transactions) we noted no differences.

- 10 invoices (10 transactions) the BOC/ILEC had not yet paid the invoice.

- 8 invoices (8 transactions) we noted a difference between the amount paid by the BOC/ILEC and the amount recorded on the 272 affiliate's books of account

- 6 invoices (6 transactions) represented credit invoices.

- 2 invoices (3 transactions) information could not be located.

8. Using the balance sheet and detailed listing information obtained in Procedure 4 under Objective I, we performed the following:

a). With regard to items purchased or transferred from a Verizon BOC/ILEC since January 3, 2005, we noted fixed assets acquired by VLD from Verizon BOC/ILECs. We obtained and inspected documentation regarding how the fair market value was determined and whether the amount was recorded in the books of the Verizon BOC/ILEC at the higher of the fair market value or net book cost, as required by the Commission's rules in section 32.27. Management indicated the following:

"Verizon Long Distance was the highest bidder on GL060603 which consisted of equipment from Verizon New York and Verizon Washington D.C.

	Net Book Value	*Fair Market Value*
Verizon WA. D.C	*$555,418.15*	*$439,200*
Verizon New York	*$580,393.13*	*$460,800*
Total	*$1,133,811.28*	*$900,000*

The FMV was determined as a result of Verizon Long Distance bid of $900,000 being the highest bid".

b). No items were purchased or transferred from another affiliate during the Test Period.

c). We obtained details from management as to how the Verizon BOC/ILEC made an equal opportunity available to unaffiliated entities to obtain ownership of the facilities since January 3, 2005 (fMCI section 272 affiliate from January 6, 2006),. Management indicated that unaffiliated entities have equal opportunity for ownership by way of access to the equipment bidding process through the website www.verizonro.com.

9. We requested of management a detailed listing of all fixed assets which were purchased or transferred from any section 272 affiliate to any Verizon BOC/ILEC since January 3, 2005 (fMCI section 272 affiliate from January 6, 2006).

   Management provided a written response indicating the following:

   > *"There were no items transferred from any section 272 affiliate to any Verizon BOC/ILEC since January 3, 2005 (fMCI section 272 affiliate from January 6, 2006".*
   >
   > *"There were no items purchased or transferred from another affiliate".*

10. We requested and obtained from management a listing of assets and/or services priced pursuant to section 252(e) or statements of generally available terms pursuant to section 252(f).

    We selected a statistical valid sample of 95 items and obtained copies of the corresponding invoice. We randomly selected one rate/price from each invoice, compared the price the Verizon BOC/ILEC charged to the section 272 affiliate to the stated price in the publicly-filed agreements or statements and noted the following:

    - For 77 of 95 invoices, the price per the invoice agreed to the publicly-filed agreements or statements.
    - For 16 of 95 invoices, we were unable to identify a rate/price within the invoice.
    - For 2 of 95 invoices, we were not able to verify that the price per the invoice agrees to publicly-filed agreements or statements.

11. We inquired of management and management indicated that no part of any Verizon BOC/ILEC's Official Services network was transferred or sold to a section 272 affiliate since January 3, 2005 (since January 6, 2006 for fMCI Section 272 affiliate).

<u>OBJECTIVE VII.</u> Determine whether or not the Bell operating company has discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards.

1. We obtained the Verizon BOC/ILECs' written procurement procedures, practices, and policies. We inspected these policies for any stated purchasing preferences, and found that Verizon deviated from their non-preferential sourcing policies only in emergency situations and for requests for service that required highly specialized or specific goods or services. We noted the Verizon BOC/ILECs disseminate requests for proposals (RFPs) to affiliates and third parties through eSource per their policies and procedures.

   The following represents a summary of the bidding and selection processes of the Verizon BOC/ILECs based on written procurement procedures, practices, and policies obtained from management:

   > Suppliers of products and services are selected without discrimination based upon the best combination of total cost, quality, and service when matched to the requirements of Verizon. All sourcing for Verizon and affiliates goes through Verizon Corporate Sourcing which will utilize Cross Functional Teams ("CFTs"), a Sourcing Process Leader ("SPLs"), Contract Administrator ("CAs"), and all policies and procedures specified in the Verizon Sourcing Policy and Procedures. CFTs are made up of individuals representing the user organizations impacted by the product or service to be procured. CFT's are utilized as a key control and responsibilities of CFT members are developed and listed in the Responsibility Matrix. SPLs have ultimate responsibility for leading the strategic sourcing process and for ensuring the overall integrity of the process. CAs are part of the Strategic Sourcing Team.
   >
   > CAs and/or SPLs are responsible for contract administration, which includes contract formation and management from the development through the termination of the contract. Requirements are provided in the Verizon Affiliate Transaction policy for all procurement services provided by Verizon Sourcing to Verizon Affiliates. Proper approvals, authorizations, and policies have to be addressed and obtained before procuring products and services related to network, safety & environmental control, ergonomic, hazardous/environmentally sensitive materials, and computer products and materials. Verizon Corporate Sourcing is responsible for developing and maintaining information about suppliers who may potentially be eligible to receive a Request for Proposal ("RFP") or Request for Quote ("RFQ"). CFTs are responsible for selecting suppliers to receive an RFP/RFQ and awarding business to suppliers. At the beginning of the sourcing process, the SPL develops a preliminary sourcing strategy, which provides initial requirements and direction to the CFT. Preliminary sourcing strategies are required prior to each sourcing initiative and are tailored to individual sourcing requirements. The preliminary sourcing strategy must be prepared prior to the formation of the CFT. As the process evolves, the sourcing strategy must be revised to include new or more well defined information, particularly that which results from the work of the CFT. All additions and/or changes to the preliminary sourcing strategy must be approved by the CFT. After the sourcing strategy is reviewed by the CFT, the SPL and CFT are responsible for developing the RFP based on the Scope of Work/Generic Requirements.

All suppliers invited to quote must receive the same information with the same set of directives. Each RFP must be sent to a minimum of three suppliers. The suppliers selected must be made in a fair, consistent, and non-discriminatory manner, which the CFT must disclose along with a rationale for their inclusion. E-source is the vehicle designated for the issuance of Request of Information ("RFI"), RFP and RFQ. The CFT must review the responses to ensure that there is a competitive pool of suppliers available for negotiations, while the CFT leader will facilitate the discussions that result in the determination of a short list of suppliers who meet Verizon's requirements. The team leader must also ensure that data used to eliminate suppliers is comparable and consistent from supplier to supplier. Any additional requests made to suppliers must be distributed to all suppliers so that they have the opportunity to receive any additional information or advantage given. When the short list of suppliers is complete and the negotiation strategy is formed, the negotiation team must provide the same opportunities for all suppliers through the negotiation process. CFT must come to a consensus about awarding business to a supplier and all analysis must be documented for review. If a consensus can not be reached, the issue must be escalated to higher management.

After SPL has verified adherence to all applicable policies he/she must draft a Memo of Understanding (an internal document that outlines and summarizes the terms and conditions negotiated with the vendor) and forward it to the Contract Administrator. If the user organization needs the product/service immediately, a letter of intent can be drafted in the interim. SPL must ensure suppliers have adequate insurance, and are financially stable. Verizon's policies further monitor end users adherence to sourcing policies.

If a product or service is procured in an emergency situation, which is defined as "those network/computer/environmental/safety situations that are service affecting to the external customers of Verizon or where the safety and well being of Company employees or the public could be adversely impacted," then the user organization must complete a memorandum containing details of the emergency and procurement information and submit it to Verizon Corporate Sourcing for approval if Verizon Corporate Sourcing had to be by passed because of the emergency situation.

In other specific situations when the product is technical in nature or designed to exact specifications set by the customer, a supplier is designated as the sole source for the product. The sole source must be utilized unless there is a business reason for not utilizing the supplier. If the identified supplier cannot be utilized, the customer must be advised and participate where appropriate in the identification process for an alternate supplier.

In instances where the internal customer is time constrained and requires a product/service over $25,000, Verizon Corporate Sourcing would implement the Enhanced Speed Model which addresses the needs of the user while preserving integrity and required controls. The Enhanced Speed Model incorporates all major functions of the sourcing policies and procedures, without using CFT or the negotiating team, and the RFP may be sent to a minimum of two suppliers. Finally, the sourcing process should comply with all State regulations.

2. We obtained the Verizon BOC's procurement awards to each section 272 affiliate during the Test Period. We noted that procurement awards given were not through the competitive bidding process, but through competitive market assessments. We inspected each competitive market assessment given to section 272 affiliates, noted competitive terms, and discussed with Verizon BOC representatives how selections were made. We compared this practice with the Verizon BOC written procurement procedures and noted no differences. The following procurement awards were provided:

   - Competitive Market Assessment - Carrier Services Amendment 3, which allows for the addition of OC -192 services. The market assessment was based on the fact that of all the carriers currently under contract with Verizon, only AT&T, Sprint, MCI, Qwest, and VSSI were considered to have the financial viability to proceed with a deeper level of coverage and operational assessment. Upon inquiry, AT&T, Sprint, MCI, and Qwest did not have OC-192 capacity available in the locations required, nor did they have a history with Verizon of quick and efficient contract negotiations for pricing and contract terms. In view of the above financial stability, speed to market, existing facility coverage, and interoperability analyses, VSSI was deemed as the optimal carrier capable of meeting all of Verizon's technical specifications in the required service interval.

   - Competitive Market Assessment - Carrier Services Amendment 4, which allows for a 3 year term extension. The market assessment was based on the fact that VSSI was the provider of choice for Verizon Official Telecommunications Services as a result of the 2003 contracted agreement. VSSI was also the least cost provider under contract with Verizon. If a change in vendor was required, the necessary time, effort and expense to complete the conversion would be extensive. The conversion would entail the reconfiguration of over 3,265 trunking facilities as well as the translation changes for over 1,028,650 Official Company Lines. In view of the existing facilities and cost analysis, VSSI was deemed as the optimal carrier to meet Verizon's specifications.

3. We obtained a list of all goods including software, services, facilities, and customer network services information, excluding CPNI as defined in section 222(f)(1) of the Act, and exchange access services and facilities inspected in Objective IX, made available to each section 272 affiliate by the Verizon BOC/ILECs.

   From the listing, we selected a statistically valid sample of 25 items. For each item, we inquired and obtained copies of the media used by the Verizon BOC/ILECs to inform unaffiliated entities of the availability of the same goods, services, facilities, and information at the same price, and on the same terms and conditions. We noted that all services and agreements to provide services were made available to unaffiliated entities through use of the Verizon website.

4. a). We requested and obtained a list of goods (including software), services, facilities, and customer network proprietary information (excluding CPNI) that were purchased during the Test Period from the BOC(s) by both an unaffiliated entity and any section 272 affiliate in any state. This list excluded exchange access services, local exchange services, and interLATA services that are the subject of other procedures. The listing obtained included five services along with the total amount of the service purchased. The services provided were: UNE-P ($581,642,737), Billing and Collections ("B&C") ($147,980,681), One Plus Coin Sent Paid ($795,044), Live and Automated Operator Services ($89,171), and Prepaid Calling Cards ($101,075). We selected all five goods/services billed to unaffiliated third parties for testing. We noted that billing systems

were applicable only to the B&C (CRIS and CABS) and UNE-P (MABS) services. With respect to these services, management indicated that the same systems are used to bill the section 272 affiliate and unaffiliated third parties for each service.

We requested from management and obtained a narrative of the BOC procedures for ensuring that the applicable tariff or agreement rate is billed to both the section 272 affiliates and nonaffiliates (e.g., the same rate table is used for all carriers). We inspected the narratives provided for both CRIS and MABS and noted that the narratives for each system contained the same information and that the systems do not differentiate between a section 272 affiliate and a nonaffiliate. Management's narrative indicated the following:

> *"There are no specific practices that are required to ensure that the billing systems bill the section 272 affiliate and nonaffiliates at the same rates and under the same terms and conditions. The (MABS and CRIS) billing systems do not differentiate between the section 272 affiliate and nonaffiliated; the same billing procedures are applied to the section 272 affiliate and nonaffiliated in a like manner".*

Management stated that due to the high volume of rates relating to these two main services, it would not be possible to provide all of the applicable rate tables. As such, we identified a population of sub-services relating to the two main services. From these respective populations, we randomly selected three sub-services and obtained the rates for each, compared rates to current tariff or agreement rates and noted no differences. (Thus, selecting 3 rates per each of the two (2) services (Billing and Collections and UNE-P)).

(1) We inquired and obtained from management a narrative of the BOCs' procedures for updating the rate tables for the Test Period. Management provided information pertaining to both CRIS and MABS.

