



Independent Auditor's System Report
For Payphone Compensation
As required by FCC Order 03-235
Docket No. 96-128

June 27, 2014

Table of Contents

TABLE OF CONTENTS.....	2
INDEPENDENT AUDITOR’S REPORT.....	3
SYSTEM AUDIT REPORT	3
OVERVIEW OF SYSTEM AUDIT REQUIREMENTS	4
AUDIT PROCESS & PROCEDURES.....	5
PAYPHONE COMPENSATION POLICIES & PROCEDURES	6
RESPONSIBLE DEDICATED STAFF	6
DATA MONITORING PROCEDURES.....	7
COMPENSATION ASSURANCE PROTOCOLS.....	7
COMPENSABLE CALL FILE AND REPORTING	8
DISPUTE RESOLUTION PROCEDURES	8
COMPENSATION VERIFICATION	9
AUDIT CONCLUSIONS.....	9
FCC RELEVANT RULES ACCURATELY STATED	9
ESTABLISHED SECURITY PROTOCOLS	9
AUDIT FINDINGS.....	9
APPENDICES.....	11

Independent Auditor's Report **System Audit Report**

Senior Management
XO Communications, LLC

At the request of the management of XO Communications, LLC, we have examined the call tracking systems of XO Communications, LLC and its interexchange and local exchange carrier operating subsidiaries (collectively "XO") for payphone calls in compliance with FCC Order 03-235, Docket No 96-128. XO management is responsible for compliance with those requirements. (See Appendix 2) Our responsibility is to express an opinion on XO's compliance based on our examination.

Our examination included procedures to obtain reasonable assurance about whether the controls included in our audit were suitably designed to achieve the control objectives – namely, that the call tracking system of XO accurately tracks payphone calls to completion and that XO satisfactorily complied with and applied these controls and such controls will be placed in operation consistently in the future.

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 of 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 XO's compliance with specified requirements.

In our opinion, XO complied, in all material respects, with the aforementioned requirements for the period mentioned through June 30, 2014. XO has sufficient controls in place to provide reasonable assurance to achieve the control objectives outlined in FCC Order 03-235, Docket 96-128.

The description of policies & procedures concerning Payphone Compensation at XO, as well as information concerning tests of the operating effectiveness, includes the period of Q2 2014. Information concerning payments made includes the period through Q4 2013, which is the latest quarter that XO had processed and remitted compensation to payphone service providers at the time we began our audit. Future projection of such information is subject to the inherent risk that, because of change, the description may no longer portray those procedures in existence. The potential effectiveness of specific controls at XO is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that, (1) changes made to the system or controls, (2) changes in processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

This report is intended solely for the information and use of XO, and is not intended to be and should not be used by anyone other than the specified party.



GSA Associates
June 27, 2014

Overview of System Audit Requirements

This System Audit Report covers FCC Order 03-235, Docket No 96-128, effective July 1, 2004 (the “Order”), requiring Interexchange Carriers (“IXCs”), incumbent local exchange carriers (“LECs”), competitive local exchange carriers (“CLECs”) and Switch Based Resellers (herein collectively or individually referred to as a “Carrier”), to establish and maintain a comprehensive Call Tracking System (“CTS”) which accurately reports and compensates Payphone Service Providers (“PSPs”).

The Order calls for an independent third party audit report in conformity with AICPA standards. The independent auditor’s report shall conclude whether the Carrier complied, in all material respects, with the factors set forth (below) regarding the CTS as follows:

- 1) Whether the Carrier’s procedures accurately reflect the Commission’s rules, including the attestation reporting requirements.
- 2) Whether the Carrier has a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone completed calls.
- 3) Where the Carrier has effective data monitoring procedures.
- 4) Whether the Carrier adheres to established protocols to ensure that any software, personnel, or any other network changes do not adversely affect its payphone call tracking ability.
- 5) Whether the Carrier has created a compensable payphone call file by matching call detail records against payphone identifiers.
- 6) Whether the Carrier has procedures to incorporate call data into required reports.
- 7) Whether the Carrier has implemented procedures and controls needed to resolve disputes.
- 8) Whether the independent third-party auditor can test all critical controls and procedures to verify that errors are insubstantial.
- 9) Whether the Carriers have adequate and effective business rules for implementing and paying payphone compensation.

Audit Process & Procedures

Our audit reports on all nine (9) control points outlined in the Order. The guidelines used to conduct and prepare the report are established in the AICPA's Statements on Standards for Attestation Engagements ("SSAE"), specifically, SSAE 10, AT Section 101 Attest Engagements and AT Section 601 Compliance Attestation.

