

ATTESTATION EXAMINATION OF PACIFIC BELL'S CHCF-B CLAIMS

A. EXECUTIVE SUMMARY

This report summarizes the procedures performed and results obtained that were the basis for the Accountant's Letter at the end of the report. Our examination revealed a condition at Pacific Bell Telephone Company, Inc. (Pacific Bell or The Company), which resulted in a misstatement of amounts claimed from the CHCF-B Fund. The company used incorrect amounts for federal offsets for a portion of the test period as described in Finding 11 (F11). Additionally, we were unable to satisfy ourselves with the amount of under-claims related to non-geocoded records and erosion of the grandfather table for embedded base claims as described in Findings 9 (F9) and 14 (F14), respectively.

The Accountants' Letter indicates that, except for the effects of the findings we were unable to quantify and the material misstatements referred to above, the claims represent the submission of CHCF-B Claims for the Company in all material respects and are in conformity with the California Public Utilities Commission Rules and Regulations.

Major findings from the examination are as follows:

- Our review revealed no weaknesses in the procedures and controls that are in place over the CHCF-B record identification, extraction and reporting processes which would result in an increased risk of material misstatements. The Company has adequate controls in place to assign Census Block Group (CBG) identifiers to each customer address.
- Pacific Bell is not in strict compliance with the CPUC's rules and regulations regarding the timing of data cutoff to capture claimed lines for a monthly reporting period.
- The company experienced approximately \$334,000 in duplicate claims during the examination period.
- The company experienced a significant quantity of ungeocoded lines during the test period.
- All data tested through our detailed test, was correctly reported on the breakout report that was ultimately submitted to the Commission.
- The company used incorrect amounts for federal offsets for a portion of the test period.
- The company experienced significant underclaims due to the understatement of defaulted lines
- Pacific Bell established Account #4010.229 - Accounts Receivable - Catch-up Surcharge and Surcredit, and recorded catch-up surcredit amounts distributed during each billing cycle into the account during the period March 1, 2002 through May 31, 2002

- Primary lines so designated on a customer work order and put in service after December 1997, were not supported by a retained primary line certification letter
- The company experiences a number of resold lines without primary line certification from the reseller
- The catch-up surcredit of 29.143% was accurately applied to customers' bills.

Background, support and development work in connection with these findings are detailed throughout the text of this report. That detail should be read and considered when determining the impact and context of the findings.

Two recommendations resulted from our analysis:

- R1** The Company should adjust claims to account for the \$2,880,086 error due to incorrect federal offsets. (Refer to Finding F11)
- R2** The Company should provide evidence to the CPUC substantiating the establishment of procedures to retain primary line certification letters in accordance with Resolution T-16018. (Refer to Finding F15)

B. INTRODUCTION

The work performed by Vantage Consulting, Inc. and Smith, Turner & Reeves, summarized in this report, has been conducted in accordance with the work description included in the RFP issued by the California High Cost Fund-B (CHCF-B) Administrative Committee to conduct an examination of Pacific Bell's CHCF-B Claims. The purpose of the examination is to:

Determine whether CHCF-B claims submitted by Pacific Bell for the period February 1, 1997 through December 31, 2001 are in compliance with the Commission's decision, D.96-10-066, Ordering Paragraph 15b(1), "Reporting requirements for Carriers of Last Resort (COLR's) as established by Administrative Law Judge Ruling April 28, 1998."

Our work was organized and conducted to accomplish these goals.

In planning this engagement, it was agreed among Vantage Consulting, Inc.; Smith, Turner & Reeves, and CPUC staff, that the engagement would be an Attestation Examination as defined in the American Institute of Certified Public Accountants' (AICPA) Statements on Standards for Attestation Engagements (SSAE's). The first SSAE Attestation Standards was issued by the AICPA in 1986 but it was not numbered. In 1989, that standard, along with standards on prospective financial statements and pro forma financial statements, were codified as AT section 100 of the AICPA professional Standards, Volume 1. In 1993 the codification became officially designated SSAE No. 1, Attestation Standards. Since then, SSAE Nos. 2 through 9 have been issued.

The AICPA's rationale in issuing the attestation standards was threefold:

- To recognize the expansion of the practitioner's function. Practitioners are often called on to attest to many things other than historical financial statements. The practitioner's report adds credibility to an assertion and reduces information risk to users, thus providing a valuable service.
- To provide consistency among practitioners. The standards were intended to promote consistency among practitioners in performing services and reporting on them.
- To increase public acceptance and understandability. The standards narrow available services to a common set of functions understandable to the public.

SSAE No. 1 (At 100.1), as amended, defines an attestation engagement as follows:

"An attest engagement is one in which a practitioner is engaged to issue or does issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party."

The assertion in this engagement is as follows:

The CHCF-B claims submitted by Pacific Bell for the period February 1, 1997 through December 31, 2001 are in compliance with California Public Utility Commission (CPUC) rules and regulations as promulgated for the CHCF-B program.

C. APPROACH

This section of our report describes in detail our approach to this engagement. This description does not represent the specific work program utilized in conducting this attestation engagement, and does not include all the specific audit procedures performed in this engagement. It is a general description of the work performed by Vantage Consulting, Inc. and Smith, Turner & Reeves in order to understand the accounting system and procedures utilized by Pacific Bell to identify, summarize, and report claims, to assess the degree of reliance which can be placed on these systems and procedures. Also to provide the supplemental information included in this report.

Exhibit 1 - Outline of Project Approach, presents an overall view of the work performed and our approach. The discussion below presents more details of our approach and the work performed.

