

- **DAC System Documentation** – BSG supplies customers with technical information relating to file format and other procedures as it relates to submitting call records and other information. If changes are required, such changes are communicated to representatives at each customer organization. It is the customers' responsibility to ensure all such changes are appropriately updated in their user manuals in a timely manner.

#### **IV. Summary of Significant Control Objectives**

The principal objectives of the system of internal controls pertaining to recordkeeping, reporting, and payment services provided by BSG to its DAC customers include:

- Policies and procedures are in place to ensure payment rates conform to FCC rules.
- Policies and procedures are in place relating to the reporting elements as required in the DAC Services Agreement.
- Data is stored for a period at least as long as required by FCC rules.
- Procedures are in place to establish proper PSP ownership.
- Specific personnel have been identified as responsible for drafting and maintaining necessary business requirements relating to BSG's DAC system requirements.
- BSG has identified specific personnel responsible for developing compensation tracking reports.
- BSG has identified specific personnel responsible for handling the initial customer service role in dispute resolution.
- Quarterly reports are prepared for each user organization on payphone call counts, PSP identities, numbers called, and infodigits (if used).
- Reports are prepared that identify potentially illegitimate calls and are submitted to carriers for resolution.
- Reports are available for users to monitor call trends.
- Policies and procedures are in place to provide the availability to create customized reports to assist customer service and the user organizations to assist in the resolution of disputes. Such reports and call data are maintained for at least 12 quarters.
- Payments are authorized by users, and controls are in place that limit access to the disbursement system.

- Policies and procedures are in place regarding controls over changes to applicable software, including persons responsible, management of the changes, and validation of such changes to ensure the changes do not negatively affect the integrity of the records processed or the results of processing such records.
- Policies and procedures are in place to properly report compensable calls originated from valid payphone ANIs. In addition, such reports are maintained for the period required by the FCC.

## V. Description of Controls and Tests Performed

Our tests of the effectiveness of controls included such tests as we considered necessary in the circumstances to evaluate whether those controls, and the extent of compliance with them, are sufficient to provide reasonable, but not absolute, assurance the specified control objectives were achieved during the period from April 1, 2007 to March 31, 2008. Our tests of the operational effectiveness of controls were designed to cover the period from April 1, 2007 through March 31, 2008. In selecting particular tests of the operational effectiveness of controls, we considered the (a) nature of the items being tested, (b) the types and competence of available evidential matter, (c) the nature of the control objectives to be achieved, (d) the assessed level of control risk, and (e) the expected efficiency and effectiveness of the test.

Test procedures performed in connection with determining the operational effectiveness of controls detailed in Section III are described below:

Test	Description
1. Corroborative inquiry	Made inquiries of appropriate personnel and corroborated responses with other personnel to ascertain the compliance of controls
2. Observation	Observed application of specific controls
3. Inspection of evidential material	Inspected documents and reports indicating performance of the controls
4. Transaction testing	Reperformed application of the controls

**Key Control Objective** – Policies and procedures are in place to ensure payment rates conform to FCC rules.

*Policy or Procedure*

Payment rates can be based either on a rate negotiated between the user and an individual PSP or the FCC default rate. The rates used for each user are established by the applicable user organization. These user-provided rates are entered into the payment system used to calculate the PSP obligation. At this time, all such rates are based on the FCC default rate.

*Tests Performed*

Padgett, Stratemann & Co., L.L.P. (“PS&Co.”) judgmentally selected invoice summaries provided to users and recomputed the rate per record, comparing the recomputed rate to the current FCC rate, noting agreement. In addition, PS&Co. obtained a sample of call record files and recomputed amounts due applicable PSPs using the FCC default rate and agreed the payment amount calculated by BSG, noting agreement.

**Key Control Objective** – Policies and procedures are in place relating to the reporting elements as set forth in the DAC Services Agreement.

*Policy or Procedure*

As a part of its DAC services, BSG processes and prepares reports for users and PSPs on a quarterly basis detailing calls originated from ANIs by owner, including the amount of relating compensation and carrier identification elements. In addition, customized reports are prepared upon request that provide information available to research disputes, potentially illegitimate calls, or other specified call trends.

