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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF U S WEST
COMMUNICATIONS, INC.'S COMPLIANCE
WITH § 271 OF THE
TELECOMMUNICATIONS ACT OF 1996.

DOCKET NO. T-00000A-97-0238

QWEST SUBMISSION OF SUPPLEMENTAL KPMG DECLARATION

Qwest Corporation ("Qwest") respectfully submits the attached Declaration of Philip J. Jacobsen from KPMG (the "Jacobsen KPMG Declaration"). The Jacobsen KPMG Declaration confirms that Qwest has corrected all discrepancies identified in the KPMG Report as stated in the affidavits of Judy Brunsting and Marie Schwartz which were submitted to this Commission with the November 15, 2001 KPMG Report.¹ It also confirms that Qwest has implemented the specific controls as stated in the Brunsting and Schwartz affidavits, as well as controls that address Discrepancy G from the KPMG Report, which was not specifically addressed in the Brunsting and Schwartz affidavits.²

On November 28, 2001, Qwest submitted the November 15, 2001 report prepared by KPMG, LLP ("KPMG Report") in response to the recommendation of the Multistate Facilitator.³

¹ Jacobsen KPMG Declaration, at 1.

² *Id.*

³ See Facilitator's Report on Group 5 Issues: General Terms and Conditions, Section 272 and Track A, filed Sept. 21, 2001.

The submission of the KPMG Report was also accompanied by a cover brief and the affidavits of Judith Brunsting and Marie Schwartz. As discussed in Qwest's submission of the KPMG Report, Qwest addressed each of the discrepancies identified in the KPMG Report by implementing new controls or control enhancements, as set forth in the affidavits attached to the Qwest submission.⁴

Qwest recently engaged KPMG to perform a supplemental review with two objectives: to verify both that each of the discrepancies identified in the KPMG Report has been corrected, and to verify that the supplemental controls identified in the affidavits of Judith Brunsting and Marie Schwartz submitted with the KPMG Report are now in place. The attached Jacobsen KPMG Declaration introduces no new information in this proceeding. Rather, it simply provides verification by a third party of Qwest's previous representations as to steps taken in response to the KPMG Report. The Jacobsen KPMG Declaration states that "Qwest implemented the specific controls as stipulated in the Affidavits [of Ms. Brunsting and Ms. Schwartz]" — and went even further and implemented controls to address a discrepancy that was not addressed in the affidavits. See Jacobsen KPMG Declaration at 1. It also concludes that "Qwest has corrected all discrepancies identified in the KPMG Report by posting the transactions to the Qwest website and by billing or booking these transactions." *Id.* It then goes on to discuss in detail the verification of the affidavits as to each discrepancy, and the extensive work performed

⁴ These controls include additional safeguards at the corporate level of each company to ensure that all intercompany transactions are identified and billed at correct prices, improved formal tracking mechanisms, coordination with operational personnel and comparisons to databases to verify the results of those tracking mechanisms, additional training sessions with relevant personnel, additional supporting documentation to the FCC Regulatory Accounting Department, and development of automated solutions.

by KPMG to test the implementation of enhanced controls.⁵ Thus, the Jacobsen KPMG Declaration confirms that the Brunsting and Schwartz affidavits were completely accurate in their representations about corrections of past discrepancies and implementation of enhanced controls which are designed to prevent, as well as detect and correct, any discrepancies in the future. The Jacobsen KPMG Declaration raises no new issues, but only confirms the accuracy of the affidavits previously submitted to the Commission with the KPMG Report. No further process is necessary.

All of these additional unprecedented steps demonstrate that Qwest has both the ability and the intention to comply with Section 272 when it obtains FCC authorization to provide in-region interLATA service, and that it will have sufficient controls in place at that time that are “reasonably designed to prevent, as well as detect and correct, any noncompliance with section 272.”⁶ For the reasons stated above and in Qwest’s prior filings, the Commission should conclude that Qwest has satisfied the requirements for Section 272 and that no further process is necessary.

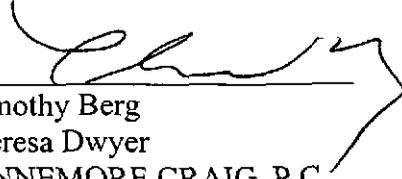
⁵ KPMG’s work included, *inter alia*, reviewing written policies, training materials, and other documentation and interviewing individuals responsible for performing control tasks. See Jacobsen KPMG Declaration at 4-22.