Attestation Examination of Pacific Bell CHCF-B Claims

Exhibit - 1 Outline of Approach

Review Procedures & Controls	Verify & Reconcile Data	Report
<p>Procedures Overview - Pacific Bell Regulatory Staff</p> <p>Review Procedures & Controls</p> <p style="padding-left: 20px;">Geo-coding Customer Records Error Identification and Correction Record Extraction and File Updates Geo-code Address Master Table Updates</p> <p>Review Procedures for the Account - "Accounts Payable End User Catch-up Surcredit"</p>	<p>Review Copies of CHCF-B Claims Forms and Other Documents and Filings</p> <ul style="list-style-type: none"> - CHCF-B Claims Forms and Breakout Schedule - Decision (D.) 96-10-066 - October 26, 1996 - Decision (D.) 98-09-039 - September 3, 1998 - Resolution T - 16018 - April 23, 1997 - Advice Letter 22328 - October 25, 2001 - Resolution T - 16622 - January 9, 2002 - Advice Letter 23036 - June 28, 2002 <p>Statistically Sample Service Orders for Customer Claims Submitted to CPUC to verify phone numbers, physical address, line type, etc..</p> <p>Statistically Sample Claimed Customers to verify CBG location, High Cost block, line certification, inclusion in embedded base, allocation and distribution on breakout reports.</p> <p>Statistically Sample Billed Customers to verify that catch-up surcredit has been applied to the appropriate billed amounts.</p> <p>Statistically Sample Claimed Customers to verify the claim reimbursement based on cost to serve per proxy model and revenues received.</p> <p>Identify and Summarize Exceptions</p>	<p>Report on Review of Procedures & Controls</p> <p>Report Examination Findings</p> <p>Accountant's Report on Attestation Examination</p>

Major tasks performed in the engagement included the following:

Customer Order Verification

In this task we verified that Pacific Bell's data in the CHCF-B claim database was supported by the customer data as shown in service order records maintained by Pacific Bell. Completion of this task involved comparisons of data from Pacific Bell's customer service order detail to a sample of records from the customer CHCF-B database maintained to support the reports submitted to the CHCF-B Administrative Committee. Specifically, we

matched name, physical address, billing phone number, account number, single or multi-line, primary line designation, and ULTS status in the database to customer service orders.

Census Block Group Claim Verification

In this task we addressed Pacific Bell's CHCF-B claims for lines in high cost Census Block Groups to determine if they accurately match those identified in the Commission Workshop Report "California High Cost Fund-B High Cost Census Block Groups."

Subsidy Level Verification

In this task we verified that Pacific Bell is using the appropriate subsidy per primary line as adopted by the CPUC in D. 96-10-066. This is accomplished by comparing the actual subsidy per line to the "California High Cost Fund-B High Cost Census Block Groups."

Analysis of Offsets

This task addressed the use of offsets by Pacific Bell. These include all federal programs, including the federal universal service fund and the carrier common line charge.

Backup Information Verification.

This task verified the accuracy of information supporting the Telecommunications Division's Breakout Reports, submitted by Pacific Bell as part of the monthly claims reporting to the CHCF-B Administrative Committee. In this task we used the information gleaned from other detail work (ULTS, primary line defaulted or designated) and confirmed that this data was accurately represented in the "Break-out Reports".

Primary Line Verification

This task verified that all primary lines in service have the appropriate line certification/designation on file.

Catch-up Surcredit Amount Verification

This task verified that the memorandum account, "Accounts Payable End User Catch-Up Claim/Surcredit," Pacific Bell Account No. 4010.229 - Accounts Receivable - Catch-up Surcharge and Surcredit, has applied the appropriate catch-up surcredit amounts to the ratepayers during the February 1, 2002 to April 30, 2002 time period.

Information Requests Obtained and Reviewed

Exhibit 2 - Information Requests, outlines the general Information Requests processed in this engagement.

Attestation Examination of Pacific Bell CHCF-B Claims

Exhibit - 1

List Information Requested During Examination

Request Number	Requested From	Requested By	Description of Information Required	Date Requested
101	Jeff Mondon	Tim Burns	Provide a copy of each monthly claim form and 'Page C1 report totals for the periods February 1997 through December 2001.	9/11/2002
102	Jeff Mondon	Tim Burns	Provide a copy of Federal Offset Calculation, prepared by Bob Ryan showing detail of revenue by type and access lines for 1997,1998,1999, 2000, and 2001	9/11/2002
103	Jeff Mondon	Tim Burns	Provide a listing of billing cycle dates each month and the area code and prefixes (NPA and NXX) for each billing cycle date	9/11/2002
104	Jeff Mondon	Tim Burns	Please provide a description of the billing system process for identifying 'claim customers', including processes and controls. Also, please include the geocoding component of the process. Please include a definition/explanation of all acronyms.	9/11/2002
105	Jeff Mondon	Tim Burns	Provide electronic copies of claim summary detail (section D of monthly claims) and internal billing system backup for the following months: October, 1997; July, 1998; August, 1999; May, 2000, and February, 2001.	9/11/2002
106	Jeff Mondon	Tim Burns	Please provide a copy of any Advice Letters regarding implementation of any catch-up surcredits, during the period February, 1997 thru December, 2001..	9/11/2002
107	Jeff Mondon	Tim Burns	Please provide a copy of any Advice Letters, regarding true-up of any catch-up surcredits during the period February, 1997 thru December, 2001, and the supporting work papers and/or documents.	9/11/2002
108	Jeff Mondon	Tim Burns	Please provide analysis or narrative describing the effect of cutting off at the end of the next business day after the end of the month as opposed to cutting off at the last day of the month at midnight.	9/11/2002