With respect to CRIS, management provided a document entitled "CRIS Billing Rate Change Summary". We inspected this document and noted that it contained information surrounding updating the rate tables. The narrative of the BOC's procedures is as follows:

"Client Process:

- *The client estimates the revenue effect associated with the rate change, and determines customer notification methods.*
- *The client initiates the work request and ensures IT funding.*
- *The project management group assigns a number to the work request for tracking and scheduling.*
- *The business requirements document (BRD) is completed, attached to the database, and sent out for review.*
- *The RAD designers review the document for completeness, and log any issues.*
- *Project reviews are conducted for complicated projects.*
- *The rewrite and review process continues until the project is accepted.*

Design Group Process:

- *The Application designers update the database with level of efforts and general designs.*

- *Issues are logged as needed, and the designer completes a detail design.*
- *The detail designs are tailored to the specific applications and programmer ability.*
- *The detail design documents the rate changes needed to tables, code, rate files, copybooks, etc.*
- *The detail design also contains a traceability / expected test results section.*

Application Process:

- *The applications will not do rate changes without a project, unless it's an emergency fix.*

NY/NE usage process

- *The application retrieves the production version of the rate tables and/or copybooks from ENDEVOR and places them in an Integration path.*
- *The application updates the tables and code within the ENDEVOR software tracking tool.*
- *The programmer creates test data to test each condition of the rate change, tests the new tables for expected results, and looks for unintended changes by comparing output files.*
- *If a table is involved, the application compares the old table to the new table and prints off the new table.*

NPD USOC process:

- *When a new USOC is to be installed and rated, updates are made to IMS databases and/or VSAM files.*
- *The application unloads the rate database and updates, adds, deletes or changes segments as needed.*
- *This rate file is then uploaded back into the Rating database.*
- *Updates to the VSAM files are done via control cards.*
- *When there is a change in rates for existing USOCs, a file spin is preformed to change the rates.*
- *This is controlled by a program that is driven by inputting control cards*
- *All changes are turned over to IT testing.*

Integration Process

- *Integration Testing retests the tables.*
- *IT logs unexpected results in the database, and the application resolves them.*
- *IT provides test results for client review.*
- *Client signs off.*

Implementation process

- *The applications ensure that the tariff has been approved, and then the code is moved to the ENDEVOR "ship" path.*
- *The code and tables for each application are bundled in what we call a package.*
- *The ENDEVOR implementation team is the only group that can move code/tables to production.*
- *Release packages are pre-approved.*

- *Emergency fixes must be approved at direct level.*
- *The implementation group moves the code to production.*

Post Implementation

- *The VETS group is an internal auditing group, they check rate changes after the fact by monitoring a percentage of daily production."*

With respect to MABS, management provided a document entitled "Quality Management Process". We inspected this document and noted that it contained information surrounding updating the rate tables. The narrative of the BOC's procedures is as follows:

"Tariff Review

- *Tariff rates are specified in the applicable state access tariffs. Tariffs are not filed in all states (some states are de-tariffed and some states do not regulate B&C services). In de-tariffed and non-regulated states, the B&C contract rates are applied to both interstate and intrastate units. Most tariffs offer a multiple rate structure based on the carrier's bill/message volume commitment. These tariffs are reviewed annually for possible change.:*

- *If changes are required to the Tariff Matrix, the designated Contract / Tariffs employee will make the necessary updates and distribute the matrix to the designated Specialist Billing (Systems) to use while performing the annual yearly tariff rate review. The updated Tariff Rate Matrix will also be provided to the Spec-Billing (Systems) for use in second source verification and to the Spec-Billing (Ancillary) to be used for bill verification.*

Annual Tariff Rate Review

- *A yearly review of tariff rates, based on contract anniversary date, will be performed on all active B&C Billing Service Agreements/Contracts. The designated Contract/Tariff employee notifies Specialist Billing (Systems) of the contract anniversary.*

- *A query will then be run by the Specialist Billing (Systems) to look at Interstate Message and Intrastate Bill volumes for a given year, for all tariffed states.*

- *The actual message and bill volumes may warrant an increase or decrease in the current Message Bill Processing or Bill Rendering intrastate rate based on the current Tariff Rate Matrix.*

- *Updates to tables will be completed by systems support. The designated Contracts/Tariffs employee(s) will update all applicable contract B&C profiles and provide to the Spec-Billing (Systems) for use in second source verification and to the Spec-Billing (Ancillary) to be used for bill verification.*

Bill Rendering Discounts and Inquiry Service Rates

- *The discounted Bill Rendering and Inquiry Service rates are based upon the carriers Annual Bill Volume Guarantee. The selected Bill Volume*

Guarantee Band should include the total number of bills for all CICs and VERIZON Billing Regions associated with this contract. This annual bill volume guarantee is due to the carrier's account manager one month prior to the beginning of each annual contract billing period. If carriers fail to provide an annual Bill Volume Guarantee within the agreed time frame, Verizon will use the full, non-discounted, Bill Rendering rate for the annual period that the carriers do not provide a volume guarantee.

Bill Rendering True-up

- *The current Billing Services Agreement Matrix is located on the Billing Services Compliance and Product Management Website. This matrix provides the contract dates needed for the Bill Rendering True-up process.*

- *At contract renewal dates the designated Contract/Tariffs employee(s) will request a query of the actual bill rendering volume from the Specialist Billing (Systems).*

- *A Bill Volume Guarantee true-up will be performed by the designated Contract/Tariffs employee the first month following the contract annual period, based on actual total bill volumes for the annual period. If it is determined, that the carrier failed to meet the Bill Volume Guarantee, the carrier agrees to pay a Bill Volume Guarantee true-up amount. The true up amount is equal to the difference between the minimum number of bills in the Bill Volume Guarantee band and the actual total number of bills, times the average cost per bill during that annual period. All true-up amounts will be settled on an Ancillary Bill following the annual contract period.*

- *Average cost per bill: Total ancillary cost billed by Verizon during the annual period (less development and Change Request charges) divided by the total number of bills during the annual period.*

- *If it is determined that a true-up is warranted, the designated Contract / Tariffs employee(s) will send an email with the details for billing to the Spec Billing (Systems), Supv-Billing (Ancillary) and copy appropriate Account/Product Manager*

California Surcharge

- *Each year in December/January timeframe we receive a change notification for the California Surcharge/Surcredit rate. This notification is provided by the tax department. It is imperative to follow up at this time to be sure that this information is received. Schedule Cal.P.U.C No. A-38 is located on the Verizon Tariffs Website. http://tariffs.verizon.com*

New or renewed Operator Services contract/ODIR/Technical Questionnaire

- *Review SECTION 1 of the Operator Services Agreement and the ODIR/TQ for the list of services selected. SECTION 1 will provide the Attachment number of applicable "Rate Schedule".*

- *Once the Contract Review is complete, the Spec-Billing (Contract/Tariffs) will complete the Operator Services Contract Profile. Revisions made to the Operator Services Contract Profile will be bolded to identify the items that have changed.*

- *Before a new CLEC contract is implemented, Product Management may schedule a "Kickoff" Meeting with the customer. Any questions on the OS contract can be addressed at that time.*

Distribution of Profiles for Second Source Verification

- *Once the B&C profile, and/or OS Contract Profile is completed, it is given to the designated Spec-Billing (Systems) for use in table verification after the MABS table updates are complete. If a problem were found during second source of the MABS B&C contract profile to the online table updates, the Spec-Billing Systems would work with the designated contract-tariff employee to resolve any issues. If a problem was found with the MABS B&C contract profile, the profile would be corrected and resubmitted to the Spec Billing Systems. If the problem found was due to a Mobs online table update, the Spec Billing System will correct the tables and second source. After final approval is received from the System Support Group, a copy of the MABS B&C contract profile is forwarded via email to MABITE TEAM for bill verification".*

(2) We inquired, obtained from management and documented in our workpapers the practices and processes the Verizon BOCs have 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. Management provided documents which indicated that the (MABS and CRIS) billing systems do not differentiate between the section 272 affiliate and nonaffiliated; the same billing procedures are applied to the section 272 affiliate and nonaffiliated in a like manner.

Additionally, we documented in our workpapers the BOC internal controls and procedures designed to ensure non-discriminatory billing (for both CRIS and MABS), including a description of controls in place for overseeing the system.

For both MABS (Billing and Collections Service) and CRIS (UNE-P Service), we obtained information relating to the controls surrounding rate table updates, nondiscriminatory billing and revenue recording. We noted that each of these controls exist and apply equally to both the section 272 affiliates and nonaffiliates.

With respect to revenue recording controls, we inquired and obtained information surrounding the controls in place for recognizing and recording when the billed amount is actually paid. We obtained documentation of the controls relating to CRIS. As noted above, this system is used by each BOC to bill the UNE-P Services. We inspected the information provided and noted that it addresses the process for recording revenue. A summary of this process is as follows:

"The CRIS NY, NE and NPD revenue and cash data that is sent to FCS is processed through a two step procedure called the Standard Interface file Pre-

processor (PRESIF) and the Standard Interface File processor (SIF). These two steps apply equally to both the section 272 affiliates and nonaffiliates.

The SIF Pre-processor (PRESIF) tracks the receipt of packs of transactions and validates each pack to determine whether to accept or reject the pack. If the PRESIF encounters a data control error during processing, it will mark the pack in error, identifying the cause of error with an error message number and message set. Certain requirements must be met to ensure complete and accurate data is contained within the Standard Interface File. These requirements fall into the following categories:

- *Pack Contents Requirements*
- *Sequence Requirements*
- *Header Record Requirements*
- *Detailed Transaction Requirements*
- *Trailer Record Requirements*

The SIF Pre-processor step produces an Inbound Pack Control report which identifies all packs received within a file. The report will identify information regarding the pack such as PEC/BU, accounting date, journal source, status, errors (if applicable), and pack totals.

The purpose of the SIF Processor is to process packs of data that are previously validated by the SIF Pre-processor. The SIF applies all the predefined business edits and translate rules against each record in the pack. If the record fails a businesses rule it is marked to error and written to the FCS error table while the error free data is written to the FCS CDL tables. The SIF step produces the Processor Control Report which will identify all packs of data received within a file, as well as, report all packs process with total record counts, quantities, hours, debit amount, credit amount, total amount, error and modified record counts and amounts, along with the status of the pack (Erred or Completed). If the pack is in error, the Message Set and Message number is displayed along with the error description. The packs are identified by Journal Source, Business Unit / PEC, and accounting date."

We obtained documentation relating to MABS, which is used by each BOC to bill the Billing & Collections Service. We inspected the information provided and noted that it addresses the process for recording revenue. A summary of this process is as follows:

"Journalization:

Once B&C issues the monthly Ancillary invoice the MABS system generates journal files which as sent to SAP, PeopleSoft and CARD, these files contain all monthly billing information needed to ensure accurate journalization. Journalization occurs at a carrier specific level based on appropriate account code information. MABS receives the MABS Journal Control report (summarizing what was sent for journalization) and balances this to MABS internally generated reports to ensure quality. These controls apply to both section 272 affiliate and non-affiliate B&C customers.

Payments Process:

Carrier payments are received and posted based on customer accounting information provided with payment. Payments are reconciled by Verizon Receivables Management group and are posted in Platinum (Accounts Receivables System). MABS receives a monthly Platinum file updating the customer payment information.

These controls apply to both section 272 affiliate and non-affiliate B&C customers.

Collections Process:

The Platinum Mechanized Ancillary Billing Systems (MABS) Aged Receivable Summary report is reviewed each month. This monthly report details the unpaid balances by dates of current, 45+ days, 75+ days, and 105+ days. Carriers that fall in the 45 days through 105 days are contacted by phone requesting payment of outstanding ancillary invoices. A log of all pertinent customer phone conversations related to collections is maintained. If payment is not received within approximately 15 days of the phone call, a certified letter will be sent to the customer notifying them that if payment is not received in approximately 15 days, the outstanding invoices will be netted with PAR (in accordance with the contractual time frame) providing the PAR has dollars to net with. If the carrier falls in the 105+ column and no netting can take place due to Negative PAR a register letter will be sent to the carrier stating they are in breach of contract and unless payment is received in 30 days for the outstanding ancillary invoices and negative PAR, Verizon will take further legal action including referral to a collection agency and termination of contract. A copy of the registered letter will also be sent to the Account Manager. If no payment has been received by the due date stated in the registered letter or no payment plan has been worked out by the Account Manager, the outstanding ancillary invoices and negative PAR invoices may be referred to the Outside Collection Agency, Anderson Financial Network. These controls apply to both section 272 affiliate and non-affiliate B&C customers."

b). We randomly selected three individual non-consecutive months during the Test Period. For the months of January 2006, April 2006, and July 2006, we requested and obtained from management, the billing records/invoices for the services which were identified in step (a) above that were billed to section 272 affiliates (i.e. Billing and Collections and UNE-P). These records were for all BOCs and all states.

From the three months of billing records/invoices, we randomly selected 10 invoices from the billing records provided. For each of the 10 selected invoices, we were to select ten line items/services. However, we noted that three of the invoices had less than 10 line items / services. In these instances, the entire population of the line items / services was selected. In total, there were 95 line items that were tested amongst the 10 invoices. We used judgment to ensure that at least 10 different items/services were selected in the overall sample.

We inspected each transaction for the proper application of the billing rate table tariff or agreement rate in effect at the time of the transaction. From the information noted in the rate table to the data noted in the invoice, we compared whether the amount billed was calculated using the appropriate rate in the rate table. We noted the following:

- There were 40 instances in which the rate information noted on the invoice agreed to the information on the table.

- There were 7 instances where invoice did not contain any rate information, however, a rate (greater than zero) was noted in the rate table. Each of these instances related to the service class "RRM". Management indicated that RRM did not carry rates in these instance as special billing arrangements were made to bill under service class UF8R1 (opt B platform set-up). Management indicated that the FID in the RRM USOC of (ZOPB) is the identifier which indicates this arrangement. We inspected the invoice's for each of these 7 instances and did note the ZOPB identifier in each instance. We also confirmed that the rate associated with the UF8R1 service class noted in the invoice agreed to that in the rate table.

- There were 4 instances in which the invoice did not contain any rate information, however, a rate of zero was noted in the rate table. Management indicated that the lack of a rate identified on the CSR indicates a $0 rate.

- There were 44 instances in which neither the invoice nor the rate table contained any rate information for this USOC. Management provided explanations for each of these instances as follows:

  - In 28 instances, management stated that the rate was "Rate Included Elsewhere" and is applicable in package deals.

  - In 6 instances, management stated that the $0 rate was due to a Local # Portability Surcharge.

  - In 5 instances, management stated that the $0 rate was due to a Special Routing AIN Solution.

  - In 2 instances, management stated that the $0 rate was due to an OSS cost recovery charge per line.

  - In 2 instances, management stated that the $0 rate was due to an Unbundled Business Parts Specialized Routing Establishment Charge.

  - In 1 instance, management stated that $0 rate was due to a Free Product (a 900 976 Call Block).

We noted that each of the 95 line items tested did have a corresponding rate (of either $0 or greater) in which information was available.

c). Management indicated that there are no billing systems used by the BOCs to bill unaffiliated entities that are different than a billing systems used to bill the same service to a section 272 affiliate.

d). Based on the response to step c). above, step d). is not applicable.

e). We requested and obtained from management a file containing the local exchange services purchased from the BOCs by both an unaffiliated entity and any section 272 affiliate. We inspected the file and determined the three states that provided the majority of local exchange services to former Verizon section 272 affiliates in 2005; New Jersey, Pennsylvania, and Virginia. We randomly selected the month of February 2006 and obtained detailed billing data reports for unaffiliated customers with the same class of service for the three states. For each state, we identified the 9 USOCs billed to the section 272 affiliate(s) with the highest dollar volumes. We then selected on additional USOC at random for each state.

For each of the USOCs selected, we obtained information regarding the billing systems used for local exchange services. Management indicated that there are two billing systems used for local exchange services; CRIS and eTRAK. We inspected the information relating to both systems and documented in our workpapers the procedures for updating the rate tables.

We selected one section 272 affiliate transaction from within the detailed billing records provided by management for each of the 30 USOCs sampled. We noted the Product Description and Rate for each of the thirty (30) 272 transactions selected, and reviewed the detailed billing records in an effort to identify three (3) non-affiliate transactions for each USOC with the same rate. We noted that each nonaffiliate transaction contained the State, Product Description as well as the same rate as the 272 transactions and noted no differences.

We obtained the detail billing data reports for the 10 selected USOCs in the following states: Pennsylvania, New Jersey, and Virginia, during the month of February 2006. We selected a random sample of 25 invoices and requested that management provide the invoice and supporting documents showing the amount recorded by the BOC and the amount paid by the 272 affiliate for each invoice selected.

