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June 18, 2001

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Room TWB-204
Washington, D.C. 20554

Dear Ms. Salas:

Re: Ex Parte
In the Matter of – Implementation of the Telecommunications Act of 1996:
***Accounting Safeguards Under the Telecommunications Act of 1996*, CC Docket No. 96-150**

The enclosed materials are being filed pursuant to Verizon Communications Inc.'s ("Verizon") obligations under Section B.f., paragraph 184 of the above referenced docket to engage an independent accountant to perform an agreed-upon procedures engagement regarding Verizon's compliance with the requirements of Section 272 of the Telecommunications Act of 1996. The accompanying material includes:

- Report of Independent Accountants on Applying Agreed-Upon Procedures. This report is a supplement to the June 11, 2001 Report of Independent Accountants on Applying Agreed-Upon Procedures which was filed pursuant to the requirements of Section 272 of the Telecommunications Act of 1996.
- Observation of the Joint Federal/State Oversight Team.

Section 272(d)(2) of the Telecommunication Act of 1996 requires that this material be made publicly available. Therefore, its distribution is not limited. Please place a copy of the material in the Ex Parte file of the above referenced proceeding.

A separate confidential and proprietary version of this report is being filed under seal of confidentiality with the Office of the Secretary of the FCC.

Very truly yours,

PricewaterhouseCoopers LLP

By
PricewaterhouseCoopers LLP

Enclosures
cc: Ms. Carol Mattey
Mr. Ken Moran
Mr. Hugh Boyle
Mr. Anthony Dale

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Report of Independent Accountants on
Applying Agreed-Upon Procedures

To the Management of Verizon Communications Inc.
and the Joint Federal/State Oversight Team

We have performed the procedures enumerated in Appendices C, D and E, which supplement the procedures in our report dated June 11, 2001, which were agreed to by the management of Verizon Communications Inc. ("Verizon") and the Joint Federal/State Oversight Team (collectively, the "Specified Users"), solely to assist you in evaluating management's assertion that Verizon complied with the requirements of Section 272 of the Communications Act of 1934, as Amended ("Section 272 Requirements") during the period from July 1, 2000 through January 2, 2001 (the "Evaluation Period"). This engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Specified Users of the report. Consequently, we make no representations regarding the sufficiency of the procedures described in Appendices C, D and E for the purpose for which this report has been requested or for any other purpose. Appendix C enumerates the procedures performed in connection with the GTE Operating Companies and certain of the former GTE Section 272 affiliates. Appendix D enumerates the procedures performed in connection with the Bell Operating Companies and the former GTE Section 272 affiliate, Verizon Select Services, Inc. Appendix E enumerates the procedures performed in connection with the GTE Operating Companies and the former Bell Atlantic Section 272 affiliates.

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

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

This report is intended solely for the information and use of the management of Verizon and the Joint Federal/State Oversight Team, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

PricewaterhouseCoopers LLP

June 18, 2001

TABLE OF CONTENTS

PUBLIC VERSION – REDACTED

Appendix C enumerates the procedures performed in connection with the GTE Operating Companies [1] ("GTOCs") and certain of the former GTE Section 272 affiliates.

With respect to transactions between the GTE Operating Companies and Verizon Select Services, Inc. ("VSSI"), we conducted the procedures agreed to by the Specified Users for the period from October 1, 2000 to January 2, 2001. As agreed to by the Specified Users, Verizon prepared a letter indicating the corrective actions they took in the period from July 1, 2000 to September 30, 2000 and the dates that the corrective actions were completed. This letter is included in Attachment I. Additionally, Verizon provided a letter indicating the corrective action they took related to an affiliate Telecommunications Service Inc. ("TSI"). This letter is included in Attachment II.

The procedures in Objectives V through IX were designed by the Specified Users to assess compliance with the transactional and nondiscriminatory requirements of Section 272. In order to avoid duplication between this Agreed-Upon Procedures engagement and the Separate Advanced Services Affiliates Agreed-Upon Procedures engagement, the Specified Users agreed to incorporate into this report the results of applying the procedures for Objectives V through IX that were performed under Separate Advanced Services Affiliates Agreed-Upon Procedures engagement as they relate to VSSI. This information is included in Appendix F. Results related exclusively to other Separate Advanced Services affiliates have not been incorporated into this report. As agreed by the Specified Users PricewaterhouseCoopers did not perform any procedures for Objectives V through XI for VSSI in the Section 272 affiliate Agreed-Upon Procedures.

[1] For the purposes of this document, GTE Operating Companies refer to Verizon California Inc.; Verizon Florida Inc.; Verizon Hawaii Inc; GTE Midwest Inc. (d/b/a Verizon Midwest); Verizon North Inc.; Verizon Northwest Inc.; Verizon South Inc.; GTE Southwest Inc. (d/b/a Verizon Southwest); and Contel of the South Inc. (d/b/a Verizon Mid-States).

Objective I: Affiliate Shall Operate Independently from the GTOC

1. We obtained and inspected the certificates of incorporation and bylaws of Verizon Select Services Inc. and noted that VSSI was established as a Delaware corporation separate from the Verizon GTOCs. Management indicated that, in Delaware, articles of incorporation are known as certificates of incorporation.

2. We obtained and inspected the Verizon corporate entities' organizational charts as of December 31, 2000 and confirmed with legal representatives of the GTOCs and VSSI the legal, reporting, and operating corporate structures of VSSI. We documented the ownership of VSSI as well as the entities to which VSSI reports.

   We obtained a written confirmation from management noting that VSSI is 100% owned by GTE Corporation, which is owned by Verizon. VSSI reports to GTE Corporation.

3. We obtained the functional organizational chart for VSSI as of December 31, 2000 and a list of employees that documented the number of employees in each department, the street addresses where the employees were located, and a general description of functions performed at each work location. We noted by inspection of the VSSI functional organizational chart and the list of employees that VSSI employed ****proprietary**** employees as of December 31, 2000 who were classified in the following functional departments: Long Distance Operations – West, Sales and Services – West, Marketing – West, Performance Assurance – West, Card Services – West, Platform Services – West, Sales and Operations – West, Sales – West, Finance – West, Marketing Services – West, and Customer Services – West.

4. We obtained from VSSI a list and description of services offered to VSSI from October 1, 2001 through January 2, 2001 by the GTOCs and other affiliates. According to management, the services offered are as follows:

   <u>Services Rendered by the GTOCs</u>
   Billing and Collection Services
   Capacity (e.g., OC12)
   Technical Support for CPE Equipment
   General, Administrative, and Operating Services *(Includes but not limited to these services, Ancillary Bill Process, Care Repair Processing, Customer Treatment, Network Management Services, Offline Center Services, Order Removal, Post Order Fulfillment, Product Deployment, Return Mail Center, Service Fulfillment Support, Service Order Processing, Support Assets Services, etc.)*
   Inside Wire Installation & Repair Services
   Work Force Management Training
   Customer Premise Equipment (CPE) Maintenance
   Network Monitoring
   National Directory Assistance *(includes call completion and branding)*
   Communication Medium Services to allow VSSI to convey alarms.
   National Operator Assistance *(includes mechanized calling card calls, operator handled calls and call recording)*
   Acceptance of customer payments in telephone stores

Routing and Rating Database Maintenance *(includes input and maintenance of VSSI in the Routing Database System and the Business Rating and Routing Input Database System)*
Sales Agency Services *(includes promotion and order taking for VSSI products where applicable)*
Joint Marketing *(See Sales Agency Services)*
Slamming/Liability Services *(investigation and resolution of activities relating to unauthorized carrier changes)*
Provision of Licensed Software (E. Solutions Software)
Technical Support for Licensed Software *(See Provision of Licensed Software)*
Warm Transfers *(VSSI calls received by Verizon West telephone companies are transferred to VSSI)*
Voice Messaging *(Purchase of residential and business voice messaging service)*
Conference Call Connection
Tariff Special Access Services
Tariff Switched Access Services
Tariff Telephone Services *(Includes but not limited to local service, centranet, directory assistance, intraLATA services, etc.)*
Interconnection Service (resale)

Services Rendered by Other Non-Regulated Affiliates
Major Materials
Minor Materials and Supplies
Contractor-Other Professional, Office, Support Services
Internal Telecommunications - Private Line
Lease – Real Property
Mailing Charges
Access Charges – Wireless
Internal Telecommunications – Cellular *(includes toll charges)*
Access Charges- Capacity
Corporate Operations Services
Customer Operations Services
General &Administrative Services
Network Operations Services
Network Support Services
Customer Billing Services
Billing and Collection Services
Executive Services
Accounting/Finance Services
Human Resources Services
Legal Services
Regulatory Services
Public Affair Services
Marketing Services
Engineering Services
Treasury Services
Real Estate Services
Access Charges

Management indicated that the operations, installation and maintenance services on the transmission and switching facilities were provided by Bell Atlantic Global Networks, Inc. (d/b/a Verizon Global Networks, Inc.), a non-regulated affiliate.

5. We obtained the functional organizational chart for VSSI as of December 31, 2000 and obtained from VSSI a list and description of services rendered to VSSI from October 1, 2000 through January 2, 2001 by the GTOCs and by other affiliates. We noted that this data identified and documented which entity performed OI&M functions over transmission and switching facilities either owned or leased by VSSI. We also noted that this data included the street address where these facilities are located and identified whether these facilities are owned or leased by VSSI, and if leased, from whom they are leased. We noted that OI&M functions were provided by Bell Atlantic Global Networks, Inc. (d/b/a Verizon Global Networks, Inc.), at three sites where the transmission and switching facilities were located.

6. We inquired of management as to the existence of any research and development activities of the GTOCs from October 1, 2000 through January 2, 2001 related to VSSI or unaffiliated entities. Management indicated the GTOCs did not perform any research and development on behalf of VSSI or unaffiliated entities.

7. We obtained the balance sheets and detailed fixed asset listings, which include capitalized software, as of December 31, 2000 for VSSI. VSSI was composed of three financial reporting divisions: VSSI - Long Distance ("VSSI-LD"), VSSI-Solutions, and Verizon Customer Network Solutions ("VSSI-CNS"). We compared the fixed asset balances from the totals listed in each VSSI financial reporting divisions' detailed fixed asset listings to the fixed asset balances in the respective VSSI financial reporting divisions' balance sheets. For VSSI-LD and VSSI Solutions, we noted no differences between the fixed asset balances from the detailed fixed asset listing to the fixed asset balances in the balance sheets. We noted that the fixed asset balance per the VSSI-CNS balance sheet was ****proprietary****, and the fixed asset balance per the VSSI-CNS detailed listing was ****proprietary****. The holding account that includes assets prior to being placed in service, totaling ****proprietary****, was included in VSSI-CNS's balance sheet and not in the detailed fixed asset listing.