109	Jeff Mondon	Tim Burns	Please provides copies of claim forms and breakout information for the periods February 2001, May 2001, June 2001, August 2001, and October 2001	9/11/2002
110	Jeff Mondon	Tim Burns	Please provide a history of applied End User Common Line (EUCL) charges for the period February 1997 through December 2001	9/11/2002
111	Jeff Mondon	Tim Burns	For electronic files provided in item 105 above, please give descriptions of contents and columnar headings for the files entitled ClmSingle, ClmBorR, and ClmBR	9/11/2002
112	Jeff Mondon	Tim Burns	Provide service orders and applicable primary line certifications for the customer samples listed in the attached excel files entitled '10-97 detail test', '7-98 detail test', '8-9 detail test', '5-00 detail test', and '2-01 detail test'	10/11/2002
113	Jeff Mondon	Tim Burns	Provide copies of customer bills for the billing period March 13, 2002 for the attached sample entitled "3-13-02 Sample Telephone #'s"	10/16/2002
114	Jeff Mondon	Tim Burns	Provide service addresses in place at February 27, 2001 for the attached sample entitled '2-27-01 Sample Telephone #'s'	10/16/2002
115	Jeff Mondon	Tim Burns	Provide copies of customer bills for replacement customers for the billing period March 13, 2002 for the attached sample entitled "3-13-02 Replacement Sample Telephone #'s"	10/28/2002
116	Jeff Mondon	Tim Burns	Provide a listing of all carriers billed intrastate access during the catch-up surcredit period	10/28/2002
117	Jeff Mondon	Tim Burns	Provide written responses to the attached list of questions related to monthly changes in the attached schedule "Month to Month Analysis of Claims and Offsets"	10/29/2002
118	Jeff Mondon	Tim Burns	Provide general descriptions of the activity in the catch-up surcredit memorandum account including definitions of billing system acronyms and the nature of journal entries subsequent to the catch-up surcredit period	10/31/2002

119	Jeff Mondon	Tim Burns	Provide a copy of the decision matrix used in compiling the break-out reports (Per meeting with Lee Ann Koppel)	10/31/2002
120	Jeff Mondon	Tim Burns	Provide a copy of intrastate access bills to the carriers on the attached file labeled 'CABS Bills Selected' for the March 2002 billing period	11/15/2002
121	Jeff Mondon	Tim Burns	Provide revised report C-1 summaries and support for the revisions for the months October, 1997; July, 1998; August, 1999; May, 2000 and February, 2001	12/5/2002
122	Jeff Mondon	Tim Burns	Provide an description of reconciling differences between CHCF-B Monthly Claim Forms and Section C-1 Report Totals	12/5/2002
123	Jeff Mondon	Tim Burns	Provide documentation supporting CALLS revenue offset adjustments	12/5/2002
124	Jeff Mondon	Tim Burns	Provide an updated version of the worksheet entitled 'Summary CHCF-B Carrier Common Line Offset' (SBC Document CHCF-B 00130) with data included for the months July 1998 through December 1998	12/6/2002
125	Jeff Mondon	Tim Burns	Provide explanations for the listing attached of duplicate name and numbers included in February 2001 claim data	12/6/2002
126	Jeff Mondon	Tim Burns	Provide any available statistics quantifying monthly zip centroid coded and ungeocoded customers during the examination period (if possible broken out by total zip centroid and total ungeocoded monthly)	12/6/2002
127	Jeff Mondon	Tim Burns	Provide any available internal or external documentation supporting the accuracy of the GDT geocoding software	12/6/2002
128	Jeff Mondon	Tim Burns	Provide copies of tariff sheets depicting residential flat rate in place during the test period	12/6/2002
129	Jeff Mondon	Bob Wilkinson	For each item in the attached schedule, taken from the Sample of Intrastate Access Bills to Carriers – March 2002, please explain the differences between the calculated Surcredit, and the billed Surcredit.	12/29/02

130	Jeff Mondon	Bob Wilkinson	For each item in the attached schedule, taken from the sample of customer bills, please explain the differences between the calculated Catch-up Surcredit, and the billed Catch-up Surcredit.	3/04/03
131	Jeff Mondon	Tim Burns	Provide details related to the use of the 2000 census for geocoding purposes, including the timing of the implementation of the 2000 Census data and the reversion back to the 1990 Census data, the effect on claims for items coded under the 200 Census data e.g. how the system handles a 2000 geocoded item that does not match a 1999 CBG, and any statistics available related to quantities of 2000 geocoded items that do not match 1999 CBG's (and therefore were not claimed).	12/30/02

D. FINDINGS

REVIEW OF PROCEDURES AND CONTROLS

As part of our examination of the claims submitted, we performed a review of internal controls applicable to Pacific Bell's CHCF-B record identification, extraction and reporting process. The purpose of this review was to identify areas of attestation risk, understand the types of misstatements that could occur in the data, and to design tests of the data to detect material misstatements, and not to provide a separate overall assessment of Pacific Bell's internal control structure.

F1 The result of our review revealed no weaknesses in the procedures and controls that are in place over the CHCF-B record identification, extraction and reporting processes which would result in an increased risk of material misstatements.

As part of our review, we determined through interviews and information requests that the CHCF-B data is downloaded from the mainframe on a monthly basis. This data is controlled, with the Pacific Bell customer data protected from unauthorized use. Further, the fire-walls that are in place at Pacific Bell appear to be adequate. The mainframe download program is maintained by a manager who has responsibility for adjusting the download data as required by the CPUC or the CPUC Administrator. All proposed coding changes are discussed internally with the internal regulatory personnel who then review the data resulting from a test run. The data is tested again when it is produced for the monthly reports.

RECORD EXTRACTION AND FILE UPDATES

F2 The CHCF-B record identification, extraction, and reporting have adequate controls in place and the systems and processes support the attestation conclusions.