*Tests Performed*

PS&Co. inquired of appropriate DAC personnel as to the processes for generating such reports. On a sample basis, PS&Co. reviewed the quarterly reports to determine they included the following:

- Identification of PSP
- Identification of ANIs by PSP
- Identification of calls originating by ANI
- Identification of amounts due to PSP
- Summary of potentially illegitimate calls

**Key Control Objective** – Data is stored for a period at least as long as required by FCC rules.

*Policy or Procedure*

BSG, as specified in the DAC Services Agreement, maintains call data records and relating reports for a period of three years.

*Tests Performed*

PS&Co. inquired of appropriate personnel as to the time the data files and relating information are stored, noting agreement of the stated policy.

**Key Control Objective** – Procedures are in place to establish proper PSP ownership.

*Policy or Procedure*

Review the detail processing narrative above which describes the processes for creating the ANI master file. In summary, on a quarterly basis, BSG receives PSP ownership submissions directly from PSPs listing all ANIs the submitting PSP claims as owned. BSG populates a database using these submissions, which arrive in several formats, including paper, e-mail, electronic transmission, or files on disk or CD.

To validate PSP ownership of the ANIs claimed, every LEC is required by the FCC to provide a list of payphone ANIs and owners for whom the LEC provided dial tone service on the last day of each quarter. The LECs also provide lists of ANIs disconnected during the quarter. Most submit complete quarterly data, but in the absence of current quarter LEC data, previous quarter information must be presumed valid. BSG populates a second database of all LEC submissions.

BSG matches the LEC information with the PSP data to determine the actual owner of each ANI. When software cannot determine the owner of an ANI, DAC staff members examine the ANI data to determine (if possible) the true owner. One consideration in the system processing is the requirement for LECs to submit only data changed from quarter to quarter.

Once the validated ANI master is created, each PSP receives a status report of the ANIs submitted. When the owner of an ANI cannot be determined (mismatched data or no LEC data), the PSP must contact the servicing LEC to have proper documentation submitted. This documentation is used by DAC staff for assigning the proper PSP owner to the ANIs.

*Tests Performed*

In order to test the creation of the ANI master file, PS&Co. inquired of appropriate personnel as to the specific procedures performed, noting agreement with the stated policy. To test the actual file, PS&Co. selected a sample of PSP submissions from source documents and agreed pertinent information to the PSP ANI ownership database. In addition, PS&Co. selected a sample of PSPs from the PSP ownership database and agreed pertinent information to the source document. The

same tests were performed for LEC submissions. PS&Co. also inquired as to the matching of the previous quarter validated ANI master list to the new quarter's validated ANI master list. Any ANIs not included in the current quarter, which have not been reported as disconnected, are added to the current quarter listing.

**Key Control Objective** – Specific personnel have been identified as responsible for drafting and maintaining necessary business requirements relating to BSG's DAC system requirements.

*Policy or Procedure*

BSG has assigned responsibility to members of the DAC group to ensure the DAC system is adequately assigned. Primary responsibility for the daily DAC group's responsibilities has been assigned to the DAC Manager.

*Tests Performed*

PS&Co. made inquiries of appropriate personnel, noting primary responsibility has been assigned to the DAC Manager.

**Key Control Objective** – BSG has identified specific personnel responsible for developing compensation tracking reports.

*Policy or Procedure*

BSG has assigned the responsibility for the development of compensation tracking reports to the DAC Management IS Analyst and the DAC Manager.

*Tests Performed*

PS&Co. made inquiries of appropriate personnel, noting primary responsibility has been assigned to the DAC Management IS Analyst and the DAC Manager.

**Key Control Objective** – BSG has identified specific personnel responsible for handling the initial customer service role in dispute resolution.

*Policy or Procedure*

BSG has assigned the responsibility for dispute resolution to the DAC Manager and the customer service manager.

*Tests Performed*

PS&Co. made inquiries of appropriate personnel, noting primary responsibility for dispute resolution has been assigned to the DAC Manager and the customer service manager.

**Key Control Objective** – Quarterly reports are prepared for each user organization on payphone call counts, PSP identities, numbers called, and infodigits (if used).

*Policy or Procedure*

See the detailed process narrative above for more detail. In summary, on a quarterly basis, BSG processes each user organization's call record file in order to determine originated calls from validated ANIs, nonvalidated ANIs, potentially illegitimate calls, and calls from ANIs with an ownership dispute. Reports are prepared which summarize the detail of the processed records.

*Tests Performed*

For selected users, PS&Co. obtained call record files and performed an analysis to self-determine the number of calls placed by originating ANI and identification of the ANI owner. Using the compensation report generated by PS&Co. from the original completed call files submitted by the selected users, PS&Co. agreed selected PSP call totals and ANI lists to those included in the compensation file generated by BSG.