Management provided 25 invoices and the supporting documents showing 272 affiliate's payments for 19 invoices. Management indicated that the remaining 6 invoices had not yet been paid, therefore, no supporting documents were available. Management also provided a written narrative explaining that the documents supporting the amount recorded by BOC/ILEC could not be provided as follows:

> *"Verizon doesn't journalize by the individual bill, only by the bill cycle, which includes ALL bills that were processed during that bill cycle as a total. Verizon East records revenue and receivable amounts in its billings systems at a detail customer level. These amounts are summarized at a financial account code level as they pass to the BOC/ILEC's general ledger systems. These amounts are aggregated on the books of the BOC/ILEC's to various FCC USOA accounts. There are internal control functions in place between the billing systems and financial systems to ensure all billed levels are recorded. Receivable collection systems maintain currently due and past due balances from customers regardless of whether the customer is an affiliate or not."*

For the 19 samples in which we obtained both the invoices and supporting documents for the amount paid by the 272 affiliate, we compared the invoice amounts with the amount paid by the 272 affiliate and noted no differences.

5. We inquired and obtained from management how the Verizon BOC disseminates information about network changes, the establishment or adoption of new network standards, and the availability of new network services to each section 272 affiliate and to unaffiliated entities. Management indicated the following:

> *"Verizon provides public notice regarding network change, and the establishment and adoption of new network standards in accordance with the Commission's network disclosure rules. See 47 C.F.R. Sections 51.325-51.335. Network disclosure for Verizon is made via the Internet website (www.verizon.com/regulatory). When network changes are made with less than six months notice, the network disclosures are distributed to interconnecting carriers in accordance with Section 51.333. The local operating companies do not and will not disclose to the 272 affiliates or any other affiliated or unaffiliated telecommunications carriers, any information about planned network changes until appropriate notice has been given. These methods are the same throughout the Verizon territory".*

We noted no differences in the manner in which information regarding network changes, establishing or adopting new network standards, and the availability of new network services is disseminated to each Section 272 affiliate and to unaffiliated entities.

6. At the service call centers observed in Procedure 7 below, we obtained and inspected scripts that Verizon BOCs' customer service representatives recite to new customers calling, or visiting customer service centers, to establish new local telephone service or to move an existing local telephone service to another location within BOC in-region territory. We also obtained the script that is used in Verizon's Consumer Call Centers' Voice Response Unit. We observed that the scripts contain language informing the consumer of his/her choice of providers and that these providers, along with the interLATA service affiliates, are identified to consumers.

In addition, we obtained and inspected the written content of the Verizon BOC website for on-line ordering of new service or to move existing service local telephone service. We noted that consumers visiting the site are informed that there are other interLATA service providers, and that these providers, along with the interLATA service affiliate, are identified to the consumers visiting the site.

7. a). We obtained a complete listing, as of the end of the Test Period, of all Verizon BOC sales and support customer service call centers. We requested and management compiled a list of Verizon BOC call centers which respond to inbound callers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory. From this listing, we identified and grouped each call center by customer type, viz. "Consumer" or "Business." Using a random number generator, we selected six Consumer call centers and four Business call centers. We observed calls within each of the centers selected in order to obtain a sample of calls (10 per call center) in which the customer service representatives attempted to market the section 272 affiliate's interLATA services to callers requesting to establish new local telephone service or to move an existing local telephone service.

We listened to 1,943 incoming calls within the sampled Consumer and Business call centers to obtain the required sample of 60 Consumer calls and 40 Business calls. We noted the following:

- Call 1

The customer did not have existing phone service at their residence and was looking to have new phone service established.

At no point during the call did the Verizon representative state that the customer had a choice in long distance service providers or offer to read the customer a list of options. While the representative did not try to influence the customer, the representative did not inform the customer of the interLATA service options available.

- Call 2

  The customer initially stated that they were looking to change their local phone service from one location to another. The Verizon representative asked the customer if they wanted to make any changes to their existing service plan. We did not note whether the customer had Verizon or another service provider. The customer did not answer the representative's question with respect to making changes to their existing plan, rather inquired about also obtaining DSL service to go with their phone package. The representative addressed the DSL question and then inquired as to whether the customer wanted TV service to be included in their plan. The customer eventually agreed to a package that included long distance services.

  At no point during the call did the Verizon representative state that the customer had a choice in long distance service providers or offer to read the customer a list of options. The representative did not try to influence the customer, rather did not inform the customer of the interLATA service options available.

b). We requested and management compiled a list of call centers that might incidentally respond to inbound callers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory (such as sales and service centers that usually receive customer inquiries from existing customers). We noted the listing did not include any Consumer call centers. Using a random number generator, we selected 2 Business call centers, and listened to 20 calls per center. Of the 40 calls, we noted one instance in which a caller inquired about service plans relating to establishing new local telephone service.

c). We requested and obtained a list of phone numbers that channel into the consumer call Center population relating to Step a. Based on the limited population of phone numbers, we selected 100% of the numbers listed (for English speaking customers) for testing. We telephoned each number and indicated to the automated system that a new service was desired when prompted.

For the 9 unique numbers provided for Delaware, Maryland, Maine, Vermont, Massachusetts, Nebraska, New Jersey, New York (down state), New York (up state), Virginia, and West Virginia, we noted the Voice Response Unit informed customers that they "have a choice of regional toll and long distance providers" and that "a list of providers is available".

8. We inquired of management and management indicated that Verizon has no call centers managed by third parties in which representatives of third-party contractors of the Verizon BOC respond or might incidentally respond to customers requesting to establish new local telephone service or to move existing local telephone service to another location within the BOC in-region territory.

9. We inquired of management and management indicated that no third party contractors provide inbound telemarketing services that would be subject to the equal access notification requirements of section 272.

10. We inquired of management and management indicated that no third party contractors provide inbound telemarketing services. Accordingly, no contracts exist between the Verizon BOC and third-party contractors to provide inbound telemarketing services.

<u>OBJECTIVE VIII.</u> Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have 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.

1. We inquired of management regarding the practices and processes the Verizon BOC/ILEC has in place to fulfill requests for exchange access service for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates in each state where Verizon has been authorized to provide in-region interLATA services. Management provided documentation describing the practices and processes the Verizon BOC/ILEC has in place to fulfill requests for exchange access service for the section 272 affiliates, other affiliates, and nonaffiliates. Such documentation is maintained in our working papers.

   We noted that Verizon fulfills requests from affiliates and nonaffiliates by utilizing the same processes and practices.

   We also inquired of management regarding the Verizon BOC's internal controls and procedures designed to implement its duty to provide nondiscriminatory service. We obtained a written response from management stating that:

   > *"Verizon's 272 affiliates are required to use the same installation and repair interfaces with the Verizon ILEC operations as are made available to nonaffiliates. ASRs and trouble tickets are processed through the same interfaces and systems for both 272 affiliates and nonaffiliates. Also, the determinations of the availability of facilities for 272 affiliates and nonaffiliates use the same systems.*
   >
   > *The systems that process installation orders apply the same standard minimum provisioning intervals (where facilities exist) and the same first-come-first-served priority to special access orders regardless of the identity of the customer. The systems that track and process the facilities checks are programmed to process orders on a first-come-first-served basis, regardless of the identity of the customer. Where facilities are required to be built or installed to provision a special access service request, Verizon performs that work on a first-come-first-served basis, regardless of the identity of the customer. Similarly the systems that track and process trouble reports, process reports on a first come first service basis, regardless of the identity of the customer. Thus, at each step in the fulfillment of requests the same treatment is given to nonaffiliated customers and affiliate customers. Verizon also provides procedural guidelines for the provisioning and maintenance of these services, regardless of the identity of the customer. Employees are trained in these procedures and compliance is monitored monthly by a sampling of orders and trouble reports. Reinforcement of Verizon's commitment to customer parity is frequently a topic of review at general team meetings. Verizon sets its internal service objectives and internally measures both its provisioning and maintenance performance by geographic location, not by customer identity. Management performance evaluations and the Verizon Incentive Plan payouts are based on meeting the predetermined service objectives. Verizon requires each employee to review yearly the company's Code of Business Conduct, in which dealings with our competitors, customers and suppliers, both affiliate and non-affiliate are outlined.*

It should be noted that customers, locations, services, and intervals may differ, making the actual requested service experience different over time and by customer for reasons outside Verizon's control.

Part of the internal control environment involved extensive communication and training to assure all employees in the company are aware of the Section 272 obligations. The Section rules are summarized on the Affiliate Interest corporate web site.

To support this communications effort, employees are sent global e-mails which remind them of their responsibility to follow the regulations summarized in the Affiliate Transaction Policy. In addition target letters with similar reminders are sent to specific organizations. As examples, the Senior VP-Regulatory Compliance and Senior VP and Deputy General Counsel issued a joint letter to the "Directors and above" managers on June 24, 2005, emphasizing the importance of complying with Section 272 obligations with MCI companies that originate interLATA telecom services in the former Bell Atlantic states. These companies became Section 272 long distance affiliates of Verizon for regulatory accounting purposes following Verizon's purchase of more than 13 percent of the MCI stock on May 17, 2005. The Senior VP-Regulatory Compliance and the Senior VP and Deputy General Counsel issued a joint letter to the "Directors and above" managers on February 1, 2006, and an additional letter on February 2, 2006 to the "Verizon Business Directors and above" managers, emphasizing the importance of complying with Section 272 obligations In these communications the senior managers are asked to ensure their organizations are aware of, and comply with, the rules. Summaries of the Section 272 rules or links to the internal corporate affiliate web sites were included in the correspondence. The VP-General Counsel, Senior VP Verizon, and Senior VP and Deputy General Counsel issued a letter to the "Directors and above" managers in Verizon Corporate Staff, Verizon Partner Solutions and Verizon Business on October 19, 2006, emphasizing the importance of complying with Section 272 obligations.

The importance of adhering to all affiliate regulations, including Section 272, was emphasized through corporate-wide emails sent to all employees on July 27, 2005. In order to further explain the rules, a website address was provided to locate Verizon's Affiliate Transaction Policy.

Verizon has a comprehensive program for affiliate transaction and Section 272 training and communication. The Affiliate Transaction Compliance Office (AICO) regularly conducts training sessions by conference call or face-to-face sessions targeted toward Section 272 employees and others interfacing with the Section 272 affiliate. AICO maintains up-to-date training materials that cover an overview of the Telecommunications Act of 1996 and related FCC rules; identification of the Section 272 affiliates; the consequences of non-compliance with the rules; the structural, accounting and nondiscriminatory compliance requirements; information sharing; and joint marketing. Training efforts begun shortly after the passage of the Telecommunications Act on Section 272 and have continued through 2006. During 2005 and 2006, at least 3,000 employees attended training sessions sponsored by the affiliate organization."

2. We inquired of management and documented in our working papers the processes and procedures followed by the Verizon BOC/ILEC used to provide information regarding the availability of facilities used in the provision of special access service to its section 272 affiliates, BOC and

other BOC affiliates, and nonaffiliates for each state where the Verizon BOC/ILEC has been authorized to provide in-region interLATA services. We noted no differences in the provision of information to the various parties.

We inquired of management whether any employees of the section 272 affiliates or other affiliates have access to, or have obtained, information regarding special access facilities availability in a manner different from the manner made available to nonaffiliates (e.g., direct calls, placed prior to ordering, from the section 272 affiliates or BOC account managers to employees who may have facilities availability information). Management indicated that it is not aware of any such instances.

3. We requested of management written methodology followed by the Verizon BOC/ILEC to record time intervals for processing orders (for initial installation requests, subsequent requests for improvement, upgrades or modifications of service, or repair and maintenance) provisioning of service and performing repair and maintenance services for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates for the services described in Procedure 4 below. Management provided the following:

> *"Verizon documents the time interval for the installation and repair of special access services using the information captured by the appropriate systems that process the installation and repair of access services and by using established business rules.*
>
> *The business rules utilized by Verizon for the special access services are the business rules associated with the service quality reports required by the Service Quality Measurement Plan for Interstate Special Access Services in Appendix G, Attachment A to the Verizon MCI, Inc. Merger Order released by the FCC on November 17, 2005. Copies of the business rules are provided in the Verizon's 2005/2006 Section 272 Agreed-upon Procedures (AUPs). Verizon uses the same business rules to provide the same metrics for the special access services described in Procedure 4.*
>
> *Installation*
>
> *The methods used to document the installation intervals are based on the information contained in the systems and timestamps that Verizon utilizes as part of the Access Service Request (ASR) process used for carrier orders. Verizon systems automatically record the two time stamps used to compute the installation interval. These time stamps are: (1) the "Clean ASR Date" or "Application Date"; (2) the "FOC Returned Date"; and (3) the "Completion Date".*
>
> *The Application Date is determined mechanically when Verizon has enough information via the ASR process to begin processing the carrier order for access service. The Application Date is automatically time stamped by ACCORD or EXACT upon receipt of a clean ASR.*
>
> *The FOC Returned Date is determine mechanically when Verizon returns an estimated completion date for the requested access service(s). The FOC Returned Date is captured by ACCORD or EXACT upon return of the FOC to the customer.*

For the Application Date and the FOC Returned Date, ACCORD is used in CT, MA, ME, NH, NY, RI and VT and EXACT is used in DC, DE, MD, NJ, PA, VA and WV.

The Completion Date is captured by WFA. All of the 271-approved states used WFA

Repair

The methods used to document the repair intervals are based on the information contained in the systems and date/time stamps that Verizon utilizes as part of the trouble report process used for carrier trouble ticket administration. These time stamps are: (1) the "Date/Time Received" and' (2) "Date/Time Cleared".

The Date/Time Received and the Date/Time Cleared are captured by WFA
All of the 271-approved states used WFA."

We also obtained the 272 PIC Interval Data Retrieval Procedures that provides documentation of the Business Rules used to measure the average time of carrier-initiated PIC change requests for the 272 affiliates, non 272 affiliates, and non-affiliates processed in XEA.

4. We requested and obtained from management, for each state where Verizon has been authorized to provide in-region interLATA services, the performance data maintained by each Verizon BOC/ILEC during the Engagement Period, by month. These reports indicate Firm Order Confirmation (FOC) Timelines, Percent Installation Appointments Met, New Installation Trouble Report Rate, Failure Rate/Trouble Report Rate, and Average Repair Interval/Mean Time to Restore for the section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates, as separate groups. We requested performance data reports for the following service categories:

- Exchange access services as submitted through an Access Service Request ("ASR") for DSO, DS1, DS3 and above, as individual groups. For the BOC and other BOC affiliate group, exchange access measurements should cover services provided to end users on a retail basis and services provided to affiliates on a wholesale basis.