The process for identifying "claim customers" begins with Pacific Bell's customer billing system, specifically with the Universal Service Subsidy Database (USSdb) application. This

is the Pacific Bell application that calculates the subsidy amount for the CHCF-B claim. This application includes the following major steps:

- Input data files from the mainframe – (this step includes input of the customer files and the service files.)
- Update billing data in the Sequel Server (SQL Server), a Microsoft relational database management system, using the customer files.
- Process all the records in the service files by reading one record at a time and updating the WTN/Error/Service location base in the SQL Server. During this process, the system verifies the completeness of the WTN and the service address. The system also verifies the account has a valid account code and primary line date. The system then further queries the account for items such as primary line, resale and/or ULTS indicators, and applies identifier tags as appropriate.
- Extract and Geo-Code all the service addresses not yet Geo-Coded and update CBG Assignment table in SQL Server.
- Process all the valid WTNs and claim one WTN per household (name/location/combination) in high cost areas. This process includes processing CPUC designated CBG one at a time and matching WTN's in those designated as high cost. The system at this time sets a claim marker for appropriate lines and adds processed lines to the claim database.
- Produce CHCF and other reports to support monthly claims.

GEOCODING RECORDS

Since January, 2001, Pacific Bell has used GDT's Matchmaker program to complete the identification of "claim customers". GDT is a recognized industry leader in Location-Based Services. Their Matchmaker SDK Professional program is a Windows based tool kit that enables SBC Pacific Bell to build a geocoding (address matching) application, capable of interpolating house level latitude/longitude, as well as census attributes to the matched addresses.

The process looks up addresses in a digital street map directory to determine the "geocode" of the address. The system uses the commonly used geocode of census block group.

There are two elements to matching an address:

- The address matching program
- The digital street map directory

The address-matching program recognizes and standardizes the addresses in the file being geocoded by Pacific Bell and finds the best possible match in the digital street map directory. Since addresses can be incomplete, the program must deal with spelling variants, abbreviations and missing address components.

The digital street map directory is the geographic base for the match. The directory is constantly being updated by GDT. The directory originates with the US Census Bureau TIGER files, so they contain totally authoritative information about Census tract and block geography, since TIGER is the official source that defines Census tract and block numbers.

The updating process for any given area starts with maintaining an up-to-date inventory of the most reliable and current maps showing street patterns. GDT buys maps and other materials from over 5000 suppliers, many of which are the municipal departments that approve the layout, naming and numbering of new streets.

Prior to using GDT, the company used a similar third party provided software known as Matchware. While the company was generally satisfied with Matchware it was seeking additional accuracy in its geocoding applications and changed to GDT Matchmaker. As noted below, under F9, the change did result in an improvement in the geocoding process.

COMMISSION FORMATTED REPORTS

Finally, the claimable lines are analyzed and allocated among the CPUC's various categories in the breakout report of the monthly claim form for the CHCF-B claims. The categories include multiple grouping possibilities for various claimed lines as sorted by type such as ULTS and NonULTS lines.

F3 Pacific Bell is not in strict compliance with the CPUC's rules and regulations regarding the timing of data cutoff to capture claimed lines for a monthly reporting period.

According to the Administrative Law Judge Ruling April 28, 1998 Pursuant to Ordering Paragraph 15b(1) of D.96-10-066, the CPUC rules and regulation require that "the number of primary lines reported shall be as of midnight on the last day of each month."

Through May, 2000, for the purpose of determining the number of claim lines, the company cut off as of the last business day of the month. Since June 2000, the company cuts off as of the last day of the month unless it's on a weekend, at which time the company cuts off on the Monday morning following the weekend.

Neither of the procedures the company has used throughout the test period are in exact compliance with CPUC regulations. However, there is no indication that the noncompliance would materially affect the amount of claimed lines.

CPUC ORDERS AND RESOLUTIONS CONCERNING CHCF-B CLAIMS

F4 Policy, rates, and changes affecting CHCF-B Claims process are a direct result of CPUC Decisions and Resolutions.

Each change in a surcharge rate, claims procedure, surcredit or other element of the CHCF-B program, is based upon analysis by the CPUC staff and the appropriate CHCF-B and CTF Committees as well as input from other interveners. Relevant CPUC Decisions and Resolutions affecting the CHCF-B claims process are:

- Decision 96-10-066,
- Decision 98-09-039,
- Resolution T-16018,
- Resolution T-16622.

The following are paraphrased excerpts from these decisions and resolutions. For additional detail, refer to the specific documents.

DECISION 96-10-066

Rulemaking on the Commission's Own Motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643.

This decision finalized the universal service rules that were originally proposed in Decision (D.) 95-07-050.

The decision reaffirms the Commission's commitment to universal service by ensuring that residential basic telephone service be made available throughout California, and that the rates for such service remain affordable. The decision adopts final rules pertaining to how universal service will be carried out in California as the local exchange telephone markets are opened to competing carriers. As we enter this competitive environment, yesterday's policies supporting universal service will no longer be sustainable.

Decision 98-09-039 Interim Opinion

Rulemaking on the Commission's Own Motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643.

Decision 98-09-039

This decision implements the California High Cost fund-B (CHCF-B) established by the Commission in Decision (D.) 96-10-066 to subsidize basic exchange carriers (LEC's). Specifically, this decision authorizes Citizens Telephone Company (Citizens), Contel Telephone Company (Contel), GTE California Incorporated (GTE), and Roseville Telephone Company (Roseville) to commence monthly draws from their accumulated CHCF-B surcharge revenues (CHCF-B draws) beginning December 15, 1998. To offset their CHCF-B draws, this decision orders Citizens, GTE/Contel, and Roseville to implement permanent surcredits on December 1, 1998. Decision 98-09-039 provided for Pacific Bell to implement rate adjustments to offset its CHCF-B draws.

