



KPMG LLP
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Independent Accountants' Report

The Board of Directors
Verizon Communications, Inc.:

We have examined management's assertion, included in the accompanying *Report of Management on Compliance with Applicable Requirements of 47 C.F.R. Sections 64.1310 and 64.1320 of the Federal Communications Commission's Rules and Regulations*, that Verizon Business Services ("Verizon Business" or "the Company"), a wholly-owned subsidiary of Verizon Communications, Inc., complied with 47 C.F.R. Sections 64.1310(a)(1), 64.1320(c), and 64.1320(d) of the Federal Communication Commission's ("FCC") Rules and Regulations and related requirements contained in CC Docket No. 96-128 as of June 27, 2008. Management is responsible for the Company's compliance with those requirements. Our responsibility is to express an opinion on management's assertion about the Company's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Company's compliance with specified requirements.

In our opinion, management's assertion that the Company complied with the aforementioned requirements as of June 27, 2008, is fairly stated in all material respects.

This report is intended solely for the information and use of the Company, the FCC, and applicable Facilities-Based Long Distance Carriers, and Payphone Service Providers and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 27, 2008

**Report of Management on Compliance with Applicable Requirements
of 47 C.F.R. Sections 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations**

Management of MCI Communications Services, Inc. d/b/a Verizon Business Services ("Verizon Business" or "the Company"), a wholly-owned subsidiary of Verizon Communications Inc., is responsible for establishing and maintaining adequate systems and processes for its Pay Telephone Call Tracking System and for ensuring the Company's compliance with applicable requirements of 47 C.F.R. Sections 64.1310(a)(1), 64.1320(c), and 64.1320(d) of the Federal Communications Commission's ("FCC") Rules and Regulations and related requirements contained in CC Docket No. 96-128, regarding *The Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*.

Management has evaluated the Company's compliance with the applicable requirements of 47 C.F.R. Section 64.1310(a)(1) using the criteria in 47 C.F.R. Section 64.1320(c) of the FCC's Rules and Regulations as the framework for the evaluation. Based on this evaluation, we assert that as of June 27, 2008, Verizon Business complies with all applicable requirements of 47 C.F.R. Sections 64.1310(a)(1), 64.1320(c), and 64.1320(d) in all material aspects as classified below. Verizon Business has disclosed all material changes since June 27, 2007 to the auditors concerning the call tracking system that must be disclosed in accordance with Section 64.1320(f) of the FCC Rules and Regulations. The material changes do not affect Verizon Business' compliance with Section 64.1310(a)(1).

Verizon Business acts as the Completing Carrier¹ for the following types of Verizon Business services:

- 1 Postpaid Calling Card calls
- 2 Prepaid Calling Card calls
- 3 Toll Free calls
- 4 Operator Services calls
- 5 Wholesale Switch-less Based Reseller calls

Verizon Business uses National Payphone Clearinghouse ("NPC") to perform payphone compensation settlement. Certain assertions included in this report depend in whole or in part upon NPC performance. In support of these assertions, Verizon Business relies upon a contractual agreement between Verizon Business and NPC ("NPC Contract"), which requires NPC compliance with CC Docket No. 96-128. In addition, NPC has provided Verizon Business an independent third-party audit report to verify that effective controls and procedures relating to these assertions have been established and will be maintained by NPC. Verizon Business has not conducted an independent evaluation and makes these

¹ As defined in Section 64.1300(a) of the FCC rules, 47 C.F.R. §64.1300(a), a Completing Carrier is a long distance carrier or switch-based long distance reseller that completes a coinless access code or subscriber toll-free payphone call or a local exchange carrier that completes a local, coinless access code or subscriber toll-free payphone call. *See also*, the FCC Report and Order in CC Docket No. 96-128, released on October 3, 2003, *In the Matter of Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, Report and Order, 18 FCC Rcd 19975, 19987 (2003).

**Report of Management on Compliance with Applicable Requirements
of 47 C.F.R. Sections 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations**

assertions based solely on the NPC Contract and the third-party audit report of NPC's operations.