- Presubscribed Interexchange Carrier ("PIC") change orders for intraLATA toll services and interLATA services.

The performance reports provided by management are included in Attachment A-3.

We noted that the performance reports provided by management included the calculated denominators, results, means and standard deviations (where appropriate) for the following performance measures:

- Firm Order Confirmation (FOC) Timeliness
- Percent Installation Appointments Met
- New Installation Trouble Report Rate
- Failure Rate/Trouble Report Rate
- Average Repair Interval/Mean Time to Restore
- Average Time of PIC Change

We noted that with the exception of the Average Time of PIC Change performance reports, the performance results for the state of Connecticut were aggregated with the state of New York.

We examined the performance reports provided by management and noted instances where fulfillment of requests from nonaffiliates took longer than for either the section 272 affiliates or the BOC and other BOC affiliates. We provided such instances to management and management provided the following response as explanations where fulfillment of requests from nonaffiliates took longer than for either the section 272 affiliates or the BOC and other BOC affiliates:

> *"Primary Interexchange Carrier (PIC) Measures*
>
> *Verizon processes carrier-initiated PIC transactions (mechanical batch submissions) using the same systems and procedures for all carriers; there is no manual intervention when processing incoming files that could affect the processing interval. After the incoming files are processed and a series of edits and updates are applied however, a small number of the individual transactions may fall out for manual processing. Those transactions also are processed in a non-discriminatory fashion, using a first-in-first-out methodology, so that all valid PIC transactions are sent to the switch for implementation.*
>
> *Verizon has reviewed the monthly PIC change performance for each state. There are instances where the interval is either longer or shorter for non-affiliates and these variations among states and from month-to-month are expected. Batch runs come in at different times during the day and files are of different lengths. As all carriers have been informed, these variables influence the processing time that is measured for this interval. There is no pattern or trend in the 2005 or 2006 data in any state that would suggest further investigation is warranted to explain differences in intervals between affiliates and non-affiliates.*
>
> *Special Access Measures*
>
> *As required for this audit, Verizon submitted results for 14 jurisdictions, for 24 individual months for a range of special access products (DS0, DS1, and DS3 and above). In total, 11,780 metric data points were reported across the 14 jurisdictions. Although some data suggest higher performance percentages or shorter intervals for Section 272 affiliates, than for non-affiliates, there are at least two reasons negative inferences cannot be drawn from the data. First, across most states, the data reflect relatively low volumes of special access orders from Section 272 affiliates. Second, the performance measures reflect data and circumstances that mask reasons for the different results.*
>
> *Of the 11,780 individual results, 4,557 were for non-affiliates, 3162 for non-272 affiliates, and 4,126 were for 272 affiliates; 1,593 of the 272 affiliate results were in months and states with fewer than ten 272 affiliate transactions. Most of the occurrences of ten or more installation or repair results for 272 affiliates were for DS1 service. In those states and months where the Section 272 affiliate had fewer than ten transactions per month per state for a product category, any comparison to the results for non-affiliates is of limited or no statistical value. In the months with slightly higher volumes, there was no observable pattern of higher performance percentages or longer intervals for non-affiliates in comparison to Section 272 affiliates. As would be expected, for each month there is variation between the Section 272 affiliate and non-affiliate results. The data*

reflect expected statistical variations and, as explained below, differences in user characteristics for each transaction.

Verizon's BOCs/ILECs have established and follow practices, procedures, and policies to fulfill requests from unaffiliated entities for exchange access services within a period no longer than the period in which they fulfill similar requests for the same exchange access services to their affiliates. For firm order confirmation (FOC) performance for special access, there were no trends where 272 affiliates were consistently receiving better service or shorter intervals than non-affiliates in states and months where volumes were sufficient for a meaningful comparison.

For special access (DS1) installation and repair, in states where there were more than ten 272 affiliate transactions, there were instances where "On-Time" performance for the Verizon BOCs/ILECs appeared to be higher than non-affiliates or where 272 affiliate entities appeared to receive shorter repair intervals for exchange access services than non-affiliates received. Verizon's analysis, however, shows that these results are due to the way that the data were aggregated in the audit rather than to any discriminatory treatment. The data mask differences between affiliates and non-affiliates in the types of customer orders, types of underlying facilities, and types of troubles reported. When the data are disaggregated to compare performance in like circumstances, the results no longer reflect significant differences between affiliates and non-affiliates.

There are several reasons that negative inferences should not be drawn from the special access installation and repair results, including but not limited to variations in technology and routes on specific requests for service; customer behavior not within Verizon's control; differences in underlying facilities for the circuits ordered; and the nature of troubles reported on the circuits. Special access services are unique services and any particular service installation request or reported trouble can potentially be very different from another request or trouble. Due to the very high volume of non-affiliate orders, Verizon did not analyze all of the potential combinations of possible factors affecting special access performance results for all states, for all service categories, for all months to address several likely causes of the differences.

Percent Installation Appointments Met (PIAM)

For special access DS0, DS1, and DS3 service categories where at least 10 installations occurred in a month, there were instances where Verizon 272 affiliates appeared to receive a higher percentages of installation appointments met by the established due date. There were even more instances, however, where non-affiliates appeared to receive a higher percentage of installation appointments met by the established due date than affiliates received. These variations in performance between affiliates and non-affiliates from state-to-state and from month-to-month are expected and are due to the way data were aggregated in the audit rather than to any discriminatory treatment. The data mask differences between affiliates and non-affiliates in the types of customer orders, types of underlying facilities, and types of troubles reported. When the data are disaggregated to compare performance in like circumstances, the results no longer reflect significant differences between affiliates and non-affiliates

Customer Trouble Report Rate (CTRR)

For special access DS0, DS1, and DS3 service categories where at least 10 troubles occurred in a month, there were instances where Verizon 272 affiliates appeared to have a CTRR performance that was better than Verizon's CTRR performance for non-affiliates. Verizon also noted a number of instances where non-affiliates appeared to receive better CTRR performance than Verizon's affiliates received. These variations in performance between affiliates and non-affiliates from state-to-state and from month-to-month are expected and are due to the way data were aggregated in the audit rather than to any discriminatory treatment. The data mask differences between affiliates and non-affiliates in the types of customer orders, types of underlying facilities, and types of troubles reported. When the data are disaggregated to compare performance in like circumstances, the results no longer reflect significant differences between affiliates and non-affiliates.

For example, much of the difference in DS1 performance is due to a higher percentage of 272 affiliate DS1 service being on fiber versus copper based loop facilities. The technology (copper or fiber) utilized to provision circuits is dependent upon the specific route and nature of the special access service. Affiliates more often order backbone, network infrastructure circuits where fiber facilities are in place. In contrast, non-affiliates more often order special access circuits that terminate at a remote end user location served by copper facilities. DS0 circuit loops are always provisioned on copper, while DS3 loops must be provisioned on fiber because of technology limitations. DS1 loops can be provisioned on either copper or fiber.

Fiber loops tend to experience trouble less often and the required repair more often can be done at the central office or at a customer premises, as opposed to on a pole line or in an underground facility, as is often the case with copper facilities. Moreover, circuits provisioned over fiber optic facilities typically can be restored more quickly than those on copper facilities. Facility troubles on copper many times must be referred to multiple work groups for resolution and often require dispatches to several outside work groups such as Special Services repair and construction. Interdepartmental team conference calls often are required to resolve these issues. Multiple dispatches and interdepartmental coordination are less likely to be required for a circuit provisioned over fiber. Copper facilities also typically are more prone to plant operating errors in the field, such as crossing up terminals at a cross-connect box, which can require a dispatch to clear, resulting in longer repair intervals. Fiber loops usually are segregated or independent from copper facilities and are more protected from these types of inadvertent errors in the field.

Finally, connectivity to network elements for remote testing has been greatly improved on fiber, whereas on copper facilities, remote testing is more challenging. Fiber technology is, by design, more dependable than copper. For example, survivability features, redundant designs and SONET technology typically give fiber facilities a lower failure rate and a shorter average repair interval than copper.

Average Repair Interval/Mean Time to Restore (MAD)

For special access DS0, DS1, and DS3 service categories where at least 10 troubles occurred in a month, there were instances where Verizon 272 affiliates appeared to have a MAD performance that was better than Verizon's MAD performance for non-affiliates. There were even more instances, however, where non-affiliates appeared to receive a better MAD performance than Verizon affiliates received. These variations in performance between affiliates and non-affiliates from state-to-state and from month-to-month are expected and are due to the way data were aggregated in the audit rather than to any discriminatory treatment. The data mask differences between affiliates and non-affiliates in the types of customer orders, types of underlying facilities, and types of troubles reported. When the data are disaggregated to compare performance in like circumstances, the results no longer reflect significant differences between affiliates and non-affiliates. MAD performance differences between 272 affiliate and non-affiliates for various service types occur for reasons similar to those described with respect to CTRR differences.

New Installation Trouble Report Rate (NITR)

For special access DS0, DS1, and DS3 service categories where at least 10 installations occurred in a month, there were instances where Verizon 272 affiliates appeared to have NITR performance that was better than Verizon's NITR performance for non-affiliates. Verizon also noted a number of instances where non-affiliates appeared to receive better NITR performance than Verizon's affiliates received. These variations in performance between affiliates and non-affiliates from state-to-state and from month-to-month are expected and are due to the way data were aggregated in the audit rather than to any discriminatory treatment. The data mask differences between affiliates and non-affiliates in the types of customer orders, types of underlying facilities, and types of troubles reported. When the data are disaggregated to compare performance in like circumstances, the results no longer reflect significant differences between affiliates and non-affiliates. For example, in 155 of the 246 instances of what appeared to be better 272 affiliate performance, the 272 affiliate had 0 New Circuit Failures for an average of 30 orders installed per month, while the non-affiliate had considerably more installations and NCFs for the same period. This data displays the granular, sensitive nature of the NITR metric, as it is applied in low volume situations.

Firm Order Confirmation Timeliness (FOCT)

For special access DS0, DS1, and DS3 service categories where at least 10 Access Service Requests ("ASRs") were received in a month, there were instances where Verizon 272 affiliates appeared to receive better FOCT performance than non-affiliates received. There were even more instances, however, where non-affiliates appeared to receive better FOCT performance than Verizon affiliates received. These variations in performance between affiliates and non-affiliates from state-to-state and from month-to-month are expected and are due to the way data were aggregated in the audit rather than to any discriminatory treatment. The data mask differences between affiliates and non-affiliates in the types of customer orders, types of underlying facilities, and types of troubles reported. When the data are disaggregated to compare performance in like *circumstances, the results no longer reflect significant differences between affiliates and non-affiliates.*

This analysis of the audit data is consistent with the fact that Verizon's systems and procedures are designed to treat affiliate and non-affiliate requests on a non-discriminatory basis. The data do not demonstrate that the Verizon BOCs/ILECs fulfill requests from unaffiliated entities for exchange access services, including both initial provisioning and subsequent repair, within a period that is longer than the period in which they fulfill similar requests for the same exchange access services to their affiliates."

We also requested of management a linear graph for each state, for each performance measure, for each service, over the entire Engagement Period, depicting the performance for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates. The linear graphs provided by management are included in Attachment A-4.

5. For the randomly selected month of June 2005, we requested the underlying raw data and data file layouts, data documentation, data dictionaries and regulatory guidelines needed to replicate all the metrics for June 2005 selected for all states where Verizon has obtained authority to provide in-region interLATA services. We applied the business rules for all stages of the performance metric computation including definitions, exclusions, calculations, and reporting structure, where appropriate. We developed code to compute the denominator, numerator, performance and standard deviations (where applicable).

   After processing the data we ran comparisons between our replicated results and the results reported by Verizon for June 2005 in all states where Verizon has obtained authority to provide in-region interLATA services. A detailed listing of all differences is included Attachment A-5.

6. We inquired of management how and where the Verizon BOC/ILEC makes available to unaffiliated entities information regarding service intervals in providing any service to the Section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates.

   Through our inquiry, we noted Verizon uses standard minimum provisioning intervals for certain access services when facilities are available and when the customer requests less than a specified maximum quantity of access services. For other access services or for quantities of access services above the maximums specified by Verizon, intervals are negotiated on a case-by-case basis.

   Verizon makes available to all access customers a schedule that specifies the access services and quantities of services that can be provided in standard minimum provisioning intervals. A copy of this schedule is made available to any access customer upon request and all carrier customers can obtain this schedule via access to the Verizon wholesale website. Also, customers can obtain information about these intervals by discussing the schedule with Verizon Account Managers and/or Verizon Customer Service Representatives.

   Verizon does not routinely make available to unaffiliated entities information on service intervals in providing service to Section 272 affiliates, other affiliates, and non-affiliates. The Company's procedures address requests from individual entities for BOC service actually experienced interval data on a case-by-case basis. Information requests of this nature enter the business through various channels (e.g. account manager, Verizon Partner Solutions Centers, legal, or senior management). Once the request is identified regulatory is notified. Regulatory, in turn, contacts the business owner to aggregate information pertinent to the request using the Company business rules identified for Section 272(e)(1) reporting. This response, limited to data consistent with the Company's current obligations under regulation, is provided in a timely manner to the requesting party.

We inspected the Verizon wholesale website and noted a schedule which provides information on access services and quantities of services and corresponding standard minimum provisioning intervals.

<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.

1. We obtained a list of exchange access services and facilities with their related tariff rates offered by the Verizon BOC/ILEC to each section 272 affiliate as of September 30, 2006.

   We requested brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of exchange access services and facilities. Management indicated that the informational media used to inform carriers of the availability of these services includes industry letters, Account Team Contacts, Cost Allocation Manual ("CAM"), the Verizon Wholesale Markets website, the Tariffs website, and the section 272 Affiliate website.

   We found that the industry letters were available via the Verizon Wholesale Markets website. We also noted that hyperlinks to the tariffs are available through the Verizon Wholesale Markets and the section 272 affiliates' websites. The hyperlinks lead to the identical web page containing the tariffs. The related tariffs include the rates, terms and conditions for exchange access services and facilities provided by the Verizon BOC/ILEC.

   We inspected all forms of the informational media used to inform carriers of the availability of exchange access services and facilities and noted that the specific services are priced pursuant to the same tariffs as each section 272 affiliate. We noted that both affiliates and non-affiliates are directed to the same websites.

2. a). For the randomly selected months of February 2006, May 2006, and June 2006, we requested and obtained a listing of all exchange access services and facilities (Universal Service Order Code ("USOC")/class of service) rendered to the section 272 affiliates. From this listing, we identified the 9 exchange access services/facilities billed to section 272 affiliates with the highest billing volume in dollars (based on accumulated billing to all section 272 affiliates). We randomly selected one service from the remaining services.