RESOLUTION T-16018, APRIL 23, 1997

This order is prepared in compliance with Ordering Paragraph (O.P.) 17.a of D.96-10-066, the Universal Service proceeding, R.95-01-020/I.95-01-021. This order establishes procedures for certifying residential primary lines for the purposes of the California High Cost Fund B (CHCF-B). Specifically, there will be two customer self-certification processes (CSC's) for all carriers offering residential basic telephone services in serving areas currently served by Pacific Bell (Pacific), GTE California Incorporated (GTEC), Contel Service Corporation (Contel), Citizens Telecommunications Company of California, Inc. (CTCC),

and Roseville Telephone Company (Roseville). One process shall apply to residential basic services that are subscribed to or ordered by the residential customers prior to August 1, 1997. The other shall apply to residential basic services initiated on and after August 1, 1997. The step-by-step procedures for these two CSC's are specified in Appendix A of this order.

RULEMAKING R.95-01-020/I.95-01-021

This ruling implements Ordering Paragraph 15b(1) of Decision (D.) 96-01-066 which instructed the assigned Administrative Law Judge (ALJ), in consultation with the assigned Commissioner, to issue a ruling prescribing the monthly reports that Carriers of Last Resort (COLR's) must submit to the Commission in order to receive subsidies from the California High Cost Fund-B (CHCF-B).

RESOLUTION T-16622, JANUARY 9, 2002

Resolution T-16622, authorized Pacific Bell to implement a temporary California High Cost Fund-B Catch-Up Surcredit in compliance with Decision 98-09-039.

On October 25, 2001, Pacific Bell filed Advice Letter 22328 in compliance with Ordering Paragraph (OP) 20 of Decision (D.) 98-09-039 that required Pacific Bell to implement a catch-up surcredit for a 3-month period relating to the California High Cost Fund (CHCF-B) claims. This resolution approves a temporary three-month catch-up surcredit of 29.143% to offset Pacific Bell's approved claims of \$409,341 million for the time period from February 1997 to May 1998. The catch-up surcredit of 29.143% will apply to all intrastate services, except residential basic exchange service and certain other services, and will be effective February 1, 2002 through April 30, 2002. In addition, Pacific Bell will track in a memorandum account all catch-up surcredit amounts applied to customer accounts during the February 1, 2002 through April 30, 2002 period. Any difference between the aggregate realized catch-up surcredit amount and the adopted surcredit amount will be trued-up by an Advice Letter with 60 days from April 30, 2002.

CUSTOMER ORDER VERIFICATION

In this task we verified that Pacific Bell's records of customer orders taken, correspond with the records as reflected in CHCF-B claims. Completion of this task involved comparisons of data from Pacific Bell's customer database with reports it submitted to the CHCF-B Administrative Committee.

F5 Except as described in F6 , the customer claims database and the reports that it compiles monthly for the CPUC, correctly reflect the customer orders as evidenced by customer service orders.

To verify that the claims data is controlled and reported consistently, a random sample of claimed lines was selected from the February 1997 through December 2001 claim population. To verify the data supporting each claim, the claim data (name, physical address, phone number, Universal Service Status, and line type designation) was agreed to service orders provided by Pacific Bell for our review. We noted that the data and date

correctly represented the claim detail in the database records. We then also agreed that data to the claims reports, which were submitted to the Commission.

F6 In limited cases, the company claimed the non-primary instead of the primary line in a two-line household.

In our testing, we found a number of exceptions where lines classified as non-primary lines (in multiple line households) as recorded in the PacBell database are being claimed. Only primary designated lines, one line per household, should be claimed. Further review of the database showed that the line designated primary for that household was not being claimed. Although this would appear to be two errors for the one customer account it actually corrects the error noted in the test. Only one line is being claimed for each of the tested households. Even though the coding in the database is reversed, the effect for the claim data and breakout reports is still accurate on a per household basis. This information is shown correctly in the breakout report, as the breakout reports do not specify which line in the household is being claimed, only that one line per household is being claimed. Therefore, the household is represented correctly in the Commission breakout reports even though the individual line designations in the PacBell database are incorrect.

This anomaly seems to have come up during the establishment of the grandfather table for identifying the embedded base of defaulted customers (See discussion of development of the grandfather table in the succeeding section entitled “Embedded Base”. In the process of establishing the grandfather table, it appears in some cases the non-primary line of the household was given the designator for claimability and the primary line was not. This was identified in less than 1% of the customers tested. As previously mentioned, there was no indication that both lines were claimed in any case. There is some exposure to underclaims by the company due to use of a higher federal End User Common Line (EUCL) as an offset for the non-primary line. However, due to the limited occurrence of this anomaly, there is no indication this is a material amount.

F7 The Company experienced approximately \$334,000 in duplicate claims during the examination period.

As part of our examination, we tested monthly claims databases for claims of duplicate numbers. Our testing revealed that the company experienced a limited number of duplicated claims. This was caused by the system not eliminating some customers who experienced zip code changes. The typical differentiation in the customer database for these claims was one different digit in the zip code field. A detail follow up on this finding was performed and the total duplicate claims for the entire examination period was determined to be \$333,900.

CENSUS BLOCK GROUP CLAIM VERIFICATION

In this task we addressed Pacific Bell’s CHCF-B claims for lines in high cost Census Block Groups to determine if they accurately match those identified in the Commission Workshop Report “California High Cost Fund-B High Cost Census Block Groups.”

As part of our test of census block group claim verification, we randomly sampled a number of claimed lines and independently verified that the correct census block group number had been assigned to the line. Additionally, we sampled a number of billed lines, geocoded them and determined that they were appropriately included or excluded from a particular months claim based on the geocoding results.

Regardless of the fact that each address has a fixed place geographically, geocoding is not an exact science. Certain addresses may be incomplete or ambiguous: e.g., 123 Main instead of 123 Main St. Certain geocoders may geocode Columbia Ave and Columbia Av the same, where others would not. Additionally, there are continuous geocode updates for such items as new subdivisions, or additional or adjusted zip codes, changes in street names, etc. Our testing did not present any claimed lines which should not have been claimed, nor any billed lines which were claimable but not claimed.