   We noted that the detailed listings of fixed assets included the description of each item, including the location of the equipment/ software, date of purchase, price paid, price recorded, and a notation as to whether the asset was acquired from a GTOC, affiliate or an unaffiliated entity.

   VSSI's detailed listings of fixed assets included 15 line items related to transmission and switching facilities which had a cost value up to ****proprietary****. Management indicated that title documents do not exist for the assets selected. We obtained supporting documentation as follows:

   - For the 12 line items related to assets transferred from an affiliate, we obtained copies of the corresponding Display Asset Accounting Documents. These documents show a description of the asset, the amount for which the asset was booked, the affiliate from which the asset was transferred, and to which company the asset was transferred.

   - For the one line item related to asset purchased directly from an unaffiliated entity, we obtained the related invoices.

- For the two line items related to assets which had individual items both transferred from an affiliate and purchased directly from an unaffiliated entity, we obtained the Display Asset Accounting Documents or the related invoices.

We traced the transmission and switching facilities to the supporting documentation, as appropriate, without exception. We also inspected the company codes on the Display Asset Accounting Documents, and noted that the 15 line items related to transmission and switching facilities were recorded to VSSI's company code in the accounting system. Management indicated that the land and buildings where the VSSI transmission and switching facilities are located were not included on the VSSI detailed listing since the land and buildings were leased by VSSI from unaffiliated entities.

Objective II: Affiliate Shall Maintain Records Separate from those of the GTOC

1. We requested the VSSI general ledger and management indicated that there was no consolidated general ledger for VSSI; however separate ledgers were maintained for the divisions of VSSI. We obtained the general ledgers of the three divisions. For VSSI, we noted the title on the certificate of incorporation was "Verizon Select Services, Inc." which did not specify the separate VSSI operating divisions. We noted no special codes that linked the separate Advanced Services affiliates' general ledgers to the ILECs' general ledgers.

2. We obtained VSSI's written accounting policies and procedures. We inquired of management and documented our understanding of the accounting systems, processes, transaction flows and control points impacting revenue, accounts receivable, cash receipts, purchasing, accounts payable, cash disbursements, payroll, leases and fixed assets related to the proper identification and recording of VSSI's transactions in their separate books of accounts and we summarized our understanding as follows:

   <u>General Overview of Accounting System</u>
   - VSSI-LD and VSSI-Solutions use SAP and separate company codes in the accounting system.
   - All accounting records for VSSI-CNS are recorded and maintained on a separate general ledger system, Dispatch-1 ("D1"). D1 is an integrated accounting/service/billing system that is uniquely dedicated to VSSI-CNS's activities and separate from the accounting system of the ILECs.
   - Both D1 and SAP systems require a unique user identification and password. Also, specific profiles are assigned for each user identification restricting access to areas commensurate with the Specified Users' responsibility.

   <u>Revenue, Accounts Receivable, Cash Receipts</u>
   - VSSI-LD and VSSI-Solutions have unique carrier identification codes to properly identify and route orders to the appropriate legal entity.
   - The VSSI divisions utilize billing systems that are separate from the ILEC billing systems. Revenue Billings and Accounts Receivable information is interfaced to the SAP and D1 accounting systems.

   <u>Purchasing, Accounts Payable, Cash Disbursements</u>
   - VSSI purchasing systems are password protected and are restricted to authorized VSSI employees.
   - VSSI-LD and VSSI-Solutions use separate company codes in SAP. When an invoice is received, the purchase order, and invoice are automatically matched in SAP.
   - VSSI-CNS uses D1, which is separate from the accounting system of the GTOCs. Transactions are controlled by a company code that affects processing of Purchase Orders, Material Receipts and Invoices.

   <u>Payroll</u>
   - VSSI utilizes the SAP payroll system which assigns a unique company code to each employee.
   - Only authorized VSSI personnel can enter time information into the payroll system.
   - All VSSI payroll disbursements are charged to a unique VSSI bank account based on the VSSI company code.

- An electronic fund transfer file is generated from the payroll systems containing the unique VSSI bank account and other bank routing information.

Fixed Assets

- VSSI-LD and VSSI-Solutions have separate company codes in SAP. Only Asset Accounting personnel with appropriate security clearance per their job function may record transactions to these separate company codes.
- VSSI-CNS uses D1, which is separate from the accounting systems used by the ILEC, to record fixed assets. Access to the D1 system is restricted to authorized VSSI personnel.

3. We obtained the cash receipts and cash disbursements journals and related ledgers for the month of December 2000. We randomly selected 10 cash receipt and 10 cash disbursement (including 5 payroll) transactions. We obtained from management a list of VSSI's bank accounts. We traced 11 of 20 transactions to VSSI's bank accounts and eight of the 20 transactions to the Intercompany Settlement Vouchers. For one cash receipt for ****proprietary****, we traced the transaction to a former GTE Corporation bank account which management indicated is used by several divisions of the Company. We traced the selected receipts and disbursements to the general ledger and noted no differences.

4. We obtained VSSI's financial statements and listings of lease agreements as of December 31, 2000. We identified leases for which the annual obligation was $500,000 or more. We randomly selected and obtained the lease agreements for five VSSI leases and noted the terms and conditions. We obtained and inspected the Company's lease accounting policies and the Statement of Financial Accounting Standards No. 13, *Accounting for Leases* assessment prepared by management indicating the accounting treatment determined by management for each lease. We noted such accounting policies were consistent with generally accepted accounting principles ("GAAP"). For the five VSSI selections, we requested from management but did not receive the fair market values of the properties or equipment necessary to assess conformity with GAAP. Consequently, we were unable to make a determination based upon the information provided.

Objective III: Affiliate Shall Have Officers, Directors, and Employees Separate from those of the GTOC

1. We obtained the policies and procedures from the GTOCs for transferring, sharing, and loaning employees among each other. We also obtained VSSI's policies and procedures for transferring employees. Management indicated that VSSI does not have written policies and procedures for sharing and loaning employees. Management indicated that employees were permitted to transfer between a GTOC and VSSI; however, since the loaning or sharing of employees was not permitted there was no need for written policies and procedures. Management indicated that no employees were loaned or shared between the GTOCs and VSSI between October 1, 2000 and January 2, 2001. Through inspection of the GTOC policies and procedures and inquiry of management, we noted and documented the types of internal controls in place that would prevent one from being an officer, director, or employee of both the GTOCs VSSI simultaneously.

   Based on our discussions with management and inspection of related documentation we noted the Verizon controls in place that would prevent an individual from simultaneously being an officer, director, or employee of both the GTOCs and VSSI are as follows:

   - Selection of Directors and Officers – Management indicated the Corporate Governance Group ("CGG") is responsible for managing the requirement for the GTOCs and VSSI to have separate officers and directors. Potential officer and director candidates are compared to the roster of current separate VSSI and GTOC director and officer listings by the CGG and reviewed by the legal department and the Affiliate Interest Compliance Office. If a match is found that is inconsistent with the Section 272 affiliate separation requirements, a request is put in for a new candidate.
   - Transfers of Employees - When an employee from a GTOC accepts a job offer at VSSI, or an employee from VSSI accepts an offer at a GTOC, the affiliate human resources representative issues an Employee Action Record to notify the payroll staff of the new employee, the employee's start date and other critical information. The payroll staff representative then notifies the regulated corporate payroll staff of the impending transaction and requests a Reassignment – Transfer Checklist and a Transfer Form, which are completed by the corporate payroll staff and forwarded to the non-regulated payroll and employee change records teams, to ensure the individual is not on the payroll of both VSSI and a GTOC at the same time.
   - Management indicated that in order to determine that employees are not simultaneously working for more than one entity, the payroll systems, although different for the GTOCs and VSSI, are reconciled by Verizon Communication's corporate payroll department records. The system will not allow more than one payment to a social security number in a given pay cycle.

2. We inquired of management and management indicated that VSSI and the GTOCs maintain separate boards of directors and separate officers.

   We obtained a list of officer and director names and corresponding dates of service to the GTOCs and VSSI from October 1, 2000 through January 2, 2001. We compared the list of officers and directors of the GTOCs to the list of officers and directors of VSSI and noted that no names appeared on both lists.

We obtained and inspected the minutes of the meetings of the boards of directors and/or written consents of the stockholders electing the boards of directors for the GTOCs and VSSI from October 1, 2000 through December 31, 2001 and compared and documented the names appearing on the minutes of the GTOCs and VSSI. We noted no instances where an individual simultaneously served as a director or officer of both a GTOC and VSSI.

3. We obtained and inspected the functional organizational charts for VSSI as of December 31, 2000 and noted that no departments reported either functionally or administratively (directly or indirectly) to an officer of the GTOCs.

4. We obtained the files containing the year-to-date payroll information for VSSI and the GTOCs that included the social security numbers of employees as of December 31, 2000. We inquired of management and management indicated that some officers and directors of the GTOCs and VSSI were employees of Network Services Inc. d/b/a Verizon Services Corp., Telesector Resource Group, d/b/a Verizon Services Group, or GTE Services d/b/a Verizon Services Group and, therefore, were not included in the payroll.

   We designed and executed a program that electronically compared social security numbers of employees on VSSI's lists to the GTOCs' listings. We noted that 160 employees appeared on both VSSI's and the GTOCs' listings. We selected a random sample of 25 employees appearing on both lists and obtained detailed payroll records and noted that none of the employees selected had been simultaneously on a GTOC and VSSI's payroll.

5. We obtained the list of officers and employees who transferred from the GTOCs, between October 1, 2000 and January 2, 2001, to VSSI. We selected the seven transferred employees to determine that the controls documented in Objective III, Procedure 1 were applied by inspecting employees' employment history from the Company's Employee Information System and noted no instances where an individual was concurrently employed by a GTOC and VSSI. We requested and received written confirmations from five of the seven transferred employees that they did not use any proprietary information (e.g., customer proprietary network information (CPNI), Network Planning Manuals, Plant Traffic Practices, and OI&M Practices) obtained while they were employees of the GTOCs and that no proprietary information was made available to them through friends and acquaintances still employed by the GTOCs.

6. We obtained a list of all employees who were hired by or transferred to VSSI between October 1, 2000 and January 2, 2001, and selected a statistically valid sample of 67 employees from the list and obtained their employment histories. We documented whether the selected employees were employees of the GTOCs or any of its affiliates at any time. We documented the number of employees, number of times, and dates each employee transferred between a GTOC and VSSI since October 1, 2000. We noted seven employees that transferred from a GTOC to VSSI. We noted no instances where any of the selected employees had transferred from VSSI to a GTOC.