   For each of the 10 services, we noted that the USOC/class of service was also rendered to unaffiliated third parties, and that the dollar amount of billing for such service to third parties was greater than 25% of the total quantity of such service sold by the BOC/ILECs. We also noted that at least one of the unaffiliated third parties purchasing such service was an InterLATA service provider.

   We inquired of management as to which billing system(s) the BOC/ILEC(s) use to bill each of the services selected. Management indicated that the Carrier Access Billing System ("CABS") is used to bill the 10 services selected. We noted that the same billing system is used to bill both section 272 affiliates and other IXCs.

   (1) We inquired and obtained from management the BOC/ILEC procedures for ensuring that the applicable tariff or agreement rate is billed to both the section 272 affiliate and nonaffiliates. Management indicated the following:

> *"There are no specific procedures taken by the BOC/ILEC for ensuring that the applicable tariff or agreement rate is billed to both the section 272 affiliate and nonaffiliates. There are no specific practices that are required to ensure that the billing system bill the section 272 affiliate and nonaffiliated at the same rates and under the same terms and conditions. The CABS billing system does not differentiate between the section 272 affiliate and nonaffiliated; the same billing procedures are applied to the section 272 affiliate and nonaffiliated in a like manner."*

Management indicated that due to the high volume of rates relating to the 10 USOCs selected, it would not be possible to provide all of the applicable rate tables. As such, we identified a population of service transactions relating to each of the 10 USOCs and randomly selected 1 transaction relating to each. For each service transaction selected, we obtained the billing system rate tables, compared rates to the current tariff or agreement and noted the following:

- For 6 out of 10 selections, the rate in the rate table agreed to the rate reflected in the current tariff.

- For 3 out of 10 selections, the rate in the rate table was $0.00 and was not included within the current tariff.

- For 1 out of 10 selections, the rate in the rate table could not be located within a tariff or agreement.

As the CABS billing system does not differentiate between section 272 affiliates and nonaffiliates, we noted that each of the rates applicable to the services selected were billed equally.

We inquired and obtained from management a narrative for updating the CABS rate tables for the Test Period. We inspected this document and noted that it contained information surrounding updating the rate tables. The narrative of the BOC's procedures is as follows:

> *"Verizon West rate changes are initiated by the Regulatory Agency (Federal (FCC) or State (PSC or PUC)) or Product Line Management (PLM). When a rate adjustment for an Access product is initiated, the Service Cost team prepares the rates and forwards to the PLM team and Tariff Group to develop tariff language and prepare the draft tariff documentation for review and approval by the Verizon Regulatory organization. For Annual/Price Cap rate changes, the Price Cap Group (PCG) prepares a "grocery list" of rate changes and forwards to the Tariffs Group. The Tariffs Group works with the PCG and designated product manager to revise the grocery list and/or the Price Cap Model. The tariff Group finalizes the tariff document and forwards to the Verizon Regulatory organization. The tariff document is reviewed by the Verizon Regulatory organization and upon acceptance, the tariff documentation is finalized and forwarded by Verizon's Regulatory organization to the appropriate Regulatory agency for approval. The Regulatory Agency communicates approved or rejected tariff package status to the Verizon Regulatory organization*

that initiated the request, who in turn notifies the Tariff Group and PLM. Details of denials are corresponded to the Verizon Regulatory organization, by the agency denying the request, for resolution and resubmittal.

The Tariff group notifies the Data Management Tariff Team (DM) of the tariff filing and effective date once acknowledgement is received from the Regulatory organization. The DM retrieves the tariff information from the FCC's web site in order to proceed with the rate table update request. DM forwards the approved rate information to the appropriate Switched or Special access team. In the West, Switched Access requests are forwarded to the 3U team and the Bill Verification Team, and Special Access rate updates are handled by the 1T team. For Switched Access requests, the 3U team performs the rate updates to the Usage Rate Element table. This table provides rating instructions to the application programs for billing purposes. Rates are date-sensitive and provide calculations required to manipulate minutes and messages. For detailed information see the Wholesale Billing Operations Website and refer to Work Instruction - 9.7.401 entitled 3U - Rate Change to 3U Database. 3U team members review rate request and scan the new tariff for changes to usage rates, per minute rates, query changes, banded mileage rates, and per call charges. A comparison of the pending tariff rate specified on the tariff document to the rates on the existing tariff document is made and appropriate rate updates made to the 3U datasets. The end dates for the current and new dataset are adjusted to ensure that billing is triggered on the effective date of the new tariff.

Once input files are created, the 3U team executes a series of table edit functions to check for header information, duplicate records, consistent start and stop dates, record types, missing data, incorrect Zone information and other formatting problems to determine if system errors exist. If errors exist, error reports are produced and the necessary corrections are made to the dataset record(s). Error Correction guidance can be found on the XC305A Usage Rate Element Update Report and XC337A 3U Rate Element Targeting Error Report. Once system edits are passed, the 3U team member creates a Second Source Report and forwards to another 3U team member for Second Source verification. The Second Source team member reviews report to verify that changed rates and effective dates match the provided copy of the tariff, and that the changed rates compare to the number of records changed. If no problems are encountered, the Second Source Verifier signs the report and returns it to the 3U team originating member. Otherwise, issues are written on the report and returned to the originating team member for correction and reprocessing through the CABS rate update process. Once the rate tables have been updated for the region, the DM Team is notified and the Second Source Report is filed in the Tariff Room.

The Special Access 1T tariff team is responsible for the Universal Service Order Codes (USOCs) rate table and pertinent information associated with each code for the purpose of billing a customer. As orders are entered into CABS for completion, the table interfaces with the Service Order Subsystem to validate and rate the service and equipment on the order. For detailed information see the Wholesale Billing Operations Website and refer to Work Instruction - 9.7.310 entitled 1T Database Procedures. The 1T Team Member develops input data *files that contain the required database updates. The input data files are tested to ensure that all system edit requirements have been satisfied. The input files are run in a production like environment to ensure they will pass the various system edits. Any inconsistencies or invalid data is corrected and resubmitted. The Tariff, input data file, and 1T Second Source Report are forwarded to the Second Source Verifier for verification and comparison of the input data to the original request for accuracy of the bill impacting data. If errors are detected they are noted on the error correction form and returned to the originating team member for correction. Once the detail of the input files has been accepted, the Second Source Verifier updates the applicable fields of the 1T Second Source Report and returns all documentation to the 1T originator. The 1T originator installs the updates, signed off by the Second Source Verifier, into the production database. If accounts exist on the customer database that would be impacted by the updates, a rate change utility is then processed to convert them to the new rate. A Rate Change Report is generated via this utility.*

The Rate Change Report lists all accounts, circuits, USOCs/classes of service, etc. in the billing database that are impacted by the new rates. It provides old and new rates, new Monthly Recurring Charges (MRCs) and Other Charges and Credit (OCC) amounts. Verifications of changes are done on a reasonable sample of accounts from the USOCs/classes of service that were impacted utilizing the volume and complexity of the rate change to determine the sample size (If there are only 10 accounts/bills affected, they will do all. If there are 10,000 bills affected and it is a "simple" change, will do 10 out of 1000. If it is a complex change and large volume, may increase to 100 out of 1000). An e-mail is sent to the Bill Verification Team to conduct random check on bills to validate new rates with OCCs. Once the tables have been updated, the DM Team is notified and all supporting documents are filed on site. Once the Bill Verification Team receives the email notification of the rate change from the 3U Team. The Billing Controls Team validates the OCC calculations and verifies the OCC amount on the bill. Bill verification is a post bill process, performed by the Billing Controls Team (Finance), to detect any anomalies that would impact a significant number of bills and/or have a significant revenue impact. The basis of selection is one bill per state per feature group for Switched Access. Bills and verification reports are automatically printed and delivered to the designated personnel at their respective printout drop station after each bill pull.

The Billing Controls Team (Finance) logs new tariff rates for the applicable entity on the Tariff Reference Sheet. This sheet is a spreadsheet updated and maintained by the Billings Controls Team and used in the verification process. Printed bills and verification reports are retrieved and matched to the Checklist to ensure that all items were received. Printed bills and verification reports are retrieved and matched to the Checklist to ensure that all items were received. The appropriate bills are retrieved and the Switched Access rate change verification process is followed for Switched Access Requests. For Switched Access rate changes, verification involves preliminary checks on jurisdiction confirmation, and validation that transport minutes agree with minute totals on other elements to ensure that the correct reports are being used. The rates for the applicable end offices are verified to ensure that the most current rates are *being used. Once the rates are validated, the bill verification procedures outlined in the work instructions for the given change are conducted for the remainder of the bill. If the rates do not match, the 3U Team Member is contacted to determine if a CAR (Corrective Action Report) should be submitted to rectify the discrepancies.*

Verizon East rate changes are initiated by the Regulatory Agency (Federal (FCC) or State (PSC or PUC)) or Product Line Management (PLM). When a rate adjustment for an Interstate product is initiated, the PLM opens an IT initiative requesting resources and funding required to implement the changes. Intrastate requests are initiated via an Electronic Product Tracking Request (EPTR). The EPTR notifies downstream organizations of a pending filing and it authorizes the required work to be performed. Annually, the CABS filing IT liason, reviews the "grocery list" of pending Price Cap rate changes. In addition, a Conceptual Initiative Definition (CID) may be required if more extensive system changes, such as restructuring or implementing a state Subscriber Line Charge (SLC) or Primary Interexchange Carrier Charge (PICC). For Annual/Price Cap rate changes, the Price Cap Group (PCG) prepares a "grocery list" of rate changes and forwards to the Tariffs Group. The Tariffs Group works with the PCG and designated product manager to revise the grocery list and/or the Price Cap Model. The Tariff Group prepares the draft tariff package and forwards to the PLM for review. PLM approved rate requests are forwarded to the Verizon Regulatory organization for further review. Verizon's Regulatory organization, discusses and resolves issues with the Tariff Group. Once accepted, the Verizon Regulatory organization files the tariff with the appropriate Regulatory Agency for approval.

The Regulatory Agency communicates approved or rejected tariff package status to the Verizon Regulatory organization that initiated the request, who in turn notifies the Tariff Group and PLM. Regulatory Agency discusses any denials with Verizon's Regulatory Organization, who communicates issues with the appropriate Verizon organizations for resolution of issues encountered with the filing. Notification of approved tariffs are forwarded to the CABS Administrations team and the CABS IT team within one day of the filing to ensure that it is processed by the effective date. The CABS Administration team prepares a modification specification document based on the rate changes, and forwards it to the CABS IT group for review and table updates. The CABS Administrations team verifies the IT billing changes, made by the designated IT organization, and upon acceptance, finalizes and signs off on the specification document. Once the table updates have been made, PLM performs the required Interstate or Intrastate billing verifications for Switched Access. The PLM compares a sample of the pending bills to the revised tariff rates to ensure that the rate changes were accurately captured. Bill verification for Intrastate rate Changes are preformed by PLM. PLM reviews a sample of the pending Customer Service Records (CSRs) and bills to verify that the rate changes are accurate, before the changes are implemented, to ensure that the customer will be billed correctly".

(2) We inquired, obtained from management and documented in the workpapers the practices and processes the Verizon BOCs have 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. Management indicated that the CABS billing system does not differentiate between the section 272 affiliate and nonaffiliated and the same billing procedures are applied to the section 272 affiliate and nonaffiliated in a like manner.

Additionally, we documented in our workpapers the BOC internal controls and procedures designed to ensure non-discriminatory billing (for CABS), including a description of controls in place for overseeing the system.

For CABS (UNE-P Services), we obtained information relating to the controls surrounding rate table updates, nondiscriminatory billing and revenue recording. We noted that each of these controls exist and apply equally to both the section 272 affiliates and nonaffiliates.

With respect to revenue recording controls, we inquired and obtained information surrounding the controls in place for recognizing and recording when the billed amount is actually paid. We obtained documentation of the controls relating to CABS. As noted above, this system is used by each BOC to bill the UNE-P Services. We inspected the information provided and noted that it addresses the process for recording revenue. With respect to revenue recording, management indicated the following:

> *"The CABS Journal Subsystems and the CABS Remittances Subsystems are the systems that contain the controls that are in place for recording billed amounts as revenue and recognizing when the billed amounts are actually paid. Both systems controls were obtained from the following URL on Verizon's corporate intranet (http://bhapps01.verizon.com/apps3/kevtemp2.nsf?OpenDatabase). The controls are applied to 272 affiliates and non-affiliates in a like manner. Hence, there are no additional practices that are used to ensure that the billing system will bill the section 272 affiliate and non-affiliate carrier the same rates under the same terms and conditions".*

A summary of the revenue recording process provided is as follows:

> *"Overview*
>
> *The Journals subsystem is designed to process all charges, payments, adjustments, taxes, and accruals for eventual input into the PeopleSoft system.*
>
> *Journal transactions are collected from various CABS processes, including but not limited to the following processes:*
>
> - *Accounts Receivable*
> - *Adjustments*
> - *Billed Unearned Accruals/Earned Unbilled Accruals/Reverse Accruals*
> - *Billing Revenues (recurring and non-recurring)*
> - *Holding Account Payments*
> - *Interest*
> - *Remittances, Remittance Application (invoice Payments)*
> - *Security Deposits*

- *Taxes*
- *Transfers*

Journals Procedures

The CABS Journals subsystem interfaces with the RCABS and PeopleSoft. The procedures associated with these interfaces are described below.

Control Information

The Journals process uses internal tallies to ensure that all transactions received are journalized, correctly classified, and in balance when the records are passed to PeopleSoft. The internal tallies also ensure that amounts reported equal amounts passed.

The following tallies and balancing activities are included in the Journals process:

- *A balance routine is performed in XRU00J04 (Activity Balancing) to ensure that debits and credits sum to zero for each IDC, State, and Revenue Type combination within an event.*

- *If an event is in balance, a tally is taken in XRU00J04 (Activity Balancing) which tallies the total debit amount for the event.*

- *A balancing function is performed in XRU00J03 (Compare Debits And Credits) which compares balanced Incidence records against the event tally taken in XRU00J04 (Activity Balancing). The Incidence records are compared in XRU00J03 to ensure that the event balances by IDC, State, and Revenue Type; header debit plus header credit equal zero; Incidence debit plus Incidence credit equal zero; the sum of Incidence debit equals header debit and the sum of Incidence credit equals header credit.*

- *An accrual tally is taken in XRU0J200 (Verify/Summarize/Post) that tallies all BUE and EUB activity for the current processing month. The tally is accessed in XRU00J03 (Compare Debits And Credits) to compare the accrual amount posted in the prior month against the amount reversed in the current month.*

- *A monthly tally is taken in XRU0J200 (Verify/Summarize/Post) that tallies the debit amounts for all events processed for the month. The tally is compared in XRU0J300 (Create Monthly CABS File). The summarized month-end records are compared against the monthly tallies to ensure that IDC, State, Month, and Year balance.*

- *A tally is taken in XRU05300 (Earned Unbilled Rating) for all earned unbilled processes for the month. The tally counts all SAL BAN rows being processed and compares it with SAL rating to ensure that all SAL USOCs for the BAN have been processed."*

b). For the months of February 2006, May 2006, and June 2006, we requested and obtained from management, the billing records billed to section 272 affiliates for each of the 10 services (USOCs) identified in step a) above. The billing records were for all BOC/ILECs and all states. For each USOC, we randomly selected 3 billing transactions from each month within the billing records, for a total of 90 billing transactions.