⁶ See Qwest Submission of Results of Independent Testing at 3 (Nov. 28, 2001) (collecting authorities).

DATED this 20th day of December, 2001

Respectfully submitted,

QWEST CORPORATION

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DECLARATION OF PHILIP J. JACOBSEN

I, PHILIP J. JACOBSEN, declare that:

I am a Certified Public Accountant and a partner of KPMG LLP ("KPMG"). My business address is 707 17th Street, Suite 2300, Denver, Colorado 80202. KPMG, with over 103,000 professionals, provides services to clients through member firms in 152 countries. I am a member of the Management Assurance Services practice at KPMG and am the lead partner in that practice for services provided to clients in the communications industry.

During my 13-year career, I have been almost exclusively involved in financial, regulatory and cost accounting matters in the telecommunications industry. I have served as an auditor for and consultant to clients in the telecommunications industry and currently am a partner in our firm's telecommunications industry practice in the areas of assurance and advisory services.

PURPOSE OF DECLARATION AND SUMMARY CONCLUSION

Qwest Corporation engaged KPMG to perform the necessary testing to enable me to make this declaration. This declaration will address the testing that KPMG professionals performed, under my direct supervision, relating to affidavits filed by Ms. Marie Schwartz and Ms. Judy Brunsting on November 15, 2001 (the "Affidavits"). The Affidavits discuss actions taken or to be taken by Qwest Corporation (the "Qwest BOC") and Qwest Communications Corporation (the "Qwest 272 Affiliate") (collectively "Qwest") to address the findings set forth in KPMG's Report of Independent Public Accountants dated November 9, 2001 ("KPMG Report"). The KPMG Report was issued in connection with the attestation examination performed regarding Qwest Corporation's assertion of management with respect to its compliance with certain aspects of Section 272 of the 1996 Act and related FCC rules and regulations. The attestation examination was performed as a result of the recommendation of the Multistate Facilitator, The Liberty Consulting Group, in its report dated September 21, 2001 (the "Liberty Report").

Specifically, the Affidavits addressed new controls and enhancements to existing controls that the Qwest BOC and the Qwest 272 Affiliate had implemented or would be implementing to address the issues detailed in the KPMG Report. In the Affidavits, it was stipulated that the new controls and control enhancements would be in place by December 3, 2001, with the exception of two new controls that are scheduled to be implemented by December 31, 2001.

In summary, Qwest implemented the specific controls as stipulated in the Affidavits, as well as controls that address Discrepancy G from the KPMG Report, which was not specifically addressed in the Affidavits. Certain controls scheduled to be implemented subsequent to December 3, 2001 (items 7 and 8 from the Brunsting affidavit) were not tested. Additionally, Qwest has corrected all discrepancies identified in the KPMG Report by posting the transactions to the Qwest website and by billing or booking these transactions. Our testing was directed only at the new controls and control enhancements discussed herein and did not include an assessment of the overall design and effectiveness of such new controls and control enhancements.

SCOPE OF DECLARATION

The new controls and control enhancements discussed in the Affidavits and addressed in this declaration are as follows:

<i>Marie Schwartz Affidavit (related to Qwest's BOC)</i>	<i>To Be Implemented By</i>	<i>KPMG Report Discrepancy Reference</i>
1. The Business Unit Affiliate Manager ("BUAM") supervisor will review the calculation to ensure both a fully distributed cost ("FDC") and fair market value ("FMV") analysis has been completed.	December 3, 2001	A
2. The Regulatory Accounting organization will expand its control sheets to provide additional detail which will allow them to verify that a FMV and FDC study has been performed for all services.	December 3, 2001	A
3. Regulatory Accounting supervisor to review control sheets verifying on a quarterly basis that all documentation has been received.	December 3, 2001	B
4. Employees at the access control centers will be retrained to ensure that a valid department or responsibility code will be provided.	December 3, 2001	E
5. Monthly requests for billing information have been strengthened to remind employees that all time, no matter how minimal, needs to be reported.	December 3, 2001	F
6. Qwest is initiating additional training that will reinforce compliance with Section 272(b)(2) and Section 272(b)(5).	December 3, 2001	All