**Key Control Objective** – Reports are prepared that identify potentially illegitimate calls and are submitted to carriers for resolution.

*Policy or Procedures*

BSG runs a report on each call record file to determine whether any call volumes for a particular ANI exceed the specified call volume threshold established by the user. For all ANIs that have originating calls in excess of this threshold, BSG prepares a high volume call report, which includes the PSP, ANI, and call count and submits the report to the user.

*Tests Performed*

PS&Co. inquired of appropriate personnel as to the procedures relating to the high volume call reporting process, noting agreement with the stated procedures. In addition, PS&Co. obtained a high volume call report prepared for a selected user and determined the applicable information had been included for submission to the user.

**Key Control Objective** – Reports are available for users to monitor call trends.

*Policy or Procedure*

Data is maintained, as set forth in the DAC Services Agreement, for a period of three years. The data retained includes the original call record data submitted and all reports generated. As users request, IS can run various adhoc reports specifically designed to provide summary information requested by the users. To ensure the data is properly maintained, BSG regularly runs control totals on stored data to ensure the call record totals remain unchanged.

*Tests Performed*

PS&Co. inquired of appropriate personnel, noting data is maintained for a period of at least three years in order to run any reports requested by the users to research and identify trends, and that the data is reviewed on a regular basis to ensure call record totals remain unchanged. In addition, we noted the IS Department receives occasional requests from users to generate specific reports. The reports are created and run on a customized basis.

**Key Control Objective** – Policies and procedures are in place to provide the availability to create customized reports to assist customer service and the user organizations to assist in the resolution of disputes. Such reports and call data are maintained for at least 12 quarters.

*Policy or Procedure*

Data is maintained, as set forth in the DAC Services Agreement, for a period of three years. The data retained includes the original call record data submitted and all reports generated. To ensure the data is properly maintained, BSG regularly runs control totals on stored data to ensure the call record totals remain unchanged. This information is available to be researched for use in resolution of disputes.

*Tests Performed*

PS&Co. inquired of appropriate personnel, noting data is maintained for a period of at least three years in order to run any reports requested by the users to research and resolve disputes, and the data is reviewed on a regular basis to ensure call record totals remain unchanged. In addition, we noted the IS Department receives occasional requests from the users to generate specific reports. The reports are created and run on a customized basis.

**Key Control Objective** – Payments are authorized by users, and controls are in place to limit access to the disbursement system.

*Policy or Procedure*

Once compensation files are created, they are submitted to the user for review and payment authorization. Once payments are authorized, they are submitted by the DAC Manager to BSG's accounting department. All payments to PSPs are made directly by the accounting department, and the DAC group has no access to the disbursement system.

*Tests Performed*

PS&Co. inquired of appropriate personnel as to access to the disbursement system, noting access is properly limited and segregated from those having direct access to the DAC system.

**Key Control Objective** – Policies and procedures are in place regarding controls over changes to applicable software, including persons responsible, management of the changes, and validation of such changes, ensuring the changes do not negatively affect the integrity of the records processed or the results of processing such records.

*Policy or Procedure*

BSG has established policies and procedures regarding system changes, including specific policies regarding:

- Formal system change requests
- System change approval
- Monitoring/evaluation of changes to other systems
- Identification of responsible persons
- System security controls
- Program security controls
- Capabilities to test changes and compare to known results

*Tests Performed*

PS&Co. obtained and reviewed written documentation regarding the policies and procedures in place to control, execute, and implement system changes, including limitation of access to make changes without proper authorization. In addition, PS&Co. made inquiries of appropriate DAC and IS personnel, noting consistency with stated policies.

PS&Co. also observed DAC and IS personnel accessing the system through the use of unique user identification numbers and passwords. Additionally, we observed a BSG employee, who is not part of the DAC personnel, attempt to access the system without success. We also noted we were not able to physically enter into BSG's facilities without the use of a key card obtained from BSG management. Finally, we noted there were sprinklers and fire alarms throughout the building that houses the DAC system.

**Key Control Objective** – Policies and procedures are in place to properly report compensable calls originated from valid payphone ANIs. In addition, such reports are maintained for the period required by the FCC.

*See above control objectives for more detailed description of key control objectives, related policies and procedures, and tests performed.*