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 IT 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 IT Second Source Report and returns all documentation to the IT originator. The IT 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.

OBJECTIVE X. 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.

IDA/NDA

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