

**Locus Telecommunications, Inc.**  
**Report on Controls Placed in Operations for**  
**Dial-Around Compensation Services**  
**As of September 30, 2010**

## **Table of Contents**

Independent Service Auditors Report	Page 3
Operation and Internal Control Review	Page 5
General Use Control Considerations	Page 13
Summary of Significant Control Overview	Page 16
Description of Controls and Tests Performed	Page 17

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INDEPENDENT SERVICE AUDITOR'S REPORT

To the Board of Directors  
Locus Communications, Inc.  
Englewood Cliffs, New Jersey

We have examined the accompanying description of the controls at *Locus Telecommunications, Inc. (Locus)* applicable to recordkeeping, reporting, and payment provided to payphone service providers serviced through the switch. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of Locus' controls as it related to PSP compensation, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and (3) such controls have been placed in operation through September 30, 2010. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the aforementioned controls of Locus, presents fairly, in all material respects, the relevant aspects of Locus' controls that have been placed in operation through September 30, 2010. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that dial around compensation objectives, as documented in FCC Order 96-128 and related Orders, would be achieved if the described controls were complied with satisfactorily and third parties applied those aspects of internal control contemplated in the design of Locus Communications' controls.

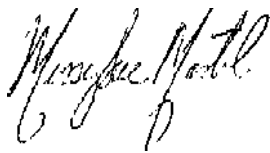
In addition to the procedures we considered necessary to render our opinion as expressed in the prior paragraph. This information has been provided to all interested parties. In our opinion, the controls that we tested are operating with sufficient effectiveness to provide material and reasonable assurance that the control objectives were achieved during the period between October 1, 2009 and September 30, 2010. The specific control objectives and controls and the nature, timing, extent and results of the tests are listed in Section V.

The relative effectiveness and significance of specific controls at Locus and their effect on assessments of control risk for PSPs are dependent on their interaction with internal control, and other factors present at PSPs and PSP aggregators, as well as the internal controls of third parties involved in Locus' processing of PSP dial around compensation. We have performed no procedures to evaluate the effectiveness of internal control at any third party associated with this process.

The description of controls at Locus is as of September 30, 2010 and information about tests of the operating effectiveness covers the period from October 1, 2009 to September 30, 2010. Any projection of such information into the future is subject to the risk that, because of change, the description may no longer portray the system in existence. The potential effectiveness of specific controls at Locus is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that (1) changes made to the system or controls, (2) changes in the processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

This report is intended solely for use by management of Locus Telecommunications, PSPs and other vendors of interest, the FCC in verification of fulfillment of Order 96-128, and the independent auditors associated with such organizations.

**Signed,**

A handwritten signature in cursive script, appearing to read "Missy Sue Mastel".

**Missy Sue Mastel, CPA**

**Mass-Tel Communications**

**January 31, 2011**

## **Section II: Overview of Operations and Internal Control Features**

### ***Overview of Operations***

DAC is the system whereby owners of payphones are compensated when a user places a calling card or other dial-around service to place a long distance call. Every time a person uses a payphone to place a long-distance call and dials a long-distance company other than the one assigned to the payphone, the dialed company must pay the payphone owner a fee. Payphone service providers and aggregators bill the Switched Based Reseller (SBR) or LEC by providing a list of ANIs, and the LEC and SBR match those ANIs to Call Detail Records (CDRs) from the switch, and pay on all calls that require compensation. Since payment is only due on completed calls of a certain duration when dial around services are used, the carrier's CDR utility program captures all relevant data pertaining to whether the call requires DAC or not.

While Locus has been operational since 1996, procedures for compensating the PSPs were the responsibility of the underlying interexchange (IXC) carriers through June 30, 2004. As such, Locus Telecommunications has been responsible for performing DAC activities since July 1, 2004.

In the quarter under review, Locus Telecommunications was invoiced by thirteen (13) separate PSP consolidators for all DAC requests. All carriers and their associated PSPs were reconciled and paid using in-house processes. We will perform procedures on these processes as it pertains to the accuracy, timeliness and completeness of the records for DAC.

### **General Operations**

Locus Telecommunications sells prepaid calling cards under a variety of affinity programs through two (2) separate carriers. Each type of product has its own 800 number provided by the underlying carrier, which connects to the Locus switches. These 800 numbers are printed on cards and sold to end users. Thus, all the calls processed through the Locus switch are coinless calls, although both payphone and hotel phones are common providers. At the time an end user places a call, the 800 number connects the call on the underlying carrier network, directs that call to the Locus switch, where the call is received, authenticated, and then sent for termination over a Least Cost Routing mechanism to complete the call. The Locus switch authenticates both the user, via PIN, and the termination number, via answer supervision, before it registers the call as connected for the purposes of DAC.