Throughout the test period the company has used third party software to complete the geocoding application. The company changed from Matchware to GDT Matchmaker software in January, 2001.

F8 Our geocoding test indicated the company is accurately assigning geocodes to customer's records.

F9 The Company experienced a significant quantity of ungeocoded lines during the test period

As a result of our testing, it was determined the company experiences a number of ungeocoded lines each month. Some of these fall out of the system as ungeocoded, and some are coded as Zip Centroid, which is a coordinate for the address but is not acceptable as a substitute for geocoding. As described above, there are a number of reasons an address may not geocode, including imperfect or incomplete addresses. Additionally, the actual software must be updated periodically to geocode for new subdivisions, street changes, and similar items.

It appears the geocoding completeness improved subsequent to the switch to GDT Matchmaker. Prior to that time, the company was experiencing non-geocoding results of an estimated 1%, this result dropped to an estimated 2/10 of a percent subsequent to the change.

It is significant to note these ungeocoded lines represent a cross-section of all types of customers billed and a substantial portion of them would not be claimable lines. However, despite this and despite the small percentage of customer records not geocoded, this system letdown results in a sizeable number of under claimed lines per month.

To quantify the impact of this non-geocoding, if an assumed estimate of 500,000 lines non-geocoded with a 25% application of claims rate and an average \$10 per claim amount, it is evident that a substantial monthly under claim exists. The % and dollar assumptions are based on the general claim history of the company for the % and \$ assumptions. The assumed nongeocoded claims are based on a processing of backup billing tapes and processing logs. This estimate is deemed representative of the activity for the test period

prior to the switch to GDT Matchmaker, as previously discussed the subsequent nongecoded application results are only about 20% of the results prior to the change.

Unfortunately, these historical billing records are not complete, and therefore an accurate assessment of the under claimed amount is not available. However, it is apparent that the resulting under claim is significant.

SUBSIDY LEVEL VERIFICATION

In this task we verified that Pacific Bell is using the appropriate subsidy per primary line as adopted by the CPUC in D. 96-10-066. This is accomplished by comparing the actual subsidy per line to the "California High Cost Fund-B High Cost Census Block Groups."

F10 The Company is using the appropriate subsidy per primary line as adopted in D. 96-10-066.

We recomputed a sample of claimed lines and determined that the company is appropriately comparing the flat rate R-1 plus FCC Subscriber Line Charge (SLC) to High Cost Census Block Groups as defined by the CPUC.

Analysis of Offsets

This task addressed the use of offsets by Pacific Bell. These include all applicable federal programs such as the federal universal service fund and the carrier common line charge.

As part of our work in this area, we traced amounts used for offsets to third party verification such as NECA or USAC; to internally generated reports such as the NECA Telecommunications Relay Service (TRS) and the FCC's Automated Reporting Management Information System (ARMIS) reports; and/or to internal records such as the general ledger. After verification of amounts available for offset, we recalculated offsets per line to be used in monthly claims and agreed amounts used to monthly claimed form. Other than as indicated below there were no exceptions noted in our test of offsets.

F11 The Company used incorrect amounts for federal offsets for a portion of the test period.

For claims in the years 1997 and 1998 the company used incorrect federal offsets. The company misstated the amounts of Carrier Common Line revenue used as an offset. In addition, rounding inconsistencies were discovered in establishment of the offset factors.

As a result of these errors the company overstated federal offsets by \$2,880,086, which resulted in an underclaim of the same amount. The following table depicts the accumulation of differences that resulted in the total error.

Claim Month	Reported Carrier Common Line Charge Offset (A)	Number of Lines Claimed (B)	Corrected CCL Offset Per Line (C)	Corrected Calculation CCL Offset (D=C*B)	Corrected Difference (E=A-D)
Feb-97	3,414,123.43	2,636,517	1.302005	3,432,758.32	(18,634.89)
Mar-97	3,313,049.71	2,558,464	1.302005	3,331,132.92	(18,083.21)
Apr-97	3,424,227.82	2,644,320	1.302005	3,442,917.86	(18,690.04)
May-97	3,519,192.04	2,717,647	1.302005	3,538,389.98	(19,197.94)
Jun-97	3,500,779.33	2,703,428	1.302005	3,519,876.77	(19,097.44)
Jul-97	3,437,873.88	2,654,851	1.302005	3,456,629.28	(18,755.40)
Aug-97	3,603,049.57	2,782,404	1.302005	3,622,703.92	(19,654.35)
Sep-97	3,612,366.64	2,789,600	1.302005	3,632,073.15	(19,706.51)
Oct-97	3,616,567.42	2,792,844	1.302005	3,636,296.85	(19,729.43)
Nov-97	3,598,930.37	2,779,224	1.302005	3,618,563.54	(19,633.17)
Dec-97	3,559,502.12	2,748,784	1.302005	3,578,930.51	(19,428.39)
Jan-98	2,424,071.81	2,734,611	0.803917	2,198,400.27	225,671.54
Feb-98	2,426,853.46	2,737,749	0.803917	2,200,922.96	225,930.50
Mar-98	2,412,016.21	2,721,011	0.803917	2,187,467.00	224,549.21
Apr-98	2,426,396.06	2,737,233	0.803917	2,200,508.14	225,887.92
May-98	2,423,662.28	2,734,142	0.803917	2,198,023.23	225,639.05
Jun-98	2,402,902.73	2,710,723	0.803917	2,179,196.30	223,706.43
Jul-98	2,491,449.14	2,741,564	0.803917	2,203,989.91	287,459.23
Aug-98	2,503,004.77	2,752,828	0.803917	2,213,045.23	289,959.54
Sep-98	2,499,580.25	2,747,975	0.803917	2,209,143.82	290,436.43
Oct-98	2,494,150.96	2,742,720	0.803917	2,204,919.23	289,231.73
Nov-98	2,500,795.62	2,748,938	0.803917	2,209,917.99	290,877.63
Dec-98	2,501,217.02	2,748,878	0.803917	2,209,869.76	291,347.26
					<u>2,880,085.69</u>

R1 Adjust claims to account for the \$2,880,086 error due to incorrect federal offsets.
(Refer to Finding F11)

BACKUP INFORMATION VERIFICATION

This task verified the accuracy of backup information, as indicated in the Telecommunications Division's Breakout Reports, submitted by Pacific Bell as part of the monthly claims to the CHCF-B Administrative Committee.