7. We obtained the methodology used to calculate annual bonuses for officers and management employees of VSSI. We noted that the calculation of the annual bonuses is not tied to the exclusive performance of the GTOCs or VSSI, or the combined performance of the GTOCs and VSSI. Therefore, we did not obtain the related bonus calculation.

Objective IV: Affiliate May Not Obtain Credit with Recourse to the Assets of the GTOC

1. We documented VSSI's debt agreements, noting that these debt agreements were with related parties, Verizon Global Funding and GTE Corporation. Management indicated there was no credit arrangement with lenders and major suppliers of goods and services in effect from October 1, 2000 through January 2, 2001. Major suppliers are defined as those having $500,000 or more in annual sales to VSSI. Upon review of the debt agreements, we did not note any language indicating guarantees or recourse to the GTOCs' assets, either directly or indirectly through another affiliate.

2. We obtained the lease agreements (where the annual obligation was $500,000 or more) used in Objective II, Procedure 4 which documented the terms and conditions of VSSI's leases. We did not note any language in these agreements indicating recourse to the GTOCs' assets, either directly or indirectly through another affiliate.

3. We requested and received positive confirmation from Verizon Global Funding and the GTE Treasury Group confirming lack of recourse to the GTOCs' assets for the debt agreements with VSSI.

   We requested positive written confirmation for six VSSI leases with annual payment obligations in excess of $500,000 confirming lack of recourse to GTOC assets. We did not receive responses from the six lessors to which confirmation requests were sent, confirming they did not have recourse to the GTOCs' assets.

4. We obtained the general ledgers for VSSI and documented the balances of accounts payable to the GTOCs at December 31, 2000. We noted no balances for advances from the GTOCs in the general ledgers of VSSI. The balance of accounts payable to the GTOCs as of December 31, 2000 for VSSI – LD was ****proprietary**** to GTE Southwest, Inc. We noted no balance of accounts payable to the GTOCs at December 31, 2000 for VSSI-Solutions or VSSI-CNS.

Appendix D enumerates the procedures performed in connection with the Bell Operating Companies[2] and the Section 272 affiliate, VSSI.

With respect to the transactions between the Bell Operating Companies ("BOCs") and VSSI, we completed the following:

(a) We inquired of management of the BOCs and VSSI and management indicated the following:
- Local telephone exchange service was the only service purchased by VSSI from the BOCs during the period from October 1, 2000 to January 2, 2001.
- VSSI maintains separate books, records, and accounts from those of the BOCs, and all such books, records, and accounts are maintained in accordance with accounting principles generally accepted in the United States of America.
- VSSI had no officers, directors, or employees in common with a BOC during the period from October 1, 2000 to January 2, 2001.
- VSSI has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BOCs during the period from October 1, 2000 to January 2, 2001.
- No assets were sold or transferred between a BOC and VSSI during the period from October 1, 2000 to January 2, 2001.
- VSSI operates independently from the BOC.
- The BOC does not own any facilities jointly with VSSI.
- The BOC does not provide any operations, installation and maintenance functions over the facilities owned by VSSI, or leased by VSSI from unaffiliated entities.

(b) We obtained the 20 invoices and the related Customer Service Records ("CSRs") issued by the BOCs to VSSI for local telephone exchange services in October 2000. We compared the rates appearing on the VSSI CSRs to the rates as determined by FCC and state public utility commission tariffs and noted no differences. Management indicated that the terms and conditions for local telephone exchange services are in accordance with the provisions of FCC and state public utility commission tariffs.

[2] For the purposes of this document, Bell Operating Companies Verizon PA, Verizon NJ, Verizon DE, Verizon MD, Verizon VA, Verizon Washington, DC, Verizon WV, Verizon New York and Verizon New England.

Appendix E enumerates the procedures performed in connection with the GTE Operating Companies and the former Bell Atlantic Section 272 affiliates.

We inquired of management of the GTOCs and former Bell Atlantic Section 272 affiliates as to whether any relationship in terms of structural, transactional and nondiscriminatory requirements exists between the GTOCs and the former Bell Atlantic Section 272 affiliates. Management indicated the following:

- During the period July 1, 2000 through December 31, 2000, Verizon Long Distance purchased Primary Interexchange Carrier Charge ("PICC") services from the GTE Operating Companies: Verizon North, Inc. and Verizon Northwest, Inc. amounting to approximately ****proprietary**** for July 1, 2000 through December 31, 2000.

Appendix F enumerates the results of applying the Agreed-Upon Procedures for Objective V through IX that were performed under the separate Advanced Services affiliate Agreed-Upon Procedures engagement.

The procedures in Objectives V through IX were designed by the Specified Users to assess compliance with the transactional and nondiscriminatory requirements of Section 272. In order to avoid duplication between this Agreed-Upon Procedures engagement and the Separate Advanced Services Affiliates Agreed-Upon Procedures engagement, the Specified Users agreed to incorporate into this report the results of applying the procedures for Objectives V through IX that were performed under Separate Advanced Services Affiliates Agreed-Upon Procedures engagement as they relate to VSSI. Results related exclusively to other Separate Advanced Services affiliates have not been incorporated into this report.

Objectives V & VI: Determine whether the separate Advanced Services affiliates conducted all transactions with the ILECs on an arm's length basis with the transactions reduced to writing and available for public inspection and determine whether the ILECs accounted for all transactions with the separate Advanced Services affiliates in accordance with the accounting principles and rules approved by the FCC.

1. We documented the procedures used by the ILECs and the Corporate Compliance Officer to identify, track, respond, and take corrective action to complaints relating to alleged noncompliance with the Advanced Services provisions of the BA/GTE Merger Conditions. Management indicated that the regulatory liaison department is responsible for monitoring the complaint process. When a complaint arises, a complaint manager is assigned, who, with the assistance of a representative from the line of business that is impacted by the complaint, is responsible for investigating the complaint. The complaint manager is responsible for compiling a formal response, including the corrective actions to be taken. A database is maintained by the regulatory liaison department to track the status of all complaints including the final resolutions thereto.

   We requested a list of all FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716; and any written complaints made to a state regulatory commission from competitors involving alleged noncompliance with the Advanced Services provisions of the BA/GTE Merger Conditions, including complaints submitted by competitors related to the provision or procurement of goods, services, facilities, and information, or in connection with the establishment of standards. Management indicated that no FCC formal or informal complaints or any written complaints made to state regulatory commissions from competitors involving alleged noncompliance with the Advanced Services associated with the provision or procurement of goods, services, facilities, and information, or in the establishment of standards have been received by Verizon up to the date of this report.

2. We obtained from the ILECs and VSSI current written procedures for transactions with affiliates and compared these procedures with the FCC Rules and Regulations, including: 32.27; 53. (203(e)); 64.901, and 64.902; paragraphs 122, 124, 183 and 265 of the *Report and Order* in CC Docket No. 96-150, issued December 1996, concerning Accounting Safeguards Under the Telecommunications Act of 1996 (11 FCC Rcd 17539 (1996)); paragraph 193 of the "First Report and Order and Further Notice of Proposed Rulemaking" in CC Docket 96-149, issued December 1996, concerning Non-Accounting Safeguards under Sections 271 and 272 of the Communications of the Communications Act of 1996; and paragraph 337 of the Memorandum Opinion and Order in CC Docket No. 98-121, issued October 13, 1998, concerning BellSouth's 271 application in Louisiana. We did not note any differences between the Company's written procedures and the FCC rules and regulations listed above.

3. We inquired and documented how the ILECs and VSSI disseminate the FCC Rules and Regulations and the conditions of the Merger Agreement and raise awareness among employees for compliance with the rules listed in Objective V & VI, Procedure 2. This documentation includes a description of the type and frequency of training, literature distributed, each Company's policy and the names of supervision employees responsible for ensuring compliance with these rules. The following activities have taken place among the ILECs and VSSI employees:

- On July 7, 2000, the Senior Vice President Regulatory Compliance, issued a letter to the top 300 senior executives of Verizon outlining the importance of complying with the various affiliate rules, including those associated with the merger conditions and requested this letter be cascaded broadly.
- During the fourth quarter of 2000, electronic mail was sent from the Affiliate Interest Compliance Office to various ILEC organizations outlining the availability of training materials related to "rules of engagement, i.e., as to how regulated telephone companies are to interact with Advanced Services Affiliates in accordance with the merger conditions."
- An electronic presentation for use in familiarizing employees with the rules of engagement and a list of questions to assist employees in determining if they need to participate in the training, were forwarded within Verizon's respective organizations. These organizations then began to schedule training sessions with the Affiliate Interest Compliance Office or to review the information on their own.
- A computer-based training package related to the separate Advanced Services affiliates, which includes a section on compliance with the regulatory rules, was developed with the "rules of engagement" input from the Affiliate Interest Compliance Office. This training package can be found at http://netlearn.verizon.com.
- A compliance office was established to help monitor all regulatory compliance-related activity.
- An internal website was developed by Verizon to post various compliance-related documents such as the Affiliate Transaction Policy Statement.
- A toll-free number was established to answer all employee affiliate transaction related questions.

We requested that employees responsible for the development and recording of transactions affected by these rules in the books or records of the carrier complete a questionnaire regarding their awareness of the FCC Rules and Regulations governing affiliate transactions. We interviewed these employees and documented their awareness of these rules. The following are the positions held by these employees:

- Specialist in Finance Operations, Special Purpose Billing-Verizon East
- Manager of Affiliate Billing in Corporate Books-Verizon East
- Manager of Affiliate Billing in Finance-Verizon East
- Senior Specialist in Enterprise Solutions Group-Verizon East
- Senior Specialist in B&C Account Management-Verizon East
- Manager of Performance Assurance in Real Estate-Verizon East and Verizon West
- Senior Market Manager of B&C in Wholesale Billing Operations-Verizon West
- Manager of Affiliate Transactions in Corporate Accounting-Verizon West
- Product Manager of Wireless and CLEC Wholesale Operator Services
- Assistant Market Manager of Wholesale Operator Services

4. We obtained the written agreements, including interconnection agreements, for services and for equipment/facilities between the ILECs and VSSI, which were in effect during the Engagement Period. We summarized these agreements and documented the names of parties, types of services, rates, terms, and conditions. We compared the services rendered by the ILECs to VSSI under these agreements with the list of services offered to VSSI in Objective I, Procedure 4 and noted the following difference for VSSI:

- Tariff Special Access Services, Tariff Switched Access Services, and Tariff Telephone Services are included in the Objective I, Procedure 4 list but are not included in written agreements obtained in Objective V/VI, Procedure 4. These services are purchased for VSSI's own use. They are purchased in accordance with the ILEC's publicly filed and approved state and federal tariffs.