<i>Judy Brunsting Affidavit (related to Qwest's 272 Affiliate)</i>	<i>To Be Implemented By</i>	<i>KPMG Report Discrepancy Reference</i>
1. QCC corrected all of the identified discrepancies by posting the transaction on the website and by billing or booking these transactions by November 15, 2001, with the exception that catch up billings, for all discrepancies other than Discrepancy H are being billed in November 2001 and a \$9,000 adjustment Related to discrepancy C that is being booked in November 2001.	December 3, 2001	All
2. The Business Unit Affiliate Manager ("BUAM") supervisor will review the calculation to ensure both a fully distributed cost ("FDC") and fair market value ("FMV") analysis has been completed.	December 3, 2001	C

<i>Judy Brunsting Affidavit (related to Qwest's 272 Affiliate)</i>	<i>To Be Implemented By</i>	<i>KPMG Report Discrepancy Reference</i>
3. A 272 checklist is being established to track all new services provided by the Qwest 272 Affiliate to the Qwest BOC. The Director-Corporate Accounting, Qwest Service Corporation ("QSC"), will have responsibility for monitoring the checklist to ensure all items are completed in a timely manner.	December 3, 2001	C
4. A FDC model that is compliant with the FCC's affiliate rules has now been developed and will be used for all the Qwest 272 Affiliate pricing.	December 3, 2001	D
5. The controller of Qwest Network Construction Services ("QNCS") will inform the Qwest 272 Affiliate of any new or proposed transactions.	December 3, 2001	H
6. The Director-Corporate Accounting will request a review of the billing system quarterly to identify new transactions from QNCS.	December 3, 2001	H
7. HR will now send a report of any changes in legal entity to Real Estate who will distribute the information to the BUAM. The BUAM will be responsible for identifying the potential impact on other affiliates or agreements.	December 31, 2001	I
8. The Real Estate Organization will perform quarterly reviews and note changes to the BUAM.	December 31, 2001	I
9. Personnel changes were made and Company policy is being enforced and followed. This service is now being provided by a 3rd party vendor.	December 3, 2001	J
10. A manual process was implemented to identify all circuits and rates being used for Official Communication Services ("OCS"). In order to ensure that accurate billings are processed on a timely basis, this information has been entered into a database which will feed the monthly billing system.	December 3, 2001	K
11. A 272 checklist is being established to track all new services provided by the Qwest 272 Affiliate to the Qwest BOC. The Director-Corporate Accounting QSC will have responsibility for monitoring the checklist to ensure all items are completed in a timely manner.	December 3, 2001	L
12. Both entities will deploy additional training to all involved organizations and employees.	December 3, 2001	All

Schwartz No. 1 – The Business Unit Affiliate Manager (“BUAM”) supervisor will review the calculation to ensure both a fully distributed cost (“FDC”) and fair market value (“FMV”) analysis has been completed. (Related to discrepancy A in the KPMG Report)

Description of Control

The Qwest BOC has implemented a new control whereby the supervisor of the BUAM responsible for managing real estate services (space and furniture rental) provided to the Qwest 272 Affiliate must perform a review for each component of the service (e.g., each building) to ensure that a FMV study was conducted and compared to FDC for proper pricing of the service based on the FCC’s affiliate transaction rules.¹ Any work order without this support will not be processed by the DUAM.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control.	Read the new policy, noting that it set forth the specific steps to be taken by the real estate services BUAM and the BUAM supervisor.
Signed statements from the real estate services BUAM and real estate services BUAM supervisor indicating their knowledge of the new control.	Read the signed statements, noting that the steps to be performed per the signed statement agreed to the new policy and that the real estate services BUAM and BUAM supervisor signed the statement.
Contact information for the real estate services BUAM and BUAM supervisor.	Interviewed the real estate services BUAM and BUAM supervisor to verify that they had been made aware of the new control by December 3, 2001 and that they had signed the statement.

Conclusion

Based on the testing performed, the control requiring the real estate services BUAM supervisor to review for FDC and FMV comparison had been implemented as of December 3, 2001.

¹ 47 CFR 32.27.

Schwartz No. 2 – The Regulatory Accounting organization will expand its control sheets to provide additional detail which will allow them to verify that a FMV and FDC study has been performed for all services. (Related to discrepancy A in the KPMG Report)

Description of Control

The Qwest BOC has implemented a control enhancement whereby the Regulatory Accounting organization will expand its control sheets to provide additional detail, which will allow them to verify that a FMV and FDC study has been performed for all services. The Regulatory Accounting organization expanded the control sheets to add language that requires a review for work orders related to managing real estate services (space and furniture) provided to the Qwest 272 Affiliate. This review will be performed for each component of the service (e.g., each building) to ensure that a FMV study was conducted and compared to FDC for proper pricing of the service based on the FCC's affiliate transaction rules.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control.	Read the new policy, noting that it includes language which states for real estate services, a comparison of FMV to FDC for each pricing component must be performed. Additionally, we interviewed the Regulatory Accounting organization personnel and determined that they were aware of the control enhancement.
Access to expanded control sheets.	Reviewed the expanded control sheets noting the addition of language which requires that a FMV study be performed for each affiliate-billed property.