F12 Except as described in F13, all data tested through our detailed test was correctly reported on the breakout report that is ultimately submitted to the Commission.

As part of our detailed test of claimed lines, we compared all data tested to the claims breakout report that is submitted. This data verified the primary line designation as either defaulted or designated, verified the ULTS status of the customer, and reviewed the single line versus multi line designation. Each line in the report analyzed through our testing was supported by documentation representing a customer order. To complete the review of the monthly report submitted to the Commission, the report was reviewed overall to determine

if there was any information obtained during the detailed testing that would contradict the reports.

F13 A transfer of customers between wire centers resulted in a number of customers classified incorrectly on the breakout reports.

In mid-year, 2000, the company transferred a number of customers to a new wire center. This change affected approximately 11,000 claimed lines. As a result of this transfer, the system assigned a new in-service date to these customers. This change resulted in customers who had previously been claimed as defaulted customers, to be reported as designated. Of those customers transferred, only a portion would be defaulted customers and effected by the incorrect designation, (based on the ratio of defaulted to designated customers, it is estimated approximately half of the customers would be affected. This is a rough approximation based on the ratio of embedded base customers to total customers claimed). This event appears to be isolated and contained only to the customers effected by the wire center transfer occurrence. Claim-ability of these customers was not impacted, as each had primary line indicators in the system, only the classification in the breakout report was affected.

EMBEDDED BASE

F14 The Company experienced significant under claims due to the understatement of defaulted lines.

The embedded base is defined as those lines in high cost areas that were in service prior to December 1997.

The company experienced a significant increase in claims in December, 2000. The increased level of claims was maintained through December, 2001.

The cause of this increase arises from Pacific Bell changing the methodology used to identify high cost lines in the embedded base. Prior to December 2000, retail embedded base accounts were identified by their presence in a "Grandfather Table". The Grandfather Table in the USSdb (Universal Service Subsidy database) was a list of accounts established prior to December 1997 by taking a snapshot of all existing accounts. A program was then created to identify which working lines were primary according to the claim rules. These primary lines were then loaded into the "Grandfather Table" along with attributes, among which were working telephone number, billing name, and service address which included house number and zip code. Each month all accounts were matched against the Grandfather Table. If an exact match for all attributes was found between the Grandfather Table and the processed account, the account was labeled "Embedded Base" and was claimed as a defaulted line. If the line was not an exact match to an entry on the Grandfather Table or it did not have a USPY Fid (Identified by customer as Primary Line), it was not claimed.

Pacific Bell recognized over time that the "Grandfather Table" experienced a loss of claimable lines. This was caused by at least four factors:

1. Pacific Bell had several area code splits which changed the working telephone numbers;
2. Some neighborhoods were renumbered which caused the service address to change;
3. Some communities changed zip codes; and
4. Some customers changed their billing names.

These and other conditions would cause a "no match" to the Grandfather Table entry when the account was compared. This erosion of the Grandfather Table resulted in a gradual understatement of claimed retail embedded base accounts over time.

In December, 2000 Pacific Bell marked all retail embedded base accounts, identified by having an original installation date prior to December, 1997, with the Fid USPE. Previously dropped retail embedded base accounts affected by area code splits, service address changes and billing name changes were once again claimed if they met all eligibility rules. This change resulted in an increase in claimed lines beginning December, 2000 totaling approximately \$3,900,000.

As discussed, the Grandfather Table erosion resulted in an under claim of embedded base accounts. In December, 2000 net claimed lines increased by 313,101 lines, and claims for the month increased by approximately \$3,900,000 over November, 2000 claims. This increase in claims is attributable to the rectification of the erosion of the Grandfather Table. Based on the nature of the causes of items excluded from the Grandfather Table, it is evident the occurrence of the erosion happened over a period of time. The factors causing lines to drop out of the embedded base, and reducing claims, have been affecting the embedded base since February, 1997.

Regrettably, specific information related to the timing of the erosion and thus the amounts of resulting under claim is not available. Since we do not know the specific timing of the events causing loss of claimed lines, any estimate would be subjectively biased. However, it is apparent that while the unclaimed amounts resulting from the erosion of the embedded base cannot be determined precisely, the total is significant.

PRIMARY LINE VERIFICATION

This task verified that all primary lines put in service subsequent to those identified as the embedded base or after December, 1997 have the appropriate line certification/designation on file.

F15 Primary lines so designated on a customer work order and put in service after December 1997 were not supported by a retained primary line certification letter.

According to Resolution T-16018, "Carriers shall retain a copy of the confirmation letters and shall make them available to the Commission upon request". The company has not retained any said certification letters received during the examination period, therefore no letters were available for our review. The company has acknowledged this was an oversight,

and not compliant with the CPUC rules. The company has indicated their policy would be changed to retain the certifications as required.

R2 The Company should provide evidence to the CPUC substantiating the establishment of procedures to retain primary line certification letters in accordance with Resolution T-16018 (Refer to Finding F15)

F16 The Company experienced a number of resold lines without primary line certification from the reseller.