The assertions for Verizon Business are made starting with the initial point in call record processing at which Verizon Business has visibility to the call tracking data. Verizon Business represents the following facts regarding its role as the Completing Carrier, which are in fulfillment of the obligation of Verizon Business as described at 47 C.F.R. Section 64.1320(c):

A. Verizon Business' procedures accurately track calls to completion, as follows:

- 1 Verizon Business uses the appropriate FCC default "per-call rate" to compensate Payphone Service Providers ("PSPs"), and the third-party audit report of NPC processes verified that NPC compensates payphone providers based on this rate.
- 2 Verizon Business' definition of a "Compensable Call" (payphone-originated call that completes over the Company's network in which Verizon Business identifies itself as the Completing Carrier) is in compliance with the FCC rules.
- 3 Verizon Business' definition of a "Completed Call" (call that is answered by the called party) is in compliance with the FCC rules.
- 4 Verizon Business stores twenty-seven (27) months of data as required by the FCC rules.
- 5 Verizon Business' procedures for identifying PSPs are complete and accurate, and the third-party audit report of NPC verified that NPC procedures for identifying PSPs are also complete and accurate.
- 6 Verizon Business' procedures for validating payphone Automated Number Identification ("ANI") are complete and accurate, and the third-party audit report of NPC verified that NPC procedures for validating payphone ANIs are also complete and accurate.

B. Verizon Business has identified a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone-completed calls, as follows:

- 1 Verizon Business has identified personnel responsible for drafting the business requirements associated with tracking, compensating, and resolving disputes concerning payphone-compensated calls.
- 2 Verizon Business has identified personnel responsible for the development and maintenance of systems used in the collection and reporting of payphone call data, and the third-party audit report of NPC verified that NPC has designated personnel

**Report of Management on Compliance with Applicable Requirements
of 47 C.F.R. Sections 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations**

responsible for the development and maintenance of the systems under their control used in the collection and reporting of payphone call data.

- 3 Verizon Business has identified personnel responsible for the implementation and maintenance of procedures that are utilized in creating final payphone compensation data sets, and the third-party audit report of NPC verified that NPC has designated personnel responsible for the implementation and maintenance of procedures under their control that are utilized in creating final compensation data sets.
- 4 Verizon Business has identified personnel who are responsible for developing payphone compensation-tracking reports, and the third-party audit report of NPC verified that NPC has designated personnel who are responsible for developing compensation-tracking reports under their control.
- 5 Verizon Business has identified personnel who are responsible for payphone compensation dispute resolution, and the third-party audit report of NPC verified that NPC has designated personnel who are responsible for the payphone compensation dispute resolution under their control.
- 6 Verizon Business has identified personnel responsible for managing coordination with the payphone clearinghouse services provider, NPC.

C. Verizon Business has effective data monitoring procedures, as follows:

- 1 Verizon Business has the ability to prepare quarterly reports on payphone call counts, PSP identifiers, and numbers dialed for completed payphone originating calls, and the third-party audit report of NPC verified that NPC has the ability to prepare the quarterly reports on payphone call counts, PSP identifiers, and numbers dialed and completed under their control.
- 2 Verizon Business performs data monitoring procedures on call record volumes entering the payphone compensation systems.
- 3 Verizon Business performs fraud-monitoring procedures to identify potentially illegitimate payphone calls.
- 4 Verizon Business has the ability to investigate and resolve PSP disputes.

D. Verizon Business adheres to established protocols to ensure that any software, personnel, or any other network changes do not adversely affect its payphone call tracking ability, as follows:

- 1 Verizon Business has security controls in place to control access to and monitor call-tracking data, and the third-party audit report of NPC verified that NPC also maintains such controls.

**Report of Management on Compliance with Applicable Requirements
of 47 C.F.R. Sections 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations**

- 2 Verizon Business has security controls in place to control access to and monitor the payment disbursement system, and the third-party audit report of NPC verified that NPC also maintains such controls.
 - 3 Verizon Business has a department that is responsible for making software changes that affect payphone compensation, and the third-party audit report of NPC verified that NPC also maintains such a department.
 - 4 Verizon Business has established protocols to implement and test software changes affecting payphone compensation, and the third-party audit report of NPC verified that NPC also maintains such protocols.
 - 5 Verizon Business has application controls in place to ensure that network changes, external to payphone compensation, do not negatively impact payphone compensation.
- E. Verizon Business creates a compensable payphone call file by matching call detail records against payphone identifiers, as follows:**
- 1 Verizon Business utilizes switch data and database look-ups to populate the date, originating ANI, dialed number (where captured by the compensation system), and aggregate data into a Compensable Call File.
 - 2 A compensable call for Verizon Business is a coinless access code or subscriber toll-free call originating at a payphone and completed from a switch that Verizon Business owns or leases.
 - 3 Verizon Business uses payphone specific identifiers (info digits or ANI lists) to identify a compensable payphone call, and the third-party audit report of NPC verified that NPC also maintains such identifiers.
 - 4 Verizon Business applies validation and control procedures to compile the Compensable Call File.
- F. Verizon Business has procedures to incorporate call data into required reports, as follows:**
- 1 Verizon Business' systems are able to generate, and the third-party audit report of NPC verified that NPC's systems are able to generate for the systems under their control, the following reports on a quarterly basis:
 - a) A list of the toll-free and access numbers dialed (where captured by the compensation system) and completed from each PSP's payphones along with the ANI for each payphone.