Conclusion

Based on the testing performed, the control concerning updated control sheets had been implemented as of December 3, 2001.

Schwartz No. 3 – Regulatory Accounting supervisor to review control sheets verifying on a quarterly basis that all documentation has been received. (Related to discrepancy B in the KPMG Report)

Description of Control

The Qwest BOC has implemented a control enhancement whereby the Regulatory Accounting supervisor will increase the frequency of control sheet reviews for required pricing information from an annual to quarterly basis. The Regulatory Accounting supervisor will now review control sheets each quarter for required information instead of only during the re-pricing period.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control.	Read the new policy, noting it includes language which states that the Regulatory Accounting supervisor will review control sheets on a quarterly basis for required information.
Contact information for Regulatory Accounting personnel.	Interviewed the Regulatory Accounting supervisor responsible for control sheet reviews noting that the supervisor is aware of the control.

Conclusion

Based on the testing performed, the control requiring a quarterly review of control sheets by the Regulatory Accounting supervisor had been implemented as of December 3, 2001.

Schwartz No. 4 – Employees at the access control centers will be retrained to ensure that a valid department or responsibility code will be provided. (Related to discrepancy E in the KPMG Report)

Description of Control

The Qwest BOC has implemented a new control whereby employees at the access control centers will be retrained to ensure that a valid department or responsibility code will be provided. The training will enforce the requirement to provide a department or responsibility code to track and bill for Photo ID services related to employees that receive photo ID badges.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
Access to new training material.	Read the new training material, noting it includes a statement that the responsibility code (RC) or department code (DC) are required information and must be obtained prior to the issuance of the ID badges.
Access to listing of employees that are required to attend training and acknowledgement forms stating whether training was received.	Reviewed the listing of employees required to attend training. Reviewed acknowledgement forms and received email confirmations from employees that attended the training acknowledging they are aware of the policy.

Conclusion

Based on the testing performed, the control that employees at the access control centers will be retrained to ensure that a valid department or responsibility code will be provided was implemented as of December 3, 2001.

Schwartz No. 5 – Monthly requests for billing information have been strengthened to remind employees that all time, no matter how minimal, needs to be reported. (Related to discrepancy F in the KPMG Report)

Description of Control

The Qwest BOC has implemented an enhanced control whereby monthly requests for billing information have been strengthened to remind employees that all time, no matter how minimal, needs to be reported.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this control enhancement:

Received from Qwest	KPMG Testing
The written policy setting forth the control.	Read the new policy, noting that this policy indicated all time must be reported.
Contact information for the QC Senior Finance/Business Analyst responsible for requesting billing information.	Interviewed the QC Senior Finance/Business Analyst to verify that an e-mail was sent as of December 3, 2001 that included a reminder that all time must be reported.
E-mail sent to QC finance business function owners reminding them that all time must be reported.	Reviewed the e-mail confirming that it reiterated the policy that all time, no matter how minimal, must be reported.

Conclusion

Based on the testing performed, the control enhancement concerning the reminder that all time must be reported had been implemented as of December 3, 2001.

Schwartz No. 6 – Qwest is initiating additional training that will reinforce compliance with Section 272(b)(2) and Section 272(b)(5). (Related to all discrepancies in the KPMG Report)

Description of Control

Qwest has implemented a control enhancement whereby additional training will be initiated that will reinforce compliance with Section 272(b)(2) and Section 272(b)(5).