(1) For each of the 90 billing transactions selected, we compared the rate applied in the billing records to the rate reflected in the rate tables and noted the following:

- For 75 out of 90 billing transactions, the rate applied in the billing records agreed to the rate identified in the rate table.

- For 13 out of 90 billing transactions, the rate applied in the billing records was $0.00 and was not listed in the rate table.

- For 1 out of 90 billing transactions, the rate applied in the billing records was $0.00, however, the rate table identified multiple rates. Management indicated that for the specific service, disconnected circuits generated a rate of $0, therefore the appropriate rates identified in the rate tables could not be applied.

- For 1 out of 90 billing transactions, the rate applied in the billing records was $0.00. We reviewed the rate tables and did not identify a rate for the specific state, Pennsylvania, in which the USOC service was provided. Management indicated that the USOC "RJ48C" (jack) is a non recurring charge, therefore it does not bill at an applied rate month over month.

(2) We requested and obtained from management, relevant documents and records for each of the 90 billing transactions which supported the following:

- The amount paid by 272 affiliate
- The amount recorded by BOC/ILEC (when the invoice was issued)
- The amount recorded by BOC/ILEC (when the payment was received)

We compared the amount recorded by BOC/ILEC (when the invoice was issued) to the amount paid by the section 272 affiliate and noted the following:

- For 44 out of 90 selections, the amount billed and recorded by the BOC/ILEC agreed to the amount paid and recorded by the section 272 affiliate.

- For 45 out of 90 selections, the amount billed and recorded by the BOC/ILEC did not agree to the amount paid and recorded by the section 272 affiliate.

- For 1 out of 90 selections, the amount billed and recorded by the BOC/ILEC did not agree to the amount paid and recorded by the section 272 affiliate. Management indicated that the section 272 affiliate paid for two invoices and received credit for both against one invoice. Subsequently, a portion was moved to pay the second invoice. We reviewed the second invoice and noted that the difference originally noted between the amount recorded by the BOC/ILEC and the amount paid by the affiliate agreed to the amount the affiliate paid to the BOC/ILEC for the second invoice.

We compared the amount recorded by the BOC/ILEC, (when payment was received from the section 272 affiliate) to the amount paid by the section 272 affiliate and noted the following:

- For 85 out of 90 selections, we noted the payment agreed to and was properly recorded by the BOC/ILEC.
- For 5 out of 90 selections, management was unable to provide supporting documentation to identify the invoice amount recorded and the payment received by the BOC/ILEC. Management indicated that the invoices were not recorded by BOC/ILEC and the payments for these invoices were not reflected in BOC/ILEC's system.

(3) We obtained the section 272 affiliates' general ledgers, the accounts payable register and payment vouchers for each of the 90 billing transactions. We identified the amount recorded by each section 272 affiliate and the amount paid by each section 272 affiliate. We compared these amounts and noted no difference.

c). Management indicated that there are no billing systems used by the BOC/ILECs 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.

d). Based on the response to step c). above, step d). is not applicable.

<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.

1. We obtained a list of interLATA services offered by the Verizon BOCs. This list consisted of the following services: Gateway Access Service ("GAS"), E911 InterLATA Service ("E911"), International/National Directory Assistance Service ("IDA/NDA"), Customer Name and Address Service, and Call Management Signaling Service ("CMSS"). We discussed the list with the appropriate Verizon BOC employee who indicated that the list was comprehensive.

   We compared the services appearing on the list with the interLATA services disclosed in the Verizon BOC's Cost Allocation Manual ("CAM"). We compared the non-regulated interLATA services listed in the Verizon BOC's CAM with those defined as incidental in Section 271(g) of the Act and those interLATA services allowed under FCC Orders. We noted that the Verizon CAM identified the following as incidental interLATA Services:

   - Gateway Access Service
   - InterLATA Directory Assistance Service
   - Call Management Signaling Services

   We also noted that Verizon identified the following as interLATA Informational Services in the Verizon CAM:

   - E911 interLATA Service
   - Customer Name and Address Service.

2. Because the population of interLATA services offered by the Verizon BOCs, and not through an affiliate obtained in Procedure 1 above consists of only the five services listed under Procedure 1, we selected all services for our sample to identify whether the Verizon BOC is imputing (charging) to itself an amount for access, switching, and transport.

   From the population, we selected a statistically valid sample of 95 items. The sampled items included 21 items for Call Management Signaling Services. Management indicated that Call Management Signaling Services does not require imputation because the costs associated with CMSS are identified as nonregulated in the accounting records. Therefore, the procedure was only performed for the remaining 74 items of the four interLATA services: Gateway Access Service (GAS), E911 InterLATA Service (E911), International/National Directory Assistance Service (IDA/NDA), and Customer Name and Address Service.

   For the four interLATA services, we obtained from management the related analyses and a written narrative indicating that the Verizon BOCs were imputing (charging) to themselves an amount for access, switching, and transport. We also obtained usage details and tariff rates.

   For each of the 74 samples, we compared rates used in the imputation studies with the tariff rates and noted following:

Gateway Access Service (GAS)

All the rates used in the imputation studies match the tariff rates.

E911

Five instances where the rates used in the imputation studies do not match the tariff rates.

New Jersey - May 2005 and December 2005

Rates	Channel Mileage Fixed Charge
Tariff rates	$59.64
Imputation rates	$70.34

New Jersey - May 2006

Rates	Channel Mileage Fixed Charge
Tariff rates	$64.26
Imputation rates	$70.34

Pennsylvania - February 2005

Rates	Channel Mileage Fixed Charge	Channel Mileage Per Mile	Channel Termination
Tariff rates	$59.64	$1.45	$85.10
Imputation rates (two set of rates used, one set agrees to the tariff rate, the other set is different as shown)	$70.34	$1.71	$90.44

Pennsylvania - September 2006

Rates	Channel Mileage Fixed Charge	Channel Mileage Per Mile
Tariff rates	$64.26	$1.56
Imputation rates (two set of rates used, one set agrees to the tariff rate, the other set is different as shown)	$59.64	$1.45

InterLATA Directory Assistance Service (IDA/NDA)

All the rates used in the imputation studies match the tariff rates.

Customer Name and Address Service
Two instances where the rates used in the imputation studies do not agree to the tariff rates.

Rhode Island - March 2005 and September 2005

Rates	Fixed Charge Rate
Tariff rates	$29.08
Imputation rates	$36.44

Management indicated that for the differences noted above, the imputation rates used should have been updated with the tariff rates.

For each of the 74 samples, we obtained copies of the related journal entries and general ledger of the Verizon BOC. We traced the amounts of journal entries to the general ledger of the Verizon BOC and noted no differences.

In addition, we noted for each of the 74 samples, the entry was a debit to nonregulated operating revenues (decrease) and a credit to regulated revenues (increase).

3. For exchange access services, local exchange services, and unbundled network elements ("UNE") provided by any Verizon BOC/ILEC to the section 272 affiliates for the last 12 months of the Engagement Period, we obtained the total amount the section 272 affiliates recorded as expense for those services in their books, the amount the section 272 affiliates paid to the Verizon BOC/ILEC, and the amount of revenue reflected in the Verizon BOC/ILEC books:

Total Amount the Section 272 Affiliates Recorded	The amount the section 272 affiliates paid to the Verizon BOCs/ILECs	The amount of revenue reflected in the Verizon BOC's/ILEC's books
$2,044,250,102.42	$2,107,367,991.30	$1,654,787,127.00

Management indicated that the difference between the total amount the section 272 affiliates recorded and the total amount the section 272 affiliates paid was attributed to timing of invoices, when they were recognized, and accruals established by the 272 affiliate. The difference between the amount recorded as revenue by the BOC/ILEC and the amount the 272 affiliate recorded as expense can be attributed to billing disputes, timing of invoices and when they are recognized, and accruals established by the section 272 affiliates. Management also indicated that the BOC/ILEC revenue was lower because it did not include local exchange service coming out of CBSS and CRIS billing systems for the following reason:

> *"Verizon East (fBA) and West (fGTE) records revenue and receivable amounts in its billings systems at a detail customer level. These amounts are summarized at a financial account code level as they pass to the BOC/ILEC's general ledger systems. These amounts are aggregated on the books of the BOC/ILEC's to various FCC USOA accounts. There are internal control functions in place between the billing systems and financial systems to ensure all billed levels are recorded. Receivable collection systems*

maintain currently due and past due balances from customers regardless of whether the customer is an affiliate or not."

<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.

1. We obtained a list of interLATA services and facilities with their related rates offered by the Verizon BOC/ILECs to each section 272 affiliate as of September 30, 2006. Management indicated as it relates to Objective XI of the 2005/2006 section 272 Agreed-upon Audit and section 272 (e)(4) of the Telecommunications Act of 1996, National Directory Assistance ("NDA") service to VLD, GNI, and VSSI is the only InterLATA service and facility offered by the BOC/ILEC to the 272 affiliate. Management also indicated that the NDA rate for the BOC section 272 Agreed-upon Audit and section 272(e)(4) states is $0.50 per event and the ILEC states will be $0.50 per event as of September 30, 2006.

   We obtained from management and inspected brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of interLATA services and facilities. The brochure listed only NDA service and indicates that the service is available to anyone under the same terms and conditions. The brochure for NDA does not mention rates.

   We compared the list obtained from the Verizon BOC/ILECs to the services found in the obtained information media and noted no differences.

   We compared the list obtained from the Verizon BOC/ILECs to the list of interLATA services purchased by section 272 affiliates and obtained in Objective V/VI, Procedure 4 and noted no differences. We compared the list to the list of interLATA services obtained in Objective X, Procedure 1 (after comparison to the CAM). We noted four services found on the list in Objective X, Procedure 1 (after comparison to the CAM) were not listed by management as responses for Objective XI, Procedure I. These four services are:

   - Gateway Access Service ("GAS")
   - E911 InterLATA Service ("E911")
   - Customer Name and Address Service
   - Call Management Signaling Services

   We also noted that in the response to Objective XI, Procedure I, the Directory assistance service is listed as NDA and in the response to Objective X, Procedure 1 (after comparison to the CAM), the Directory assistance service is listed as International/National Directory Assistance Service ("IDA/NDA").

   We noted no interLATA services were offered to any section 272 affiliate which were not covered by any written agreements.

2. In connection with the information media requested in Objective XI, Procedure 1 above, the population of informational media consists of one brochure for the National Directory Assistance service. We obtained and examined the brochure noting no distinction about what is offered to affiliates vs. nonaffiliates. The brochure indicates the service is available to anyone under the same terms and conditions. The brochure for National Directory Assistance does not mention rates.

3. We requested from management a list of all interLATA services and facilities rendered to section 272 affiliates and other inter-exchange carriers ("IXCs") between January 3, 2005 and September 30, 2006 (fMCI section 272 affiliate from January 6, 2006 through September 30, 2006). Management indicated there were no interLATA services and facilities that were rendered to both section 272 affiliates and unaffiliated IXCs between January 3, 2005 and September 30, 2006.

Procedures for Subsequent Events

1. We inquired of management whether companies' processes and procedures have changed since the time of execution of these procedures and the end of the engagement period. Management indicated the following:

   "Management has not identified any major changes to processes and procedures that would have changed the way data would have been provided for the audit, since the time of execution of these procedures and the end of the engagement period."

2. We inquired of and obtained written representation from management 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. Management indicated the following:

   "Management is not aware of any major 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 not otherwise provided to the auditor during the course of the audit.".

   In addition, Verizon notes the following entity changes:

   "On January 31, 2007, Skytel Corp. sold it's assets to a nonaffiliated entity".

   "Verizon's interest in Telecomunicacions de Puerto Rico, Inc., along with its subsidiary Puerto Rico Telephone Company, Inc. was sold effective as of March 30, 2007. With the closing of this sale, Verizon ceased to have any equity interest in Puerto Rico Telephone Company, Inc".

Follow-up Procedures on the Prior Engagement

The following matters were noted in the Verizon Communications Inc. section 272 Biennial Agreed Upon Procedures Report dated June 13, 2005.

A. As part of the reconciliation between the detailed fixed asset listing and the balance sheet, Deloitte noted that for GNI, of 54,783 asset items, 241 assets with a total net book value of $264,489 did not have an asset description. (Appendix A, I-6 in the 6/13/05 report, I-4 in this program)

With regard to whether these matters continued to exist beyond the previous Engagement period, reference Appendix A - Objective I, Procedure 4 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

"Verizon has effective controls in place for maintaining its asset records. For all of the GNI records tested in the prior audit, each had the asset number and location which were needed for the proper accounting for the asset. For the asset description (additional words describing the asset) 99.6% had asset descriptions. The few missing asset descriptions occurred for assets acquired during a relatively rare fixed asset transfer from another Section 272 legal entity and did not have any negative effect on the accounting for these assets. When transfers of fixed assets occur, Verizon's practice is to check the asset descriptions, locations, asset numbers, and asset values before the assets are transferred to another companies records. Employees are continually made aware of the importance of accurate asset records."

B. There were multiple incidents (involving some 14 services) where a Verizon BOC/ILEC provided services to a section 272 affiliate without a written agreement. (Appendix A, V/VI-4a in the 6/13/05 report, V/VI-4a in this program)

With regard to whether these matters continued to exist beyond the previous Engagement period, reference Appendix A - Objective V/VI, Procedure 4a for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

"Verizon included a plan to address these issues in a Consent Decree, and adhered to the controls required in the Consent Decree. [Consent Decree paragraphs 7(f) and 7(g).]

In addition, Verizon continues to provide extensive training and written reminders to its employees on the requirements to document in writing all transactions between ILECs and Section 272 affiliates before the transaction begins. For example, a corporate-wide e-mail was sent to all employees on July 27, 2005 stating the importance of adhering to all affiliate regulations including Section 272. This e-mail emphasized through a statement that prior to the service being provided, a written contract is required. Also, designated Senior Vice Presidents in the legal department issued letters to key managers on October 19, 2006 emphasizing the importance of a written agreement prior to the service being provided."