CPUC rules require that the company must be provided primary line certifications on resold lines by the competitive local exchange carrier reselling the lines. Pacific Bell has not received the appropriate certification from resellers on any of these lines throughout the test period. In accordance with CPUC Resolution T-16018, the company has reported the noncompliant resell lines to the CPUC through the breakout report provided to the CPUC each month. The company is reporting these lines in the resale sections of the breakout report, and the CPUC adjusts the monthly claims paid by removing these amounts from the payment.

CATCH-UP SURCREDIT AMOUNT VERIFICATION

This task verified that the memorandum account, Account No. 4010.229 – “Account Receivable – Catch-up Surcharge and Surcredit” has applied the appropriate catch-up surcredit amounts to the ratepayers during the February 1, 2002 to April 30, 2002 time period. This account served the purpose of the memorandum account mentioned in CPUC Orders, “Accounts Payable End User Catch-Up Claim/Surcredit,”

On October 25, 2001, Pacific Bell filed Advice Letter No. 22328 in compliance with Ordering Paragraph (OP) 20 of Decision (D.) 98-09-039 that required Pacific Bell to implement a catch-up surcredit for a three-month period relating to the California High Cost Fund (CHCF-B) claims. Resolution T-16622 was issued by the CPUC on January 9, 2002. Resolution T-16622 approved a temporary three-month catch-up surcredit of 29.143% to offset Pacific Bell’s approved claims of \$409.341 million for the time period from February 1997 to May 1998. The catch-up surcredit of 29.143% applies to all intrastate services, except residential basic exchange service and certain other services, and was effective February 1, 2002 through April 30, 2002. In addition, Resolution T-16622 required Pacific Bell to track in a memorandum account all catch-up surcredit amounts applied to customer accounts during the February 1, 2002 through April 30, 2002 time period. Any difference between the aggregate realized catch-up surcredit amount and the adopted surcredit amount was to be true-up by an Advice Letter within 60 days from April 30, 2002.

On October 31, 2001, Pacific Bell filed Advice Letter No. 22328A and supporting confidential work papers to clarify that the three-month surcredit would be 29.143%, and to add this surcredit to the tariff sheet.

On June 28, 2002, Pacific Bell filed Advice Letter #23036 to implement a one-month surcredit rate of 5.205% to distribute the residual catch-up surcredit amount identified in the true-up of the catch-up surcredit, and not distributed previously.

F17 Pacific Bell established Account No. 4010.229 – “Account Receivable – Catch-up Surcharge and Surcredit” and recorded catch-up surcredit amounts distributed during each billing cycle into the account during the period February 1, 2002 through April 30, 2002

For each billing cycle during the catch-up surcredit period, entries for the amount of catch-up surcredit applied to customers’ bills were posted to Account #4010.229. Monthly adjusting entries were posted to the account to adjust the account for write-off of uncollectibles.

F18 The catch-up surcredit of 29.143% was accurately applied to customers’ bills.

We obtained a statistical sample of billed customers during the catch-up surcredit period. Each bill in the sample was reviewed to determine that the catch-up surcredit was applied, and the amount of the catch-up surcredit included in each bill was verified (29.143%). Only minor, immaterial rounding exceptions were noted. These differences were generally offsetting in nature and in fact, when extrapolated to the population for the entire surcredit amount, resulted in an under-surcredited difference of approximately \$6,000. This amount is well within the statistically determined tolerable error acceptability range for our sample and substantiates the accuracy of the company’s billing process.

F19 Pacific Bell filed the required Advice Letter, (Advice Letter #23036) concerning the true-up of the catch-up surcredit on June 28, 2002.

Resolution T-16622 approved a temporary three-month catch-up surcredit of 29.143% to offset Pacific Bell’s approved claims of \$409,341 million for the time period from February, 1997 to May, 1998.

Advice Letter 23036, filed June 28, 2002, requested approval of a one-month catch-up surcredit rate of 5.205% to distribute the residual CHCF-B claims amount not previously distributed. This rate is based on an undistributed amount of \$24,368,385 to be applied beginning September 1, 2002 through September 30, 2002.

E. ACCOUNTANT’S REPORT

CALIFORNIA PUBLIC UTILITIES COMMISSION

San Francisco, California

INDEPENDENT ACCOUNTANTS' REPORT

We have examined the Pacific Bell Telephone Company (the Company) claims for the period February, 1997 through December, 2000 from the California High Cost Fund B (CHCF-B), as submitted to the California Public Utilities Commission (CPUC).

Filings related to these claims have been previously submitted and are on file with the California Public Utilities Commission. These examined items represent the Company's submissions of CHCF-B Claims in accordance with the California Public Utilities Commission Rules and Regulations. These submissions are the responsibility of the Company's management. Our responsibility is to express an opinion on the submissions based our examination.

Except as noted below, our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the submissions in accordance with the California Public Utilities Commission Rules and Regulations and performing such other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

We were unable to satisfy ourselves about the amount of under claims related to non-geocoded records and erosion of the grandfather table for embedded base claims as described in Findings 9 and 14 , respectively in the attached report.

Our examination disclosed the following conditions that resulted in a misstatement in the claimed amounts: As described in Finding 11 in the attached report, Pacific Bell used incorrect federal offsets for a portion of the test period resulting in an underclaimed amount of \$2,880,086.

In our opinion, except for the effects of the findings we were unable to quantify as described in the fourth paragraph, and the misstatements described in the fifth paragraph, the claims referred to above represent the submission of CHCF-B Claims for the Company in all material respects, in conformity with the California Public Utilities Commission Rules and Regulations.

JACKSON, MISSISSIPPI

March 16, 2002

Attestation Examination of Pacific Bell CHCF-B Claims

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