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this control enhancement:

Received from Qwest	KPMG Testing
The BUAM Section 272 and Affiliate Transaction Refresher Training materials.	Reviewed the BUAM Section 272 and Affiliate Transaction Refresher Training materials. The training included references to requirements with respect to Section 272(b)(2) and Section 272 (b)(5).
Training schedule and target audience.	Reviewed the training schedule. Section 272 and Affiliate Transaction Refresher Training for BUAMs occurred on November 28, 2001.
Contact information for QC's Director of 272 Compliance to explain how requirements to attend the training were communicated.	Interviewed QC's Director of 272 Compliance who indicated that the QC Director of FCC Regulatory Accounting had sent an e-mail to all BUAMs requiring that they attend this mandatory training.
Acknowledgement forms completed by the BUAMs acknowledging that they understood the BUAM Section 272 and Affiliate Transaction Refresher Training that was presented.	Reviewed the acknowledgement forms and received e-mail confirmations from all of the BUAMs with Section 272 responsibilities. All BUAMs who either attended the training on November 28, 2001 or reviewed the training materials acknowledged that they understood the BUAM Section 272 and Affiliate Transaction Refresher Training materials.

Conclusion

Based on the testing performed, the control enhancement to initiate additional training to reinforce compliance with Section 272(b)(2) and Section 272 (b)(5) had been implemented as of December 3, 2001.

Brunsting No. 1 – QCC corrected all of the identified discrepancies by posting the transaction on the website and by billing or booking these transactions by November 15, 2001, with the exception that catch up billings for all discrepancies other than discrepancy H are being billed in November 2001 and a \$9,000 adjustment Related to discrepancy C that is being booked in November 2001. *(Related to all discrepancies in the KPMG Report)*

Description of Control

QCC has corrected all of the identified discrepancies by posting the transactions on the website and by billing or booking these transactions in November 2001.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
Evidence (e.g., invoices, journal entries, posting summaries) that all postings, billings, and bookings that took place to correct the identified discrepancies that occurred.	Reviewed invoices, journal entries, and posting summaries which were made to correct the identified discrepancies. We considered the general ledger accounts to which the journal entries were posted and whether if parallel entries were made to each affiliates' books. Also, we evaluated if the journal entries booked were consistent with management's estimates in the KPMG Report. Lastly, the Qwest website was reviewed to determine if postings had occurred to correct the identified discrepancies.

Conclusion

Based on the testing performed, QCC has corrected all of the identified discrepancies by posting the transactions on the website and by billing or booking these transactions in November 2001.

Brunsting No. 2 – The Business Unit Affiliate Manager “BUAM” supervisor will review the calculation to ensure both a fully distributed cost “FDC” and fair market value “FMV” analysis has been completed. (Related to discrepancy C in the KPMG Report)

Description of Control

The Qwest BOC has implemented a new control whereby the supervisor of the BUAM responsible for managing real estate services (space and furniture rental) provided to the Qwest 272 Affiliate must perform a review for each component of the service (e.g., each building) to ensure that a FMV study was conducted and compared to FDC for proper pricing of the service based on the FCC’s affiliate transaction rules. Any task order without this support will not be processed by the BUAM.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control.	Read the new policy, noting that it set forth the specific steps to be taken by the real estate services BUAM and the BUAM supervisor.
Signed statements from the real estate services BUAM and real estate services BUAM supervisor indicating their knowledge of the new control.	Read the signed statements, noting that the steps to be performed per the signed statement agreed to the new policy and that the real estate services BUAM and BUAM supervisor signed the statement.
Contact information for the real estate services BUAM and BUAM supervisor.	Interviewed the real estate services BUAM and BUAM supervisor to verify that they had been made aware of the new control by December 3, 2001 and that they had signed the statement.

Conclusion

Based on the testing performed, the control requiring the real estate services BUAM supervisor to review for FDC and FMV comparison had been implemented as of December 3, 2001.

Brunsting No. 3 – A 272 checklist is being established to track all new services provided by the Qwest 272 Affiliate to the Qwest BOC. The QSC Director of Corporate Accounting will have responsibility for monitoring the checklist to ensure all items are completed in a timely manner. (Related to discrepancy C in the KPMG Report)

Description of Control

A new control has been implemented whereby a 272 checklist is being established to ensure that all necessary information required to process all new or amended services provided by the Qwest 272 Affiliate to the Qwest BOC. The QSC Director of Corporate Accounting will have responsibility for monitoring the checklist to ensure that all items are completed in a timely manner prior to signature.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control	Read the new policy, noting that a checklist to ensure that the process establishing or amending a service is followed in a timely manner.
Contact information for the QSC Director of Corporate Accounting.	Interviewed the QSC Director of Corporate Accounting. The QSC Director of Corporate Accounting stated that he will be responsible for completing and monitoring the checklist for new task orders and amendments to existing task orders to ensure that all necessary information required to process task orders and amendments is completed in a timely manner prior to signature.
The new checklist established to track all new services provided by the Qwest 272 Affiliate to the Qwest BOC.	Reviewed the new checklist, noting the information required to be collected to complete the process of establishing a new or amended task order.