Those standards required that we:

- 1) Have adequate technical training and proficiency in the attest function.
- 2) Perform the attest function using practitioners having adequate knowledge of the subject matter.
- 3) Evaluate the subject matter against suitable criteria such as:
 - a) *Objectivity* – free of bias
 - b) *Measurability* – reasonable consistent measurements, qualitative or quantitative, of subject matter.
 - c) *Completeness* – sufficiently complete so that relevant factors that would alter a conclusion about subject matter are not omitted.
 - d) *Relevance* – criteria relevant to the subject matter.
- 4) Maintain an Independent mental attitude in all matters relating to the engagement.
- 5) Exercise due professional care in the planning and performance of the engagement.
- 6) Obtain sufficient evidence to provide reasonable basis for our conclusion expressed in the report.

XO has designed, implemented and manages an in-house call tracking system. XO utilizes the services of an outsourced clearinghouse, National Payphone Clearinghouse ("NPC"), to process XO-provided call detail records ("CDR"), compensate PSPs and satisfy all FCC-mandated reporting requirements. We have attached NPC's SAS 70 report as Appendix 1. The scope of this audit as it relates to compensation is through December 31, 2013, which is the latest quarter that XO had processed and remitted compensation at the beginning of this audit. The scope of this audit as it relates to XO's processes and procedures subject to the Order is through June 30, 2014. Utilizing the services of a third party clearinghouse does not relinquish any responsibility by the carrier to comply with any of the rules of the Order. This audit evaluates XO's compliance with all points of the Order.

PAYPHONE COMPENSATION Policies & Procedures

XO has established and documented policies & procedures specifically in compliance with the Order. These include, but are not limited to:

1. Backup Policy
2. Core Security / Critical Data Requirements Policy
3. Defect Tracking Process
4. Software Quality Testing Process
5. Change Control Policy
6. Host / Server Security Policy
7. Password Policy
8. Log Tracking & Archive Process
9. Physical Security Policy
10. Information Access Control Policy
11. Monitoring Policy
12. Firewall Policy

GSAssociates has verified with Stephen Hodkinson; Data Warehousing Senior Manager for XO, that these policies are in effect. In addition, through interviews it was determined that no changes can be made to the software controlling the call tracking system without appropriate approvals, and additionally XO management has provided written attestation supporting this point.

Responsible Dedicated Staff

XO has dedicated staff responsible for tracking, compensating, reporting and resolving disputes concerning completed calls as follows:

1. Stephen Hodkinson, Data Warehousing Senior Manager; Lisa Youngers, Vice President, Federal Affairs; and Kimberly Ayers, TEM – Telco Expense Management Telco Audit Analyst IV, are responsible for drafting necessary business requirements.
2. Stephen Hodkinson, Data Warehousing Senior Manager, is responsible for developing and maintaining systems to create payphone call records from switch records.
3. Darren Albertson, Financial Analysis Director, and Kimberly Ayers, Telco Expense Management Telco Audit Analyst IV, are responsible for implementing and maintaining procedures that check the validity of identified payphone records.
4. Stephen Hodkinson, Data Warehousing Senior Manager, is responsible for implementing & maintaining procedures that create final compensation data sets.
5. Lee Churchill, Telco Expense Management, Senior Manager, is responsible for developing compensation tracking reports.
6. Lee Churchill, Telco Expense Management, Senior Manager, is responsible for dispute resolutions.

Data Monitoring Procedures

XO has developed a systematic reporting process to generate monthly and quarterly reports on payphone call counts, numbers called, and info digits used.

These reports reflect:

- a) Trends of switch traffic volumes entering their payphone compensation systems.
- b) Possible fraud on potential illegitimate payphone calls.
- c) Trends of excluded calls.
- d) The capability to develop customized reports to help resolve disputes.
- e) Capacity for other appropriate trending reports.

GSA has been notified by XO Management that as a result of discrepancies and potential fraud XO has expanded and further automated the above reports. These reports are used during the compensation process to verify the accuracy of the data. Through interviewing Darren Albertson; Financial Analysis Director, and Kimberly Ayers; Telco Expense Management Telco Audit Analyst IV, and representatives from National Payphone Clearinghouse, GSA verified that the company has access to other standard reports and that ad hoc reports can be requested and created. GSA requested that certain data be queried in a form not normally produced through the call tracking system and reporting methods. These reports were produced in reasonable period of time and were accurate and tied to standard reports normally used in the compensation process.

Compensation Assurance Protocols

XO has personnel and established procedures which guarantee that the company will remain in compliance with current FCC requirements. These procedures ensure that software, personnel, or any other network changes or additions to the payphone compensation process are completed in accordance with guidelines and approvals documented in aforementioned procedure section and do not adversely affect its call tracking capabilities.