**Report of Management on Compliance with Applicable Requirements
of 47 C.F.R. Sections 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations**

- b) The volume of payphone originating calls, for each toll-free and access number, that was completed by the Company.
 - c) The name(s), address(es), and phone number(s) of the person(s) responsible for handling Verizon Business' payphone compensation.
 - d) The Carrier Identification Code ("CIC") code of all facilities-based LD carriers that routed calls to Verizon Business, categorized according to toll-free and access code numbers.
- 2 Verizon Business possesses valid lists of payphone owners identified by ANI, and the third-party audit report of NPC verified that NPC possess a valid list of payphone owners identified by ANI.
- G. Verizon Business has implemented procedures and controls needed to resolve payphone compensation disputes, as follows:**
- 1 Verizon Business maintains required payphone call-tracking data for twenty-seven (27) months as required by the FCC rules.
 - 2 Verizon Business has the ability to investigate and resolve PSP disputes.
 - 3 Verizon Business has designated personnel who are responsible for payphone compensation dispute resolution.
 - 4 Verizon Business has filed a statement that includes the names, addresses, and phone numbers for persons responsible for handling payments and resolving disputes. This statement will be updated within 60 days of any changes of such persons. The statement was filed with the FCC Secretary and made available to facilities-based LD carriers and PSPs.
- H. Verizon Business has contracted an independent third-party auditor to test critical controls and procedures to verify that errors are immaterial, as follows:**
- 1 Verizon Business has procedures to identify payphone-originated calls, and the third-party audit report of NPC verified that NPC also has such procedures.
 - 2 Verizon Business has procedures to capture dial-around calls originating from a payphone.
 - 3 Verizon Business has procedures to exclude incomplete calls originating from a payphone from the Compensable Call File.
 - 4 Verizon Business has procedures to accurately populate call record data in the Compensable Call File.

**Report of Management on Compliance with Applicable Requirements
of 47 C.F.R. Sections 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations**

- 5 Verizon Business has procedures to exclude separately commissioned calls from the Compensable Call File.

- I. Verizon Business has in place adequate and effective business rules for implementing and paying payphone compensation, including rules used to: (i) identify calls originated from payphones; (ii) identify compensable payphone calls; (iii) identify incomplete or otherwise non-compensable calls; and (iv) determine the identities of the payphone service providers to which Verizon Business owes compensation.**
 - 1 Verizon Business has business rules that identify calls originated from payphones.
 - 2 Verizon Business has business rules that identify compensable payphone calls.
 - 3 Verizon Business has business rules that exclude incomplete calls originating from a payphone.
 - 4 Verizon Business has business rules to determine the identities of the payphone service providers to which Verizon Business owes compensation.

Verizon Business - Required Disclosures per Section 64.1320(d)

Verizon Business represents the following facts regarding its role as the Completing Carrier. These facts are in fulfillment of the obligations of Verizon Business as specified at 47 C.F.R. Section 64.1320(d):

- 1 Verizon Business' criteria for identifying calls originating from payphones include call record info-digit identification of 27, 29, or 70. In addition, originating ANI is also used to identify payphone-originated calls.
- 2 Verizon Business' criteria for identifying compensable payphone calls include all calls with info-digits 27, 29, or 70 (or with a payphone-identified originating ANI) and call duration greater than zero. Calls originating from payphones with a separate compensation agreement in place are excluded from the Compensable Call File.
- 3 Verizon Business' criteria for identifying incomplete or otherwise noncompensable calls include: 1) calls that do not have info-digits 27, 29, or 70 (or that are not from a payphone-identified originating ANI); 2) calls with a duration of zero; or 3) calls that originate from payphones with a separate compensation agreement in place.
- 4 Verizon Business' criteria used to determine the identities of the PSPs to which Verizon Business owes compensation are established by NPC, Verizon Business' clearinghouse for settlements.

**Report of Management on Compliance with Applicable Requirements
of 47 C.F.R. Sections 64.1310 and 64.1320 of the Federal Communications
Commission's Rules and Regulations**

- 5 Verizon Business uses the clearinghouse, NPC, to perform payphone compensation settlement.
- 6 The type of information that Verizon Business needs from the PSPs in order to compensate the PSPs is the correct identification information consisting of PSP name, address, ANI and ANI location.

Verizon Business



Francis J. Shammo
Senior Vice President and Chief Financial Officer
June 27, 2008