Conclusion

Based on the testing performed, the control described above had been implemented as of December 3, 2001.

Brunsting No. 4 – An FDC model that is compliant with the FCC’s affiliate rules has now been developed and will be used for all the Qwest 272 Affiliate pricing. (Related to discrepancy D in the KPMG Report)

Description of Control

The Qwest 272 Affiliate has implemented a newly developed FDC model to be used by the Qwest 272 Affiliate when pricing its services.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control.	Read the new policy, noting it states that each of the nonregulated affiliates has its own FDC pricing model and also explains this process for using this model for pricing services.
The newly created model.	Reviewed the model noting it was designed to calculate FDC.
Training material sent to the user of the model.	Reviewed the training material sent to the users of the model, noting it stated FDC must be calculated using the affiliate’s FDC model and provided references to identify the location of the updated MAT on the Qwest intranet website.
Contact information for QSC Director of Corporate Accounting.	Interviewed the QSC Director of Corporate Accounting noting that the model was created for developing FDC pricing for QCC services. Reviewed training material noting it discussed that each affiliate has its own FDC pricing model.

Conclusion

Based on the testing performed, the control that a new FDC model has been developed that meets the FCC requirements used by the Qwest 272 Affiliate had been implemented as of December 3, 2001.

Brunsting No. 5 – The controller of Qwest Network Construction Services (“QNCS”) to inform the Qwest 272 Affiliate of any new or proposed transactions. (Related to discrepancy H in the KPMG Report)

Description of Control

The Qwest 272 Affiliate has implemented a new control whereby the QNCS Controller will send telephone and/or email notification to the QSC Director of Corporate Accounting notifying them of any new or proposed service to be offered by the Qwest 272 Affiliate to the Qwest BOC.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control.	Read the new policy, noting it states that the QNCS Controller to inform the QSC Director of Corporate Accounting of any potential QCC to QC transactions that come to the QNCS Controller's attention.
Contact information for the QSC Director of Corporate Accounting and the QNCS Controller.	Discussed the new policy with the QNCS Controller and the QSC Director of Corporate Accounting noting that they were both aware of the new control.

Conclusion

Based on the testing performed, the control that the QNCS Controller will inform the QSC Director of Corporate Accounting of new or proposed services had been implemented as of December 3, 2001.

Brunsting No. 6 – The Director-Corporate Accounting will request a review of the billing system quarterly to identify new transactions from QNCS. (Related to discrepancy H in the KPMG Report)

Description of Control

The Qwest 272 Affiliate has implemented a new control whereby the QSC Director of Corporate Accounting will request on a quarterly basis that the QNCS Controller perform an inquiry of transactions in the billing system to identify new services from QNCS.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control.	Read the new policy, noting that it states that the QSC Director of Corporate Accounting will send a formal request, on a quarterly basis, to the QNCS Controller to review the billing database in order to identify transactions for services from QNCS.
Contact information for the QSC Director of Corporate Accounting and the QNCS Controller.	Discussed the new policy with the QNCS Controller and the QSC Director of Corporate Accounting noting that they were both aware of the new control. Additionally, reviewed copies of screen prints from the billing system with the QSC Director of Corporate Accounting and the QNCS Controller noting that they were both familiar with the information required to fulfill this control.

Conclusion

Based on the testing performed, the control described above had been implemented as of December 3, 2001.

Brunsting No. 9 – Personnel changes were made and Company policy is being enforced and followed. This service is now being provided by a 3rd party vendor. (Related to discrepancy J in the KPMG Report)