GSA has reviewed these procedures in past audits. XO has provided written attestation that no significant or material changes to protocols have occurred since the last review. We have concluded that the procedures in place remain adequate and comprehensive. XO has verified that there have not been any significant changes to the program code, stored procedures or report systems for the call tracking system or payphone compensation system to date.

Compensable Call File and Reporting

XO retrieves all relevant call data directly from its switch CDR and prepares online reports for utilization in the compensation process. XO compiles, through various filters accepted by industry standards and FCC requirements, the appropriate compensable call detail and electronically transmits this data to NPC for matching and payment. This process extracts data monthly. The data is then accumulated after a complete calendar quarter. The accumulated data file is transmitted to NPC for additional processing which includes the elimination of XO customers that have opted out of XO's compensation system. GSA reviewed the documented process and result reports, and found it to be complete and accurate.

Our review of the data file found that it contained all the necessary information to perform an ANI match and to prepare detailed reports for compensation to each separate PSP or Aggregator. GSA also reviewed the compensation results files provided to XO by NPC and found that the data corresponded to the original data set provided by XO to NPC.

The NPC files describe the results of the matching process; specifically total records, total calls, total ANIs as well as the subset of payphone originated calls and matched ANIs. NPC also identifies mismatched, unclaimed and incorrect payphone originated calls. GSA reviewed the quarterly compensation invoice from NPC to XO, describing the amount needed to fund payments to the PSPs. These files and documents are complete and accurate.

Dispute Resolution Procedures

XO has assigned its representative, Lee Churchill, Telco Expense Management Senior Manager, as the individual responsible for interfacing with NPC. NPC is the first contact for a PSP to request additional information regarding payphone-originated calls. NPC has previously provided its detail procedure for handling disputes from PSPs and through interviews with representatives of NPC found that these procedures remain in effect. As mentioned earlier, NPC's SOC audit report is attached as substantiation of NPC's continued compliance with FCC rules.

If NPC cannot determine an appropriate answer to a payment question, they are directed to the XO responsible party. This process is further outlined in XO's Dispute Resolution procedure which has been previously reviewed and through attestation remains in effect.

Darren Albertson, Financial Analysis Director and Kimberly Ayers, Telco Expense Management Telco Audit Analyst IV, indicated that during this audit period, XO continued to withhold compensation on behalf of a PSP due to suspected fraudulent activity, as outlined in Appendix #3.

Compensation Verification

GSAAssociates has determined that XO has properly compensated PSPs through the 4th Quarter of 2013.

GSA has reviewed Q4 2013 payment files and matched the data to XO-provided CDRs and has found no unexplained discrepancies. NPC has verified that funds were transferred to NPC and remitted to the appropriate PSPs.

Audit Conclusions

FCC Relevant Rules Accurately Stated

XO has established, defined, and documented in accordance with relevant FCC Rules each of the following:

- Per-call rate.
- Calls included as compensable calls
- Definition of completed call.
- Reporting requirements.
- Data Storage Requirements.

Established Security Protocols

XO has implemented security protocols to limit access to call tracking systems in a controlled environment to authorized personnel. Monitoring tracking systems have been installed to limit access to the company's call tracking system. Access to compensation systems is controlled and monitored as well as limited to authorized personnel through security measures which have been implemented.

Audit Findings

XO is a national provider of local and long distance telecommunications services to businesses, large enterprises and telecommunications carriers. XO delivers its services over its own network of metropolitan fiber rings and long haul fiber optic facilities and through the use of facilities and services leased or purchased from third party carriers, including incumbent local exchange carriers. XO is wholly owned by XO Holdings.

Through its subsidiaries, primarily XO Communications Services, LLC, XO is authorized to provide intrastate interexchange services in 49 states and to provide competitive local exchange services in 48 states as well as the District of Columbia.

GSA has tested and documented the compensation system in use as of the date of this report and found it to be accurate, effective and complete. Additional Detective and Corrective controls have been reviewed with management. These additional steps add a higher level of visibility to the compensation process and will assist in the detection of fraud and upstream underlying carrier errors. GSA has validated payments made for Q4 of 2013. Our conclusion is that XO is in compliance for the period audited and compensation has been appropriately made to the PSPs or Aggregators through December 31, 2013.