We inquired of management and noted which agreements were still in effect as of December 31, 2000.

The VSSI agreements that were terminated as of December 31, 2000 are as follows:

Table 11

VSSI				
No.	**Party Providing Service**	**Party Receiving Service**	**Type of Service**	**Expiration Date**
1	Verizon-North	VSSI	Interconnection (Resale) Agreement – Wisconsin	Expired on 9/29/2000
2*	Verizon Midwest	VSSI	Interconnection Agreement – Iowa	Expired on 6/2000
3*	Verizon Minnesota	VSSI	Interconnection Agreement – Minnesota	Expired on 8/31/2000
*Management indicated that no services were provided under agreements 2 or 3.				

We inquired of management and management indicated that no agreements were terminated prematurely for VSSI. We inquired of management and management indicated that Verizon's policy is to provision services to VSSI only with written agreements.

5. We inquired of management and management indicated that interconnection agreements between VSSI and the ILECs have been publicly disclosed, including prices, discounts, terms and conditions.

   For VSSI, we inquired of management and management indicated that the process used to publicly disclose interconnection agreements was to post such agreements on VSSI's affiliate agreement website at http://www.gte.com/AboutGTE/272s/index.html. We inspected the website and noted that the interconnection agreements were posted.

6. For 12 VSSI affiliate agreements selected by the Specified Users, we compared the rates, terms and conditions of services on the web postings (at www.gte.com) to the written agreements. One of the selected agreements was not included on the website as management indicated that VSSI was not a party to the agreement during the Engagement Period and the agreement was erroneously included in the population of agreements for this procedure. This was the Advanced Services Agreement. We compared the remaining 11 agreements to the web postings and noted the following:
   - Rates, terms and conditions for 8 of the 11 web postings were agreed to the written agreements with no exceptions;
   - 3 of the 11 web postings contained discrepancies as compared to the written agreements. Management indicated the discrepancies occurred as a result of administrative errors. The

discrepancies between the web postings and the written agreements, which are included in the below table, are categorized as follows:

- services listed on the web postings were not included in the written agreements;
- difference between the effective date on the web posting and the effective date on the written agreement;

Table 15

No.	Affiliate	Contract	Difference
1	Verizon West to VSSI	Billing Services Agreement	Two services and their rates were listed on the web posting but were not noted in the written agreement. These services were "monthly minimum per CIC per GTE area" for $6,000 and "multiple CIC – start-up all GTE areas" for $36,000.
2	Verizon West to VSSI	Software License Agreement	The effective date is not listed on the written agreement, but is listed on the web posting as June 30, 1998.
3	Verizon West to VSSI	Wholesale Service Agreement	Two services and their rates were listed on the web posting but were not noted in the written agreement. These services were "single line ext. mailbox 1st" for $14.95 and "enhanced mailbox – 100 message cap" for $15.00.

We obtained a list of locations where the agreements are made publicly available. We physically inspected the 12 agreements to determine whether the same information was made available for public inspection at the principal place of business of the ILECs and noted the following:

- 11 of the 12 agreements were available for public inspection;
- As indicated above, the web posting for one agreement was not available. Management indicated that the agreement was incorrectly included in the population and that VSSI was not a party to the agreement during the Engagement Period.

The Company made no claims of confidentiality for nondisclosure.

We inquired of management and documented the procedures VSSI has in place for posting transactions on a timely basis. As indicated on the Company's websites, http://www.banetworkdata.com/process.html and http://www.gte.com/AboutGTE/272s/index.html, the Company has several employees, including the VSSI Web Posting Employee and the VSSI Contract Administrator, whose functions are to ensure that postings are made on a timely basis. Management indicated that the following is the process to ensure that postings are made on a timely basis:

- VSSI's lead negotiator prepares the web transactional page which describes the transaction.
- VSSI's contract administrator verifies the web transactional page to coordinate distribution of posting material.
- The web transactional page is posted by VSSI.
- To ensure process compliance and timely posting, the web transaction pages are reviewed by VSSI's contract administrator to ensure that no web transaction pages are missing. If any web transactional pages are noted missing, VSSI contract administrator notifies the lead negotiator, web posting employee, and the Affiliate Legal and Federal Regulatory team.

For the 12 selected agreements, we compared the posting dates listed on the website to the effective dates of the contracts and noted that three web postings were not posted within the required ten calendar days. Management indicated the web postings were not posted within the required period as the result of an administrative error. The postings are summarized in the table below:

Table 16

No.	Affiliate	ILECs	Contract	Timing Difference*
1	VSSI	All ILECs	National Transport Network Agreement	1 day
2	VSSI	All ILECs	Operator Assistance Agreement	32 days
3	VSSI	Verizon West	Sales Agency Agreement, Amendment No. 1	51 days

*Number of days beyond 10 calendar days when the web site was posted.

We inspected and noted that one web posting did not contain some of the required disclosures necessary for posting. Management indicated the omission of data occurred as a result of an administrative error and was corrected on June 6, 2001. The omission is included in the below table:

Table 17

No.	Affiliate	ILECs	Contract	Omission
1	VSSI	All ILECs	Sales Agency Agreement	The listing of services and rates, including number, type and level of personnel, was listed as "To Be Developed".

7. We inquired of management and management indicated that there were no transfers of any software or licenses from the ILECs to VSSI.

8. For nontariffed services and for services for which a prevailing market price ("PMP") has not been established, or which are not subject to agreements filed with a public service

commission, we documented the ILECs' and VSSI's process for developing fully distributed cost ("FDC"). Management indicated that the entity providing the service is responsible for gathering the information required to develop the FDC calculation. Examples of the types of information that an entity providing the service should provide include a detailed description of the product or service being provided, the job function code or titles of the employees involved, the number of employees in each job function or title, the building location and floor space used by these employees, any computer systems utilized, vendor or outside contractor costs, or any special equipment or supplies purchased. This information is forwarded to the Verizon Service Costs Department (a department of Verizon Service Corp. ("NSI") and Verizon Service Group "TRG"), which calculates FDC.

We inquired of management and identified and documented the types of costs included in FDC. These costs include direct costs, indirect costs, and overhead loadings.

For two services provided by the ILECs to VSSI, we obtained and documented the actual development of FDC. These services included Service Order Processing and Call Center Management.

FDC for Service Order Processing, provided to VSSI by Verizon Southwest, included the following types of costs:
- direct labor costs
- general and administrative overhead charge (including finance, legal, human resources, public affairs, treasury, accounting, regulatory, and data processing)
- shared asset charge (including return on investment)
- loading charge for insurance costs, pension costs, and taxes
- order processing charge (including return on investment)

FDC for Call Center Management, provided to VSSI by Verizon Southwest, included the following types of costs:
- average salary costs
- general and administrative overhead charge (including finance, legal, human resources, public affairs, treasury, accounting, regulatory, and data processing)
- shared asset charge (including return on investment)
- loading charge for insurance costs, pension costs, and taxes

For two services provided by VSSI to the ILECs, we obtained and documented the actual development of FDC. These services included Network Management and Marketing and Selling.

FDC for Network Management, provided by VSSI to Verizon North, included the following types of costs:
- Network Costs (including network purchases, management center charges, and access charges)
- Administrative Overhead (including return on investment)
- Manager/Contingency Costs

FDC for Marketing and Selling, provided by VSSI to the ILECs, included only direct costs. Management indicated that the only marketing and selling program in 2000 was toll optimization and the cost that VSSI charges the ILECs is the actual charge that VSSI pays the third party vendor. Management also indicated that VSSI's involvement is minimal, therefore, there are no indirect costs, overhead, or return on investment associated with this service.

9. For nontariffed services for which a PMP has not been established, or which are not subject to agreements filed with a public service commission, we inquired of management and documented the process the ILECs and VSSI follow to make good faith estimates of fair market value ("FMV"). Management indicated that a good faith determination of the fair market value requires the use of methods that are routinely used by the general business community. Examples of general business methods for obtaining fair market valuations include independent valuations such as appraisals, the use of catalogs listing similar items, competitive bids, the replacement cost of an asset, and the net realizable value of an asset. Additionally, the Company periodically engages unaffiliated entities to perform fair market valuations.

   The entity providing the good, service, or transferring the asset is responsible for obtaining a fair market value for all associated costs. The entity develops a detailed description of the goods, services or assets involved, and provides any additional information required by an independent firm to further assist in the valuation of the goods, services or assets being valued.

   For two services provided by the ILEC to VSSI, we obtained and documented the actual development of FMV. These services included Routing and Rating Database Maintenance and Voice Messaging. The FMV calculations are as follows:

   - The FMV for Routing and Rating Database Maintenance, provided to VSSI by Verizon West, was developed by benchmarking this service against a third party vendor. The specific transaction fee was benchmarked against this vendor's current rates, and an additional annual flow-through charge was added to arrive at the final transaction-specific rate.

   - The FMV for Voice Messaging, provided to VSSI by Verizon West, was developed using non-discounted retail rates obtained from the in-house retail group. The rates were used to construct discounted prices for various term and volume commitments. Management indicated that the ILECs' retail offering of voice messaging is the dominant offering of the product in the franchise area and, therefore, is representative of the retail market price.

   For the one service provided by VSSI to the ILEC at FMV, Prepaid Calling Cards, we obtained and documented the actual development of FMV. The FMV, provided by VSSI to GTE Services Corp. d/b/a Verizon Services Group on behalf of itself and its affiliates, which includes the former GTE ILECs, was developed by reference to actual sales to third party vendors.

10. We obtained a listing and amounts of all services rendered by month by each ILEC to VSSI. We identified services made available to VSSI that were not made available to third parties. For a sample of 6 transactions selected by the Specified Users, we obtained unit charges of FDC and FMV, as appropriate, and determined that the costs for these transactions were recorded in the books of the ILECs at the higher of FDC or FMV in accordance with the affiliate transactions standards. We documented the amounts VSSI recorded for the transactions in its books of record. We also documented the amounts VSSI paid for the

transactions to the ILECs. The amounts recorded were the same as the amounts paid for all transactions.