Description of Control

QCC has implemented a new control whereby audio conferencing services are now being provided by a third party vendor. Additionally, personnel changes were made and follow-up with employees will be conducted on a monthly basis.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the policy associated with a third party vendor will provide audio conferencing services.	Read the new policy which was communicated to Qwest employees through e-mail. Qwest employees received these e-mails on November 5, 19, and 28, 2001 stating that audio conferencing services should be changed from the Qwest 272 Affiliate to the third party provider by November 30, 2001. Additionally, the Chief Financial Officers (CFO) of all Qwest business units received an e-mail from the Qwest CFO and the Qwest Controller on December 3, 2001 stating that it is the responsibility of each CFO to ensure compliance with regulatory requirements within the business units.
The contract with the third party vendor supplying Qwest with audio conferencing services and associated invoice from the third party vendor to Qwest for the performance of services.	Reviewed the contract with the third party vendor which states that that they will provide audio conferencing services to Qwest. The effective date of the contract is July 23, 2001 and the contract expires August 31, 2002. Additionally, the November 30, 2001, third party invoice was reviewed that showed that audio conferencing services were billed to Qwest by the third party vendor.
Contact information for QC's Director of FCC Regulatory Accounting regarding the personnel changes that were made.	Interviewed QC's Director of FCC Regulatory Accounting regarding the personnel changes that were made. The employee who was responsible for the processing of the bill and ensuring that it was recorded was relieved of her duties prior to December 3, 2001.

Received from Qwest	KPMG Testing
Contact information for the Director of Purchasing-Procurement, Lead Finance/Business Analyst-Procurement, and Senior Director – Customer Financial Services to determine how compliance with the new policy will be monitored.	Qwest management represented that they will review all audio conferencing activity beginning November 30, 2001 on a monthly basis. Qwest management will follow-up with employees that fail to use the third party vendor and reinforce that Qwest policy must be followed.

Conclusion

Based on the testing performed, personnel changes were made, a third party vendor has been contracted to provide audio conferencing services, and a control requiring employee follow-up had been implemented as of December 3, 2001.

Brunsting No. 10 – A manual process was implemented to identify all circuits and rates being used for Official Communication Services (“OCS”). In order to ensure that accurate billings are processed on a timely basis, this information has been entered into a database which will feed the monthly billing system. (Related to discrepancy K in the KPMG Report)

Description of Control

QCC has implemented a new control whereby private line circuits (and associated rates) used for OCS will be identified manually to ensure timely collection of the data for billing purposes.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The new policy setting forth the requirement that all private line services from QCC to QC must be compliant with Section 271 and 272 rules.	Reviewed the policy that was verbally communicated to Qwest vice presidents in the finance, network, and facilities cost business functions prior to December 3, 2001 and reviewed the e-mail sent by the Executive Director Federal Regulatory Strategy on December 5, 2001 reminding management that all private line services from QCC to QC must be compliant with Section 271 and 272 rules. This e-mail was sent to Qwest vice presidents in the finance, network, and facilities cost business functions which are responsible for providing and accounting for private line services to Qwest affiliates.
Documentation for the process flow of the manual process to identify all circuits and rates used for OCS and how the new database will be populated and data fed into the billing system.	Reviewed the process flow documentation for the manual process that has been developed. Discussed it with the QC Director of FCC Regulatory Accounting, Internal Communications-Contractor, and Senior Director-Customer Financial Services noting it was the process used to identify all circuits and rates uses for OCS.
Contact information in order to interview for the QC Director of FCC Regulatory Accounting and Internal Communications-Contractor.	Interviewed the QC Director of FCC Regulatory Accounting and Internal Communications-Contractor noting that they were aware of the process used to identify all circuits and rates uses for OCS.
Contact information the Senior Director – Customer Financial Services.	Interviewed the Senior Director – Customer Financial Services regarding the billing of circuits manually identified. We noted that a process has been developed to load circuit and rate information received from the Internal Communications – Contractor into the QCC billing system in order to bill QC.

Conclusion

Based on the testing performed, the control requiring a manual process was implemented to identify all circuits and rates being used for OCS. Also, to ensure that billings are processed on a timely basis, this information has been entered into a database which will feed the monthly billing system. This control was implemented as of December 3, 2001.

Brunsting No. 11 – A Section 272 checklist is being established to track all new services provided by the Qwest 272 Affiliate to the Qwest BOC. The Director-Corporate Accounting QSC will have responsibility for monitoring the checklist to ensure all items are completed in a timely manner. (Related to discrepancy L in the KPMG Report)

Description of Control

A new control has been implemented whereby a 272 checklist is being established to ensure that all necessary information is collected that is required to process all new or amended task orders provided by the Qwest 272 Affiliate to the Qwest BOC. The QSC Director of Corporate Accounting will have responsibility for monitoring the checklist to ensure that all items are completed in a timely manner prior to signature.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control	Read the new policy, noting that a checklist to ensure that the process establishing or amending a service is followed in a timely manner.
Contact information for the QSC Director of Corporate Accounting.	Interviewed the QSC Director of Corporate Accounting. The QSC Director of Corporate Accounting stated that he will be responsible for completing and monitoring the checklist for new task orders and amendments to existing task orders to ensure that all necessary information required to process task orders and amendments is completed in a timely manner prior to signature.
The new checklist established to track all new services provided by the Qwest 272 Affiliate to the Qwest BOC.	Reviewed the new checklist, noting the information required to be collected to complete the process of establishing a new or amended task order.