APPENDICES

Appendix 1



KPMG LLP
Suite 3400
312 Walnut Street
Cincinnati, OH 45202

Independent Service Auditor's Report

The Board of Directors
Cincinnati Bell, Inc.:

Scope

We have examined Cincinnati Bell's description of its National Payphone Clearinghouse (NPC) Quarterly Dial-Around Compensation Processing system for processing user entities' transactions throughout the period April 1, 2013 to March 31, 2014 (description) and the suitability of the design and the operating effectiveness of controls to achieve the related control objectives stated in the description. The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls contemplated in the design of Cincinnati Bell's controls are suitably designed and operating effectively, along with related controls at Cincinnati Bell. We have not evaluated the suitability of the design or the operating effectiveness of such complementary user entity controls.

Cincinnati Bell uses CyrusOne for data center hosting, which includes physical and environmental controls over the data center that houses the system. The description in Section III includes only the controls and related control objectives of Cincinnati Bell and excludes the control objectives and related controls of CyrusOne. Our examination did not extend to controls of CyrusOne.

The information in section V of management's description of Cincinnati Bell's system, "Other Information Provided by Cincinnati Bell," that describes Business Continuity/Disaster Recovery, is presented by management of Cincinnati Bell to provide additional information and is not a part of Cincinnati Bell's description of its system made available to user entities during the period April 1, 2013 to March 31, 2014. Information about Business Continuity/Disaster Recovery has not been subjected to the procedures applied in the examination of the description of the system and of the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description of the system, and, accordingly, we express no opinion on it.

Service organization's responsibilities

In its description, Cincinnati Bell has provided an assertion about the fairness of the presentation of the description, the suitability of the design and the operating effectiveness of the controls to achieve the related control objectives stated in the description. Cincinnati Bell is responsible for preparing the description and for the assertion, including the completeness, accuracy, and method of presentation of the description and the assertion, providing the services covered by the description, specifying the control objectives and stating them in the description, identifying the risks that threaten the achievement of the control objectives, selecting and using suitable criteria, and designing, implementing, and documenting controls to achieve the related control objectives stated in the description.

Service auditors' responsibilities

Our responsibility is to express an opinion on the fairness of the presentation of the description, the suitability of the design and the operating effectiveness of the controls to achieve the related control objectives stated in the description, based on our examination. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our examination to obtain reasonable assurance about whether, in all material respects, the description is fairly presented, the controls were suitably designed and the controls were operating effectively to achieve the related control objectives stated in the description throughout the period April 1, 2013 to March 31, 2014.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

Appendix 1 Con't



An examination of a description of a service organization's system and the suitability of the design and operating effectiveness of the service organization's controls to achieve the related control objectives stated in the description involves performing procedures to obtain evidence about the fairness of the presentation of the description and the suitability of the design and the operating effectiveness of those controls to achieve the related control objectives stated in the description. Our procedures included assessing the risks that the description is not fairly presented and that the controls were not suitably designed or operating effectively to achieve the related control objectives stated in the description. Our procedures also included testing the operating effectiveness of those controls that we consider necessary to provide reasonable assurance that the related control objectives stated in the description were achieved. An examination engagement of this type also includes evaluating the overall presentation of the description and the suitability of the control objectives stated therein, and the suitability of the criteria specified by the service organization and described in management's assertion. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Inherent limitations

Because of their nature, controls at a service organization may not prevent, or detect and correct, all errors or omissions in processing or reporting transactions. Also, the projection to the future of any evaluation of the fairness of the presentation of the description, or conclusions about the suitability of the design or operating effectiveness of the controls to achieve the related control objectives is subject to the risk that controls at a service organization may become inadequate or fail.

Opinion

In our opinion, in all material respects, based on the criteria described in Cincinnati Bell's assertion, (1) the description fairly presents the NPC Quarterly Dial-Around Compensation Processing system that was designed and implemented throughout the period April 1, 2013 to March 31, 2014, (2) the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period April 1, 2013 to March 31, 2014, and user entities applied the complementary user entity controls contemplated in the design of Cincinnati Bell's controls throughout the period April 1, 2013 to March 31, 2014, and (3) the controls tested, which together with the complementary user entity controls referred to in the scope paragraph of this report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the description in section III were achieved, operated effectively throughout the period April 1, 2013 to March 31, 2014.

Description of tests of controls

The specific controls and the nature, timing, extent, and results of the tests are listed in section IV.