C. Of 51 sampled items, Deloitte noted 13 instances where internet posting of affiliate transactions took place more than ten days after signing of an agreement or provision of a service (whichever took place first). (Appendix A, V/VI-5 in the 6/13/05 report, V/VI-5 in this program)

With regard to whether these matters continued to exist beyond the previous Engagement period, reference Appendix A - Objective V/VI, Procedure 5 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

> *"Verizon included a plan to address these issues in a Consent Decree, and adhered to the controls required in the Consent Decree. [Consent Decree paragraphs 7(e).]*
>
> *Verizon continues to provide training for employees on the requirements to post on the web within 10 days summaries of written agreements between ILECs and Section 272 affiliates."*

D. For non-tariffed services rendered by the Verizon BOC/ILECs to the section 272 affiliates and not made available to third parties, from a sample of 95 transactions, Deloitte noted one transaction where the unit charge was the lower of Fully Distributed Cost ("FDC") or Fair Market Value ("FMV"). (Appendix A, V/VI-6a in the 6/13/05 report, V/VI-6a in this program)

   With regard to whether these matters continued to exist beyond the previous Engagement period, reference Appendix A - Objective V/VI, Procedure 6a for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

   > *"Further investigation revealed that the National Sales Support service was billed only from Vz Southwest in the amount of $456,000 in 2004. Since the value of this service fall below the $500,000 per year threshold, a comparison of fair market value to fully distributed cost was not required. No further action was needed."*

E. For nontariffed services rendered by the Verizon BOC/ILECs to both the section 272 affiliates and to third parties, from a sample of 95 transactions, Deloitte noted: (i) for 2 of the 95 selections, no specific rates for the service were provided in the publicly filed agreements; (ii) for 3 of the 95 selections, the publicly filed agreement indicated the rate as "to be determined;" and (iii) for 1 of the 95 selections, Deloitte noted a difference where the rates charged for certain services provided in California were provided at a 12 percent discount from the rates included in the publicly filed agreements. (Appendix A, V/VI-6b in the 6/13/05 report, V/VI-6b in this program)

   With regard to whether these matters continued to exist beyond the previous Engagement period, reference Appendix A - Objective V/VI, Procedure 6b for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

   > *"A billing system review determined that Verizon had applied the state resale avoided cost discount on intrastate private lines in the state of California. A correction was made in April, 2005. The error and the associated correction had the same effect on affiliates and non affiliates."*

F. For all services rendered to the Verizon BOC/ILECs by each section 272 affiliate during the Test Period, from a sample of 95 selections, Deloitte noted that for 5 of the 95 selections, the payment documentation could not be located. (Appendix A, V/VI-8 in the 6/13/05 report, V/VI-7b in this program)

With regard to whether these matters continued to exist beyond the previous Engagement period, reference Appendix A - Objective V/VI, Procedure 7b for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

> *"The importance of timely payments was emphasized to the business units after the 2003-2004 audit and the associated controls were updated. Through the communications noted in Response B, Verizon routinely emphasizes the need to comply with Section 272 obligations."*

G. For 16 of a sample of 36 invoices (from a population of 177 invoices), Verizon California charged the section 272 affiliate 12 percent less than the stated price in the publicly-filed agreements or statements. (Appendix A, V/VI-11 in the 6/13/05 report, V/VI-10 in this program)

With regard to whether these matters continued to exist beyond the previous Engagement period, reference Appendix A - Objective V/VI, Procedure 10 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

> *"See Item E."*

H. For local exchange services, from a sample of 95 Universal Service Order Codes ("USOC") billed to the section 272 affiliates during the randomly selected month of March 2004, Deloitte noted, for two samples, rates charged were different from the applicable tariff rates. (Appendix A, VII-4b in the 6/13/05 report, VII-4b in this program)

With regard to whether these matters continued to exist beyond the previous Engagement period, reference Appendix A - Objective VII, Procedure 4b for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

> *"Verizon reviewed the situation and found instances in Rhode Island where the rate tables were not adjusted for any of these changes. The estimated financial impact of error was $2,929 per year. The rate table has been updated."*

I. Deloitte noted one call into the Binghamton Consumer Call Center where the Verizon representative clearly informed the caller of her right to choose a long distance provider, but when the caller asked for "help with that," the representative began to market Verizon Long Distance without informing the caller of a list of other providers. Deloitte also noted one call into the Manhattan Business Call Center where the Verizon representative clearly informed the caller of his choice of long distance providers but failed to communicate to the caller the representative's ability to read a list of other providers of long distance to the caller. (Appendix A, VII-7a in the 6/13/05 report, VII-7a in this program)

With regard to whether these matters continued to exist beyond the previous Engagement period, reference Appendix A - Objective VII, Procedure 7a for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

"During the 2005 and 2006 timeframes, numerous notifications were sent to the call centers reminding them of the neutral statement requirements along with providing clarifications on those requirements. In 2005, a job aid was provided to the call center representatives and training was provided."

J. The performance measures ("PMs") designed to determine compliance with the nondiscriminatory requirements of section 272(e)(1) reveal a varied pattern of performance, some in favor of the affiliates and some in favor of the nonaffiliates, at different stages of completion of the requests for service. (Appendix A, VIII-4 in the 6/13/05 report, VIII-4 in this program)

With regard to whether these matters continued to exist beyond the previous Engagement period, reference Appendix A - Objective VIII, Procedure 4 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

"Verizon provided a detailed review of these measures in the 2003-2004 audit report in the discussion presented as part of the Objective VIII, Procedure 4 result."

K. For the randomly selected month of June 2003, Deloitte was unable to replicate 31 performance measurements. (Appendix A, VIII-5 in the 6/13/05 report, VIII-5 in this program)

With regard to whether these matters continued to exist beyond the previous Engagement period, reference Appendix A - Objective VIII, Procedure 5 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

"As noted in the 2003-2004 audit report, the auditor's replication resulted in only 31 differences compared to Verizon's results. About a third of these are due to differences between how the auditor and how Verizon rounded the data, not due to differences in how the underlying data were calculated. About a third are due to differences between how the auditor and Verizon interpreted the business rules for what should be counted. Only 10 of the 871 (1.1%) results for June are data reporting errors. This low error rate does not have a material effect on the ability to use the data to evaluate Verizon's performance."

L. When the BOC imputed charges to itself for interLATA Gateway Access Service ("GAS") and for interLATA International/National Directory Assistance ("IDA/NDA") Service, rates for certain components were either omitted or charged at a rate below the current tariff rate. (Appendix A, X-2 in the 6/13/05 report, X-2 in this program)

With regard to whether these matters continued to exist beyond the previous Engagement period, reference Appendix A - Objective X, Procedure 2 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

"<u>GAS</u>
The missing Link Termination rate for New York and Massachusetts resulted in an undercharge of $67.40 per month for New York and an undercharge of $31.87 per month for Massachusetts.

<u>IDA/NDA</u>
Transmission Function rate used in the imputation for New York is lower than the current tariff rate resulting in an undercharge of $519.82 per month.

Verizon uses an imputation study to impute costs to its affiliates. Although Verizon updates rates in its tariffs as those rate changes occur, the imputation study is updated only one a year, when Verizon conducts its annual study. Accordingly, there may be occasions when the tariff rates change but the imputation study has not yet been updated to reflect those changes. That is what occurred in this case. Verizon will continue to review all applicable tariffs on an annual basis to ensure accuracy."

M. For Wholesale National Directory Assistance ("WNDA") provided by the Verizon BOC/ILEC to VLD, Deloitte noted differences in the amount invoiced by the BOC/ILEC and the amount paid by VLD for two of the three months selected for inspection. (Appendix A, XI-4 in the 6/13/05 report, XI-3 in this program)

With regard to whether these matters continued to exist beyond the previous Engagement period, reference Appendix A - Objective XI, Procedure 3 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

"A past due amount was paid in the normal course of making payments, which at times include delays while the invoice is reviewed and any disputes are addressed. No control changes were needed."

Attachment A-1
Objective V & VI, Procedure 4.a.
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List of Section 272 Affiliate Agreements Terminated During Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
1	MCI	Further Amendments to Interconnection Agreements	03/10/06	No	
2	MCI	Amendment No. 4 to the Interconnection Agreement (MD-MCImetro Access Transmission Services LLC, as successor in interest to MCI WORLDCOM Communications, Inc. (“MCIm”))	03/10/06	No	
3	MCI	Amendment No. 4 to the Interconnection Agreement (MD-MCImetro Access Transmission Services LLC (“MCIm”))	03/10/06	No	
4	MCI	Amendment No. 4 to the Interconnection Agreement (MD-MCImetro Access Transmission Services LLC, as successor in interest to MCI WORLDCOM Communications, Inc. and certain assets of Rhythms Links, Inc. (“MCIm”))	03/10/06	No	
5	MCI	Amendment No. 5 to the Interconnection Agreement (VA-MCImetro Access Transmission Services of Virginia, Inc.)	03/10/06	No	

Attachment A-1
Objective V & VI, Procedure 4.a.
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List of Section 272 Affiliate Agreements Terminated During Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
6	MCI	Amendment No. 5 to the Interconnection Agreement (VA-MCImetro Access Transmission Services of Virginia, Inc., as successor in interest to MCI WORLDCOM Communications of Virginia, Inc.)	03/10/06	No	
7	MCI	Interconnect Agreement - Extension Letter (fGTE - TX & VA) 10/18/05	02/28/06	No	
8	MCI	Interconnect Agreement - Arbitration Petition Filing Period (NY, NJ &TX) 10/18/05	02/28/06	No	
9	MCI	Interconnect Agreement - Letter Extension (fGTE - TX & VA) 02/24/06	08/28/06	No	
10	MCI	Individual Case Basis (ICB) Agreement IL2005-339004	09/26/06	No	
11	MCI	Individual Case Basis (ICB) Agreement MA 2005-333694	08/03/06	No	
12	MCI	Conduit Letter Occupancy Agreement - Verizon New York Inc.	06/22/06	No	
13	MCI	Billing Services Agreement	04/01/06	Yes	The Agreement was superseded by the new Billing Services Agreement (affiliates) Amendment 02 Effective 04/01/06

Attachment A-1
Objective V & VI, Procedure 4.a.
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List of Section 272 Affiliate Agreements Terminated During Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
14	MCI	Amendment One to Billing Services Agreement	04/01/06	Yes	Amendment One changed the Term to a month by month Term for a Six-Month Period only Effective 01/01/06; The Agreement was superseded by the new Billing Services Agreement (affiliates) Amendment 02 Effective 04/01/06
15	VES	Amendment No. 40 to Marketing and Sales Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 48 to Marketing and Sales Agreement
16	VES	Amendment No. 41 to Marketing and Sales Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 48 to Marketing and Sales Agreement
17	VES	Amendment No. 42 to Marketing and Sales Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 48 to Marketing and Sales Agreement
18	VES	Amendment No. 43 to Marketing and Sales Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 48 to Marketing and Sales Agreement
19	VES	Amendment No. 44 to Marketing and Sales Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 48 to Marketing and Sales Agreement
20	VES	Amendment No. 45 to Marketing and Sales Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 48 to Marketing and Sales Agreement

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Objective V & VI, Procedure 4.a.
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List of Section 272 Affiliate Agreements Terminated During Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
21	VES	Amendment No. 46 to Marketing and Sales Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 48 to Marketing and Sales Agreement
22	VES	Amendment No. 47 to Marketing and Sales Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 48 to Marketing and Sales Agreement
23	VES	Billing Services Agreement	06/30/05	No	
24	VES	Amendment No. 1 to Billing Services Agreement	06/30/05	No	
25	VES	Amendment No. 3 to Billing Services Agreement	06/30/05	No	
26	VES	Amendment No. 11 to Billing Services Agreement	06/30/05	No	
27	VES	Amendment No. 15 to Billing Services Agreement	06/30/05	No	
28	VES	Amendment No. 19 to General Services Agreement (GSA)	05/31/06	No	
29	VES	Amendment No. 6 to Sales and Marketing Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 11 to Sales and Marketing Agreement
30	VES	Amendment No. 7 to Sales and Marketing Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 11 to Sales and Marketing Agreement
31	VES	Amendment No. 8 to Sales and Marketing Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 11 to Sales and Marketing Agreement

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List of Section 272 Affiliate Agreements Terminated During Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
32	VES	Amendment No. 9 to Sales and Marketing Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 11 to Sales and Marketing Agreement
33	VES	Amendment No. 10 to Sales and Marketing Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 11 to Sales and Marketing Agreement
34	VGNI	5030 Broadway, New York, NY Original Real Estate	01/31/06	Yes	This lease was terminated early as of 01/31/06 because Verizon New York sold the property. VGNI entered into a lease with the new owners of the building - no assignment was involved.
35	VGNI	5030 Broadway, New York, NY – Amendment 1	01/31/06	Yes	
36	VGNI	5030 Broadway, New York, NY – Amendment 2	01/31/06	Yes	
37	VGNI	5030 Broadway, New York, NY – Amendment 3	01/31/06	Yes	
38	VGNI	New York Special Construction Services NY2003-265036	01/06/05	No	
39	VGNI	New York Special Construction Services NY2003-265099	01/06/05	No	
40	VGNI	New York Special Construction Services NY2003-265108	01/06/05	No	
41	VGNI	Virginia Special Construction Services VA2003-272385	01/13/05	No	
42	VGNI	North Carolina Special Construction Services NC2004-01306	03/03/05	No	
43	VGNI	Rhode Island Special Construction Services RI2004-274159	03/03/05	No	

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List of Section 272 Affiliate Agreements Terminated During Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
44	VGNI	Virginia Special Construction Services Case No: VA2004-289979	08/02/05	No	
45	VGNI	Service Agreement E-web	10/07/05	No	
46	VGNI	Service Agreement (E-Web) Amendment 1	10/07/05	No	
47	VGNI	Service Agreement (E-Web) Amendment 2	10/07/05	No	
48	VGNI	Service Agreement (E-Web) Amendment 3	10/07/05	No	
49	VGNI	Maryland Special Construction Services MD2004-290833	09/08/05	No	
50	VGNI	Service Agreement PA Op Svcs Work Stoppage	02/18/05	No	
51	VGNI	Maryland Special Construction MD2004-309770	02/09/06	No	
52	VGNI	North Carolina Special Construction NC2004-01314	02/09/06	No	
53	VGNI	10G IOTS Trial Agreement	12/09/05	No	
54	VGNI	OC192c Port Trial Agreement	12/06/05	No	
55	VGNI	NOOF 10G IOTS Trial Agreement	12/06/05	No	
56	VGNI	New Hampshire Special Construction Services NH2005-312430	03/10/06	No	
57	VGNI	Trial and Nondisclosure Agreement	04/26/05	No	
58	VGNI	New Jersey Special Construction Services NJ2005-314174	04/10/06	No	

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Objective V & VI, Procedure 4.a.
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List of Section 272 Affiliate Agreements Terminated During Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
59	VGNI	Virginia Special Construction Services VA2005-321299	05/16/06	No	
60	VGNI	New Hampshire Special Construction Services NH2005-328243	06/15/06	No	
61	VGNI	Virginia Special Construction Svcs VA 2005-335419	08/11/06	No	
62	VGNI	Maryland Special Construction Services MD 2005-333991	08/16/06	No	
63	VGNI	MA Special Construction Services MA 2005-319134	08/18/06	No	
64	VGNI	Nondisclosure Agreement for Level Two Information	09/25/06	No	
65	VLD	Agreement for the Provision of 272 Affiliate Contracts On CD ROM	03/31/06	No	
66	VLD	Asset Purchase Agreement	08/31/06	No	
67	VLD	Service Agreement (IntraCorporate Information Exchange)	10/31/05	No	
68	VLD	Amendment No. 40 to Marketing and Sales Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 48 to Marketing and Sales Agreement
69	VLD	Amendment No. 41 to Marketing and Sales Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 48 to Marketing and Sales Agreement

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Objective V & VI, Procedure 4.a.