Conclusion

Based on the testing performed, the control described above had been implemented as of December 3, 2001.

Brunsting No. 12 – Both entities will deploy additional training to all involved organizations and employees. (Related to all discrepancies in the KPMG Report)

Description of Control

Qwest is initiating additional training to reinforce compliance with Section 272(b)(2) and Section 272(b)(5).

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
<p>The training plan to reinforce compliance requirements with Section 272(b)(2) and Section 272(b)(5).</p>	<p>Reviewed the training plan for Section 272 Reinforcement and Supplemental Training noting that the materials provided guidance regarding Section 272(b)(2), 272 (b)(5), and 272(c)(2) requirements.</p> <p>The materials indicate that training will be delivered through the Qwest 272 website and an acknowledgement form will be required from each employee who has been targeted for the training. Additionally, the employee will have one week after receiving the e-mail to review the training materials and to sign the acknowledgement form.</p>
<p>Contact information for QCC's Director of 272 Business Development who was responsible for developing the Qwest training plan to reinforce compliance requirements with Section 272(b)(2) and Section 272(b)(5).</p>	<p>Interviewed QCC's Director of 272 Business Development regarding when the plan was developed and the targeted audience for the training noting that the plan was developed prior to December 3, 2001. The targeted audience for the training will be QCC, QC, and QSC management employees. The proposed schedule is to complete the training by the end of January 2002.</p>

Conclusion

Based on the testing performed, additional training to reinforce compliance with Section 272(b)(2) and Section 272(b)(5) had been implemented as of December 3, 2001.

In addition to the controls implemented above, Qwest management requested that KPMG review the following implemented control that was not part of the Schwartz and Brunsting affidavits:

KPMG Report Discrepancy G – Data entry services regarding out-of-region long-distance orders were provided but not accounted for, billed (including interest charges) or reduced to writing during the examination period.

Description of Control

The Qwest BOC initiated additional training to reinforce compliance with Section 272(b)(2) and Section 272(b)(5).

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control.	Read the new policy, noting that this policy indicated all time must be reported.
The BUAM Section 272 and Affiliate Transaction Refresher Training materials.	Reviewed the BUAM Section 272 and Affiliate Transaction Refresher Training materials. The training included references to requirements with respect to Section 272(b)(2) and Section 272 (b)(5).
E-mail communication to the Business Unit CFOs.	Reviewed the e-mail dated December 3, 2001 to Business Unit CFOs noting it stated the emphasis on compliance with Section 272 regulatory rules.

Conclusion

Based on the testing performed, additional training to reinforce compliance with Section 272(b)(2) and Section 272 (b)(5) had been implemented as of December 3, 2001.

SUMMARY CONCLUSION

In summary, based on the testing performed above, it is my opinion that the Qwest BOC and the Qwest 272 Affiliate have implemented the new controls and control enhancements that were scheduled for implementation by December 3, 2001, as stipulated in the Affidavits. All systems of internal control, no matter how well designed and operated, are inherently limited, such as control breakdowns caused by human judgment in decision making, human errors or mistakes, management override and fraud. While no internal control system can guarantee that all control objectives are achieved, the new controls and control enhancements (discussed above) implemented by Qwest appear to strengthen the overall control environment with respect to Section 272 compliance and should minimize the types of findings presented in the KPMG Report.

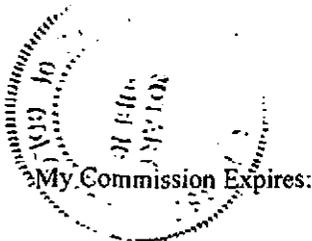
This concludes my declaration.

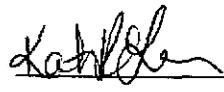
I declare under penalty of perjury that the foregoing is true and accurate to the best of my knowledge and belief.

Executed this 14th day of December 2001.


Philip J. Jacobsen

SUBSCRIBED AND SWORN before me this 14th day of December 2001.




Notary Public

My Commission Expires
03 23 2003