Restricted use

This report, including the description of tests of controls and results thereof in section IV, is intended solely for the information and use of Cincinnati Bell, user entities of Cincinnati Bell's NPC Quarterly Dial-Around Compensation Processing system during some or all of the period April 1, 2013 to March 31, 2014, and the independent auditors of such user entities, who have a sufficient understanding to consider it, along with other information including information about controls implemented by user entities themselves, when assessing the risks of material misstatements of user entities' financial statements. This report is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

May 23, 2014
Cincinnati, Ohio

Appendix 2

**Report of Management of XO Communications, LLC
on Compliance with 47 C.F.R. §§ 64.1301-64.1320**

The management of XO Communications, LLC and its certificated affiliates (“XO”) is responsible for establishing and maintaining adequate systems and processes to meet its payphone compensation obligations as adopted by the Federal Communications Commission (“FCC”)¹ and codified in 47 C.F.R. §§ 64.1301-64.1320. XO does not currently have a Chief Financial Officer, and as Acting Senior Vice President, Finance of XO, I am the corporate officer responsible for managing the financial risks of the company.

Management has performed an evaluation of XO’s compliance with the applicable requirements using the criteria in § 64.1320(c) as the framework for the evaluation. Based on this evaluation, I certify that XO has complied with all applicable requirements of §§ 64.1301-64.1320.

XO makes the following representations regarding the factors contained in § 64.1320(c):

- (1) XO’s procedures accurately track calls to completion;
- (2) XO has a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone completed calls;
- (3) XO has effective data monitoring procedures;
- (4) XO adheres to established protocols to ensure that any software, personnel, or any other network changes do not adversely affect its payphone call tracking ability;
- (5) XO creates a compensable payphone call file by matching call detail records against payphone identifiers;
- (6) XO has procedures to incorporate call data into required reports;
- (7) XO has implemented procedures and controls needed to resolve payphone compensation disputes;
- (8) XO has cooperated with its independent third-party auditor to test critical controls and procedures to verify that errors are insubstantial; and
- (9) XO has in place adequate and effective business rules for implementing and paying payphone compensation, including rules used to: (i) identify calls

¹ *Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, CC Docket No. 96-128, Report and Order, FCC 03-235, 18 FCC Rcd 19975 (2003) (*Payphone Order*); *Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, CC Docket No. 96-128, Order on Reconsideration, FCC 04-251, 19 FCC Rcd 21,457 (2004) (*Payphone Reconsideration Order*).

Appendix 2 (continued)

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 XO owes compensation.

XO utilizes a third-party clearinghouse to meet some or all of the requirements of factors 6-9 above. XO has procedures in place to verify that the clearinghouse has established and maintained controls and procedures to comply with these requirements. An independent auditing firm has performed an independent assessment of the effectiveness of such controls, which are covered under the Statement of Auditing Standards No. 70 ("SAS-70") compliance report issued for the clearinghouse.

XO makes the following representations as required by § 64.1320(d)(2):

- XO has criteria for identifying calls originating from payphones, which include calls with info-digit payphone identifiers of 7, 27, or 70;
- XO has criteria for identifying compensable payphone calls, which include calls a) with info-digit payphone identifiers of 7, 27, or 70, b) with call duration greater than 0, and c) where XO acts as the Completing Carrier;
- XO has criteria for identifying incomplete or otherwise non-compensable calls, which include: a) calls that do not have info-digit payphone identifiers of 7, 27, or 70, b) calls with duration of 0, or c) calls where XO acts as an Intermediate Carrier;
- XO uses the National Payphone Clearinghouse ("NPC") to satisfy certain of its payphone compensation obligations;
- XO and/or NPC acting on XO's behalf has criteria to determine the identity of the payphone service providers ("PSPs") to which the XO owes compensation, which include a list of ANIs associated with each PSP's payphones; and
- Where XO cannot otherwise determine which PSP owns a particular payphone, in order to compensate a PSP for calls originating from the ANI associated with that payphone, XO may need a PSP to provide information to XO and/or NPC acting on XO's behalf that includes a list of ANIs associated with a PSP's payphones and corroborating evidence.

Dated: June 16, 2014



Laura Thomas
Chief Financial Officer
XO Communications, LLC

Appendix 3

XO Management's Description of Withheld Payments for Audit Period

As previously reported in XO's 2013 System Audit Report, on April 29, 2013, XO notified American Public Communications Council (APCC) of suspicious calling activity from a PSP represented by APCC to several toll-free customers of XO. Due to the rapid increase in call volumes and short call durations, XO had and continues to have reason to believe that COIN TELECOM SYSTEMS (PSP 12223) has been illegally programming its payphones with an automatic telephone dialing system or is otherwise engaging in schemes to generate fraudulent toll-free calls in order to collect payphone compensation. The FCC has found calls generated by such schemes to be non-compensable; therefore, XO began withholding payment of payphone compensation to APCC on behalf of PSP 12223 in 4Q 2012 and requested APCC further investigate this matter. XO has not received any communication from APCC resolving this matter, thus XO continues to withhold all payment of payphone compensation to APCC on behalf of PSP 12223.