11. We obtained a listing of all services rendered by month to each ILEC by VSSI. For a sample of six transactions selected by the Specified Users, we obtained unit charges of PMP, FDC, or FMV, as appropriate, to determine that the costs for these transactions were recorded in the books of the ILECs in accordance with the affiliate transactions standards. We noted the following:

    - For one of the six transactions, we were unable to obtain the FMV unit charge; therefore, we were unable to determine whether the transaction was recorded in the books of the ILEC at the lower of FDC and FMV in accordance with the affiliate transactions standards. Management indicated that the FMV was not available because the service was a new offering within the industry. This service was PIC Management, provided to Verizon North, in the amount of $**proprietary** for July 2000. We obtained the FDC calculation for this service and noted the amount on the FDC calculation was $**proprietary**.

    - For two of the six transactions, we were unable to obtain the FMV unit charges. Therefore, we were unable to determine whether the transaction was recorded in the books of the ILEC at the lower of FDC and FMV in accordance with the affiliate transactions standards. This service was Network Transport provided to Verizon California in the amount of $**proprietary** for October 2000 and to Verizon South in the amount of $**proprietary** for November 2000.

    - For two of the six transactions, we were unable to map the unit charge to the total billing amount; therefore, we were unable to determine whether the transaction was recorded in the books of the ILECs at the lower of FDC and FMV in accordance with the affiliate transactions standards. This service was for Official Company Long Distance provided to Verizon Southwest in the amount of $**proprietary** for August 2000 and to Verizon Florida in the amount of $**proprietary** for September 2000.

    We documented the amounts that each ILEC recorded and paid for the services noted above in its books of record. We noted the following:

    - For the Network Transport service, we were unable to trace the amount recorded and paid by the ILEC to the amount selected. Management indicated that the entry and payment included amounts in arrears and that the amount selected was included in this total amount. The amount recorded and paid by the ILEC was $**proprietary**.

12. We inquired of management and documented how and which company maintained VSSI's employee benefit plans. We noted that Verizon maintained the following employee benefit plans for its employees: medical, dental, life, long term disability, pension, and savings. The employee benefit plans were administered by the Verizon Human Resources – Benefits Planning Group, a department of Verizon Services Corp. The costs for these plans were allocated to the participating affiliates based on factors such as relative employment of the entities, relative payroll of the entities, and historical costs.

13. We obtained a listing and amounts charged for services by month by the two central services organizations, Verizon Services Corp. and Verizon Services Group, to VSSI from June 30,

2000 through December 31, 2000. For a sample of five transactions selected by the Specified Users, we obtained the related allocation reports and settlement reports, which indicated that VSSI was billed and paid for these transactions.

The Company utilizes a cost allocation system that is based on direct assignment for those costs that can be directly attributed to the entity receiving the services. Where costs cannot be directly assigned, the allocation is based on an indirect cost causative principle. The services rendered by VSG and VSC to VSSI are priced using a FDC methodology.

14. We obtained the balance sheets and the detailed listings of fixed assets for VSSI as of December 31, 2000. We performed the procedures indicated in Objective 1, Procedure 5.

    We inquired of management and management indicated that VSSI did not purchase and was not the transferee of any fixed assets during the Engagement Period.

15. Where services were priced pursuant to Section 252(e) or pursuant to a statement of generally available terms following Section 252(f), for a sample of services, we compared the price the ILECs charged VSSI to the stated price in the interconnection agreement or related tariff and documented the difference.

    For VSSI, using the five invoices selected by the Specified Users, we randomly selected three billed items from each invoice for a total sample size of 15. We obtained from management the components of the selected billed items and compared the price the ILECs charged VSSI to the stated price in the interconnection agreements or related tariffs and noted the following:

    - For 9 of 14 billed items, we compared the price of the components' the ILECs charged VSSI to the stated price in the interconnection agreements or related tariffs with no exceptions.
    - For 5 of 14 billed items, we did not obtain the related tariffs for some of the components of the billed items.
    - For one billed item, we did not obtain the related tariff to compare the price the ILECs charged VSSI.

16. We inquired of management and management indicated that no part of the ILECs' Official Services Network was transferred or sold to VSSI.

17. We inquired of management and management indicated that VSSI did not purchase and was not the transferee of any facilities from the ILECs during the Engagement Period.

18. We inquired and documented that joint marketing is occurring between VSSI and the ILECs. We noted that VSSI and the ILECs engaged in joint marketing for the following products: frame relay, private line, and ATM.

    We inquired of management and management indicated that the manner in which the ILEC employees performed joint marketing services for VSSI included the following:

    - The ILEC Corporate Account Managers received orders from the customers and forwarded such orders to the VSSI Document Compliance Group.
    - The orders were entered into the VSSI NOMES (data circuits system) and BOBCO (billing system).

We inquired of management which interfaces were used to provide the services, what type of information was made available to ILEC representatives, and whether VSSI and unaffiliated providers of Advanced Services had access after December 27, 2000 through the same interfaces that were made available to the ILECs to the same customer specific information for pre-ordering and ordering, other than credit history, that was made available to the ILECs for joint marketing. The ILECs did not market local advanced services during the Engagement Period on behalf of VSSI.

We inquired of management and noted the procedures that were followed by the ILEC to bill VSSI for joint marketing services rendered. The Affiliate Transaction Group used two methods for billing - IMBR and the Accounts Receivable Module in SAP:

- The IMBR was used to document all the accounting information and was sent to the appropriate finance personnel in both companies. The information was then uploaded to SAP and used to create journal entries. At the end of the month, the payables and receivables were settled through the intercompany settlement process.
- Within SAP, the information was transferred to the Accounts Receivable module, which recorded the journal entries.

We inquired of management regarding the controls in place to ensure that the joint marketing costs are fully recovered by the ILECs. Management indicated that joint marketing for VSSI was priced pursuant to CC Docket 96-150. Joint marketing services are included in the Cost Allocation Manual, which is subject to separate audit requirements.

We obtained the amounts billed by the ILECs to VSSI for joint marketing services by month during the Engagement Period. We randomly selected September 2000 and December 2000 and obtained invoices and compared the amounts per the invoices to the related Joint Marketing Agreement and detailed unit reports. The detailed unit reports display how the ILECs track and calculate the amounts to be billed to VSSI for joint marketing. No discrepancies were noted.

For the selected months, we compared the selected joint marketing invoices to the IMBR and noted the invoices were included in the IMBR. We obtained the monthly intercompany cash settlement journal entries and noted the IMBR was included.

We inspected Verizon's Internet web site, www.gte.com/AboutGTE/272s.html, and noted that joint marketing was posted to the web site as an affiliate transaction.

Objective VII: Determine whether the ILECs discriminated between the separate Advanced Services affiliates and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards.

1. We obtained the ILECs' written procurement procedures, practices, and policies for services and goods provided by VSSI. We noted no stated purchasing preferences contained in the ILECs' procedures. We obtained and documented the details of the ILECs' bidding process, the selection process, and the methodology by which the ILECs disseminated requests for proposals to affiliates and third parties. The following processes are summarized from Verizon's Sourcing Policy and Procedures obtained from the Company's website at http://baims.bell-atl.com/network.corp_sourc/spp/index.htm:

   The sourcing process may be initiated in any of the following ways: 1) internal customers approach Corporate Sourcing (the department within the ILECs responsible for the procurement process) with a procurement need, 2) Corporate Sourcing begins an initiative when an existing contract is expiring, or 3) a technology group begins an evaluation of new technology or service. As the process evolves, Corporate Sourcing forms a Cross Functional Team ("CFT") made up of individuals representing the organizations impacted by the product or service to be procured. The purpose of the CFT is to provide the expertise needed to ensure the quality, accuracy, and integrity of the process used to select the suppliers and to allow the ILEC to obtain the best overall value in the product or service procured. Corporate Sourcing and the CFT then work together to develop the Request for Proposal ("RFP"), detailing contract terms and conditions that will apply. Upon completion of the RFP, the CFT and Corporate Sourcing form a list of potential suppliers, and the RFP is then distributed to these suppliers. RFP responses from suppliers are received and reviewed by Corporate Sourcing and the CFT, and negotiations are held with the most qualified suppliers. The CFT and Corporate Sourcing consider cost, quality, service, and technology when selecting a supplier. Based on those qualities, the selected supplier is awarded the contract.

2. We inquired of management and documented the process that VSSI followed to request a service under an interconnection agreement, a service under tariff, and a service offered by written agreement from the ILECs. We inquired of management and documented that VSSI did not request services directly from the ILEC business unit that provided the service. Management indicated that VSSI obtained information about services through the Verizon East Wholesale Source website, www.bell-atl.com/wholesale/html/handbooks/clec, and through the Verizon West Communications Customer Support website, http://128.11.40.241/clec_guide/master.htm. Depending on the location and the type of request, VSSI submitted requests using one of the following methods: 1) through an EDI , 2) through a Verizon Wholesale Systems Web GUI, or 3) on the standard Local Service Request ("LSR") form.

   We documented that the ILECs and VSSI execute contracts that serve as the proper approval to request services from the ILECs. The process to execute a contract begins by determining the type of contract to be formed, providing a description of the product or service to be performed, and noting the terms of the contract. The ILECs then determine that the contract is in compliance with pricing and affiliate transaction rules. After contract negotiations are complete, the ILECs must obtain legal approval and signatures necessary to execute the contracts.

3. We inquired of the ILECs' management and documented the process that an unaffiliated entity followed to request a service under an interconnection agreement, a service under tariff, and a service offered by written agreement from the ILECs. We inquired of the ILECs' management and documented that the unaffiliated entities did not request services directly from the ILEC business unit that provides the service. Management indicated that unaffiliated entities initially requested services through the Verizon East Wholesale Source website, www.bell-atl.com/wholesale/html/handbooks/clec, and through the Verizon West Communications Customer Support website, http://128.11.40.241/clec_guide/master.htm. Depending on the location and type of request, the unaffiliated entity submitted requests using one of the following methods: 1) through EDI 2) through a Verizon Wholesale Systems Web GUI, or 3) on the standard LSR form.

   We documented that the ILECs and unaffiliated entities execute a contract that serves as the proper approval to request services from the ILECs. The process to execute a contract begins by determining the type of contract to be formed, providing a description of the product or service to be performed, and noting the terms of the contract. After contract negotiations are complete, the ILECs must obtain legal approval and signatures necessary to execute the contracts.

4. We inquired of management and management indicated that there were no procurement awards by the ILECs to VSSI and that VSSI did not submit bids to the ILECs during the Engagement Period.