List of Section 272 Affiliate Agreements Terminated During Test Period

No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
70	VLD	Amendment No. 42 to Marketing and Sales Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 48 to Marketing and Sales Agreement
71	VLD	Amendment No. 43 to Marketing and Sales Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 48 to Marketing and Sales Agreement
72	VLD	Amendment No. 44 to Marketing and Sales Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 48 to Marketing and Sales Agreement
73	VLD	Amendment No. 45 to Marketing and Sales Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 48 to Marketing and Sales Agreement
74	VLD	Amendment No. 46 to Marketing and Sales Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 48 to Marketing and Sales Agreement
75	VLD	Amendment No. 47 to Marketing and Sales Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 48 to Marketing and Sales Agreement
76	VLD	Amendment No. 19 to General Services Agreement (GSA)	05/31/06	No	
77	VLD	Amendment No. 6 to Sales and Marketing Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 11 to Sales and Marketing Agreement

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List of Section 272 Affiliate Agreements Terminated During Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
78	VLD	Amendment No. 7 to Sales and Marketing Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 11 to Sales and Marketing Agreement
79	VLD	Amendment No. 8 to Sales and Marketing Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 11 to Sales and Marketing Agreement
80	VLD	Amendment No. 9 to Sales and Marketing Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 11 to Sales and Marketing Agreement
81	VLD	Amendment No. 10 to Sales and Marketing Agreement	05/15/06	Yes	All of Appendices to Agreement Deleted and Replaced in Amendment No. 11 to Sales and Marketing Agreement
82	VLD	Billing Services Agreement	06/30/05	No	
83	VLD	Amendment No. 1 to Billing Services Agreement	06/30/05	No	
84	VLD	Amendment No. 3 to Billing Services Agreement	06/30/05	No	
85	VLD	Amendment No. 11 to Billing Services Agreement	06/30/05	No	
86	VLD	Amendment No. 15 to Billing Services Agreement	06/30/05	No	
87	VSSI	Assignment and Assumption Agreement for State of NC	12/15/05	No	

Attachment A-1
Objective V & VI, Procedure 4.a.
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List of Section 272 Affiliate Agreements Terminated During Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
88	VSSI	Enterprise Test Agreement	08/01/05	No	
89	VSSI	Master Assignment and Assumption Agreement (CPE)	02/28/05	No	
90	VSSI	Master Services Agreement CPE - SOW	05/02/05	Yes	The Master Services Agreement CPE - SOW, Amendment 1, Amendment 3, Amendment 4 and Amendment 5 were terminated early as of May 2, 2005, because VZ Communications sold its interest in Verizon Hawaii. (Note: Amendment 2 is not in this report because it was previously terminated on 10/24/02 and was superceded by Amendment 3).
91	VSSI	Master Services Agreement CPE – SOW – Amendment 1	05/02/05	Yes	
92	VSSI	Master Services Agreement CPE – SOW – Amendment 3	05/02/05	Yes	
93	VSSI	Master Services Agreement CPE – SOW – Amendment 4	05/02/05	Yes	
94	VSSI	Master Services Agreement CPE – SOW – Amendment 5	05/02/05	Yes	
95	VSSI	Master Services Agreement CPE-SOW Non-Regulated CPE Support Services	03/17/05	No	
96	VSSI	Master Services Agreement CPE-SOW Non-Regulated CPE Support Services Amendment 1	03/17/05	No	
97	VSSI	Nondisclosure Agreement (IOBI Voicemail Interface Agreement NDA)	04/14/06	No	
98	VSSI	Revocable License Agreement (Earth City, MO)	11/20/05	No	
99	VSSI	Revocable License Agreement (Houston, TX)	10/28/05	No	

Attachment A-1
Objective V & VI, Procedure 4.a.
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List of Section 272 Affiliate Agreements Terminated During Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
100	VSSI	Service Agreement (E-Web)	10/07/05	No	
101	VSSI	Service Agreement (E-Web) Amendment 1	10/07/05	No	
102	VSSI	Service Agreement (E-Web) Amendment 2	10/07/05	No	
103	VSSI	Service Agreement (E-Web) Amendment 3	10/07/05	No	
104	VSSI	Service Agreement (Intracorporate Information Exchange)	10/31/05	No	
105	VSSI	Trial and Nondisclosure Agreement	04/26/05	No	
106	VSSI	Verizon Affiliates Billing Services Agreement	06/30/05	No	
107	VSSI	Verizon Affiliates Billing Services Agreement – Amendment 3	06/30/05	No	
108	VSSI	Verizon Affiliates Billing Services Agreement Amendment 1	06/30/05	No	
109	VSSI	Verizon Affiliates Billing Services Agreement Amendment 12	06/30/05	No	
110	VSSI	Verizon Affiliates Billing Services Agreement Amendment 15	06/30/05	No	
111	VSSI	Verizon Affiliates Billing Services Agreement Amendment 2	06/30/05	No	
112	VSSI	Verizon Affiliates Billing Services Agreement Amendment 5	06/30/05	No	

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Objective V & VI, Procedure 4.a.
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List of Section 272 Affiliate Agreements Terminated During Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
113	VSSI	Verizon Affiliates Billing Services Agreement Amendment 7	06/30/05	No	
114	VSSI	Verizon Affiliates Billing Services Agreement Amendment 8	06/30/05	No	
115	VSSI	Verizon Affiliates Billing Services Agreement Direct Bill Services MOU	03/23/06	No	

Attachment A-2
Objective V & VI, Procedure 5
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Objectives V & VI; Procedure 5
Summary of Web Posting Completeness and Accuracy Results

Form 2 - These results would be developed based on the Form 1 results for each sample.

Col. A	**Col. B**	**Col. C**		**Col.D**	**Col. E**
	Accuracy of Web Postings			Completeness of Web Posting	
	Total Number of Items Checked in Sample	Errors Found in Sample		Total Number of Items Checked in Sample	Errors Found in Sample
Sample # 1	1,916	1		2,873	0
Sample # 2	45	0		18	0
Sample # 3	15	0		21	0
Sample # 4	6	0		8	0
Sample # 5	6	0		8	0
Sample # 6	21	0		6	0
Sample # 7	27	0		11	0
Sample # 8	11	0		14	0
Sample # 9	49	0		14	0
Sample # 10	17	0		11	0
Sample # 11	43	0		45	0
Sample # 12	21	0		6	0
Sample # 13	18	0		6	0
Sample # 14	20	0		14	0
Sample # 15	714	0		708	0
Sample # 16	43	0		45	0
Sample # 17	8	0		9	0
Sample # 18	20	0		6	0
Sample # 19	23	1		12	0
Sample # 20	20	0		6	0
Sample # 21	5	0		5	0
Sample # 22	7	0		8	0
Sample # 23	4	0		5	0
Sample # 24	14	0		26	0
Sample # 25	15	0		29	0
Sample # 26	21	0		5	0
Sample # 27	12	0		11	0
Sample # 28	9	0		9	0
Sample # 29	15	0		26	0
Sample # 30	6	0		8	0

Attachment A-2
Objective V & VI, Procedure 5
Page 2 of 2

Objectives V & VI; Procedure 5
Summary of Web Posting Completeness and Accuracy Results

Form 2 - These results would be developed based on the Form 1 results for each sample.

Sample # 31	6	0		8	0
Sample # 32	6	0		8	0
Sample # 33	5	0		7	0
Sample # 34	4	0		5	0
Sample # 35	7	0		9	0
Sample # 36	14	0		17	0
Sample # 37	8	0		9	0
Sample # 38	51	0		45	0
Sample # 39	151	0		265	0
Sample # 40	20	0		6	0
Sample # 41	20	0		6	0
Sample # 42	149	0		265	0
Sample # 43	34	0		19	0
Totals	3,626	2		4,642	0
Error Rate as a Percentage		0.1%			0.0%

Attachment A-5
Objective VIII, Procedure 5
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Differences Noted in Performance Measurement Results Replication – June 2005												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
DE	CTTR	DS3	Non-Affiliate	173	174	NO	0	0	YES	0	0	YES

LEGEND:

Metric	
CTTR	Failure Rate/Trouble Report Rate
FOCT	Firm Order Confirmation (F OC) Timeliness
MAD	Average Repair Interval/Mean Time to Restore
NITR	New Installation Trouble Report Rate
PIAM	Percent Installation Appointments Met
PIC	Average Time of PIC Change

Customer	
Verizon 272 Affiliates	272-affiliate Aggregate
Verizon Affiliates	Verizon ILEC & Other (non-272) Affiliate Aggregate
Non-Affiliate	Non-affiliate Aggregate

Differences Noted in Performance Measurement Results Replication – June 2005												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
MA	FOCT	DS3	Verizon 272 Affiliates	23	18	NO	100	100	YES	0	0	YES

LEGEND:

Metric	
CTTR	Failure Rate/Trouble Report Rate
FOCT	Firm Order Confirmation (F OC) Timeliness
MAD	Average Repair Interval/Mean Time to Restore
NITR	New Installation Trouble Report Rate
PIAM	Percent Installation Appointments Met
PIC	Average Time of PIC Change

Customer	
Verizon 272 Affiliates	272-affiliate Aggregate
Verizon Affiliates	Verizon ILEC & Other (non-272) Affiliate Aggregate
Non-Affiliate	Non-affiliate Aggregate

Attachment A-5
Objective VIII, Procedure 5
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Differences Noted in Performance Measurement Results Replication – June 2005												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
MD	NITR	DS0	Verizon 272 Affiliates	20	20	YES	20	15	NO	0.41	0.36	NO
MD	NITR	DS3	Non -Affiliate	21	20	NO	4.76	5	NO	0.22	0.22	YES

LEGEND:

Metric	
CTTR	Failure Rate/Trouble Report Rate
FOCT	Firm Order Confirmation (F OC) Timeliness
MAD	Average Repair Interval/Mean Time to Restore
NITR	New Installation Trouble Report Rate
PIAM	Percent Installation Appointments Met
PIC	Average Time of PIC Change

Customer	
Verizon 272 Affiliates	272-affiliate Aggregate
Verizon Affiliates	Verizon ILEC & Other (non-272) Affiliate Aggregate
Non-Affiliate	Non-affiliate Aggregate

Differences Noted in Performance Measurement Results Replication – June 2005												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
NJ	MAD	DS0	Verizon 272 Affiliates	95	94	NO	5.53	5.52	NO	4.06	4.08	NO
NJ	CTTR	DS0	Verizon 272 Affiliates	4691	4691	YES	2.03	2	NO	0.14	0.14	YES

LEGEND:

Metric	
CTTR	Failure Rate/Trouble Report Rate
FOCT	Firm Order Confirmation (F OC) Timeliness
MAD	Average Repair Interval/Mean Time to Restore
NITR	New Installation Trouble Report Rate
PIAM	Percent Installation Appointments Met
PIC	Average Time of PIC Change

Customer	
Verizon 272 Affiliates	272-affiliate Aggregate
Verizon Affiliates	Verizon ILEC & Other (non-272) Affiliate Aggregate
Non-Affiliate	Non-affiliate Aggregate

Attachment A-5
Objective VIII, Procedure 5

Differences Noted in Performance Measurement Results Replication – June 2005												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
NY	PIAM	DS0	Verizon 272 Affiliates	157	160	NO	88.54	88.13	NO	0.32	0.32	YES
NY	NITR	DS1	Verizon 272 Affiliates	555	560	NO	4.32	4.29	NO	0.2	0.2	YES
NY	NITR	DS1	Non-Affiliate	3126	3130	NO	3.58	3.64	NO	0.19	0.19	YES
NY	PIAM	DS1	Verizon 272 Affiliates	608	617	NO	89.97	90.11	NO	0.3	0.3	YES
NY	PIAM	DS1	Non-Affiliate	3330	3337	NO	91.77	91.79	NO	0.27	0.27	YES
NY	NITR	DS3	Verizon 272 Affiliates	45	47	NO	0	0	YES	0	0	YES

LEGEND:

Metric	
CTTR	Failure Rate/Trouble Report Rate
FOCT	Firm Order Confirmation (F OC) Timeliness
MAD	Average Repair Interval/Mean Time to Restore
NITR	New Installation Trouble Report Rate
PIAM	Percent Installation Appointments Met
PIC	Average Time of PIC Change

Customer	
Verizon 272 Affiliates	272-affiliate Aggregate
Verizon Affiliates	Verizon ILEC & Other (non-272) Affiliate Aggregate
Non-Affiliate	Non-affiliate Aggregate

Differences Noted in Performance Measurement Results Replication – June 2005												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
RI	MAD	DS0	Verizon Affiliates	2	2	YES	1.91	1.92	NO	0.94	0.94	YES

LEGEND:

Metric	
CTTR	Failure Rate/Trouble Report Rate
FOCT	Firm Order Confirmation (F OC) Timeliness
MAD	Average Repair Interval/Mean Time to Restore
NITR	New Installation Trouble Report Rate
PIAM	Percent Installation Appointments Met
PIC	Average Time of PIC Change

Customer	
Verizon 272 Affiliates	272-affiliate Aggregate
Verizon Affiliates	Verizon ILEC & Other (non-272) Affiliate Aggregate
Non-Affiliate	Non-affiliate Aggregate

See underlying General Standard Procedures

See underlying Comments from Verizon Communications Inc.