5. We obtained a list of equipment (including software), furniture, fixtures, services, facilities, and customer network services information, excluding Consumer Proprietary Network Information ("CPNI") as defined in Section 222(f)(1) of the Communications Act of 1934, as amended, made available to each separate Advanced Services affiliate by the ILECs. This list excludes services and facilities provided pursuant to interconnection agreements. For a random sample of 100 items for VADI and VADI-VA, we noted that the entire sample of assets was transferred from the ILECs to the separate Advanced Services affiliates. Per the Merger Conditions paragraph 3(e), ILECs are permitted to transfer these assets on a discriminatory basis.

   We obtained a list of services made available to VSSI by the ILECs. We inquired of management and management indicated that the ILECs made available only services to VSSI. For 12 VSSI items selected by the Specified Users, we noted that the ILECs used the website, http://gte.com/AboutGTE/272s/index.html, to inform unaffiliated entities of the aforementioned transactions.

6. We obtained a list from the ILECs of unaffiliated entities who have purchased the same goods (including software), services, facilities, and customer network services information from the ILECs as VSSI.

   Management indicated that the services purchased by unaffiliated entities that are the same services as purchased by VSSI include inside wire installation and repair, capacity services, operator services, voice messaging services, and miscellaneous blanket services for VSSI, which are available to unaffiliated entities on the same rates, terms and conditions. From the list obtained, we selected a random sample of 10 services purchased by unaffiliated entities and compared the rates, terms and conditions of the selection to the rates, terms, and conditions offered to VSSI. We noted the following differences:

Table 21

Type of Agreement	Unaffiliated Party Name	Type of Rate, Term, or Condition	Differences	
			VSSI	Unaffiliated Entities
1. Inside Wire Installation and Repair Service Agreement	****proprietary****	Time required to notify parties of change in service description and charges	120 Days	***proprietary***
2. Capacity Agreement	****proprietary****	Monthly Recurring Charges		
		DS3		
		1 yr	$1,400	$***proprietary***
		3 yr	$1,325	$***proprietary***
		5 yr	$1,250	$***proprietary***
		7 yr	$1,175	$***proprietary***
		OC3/OC3c		
		1 yr	$3,200	$***proprietary***
		3 yr	$3,050	$***proprietary***
		5 yr	$2,900	$***proprietary***
		7 yr	$2,750	$***proprietary***
		OC12/OC12c		
		1 yr	$7,500	$***proprietary***
		3 yr	$7,125	$***proprietary***
		5 yr	$6,750	$***proprietary***
		7 yr	$6,375	$***proprietary***
		OC48/OC48c		$***proprietary***
		1 yr	$15,000	$***proprietary***
		3 yr	$14,250	$***proprietary***
		5 yr	$13,500	$***proprietary***
		7 yr	$12,750	
		Service Commitment Pricing OC12 MRC From LA to Santa Monica	$6,375	$***proprietary***
3. Capacity Agreement	***proprietary***	Term of Contract	7 years	***proprietary***
4. Operator Service Agreement	***proprietary***	Busy Line Verification	$0.99	$***proprietary***
		Busy Line Interrupt	$1.05	$***proprietary***
5. Operator Service Agreement	***proprietary***	Term of Contract	3 years	***proprietary***

PUBLIC VERSION – REDACTED

1. Management indicated that the VSSI agreement differed from the ****proprietary**** agreement in the time required to notify the parties of changes in rates and conditions. Management indicated that the ****proprietary**** was used as the basis for negotiating an Inside Wire Installation and Repair Service Agreement with VSSI. The ****proprietary**** required a ****proprietary**** -day notification of changes is services description and charges to the parties. During VSSI contract negotiations, a new model agreement was developed which changed, the notification provisions from ****proprietary**** to ****proprietary**** days. The new model agreement was subsequently used as the basis for negotiations with ****proprietary**** (and other CLECs). Management indicated that the VSSI agreement was executed on November 4, 1999. The ****proprietary**** agreement was executed on June 2, 2000.
2. Management indicated that the Capacity Agreements for ****proprietary**** and VSSI were ICBs. For ICBs, the calculation for the rates for the Monthly Recurring Charges (MRCs) and Service Commitment Term & Pricing depend on the following variables:
   - Type of service requested, which is the capacity of the service
   - Contract term selected by the customer
   - Termination point of service
3. Management indicated that the Capacity Agreements for ****proprietary**** and VSSI were ICBs. For ICBs the customer may select the contract term.
4. Management indicated that differences exist because the ****proprietary**** was established prior to the Bell Atlantic/GTE merger. The agreement was executed on August 29, 2000.
5. Management indicated that the parties have an option of a term of either ****proprietary****.

7. We documented the ILECs' procedures for disseminating information about network changes, establishing or adopting new network standards, and making available new network services to VSSI and to unaffiliated entities. We noted that the ILECs disseminated such information via the Internet and noted no differences in the dissemination of such information between VSSI and unaffiliated entities. We compiled a list of network changes, network standard changes, and changes in available services during the Engagement Period from www.bell-atl.com/disclose, www.bell-atl.com/wholesale, and www.gte.com/regulatory.

8. We observed service representatives at ILEC call centers responding to inbound callers and attempting to market Advanced Services. We listened to five service representatives for at least one-half hour each at the following locations:

Verizon New York	Manhattan (BSC Demand Call Center)
Verizon New England	Lowell, MA (BSC Demand Call Center)
Verizon Virginia	Richmond, VA (BSC Demand Call Center)
Verizon Washington, D.C.	Richmond, VA (BSC Demand Call Center)
Verizon Consumers	Tampa, FL (Customer Contact Center)
Verizon North	Fort Wayne, IN (Business Sales Center)
VerizonMidwest	Fort Wayne, IN (Business Sales Center)
Verizon Midstates	Fort Wayne, IN (Business Sales Center)

We documented whether the service representatives provided the information to VSSI and how this information was provided to the affiliates. Of the calls monitored, we noted a total of five calls in the Richmond Demand Call Center and the Tampa Customer Contact Center that related to Advanced Services, specifically DSL service. Topics of the calls included inquiries about DSL service and availability. Service representatives located in Richmond transferred customers interested in DSL subscriptions to an ILEC Technical Center located in Portland, ME or Greenbelt, MD. Service representatives located in Tampa transferred customers interested in DSL subscriptions to ILEC DSL sales representatives located in Wentsville, MO. Because potential customer orders were transferred to another location, we were unable to determine how the service representative passed on to VSSI the information necessary for placement of the order. We also listened to calls that were not related to Advanced Services. The primary topics of these calls were billing inquiries, payment inquires, and service requests.

We inquired of management and management indicated that Verizon has not received the necessary regulatory approvals in California, Hawaii, and New Jersey, and a portion of Virginia to provide Advanced Services through a separate affiliate. Therefore, Verizon did not provide Advanced Services through a separate affiliate in these areas by December 27, 2000. Consequently, we did not perform this procedure for the Verizon California Business Sales Center in Huntington Beach, California or the Verizon New Jersey Demand Call Center in Trenton, New Jersey.

9. We inquired of management and management indicated that there were no customer orders for Advanced Services placed with VSSI dated on or after December 27, 2000.

   Management indicated that VSSI did not file any collocation applications during the Engagement Period.

   We inquired of management and management indicated that VSSI did not place any Advanced Services Equipment within an ILEC's central office and/or remote terminal location during the Engagement Period.

Objective VIII: Determine whether the ILECs and separate Advanced Services affiliates subject to Section 251(c) of the Act fulfilled requests from unaffiliated entities for access to facilities and unbundled network elements within a period no longer than the period in which it provides such access to themselves or their affiliates.

1. We inquired of management whether performance measurements are reported for each state for VSSI as required by Paragraph 9 in the Merger Conditions and management indicated that the performance measures are reported by the ILECs for VSSI for all measures as defined in Merger Condition 5. Management also indicated that Competitive Local Exchange Carrier ("CLEC") specific measures under Merger Condition 5 do not appear on CLEC specific reports where there is no activity for the CLEC. Additionally, management noted that Merger Condition 5 does not require merger metric reports in any state where Verizon has received Section 271 approval (i.e. for NY in 2000).

2. With respect to the measures referred to in Objective VIII, Procedure 1, we performed the following:

   For measures where CLEC specific data is routinely reported and for measures where VSSI purchased the product or service being measured, we obtained performance measurement data from management. Management indicated that the performance measures for Verizon East were collected starting in November 2000, and for Verizon West the data was collected starting in July 2000. For Verizon East, we performed the procedure noted below on November and December 2000 data, while in Verizon West, we performed the procedure on data from July through December 2000.

   For a random sample of 45 items, we compared the measurements for the ILECs' performance for services provided to VSSI as compared to the ILECs' performance for services provided to other CLECs and noted the following:

Key to matrices:

- Random Sample — The unique line number assigned to each report record received from the ILEC.
- Metric — The measurement as defined by Condition 5 of the Merger Conditions.
- Product — The product for which the measurement was reported.
- Date — The month and year in which the measurement was reported.
- ASA ID — The unique identifier for VSSI is GOP is the GTE region
- State — The state in which the measurement activity was reported.
- Benchmark — The performance standard against which management measures results. Management indicated that for Verizon West the 'Benchmark' is only populated when it is other than parity with GTE Retail.
- ASA Result — The performance measurement result for the separate Advanced Services affiliate.
- CLEC Aggregate Result — The performance measurement result for all of the aggregated CLEC population (excluding the separate Advanced Services affiliate).
- ILEC Result — The performance measurement result for the ILEC.
- Absolute Difference Between the ASA and CLEC Aggregate — The difference between the separate Advanced Services affiliate result and the aggregated CLEC result in absolute value.

Verizon West Matrix:

Table 24

Random Sample	Metric	Product	Date	ASA ID	State	Benchmark	ASA Result	CLEC Aggregate. Result	ILEC Result	Absolute Difference Between the ASA and CLEC Aggregate
25	PO-1-07 % CSR Queries On Time-Manual		20000701	GOP	CA	95	****proprietary****	95.41	****proprietary****	****proprietary****
39	MR-2-01 Network Trouble Report Rate	UNE Loop xDSL Capable	20000701	GOP	FL		****proprietary****	11.37	****proprietary****	****proprietary****
55	PO-1-03 Avg Response Time-Address Verification		20000701	GOP	FL		****proprietary****	7.20	****proprietary****	****proprietary****
58	PO-1-08 % CSR Queries On Time-WISE		20000701	GOP	FL	95	****proprietary****	96.00	****proprietary****	****proprietary****
88	OR-5-03 % Flow Through-Achieved	Resale	20000701	GOP	IL		****proprietary****	19.44	****proprietary****	****proprietary****
119	PO-2-02 OSS Interface Availability - Scheduled Hours	WISE CSR Requests	20000701	GOP	IN	99.5	****proprietary****	100.00	****proprietary****	****proprietary****
139	OR-1-05 % On Time LSC < 10 Lines (Specials-No Flow Through)	Spc w/ < 10 Lines	20000701	GOP	KY	95	****proprietary****	98.94	****proprietary****	****proprietary****
173	OR-1-02 % On Time LSC-Flow Through	Spc	20000701	GOP	OR	95	****proprietary****	100.00	****proprietary****	****proprietary****
193	PR-4-02 Average Delay Days - Total	Resale POTS	20000701	GOP	OR		****proprietary****	1.67	****proprietary****	****proprietary****
211	OR-2-02 % On Time LSR Reject-Flow Through	Spc	20000701	GOP	TX	95	****proprietary****	84.73	****proprietary****	****proprietary****
214	OR-5-01 % Flow Through-Total	Resale	20000701	GOP	TX		****proprietary****	11.88	****proprietary****	****proprietary****
257	PO-2-02 OSS Interface Availability - Scheduled Hours	WISE Repair	20000701	GOP	WA	99.5	****proprietary****	99.20	****proprietary****	****proprietary****

PUBLIC VERSION – REDACTED

Random Sample	Metric	Product	Date	ASA ID	State	Benchmark	ASA Result	CLEC Aggregate. Result	ILEC Result	Absolute Difference Between the ASA and CLEC Aggregate
417	OR-5-03 % Flow Through-Achieved	Resale	20000801	GOP	KY		**proprietary**	42.57	**proprietary**	**proprietary**
426	PO-2-02 OSS Interface Availability - Scheduled Hours	WISE Repair	20000801	GOP	KY	99.5	**proprietary**	100.00	**proprietary**	**proprietary**
446	OR-1-04 % On Time LSC < 10 Lines (No Flow Through)	Resale POTS w/ < 10 Lines	20000801	GOP	OR	95	**proprietary**	98.53	**proprietary**	**proprietary**
475	MR-5-01 % Repeat Reports within 30 Days	Resale POTS	20000801	GOP	TX		**proprietary**	7.05	**proprietary**	**proprietary**
481	OR-2-02 % On Time LSR Reject-Flow Through	Spc	20000801	GOP	TX	95	**proprietary**	79.88	**proprietary**	**proprietary**
541	PR-6-02 % Installation Troubles reported within 7 Days	Resale POTS	20000801	GOP	WA		**proprietary**	2.24	**proprietary**	**proprietary**
547	MR-4-08 % Out of Service > 24 Hours	Resale POTS	20000901	GOP	CA		**proprietary**	8.45	**proprietary**	**proprietary**
566	PR-5-03 % Orders Held for Facilities > 60 Days	Resale POTS	20000901	GOP	CA		**proprietary**	0.10	**proprietary**	**proprietary**
575	PO-1-03 Avg Response Time-Address Verification		20000901	GOP	FL		**proprietary**	7.09	**proprietary**	**proprietary**
579	PO-1-08 % CSR Queries On Time-WISE		20000901	GOP	FL	95	**proprietary**	99.48	**proprietary**	**proprietary**
630	PR-4-04 % Missed Due Dates - Dispatch	Resale POTS Disp	20000901	GOP	IN		**proprietary**	2.23	**proprietary**	**proprietary**
642	PO-1-06 Avg Response Time-Facility Availability		20000901	GOP	KY		**proprietary**	140.00	**proprietary**	**proprietary**
668	PO-1-06 Avg Response Time-Facility Availability		20000901	GOP	OR		**proprietary**	2309.43	**proprietary**	**proprietary**

PUBLIC VERSION – REDACTED

Random Sample	Metric	Product	Date	ASA ID	State	Benchmark	ASA Result	CLEC Aggregate. Result	ILEC Result	Absolute Difference Between the ASA and CLEC Aggregate
682	MR-4-01 Mean Time to Repair	Resale POTS	20000901	GOP	TX		**proprietary**	11.45	**proprietary**	**proprietary**
699	PR-4-04 % Missed Due Dates - Dispatch	Resale POTS Disp	20000901	GOP	TX		**proprietary**	3.62	**proprietary**	**proprietary**
709	MR-4-01 Mean Time to Repair	Resale POTS	20000901	GOP	WA		**proprietary**	8.36	**proprietary**	**proprietary**
729	PR-6-02 % Installation Troubles reported within 7 Days	Resale POTS	20000901	GOP	WA		**proprietary**	4.68	**proprietary**	**proprietary**
738	OR-5-03 % Flow Through-Achieved	Resale	20001001	GOP	CA		**proprietary**	10.30	**proprietary**	**proprietary**
757	PR-4-05 % Missed Due Dates - No Dispatch	UNE Loop NonDes NonDisp	20001001	GOP	CA		**proprietary**	2.92	**proprietary**	**proprietary**
763	PR-6-02 % Installation Troubles reported within 7 Days	Resale POTS	20001001	GOP	CA		**proprietary**	1.87	**proprietary**	**proprietary**
782	PR-3-08 % Completed in 5 Days - No Dispatch	Resale POTS NonDisp	20001001	GOP	FL		**proprietary**	98.55	**proprietary**	**proprietary**
791	PR-6-02 % Installation Troubles reported within 7 Days	Resale POTS	20001001	GOP	FL		**proprietary**	3.75	**proprietary**	**proprietary**
804	OR-5-03 % Flow Through-Achieved	Resale	20001001	GOP	IL		**proprietary**	10.17	**proprietary**	**proprietary**
822	PO-1-02 Avg Response Time-Service Appointment Scheduling		20001001	GOP	IN		**proprietary**	8.63	**proprietary**	**proprietary**
855	PR-4-02 Average Delay Days - Total	Resale POTS	20001001	GOP	KY		**proprietary**	3.19	**proprietary**	**proprietary**
876	OR-5-03 % Flow Through-Achieved	Resale	20001001	GOP	OR		**proprietary**	1.78	**proprietary**	**proprietary**

PUBLIC VERSION – REDACTED

Random Sample	Metric	Product	Date	ASA ID	State	Benchmark	ASA Result	CLEC Aggregate. Result	ILEC Result	Absolute Difference Between the ASA and CLEC Aggregate
1132	MR-4-08 % Out of Service > 24 Hours	Resale POTS	20001101	GOP	OR		****proprietary****	2.86	****proprietary****	****proprietary****
1148	PR-6-02 % Installation Troubles reported within 7 Days	Resale POTS	20001101	GOP	OR		****proprietary****	2.18	****proprietary****	****proprietary****
1203	PO-1-03 Avg Response Time-Address Verification		20001101	GOP	WA		****proprietary****	5.09	****proprietary****	****proprietary****
1205	PO-1-06 Avg Response Time-Facility Availability		20001101	GOP	WA		****proprietary****	7823.05	****proprietary****	****proprietary****
1254	PO-1-06 Avg Response Time-Facility Availability		20001201	GOP	CA		****proprietary****	26599.62	****proprietary****	****proprietary****
1485	MR-2-01 Network Trouble Report Rate	Resale POTS	20001201	GOP	NC		****proprietary****	0.81	****proprietary****	****proprietary****
1633	PR-3-08 % Completed in 5 Days - No Dispatch	Resale POTS NonDisp	20001201	GOP	TX		****proprietary****	99.34	****proprietary****	****proprietary****

For certain measurements for which VSSI result was reported but for which no CLEC Aggregate result was reported, we inquired of management and management indicated that, for states and periods in which there was VSSI activity but no other CLEC activity, there are no CLEC aggregate results. Management further indicated that in these instances, the CLEC aggregate result would be blank because VSSI results are removed from the aggregate leaving no other value to report for CLEC aggregate.

We inquired of management what procedures the Company uses to review ILEC treatment of VSSI relative to unaffiliated CLECs. Management indicated that FCC aggregate performance assurance plan metrics that are not meeting the standard are reviewed each week with Verizon senior management, including metrics where VSSI is the retail comparison. The root cause for the missed performance is discussed and actions are initiated to bring the performance back into standard. In addition, management noted that the above review cycle is used for internal management of performance and as such is not a formal or fully documented process.

3. We inquired of management and management indicated that for telephone exchange service and exchange access service the following Sec. 272(e)(1) measures are used by Verizon for VSSI:

Table 25

Measurement	Definition
Firm Order Confirmation Response Time	The amount of elapsed time between the receipt of a valid order request (Access Service Request -ASR) from Interexchange carriers/customers and the distribution of a service order confirmation back to the customer.
Average Installation Interval	The average interval expressed in business days, between the date the service order of Interexchange carriers/customers was placed and the date the service order was completed for orders completed during the current reporting period. This amount excluded orders having commitment dates set by customers. This amount is calculated by dividing the total business days for all installation orders or circuits from Interexchange carriers/customers by the number of installation orders or circuits from Interexchange carriers/customers.
% Installation Commitments Met	The percentage of commitments met during the current reporting period. This amount is calculated by dividing the number of installation orders or circuits from Interexchange carriers/customers completed by commitment date by the total number of installation orders or circuits.
Average Time of PIC Change	Time measured from receipt of carrier initiated change to Completion at switch.
Total Trouble Reports	The total number of circuit-specific trouble reports referred to the ILEC by Interexchange carriers/customers during the current reporting period.
Average Repair Interval	The average interval, expressed in hours to the nearest tenth based on a stopped clock, from the time of the reporting carriers receipt of the trouble report to the time of acceptance by the complaining Interexchange carrier/customer. This interval is defined as Interval measure in clock hours, excluding only time when maintenance is delayed due to circumstances beyond the ILEC's control. Typical reasons for delay include, but are not limited to, premise access when a problem is isolated to the location or to absence of customer support to test facilities. This amount is calculated by dividing the total hours for the total trouble reports divided by the number of total trouble reports.

For exchange telephone service, Verizon does not maintain reports unique to a specific end user indicating time intervals for ordering, provisioning and performing repair services. Verizon would need to compile such a report from underlying service order data and compare this result to aggregate end user performance data should a carrier request the information. No entity has requested such a report.

We inquired of management and documented how the ILECs provide individual CLECs with performance measures, for telephone exchange service and exchange access service per Sec. 272(e)(1). The ILEC addresses requests from individual CLECs (or other entities) for results under Section 272(e)(1) for service interval data on a case-by-case basis. Information requests of this nature enter the business through various channels (e.g. account managers, Carrier Account Team Centers (CATCs), legal, or senior management). Once the request is identified, the Company's Regulatory Department is notified. Regulatory, in turn, contacts the business owners to aggregate information pertinent to the request using the business rules identified above for 272(e)(1) reporting. Management further indicated that this response, limited to data consistent with Verizon's current obligations under regulation, is provided in a timely manner to the requesting party. Management also indicated that no requests were made during the year 2000.

We obtained the results of the annual examination engagement regarding Verizon's compliance with the Merger Conditions (see Para. 56 of the Merger Conditions). We reviewed those results and documented auditor observations regarding the accuracy and completeness of performance measures reported for 272(e)(1) measurements. We noted the following relevant observations:

Verizon East Observations

1. The East Installation measurements, "Average Installation Interval" and "Percent Commitments Met" could not be replicated. Data in the relevant operational support systems (TIRKS) was not archived beyond 45 days and therefore historical transaction data necessary to execute our audit procedures was no longer available when we requested it. Management indicated that the archiving procedures for the relevant data have been modified to correct this problem effective with the January 2001 data month.
2. The New Jersey Maintenance metrics, Total Troubles Reported & Average Repair Interval, for September reporting period were reported incorrectly. The New Jersey Maintenance measures incorrectly included troubles for circuits originated in New York. This impacted one month for one state. Management indicated that a mechanized control process has been implemented to detect this condition in the future, which replaces the previous manual process. The Company filed revised reports with the FCC on May 15, 2001.

Verizon West Observations

1. Data extractions for the West "Total Trouble Reports" for the 3rd and 4th quarter 2000 resulted in inconsistent record counts on two separate occasions. The record counts were investigated further and the difference was determined to be approximately 80 out of 7.1 million records (0.001% of the population).
2. The Percent (%) Commitments Met measure is being reported with only one decimal place although the business rules indicate the measure should be presented with two decimal places. Management indicated that this has been corrected and the Company has filed revised reports with the FCC on May 15, 2001.
3. Average Repair Interval: Per the July 31, 2000 letter to the FCC from the Company, time when maintenance is delayed due to circumstances beyond the ILEC's control should be excluded from the measurement calculations. Verizon is not excluding this interrupt time for the measurements calculated for Genuity only due to the lack of circumstance-specific data in the underlying source system data used for Genuity.
4. Average Installation Interval metric: Verizon is not excluding official state holidays and weekends from the calculations of the average installation interval. Per the July 31, 2000 letter to the FCC from the Company, the average interval should be

calculated using business days only. On May 15, 2001, in a letter to the FCC Common Carrier Bureau, Verizon requested a change in the business rules for the Average Installation Interval to address this.

5. The "Average Installation Interval" for Verizon West is not excluding records with commitment dates set by the customer although per the July 31, 2000 letter to the FCC from the Company, the measurement should "exclude[s] orders having commitment dates set by customers." On May 15, 2001, in a letter to the FCC Common Carrier Bureau, Verizon requested a change in the business rules for the Average Installation Interval to address this.
6. The results of two Verizon companies (GTE Mobilenet and Primeco) were not reported due to a manual processing error for December 2000. The companies resumed reporting on the January 2001 reports. This impacted one month across five states. This was corrected in revised reports submitted by the Company to the FCC on May 15, 2001.
7. For five Verizon West states, the "Total Trouble Reports" measure incorrectly included trouble reports in the measure for properties not subject to the merger conditions (properties sold or to be sold). Management indicated that this has been corrected and the Company has filed revised reports with the FCC for all of 2000 on May 15, 2001.
8. The metric, "Average Installation Interval" for Florida - October 2000, was including duplicates within their results. The error affects filed measurements for July through December 2000. Management indicated that this has been corrected and the Company has filed revised reports with the FCC for all of 2000 on May 15, 2001.
9. The metric, "Average Installation Interval", did not exclude 'why_miss' customer reason codes from the denominator as stated in the requirements. The 'why_miss' codes were being excluded from the numerator. Management indicated that this has been corrected and the Company has filed revised reports with the FCC for all of 2000 on May 15, 2001.

4. We obtained a list of the Advanced Services provided, by state, by VSSI and the ILECs as of December 31, 2000.

   Management indicated there are three instances where the Verizon ILECs sell private networks that provide both voice and advanced services using the same switching, transmission, and network equipment: Commonwealth of Pennsylvania, State of West Virginia and City of Philadelphia.
   The networks are provided pursuant to individual case basis contracts. Verizon indicated that to split these networks apart would substantially disrupt service and increase their cost. Management indicated that they notified the FCC of this condition in a letter dated December 18, 2000.

5. We inquired of management and management indicated that VSSI is providing, on a resale basis, local voice grade services in the states of California, Florida, Illinois, Indiana, Kentucky, Oregon, Tennessee, Texas, and Washington.

Objective IX: Determine whether the ILECs and any affiliate subject to Section 251(c) of the Act made available unbundled network elements, or other facilities or services, to other providers of Advanced Services on a nondiscriminatory basis.

1. We obtained the written agreements offered to VSSI, excluding interconnection agreements. We listed all services offered by the ILEC and compared this list with the list of services offered to VSSI in Objective I, Procedure 4. We noted the following difference:
   - Tariff Special Access Services, Tariff Switched Access Services, and Tariff Telephone Services are included in the Objective I, Procedure 4 list but are not included in the Objective IX, Procedure 1 list. These services are purchased for VSSI's own use. They are purchased in accordance with the ILEC's publicly filed and approved state and federal tariffs."

   With respect to the list of services offered by the ILECs to VSSI, we determined and noted that each of the following services was offered through a written agreement:

   - Billing Services
   - Capacity
   - Technical Support
   - General, Administrative, and Operating Services
   - Inside Wire Installation & Repair Services
   - Work Force Management Training
   - CPE Maintenance
   - Network Monitoring
   - National Directory Assistance (includes call completion and branding)
   - Communication Medium Services
   - National Operator Assistance (includes call recording and rating)
   - Payment Agent Services
   - Routing and Rating Database Maintenance
   - Sales Agency Services
   - Joint Marketing
   - Slamming/Liability Services
   - Provision of Licensed Software
   - Technical Support for Licensed Software
   - Interlata Call Completion Services
   - Warm Transfers
   - Voice Messaging
   - Conference Connection

2. We obtained a list of the agreements, excluding the interconnection agreements and tariffs, in effect between the ILECs and VSSI and similar agreements between the ILECs and unaffiliated companies.

   For VSSI, we obtained a list of unaffiliated entities and selected a random sample of ten agreements. We compared the rates, terms and conditions offered to VSSI to those offered to the unaffiliated companies and noted no differences.

3. We requested a list of each occurrence of a non-affiliated CLEC request to opt-in to an interconnection agreement the ILEC has with VSSI. Management indicated that there were

no occurrences of a nonaffiliated CLEC requesting to opt-in to an interconnection agreement that an ILEC had with VSSI.

4. We inquired of management and management indicated that the ILECs did not provision UNEs to VSSI.

Attachment 1

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March 12, 2001

Joint Federal/State Oversight Team
For the Biennial Audit Required under Section 272
c/o J. Paretti

and

PricewaterhouseCoopers
1301 Avenue of the Americas
New York, New York 10019

Please find attached the report required in the March 1 version of the General Standard Procedures for Biennial Audits Required under Section 272 indicating the corrective actions Verizon took between July 1 and September 30, 2000.

Susan Browning

Executive Director – Affiliate Interest Compliance

cc:
J. Ward
G. Asch
J. DiBella

March 12, 2001

In connection with the engagement to perform an agreed-upon procedures examination related to the compliance of Verizon Communications, Inc. ("the Company") with the Federal Communication Commission's ("FCC's") rules implementing Section 272 of the Act, *Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended*, 11 FCC Rcd 21905 (1996), and Sections 53.201-213 of the FCC's rules (collectively, the "FCC's Section 272 Rules"), this report provides the corrective actions taken by the Company after the Bell Atlantic/GTE merger relating to section 272 requirements.

1. The former GTE affiliates that became section 272 affiliates after the merger are Verizon Select Services Inc. (formerly GTE Communications Corp.), Codetel International Communications Incorporated; Telus Communications Incorporated, and Quebec Telephone.

2. Verizon Select Services provides interLATA services in New York, Codetel leases switch capacity from Verizon Select Services in New York City, and Telus and Quebec Telephone are foreign local exchange carriers whose calling cards can be utilized in New York.

3. After the Merger Closing Date, Verizon reviewed the former GTE affiliates for section 272 compliance as part of its integration of the Bell Atlantic and GTE compliance programs. This review identified four transactions involving the former GTE affiliates that required corrective action, which has been taken. Specifically,

   a. One Codetel International transaction with Verizon New Jersey and two Telus contracts with the GTE local exchange carriers had not been posted on their Internet sites. This was corrected on September 22, 2000.

   b. A contract with one customer for services provided in New York had not been transferred from one GTE affiliate (GTE Data Services, Inc.) to Verizon Select Services. This also was corrected on September 21, 2000.

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June 8, 2001

Joint Federal/State Oversight Team
For the Biennial Audit Required under Section 272
c/o J. Paretti

and

PricewaterhouseCoopers
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On March 12, 2001, in accordance with the March 1, 2001 version of the General Standard Procedures for Biennial Audits Required under Section 272 , I provided a memo indicating corrective actions Verizon took between July 1 and September 30, 2000 for the former GTE affiliates. In the last month Verizon confirmed a similar matter requiring correction. The details are attached.

Susan Browning
Executive Director — Affiliate Interest Compliance

cc:
J. Ward
G. Asch
J. DiBella

June 8, 2001

In connection with the engagement to perform an agreed-upon procedures examination related to the compliance of Verizon Communications, Inc. (“the Company”) with the Federal Communication Commission’s (“FCC’s”) rules implementing Section 272 of the Act, *Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended*, 11 FCC Rcd 21905 (1996), and Sections 53.201-213 of the FCC’s rules (collectively, the “FCC’s Section 272 Rules”), this report provides the corrective actions taken by the Company after the Bell Atlantic/GTE merger relating to section 272 requirements.

Last month a number of circuits in New York which should have been provided through a Section 272 affiliate were identified as having been inadvertently provided through a Verizon affiliate Telecommunications Service Inc (TSI). The customers for these circuits were reassigned to Verizon Select Services, a Section 272 affiliate. This correction was completed on May 30, 2001.

Observation of the
Federal/State Joint Audit Team For the
Verizon Section 272 Biennial Audit

On June 14, 2001, Verizon notified the Federal/State Joint Audit Team of the existence of an affiliate, Telecommunications Service Inc. ("TSI"), and its associated interLATA service operations. Verizon notified the Federal/State Joint Audit Team by letter dated June 8, 2001. As a result, no procedures in the section 272(d) biennial audit were applied to TSI for the engagement period.