We note that Locus passes initial answer supervision back to the underlying carrier for the 800 portion of the call before it is connected through the switch to the called party. This does not constitute a completed call, but creates discrepancies with calls reported by the underlying carrier to the PSP and PSP aggregators. Locus supports payments made to

carriers via trending and detailed call reporting, verifying that the percentage of calls completed and paid remains consistent. Appears reasonable and consistent.

Locus uses 12 switches maintained in two separate switch collectives, one in Southern California and the other in northern New Jersey. As call records are processed, the information relating to origination, requested termination, header time, and talk time are filed in the switches' platform database, and then downloaded real-time to the Informix mainframe database.

As a switched based reseller, Locus Telecommunications had limited direct relationships with PSP or PSP aggregators prior to 2004. Revenue relationships for PSPs are generally with the LEC, who historically processed claims for compensation using the service data kept on the PSP of record. In many coinless cases, the LEC acts also as a PSP aggregator, and provides a list of ANIs to the SBR, or facilities based- reseller, for tracking the delivery of the call to the SBR's switch. Under current tollgate orders, Locus, as the SBR, is responsible for DAC, and reconciles the ANI against calls completed and compensable from their switch records. Calls are rated, and payments to the LEC or aggregator are made quarterly, who in turn reimburses the PSP. APCC and other PSP aggregators invoice each SBR all ANIs in operation. SBRs and clearinghouses - then reconcile this list against calls made to determine earned compensation. ANI ownership disputes require LEC affidavits, which are requested by aggregators or SBRs, as needed. Locus has published in-house procedures for ANI dispute resolution available on their intranet.

### **General Reconciliation Process**

Locus' reconciliation processes include managing the PSP vendors, receiving invoices relating to the BTNs under management by the various payphone providers and their associations, and submitting payments and claim reports, to PSP and PSP aggregators. The PSP submits their ANIs and invoices, if available, to Locus. Locus Telecommunications creates a quarterly master ANI list from the invoices to run against the CDRs looking for matches on calls.

PSPs and LECs invoice their payphone surcharges quarterly, in one of two formats:

- 1) CD ROM or disk billing, or
- 2) Electronic email in text format.

For most aggregators, a list of phone numbers, or ANIs, is sent representing the phone numbers that are owned and operated by the PSPs and are thus eligible for DAC. The carrier or PSP representative lists all possible numbers, and leaves it to the reconciliation process to locate those phone numbers on CDRs and verify compensable calls. A few PSPs invoice by calls, but they are unaudited results and include a large number of incomplete calls, therefore Locus uses the aforementioned ANI and infodigit procedures to determine accurate payment. Appears reasonable.

### **For switch reconciliation**

Each switch downloads the CDRs real-time to the Informix database, which then prepares and processes the call detail for bill reporting and invoicing. These reports are kept in the system for four months at a time, the current quarter and one month prior, and each quarter is reconciled and archived, as well. A report known as the Payphone Summary Report is generated quarterly for the purposes of reconciliation, using parameters that ensure that all eligible compensation calls appear. These reports generate a compilation of all CDRs that are completed to the called party, and match the master list of ANIs. Locus filters payphone calls, using infodigits, from its database to determine compensable calls. For calls with '00' infodigits that are forced to accommodate COCOT lines, Locus will compensate the payphone service providers upon receipt of certification and affidavit from the PSPs regarding the legitimacy of the payphone ANIs.

The database generates the payphone flag from the info digit field, so that while a payphone indicator field is present, it is not used to filter the calls that are then compared to the ANI look-up table for DAC. Thus, Locus uses a complete database of call detail records for comparison with the invoices from the PSP. Appears reasonable.

Locus performs reconciliation on a quarterly basis, whereby they compare ANIs reported by the PSPs to the database of calls provided by the switch reports, and validate the claims for payment by the PSPs. Since the PSPs invoice the carriers, the database used to determine which ANIs belong to which payee are from the PSPs ownership records, which are sent along with the invoicing ANIs. Disputes of ownership are managed via Locus' PSP duplicate ANI resolution process procedures which are sent out with payments and there have been no escalations beyond these procedures.

Claim reports sorted into various spreadsheets by carrier, by check, and by submission are available and are reviewed by the financial directors of Locus, and once management validates the report and the total, the agreed-upon amount is paid via check or wire transfer. Locus makes payment to the PSPs and aggregators by the 91<sup>st</sup> day after the quarter ending, as per the Order. Reports to the PSPs and aggregators include all required CIC code, rating, SBR ID and PSP ID information. Appears reasonable.

Reconciliation is an automatic process, and produces summary reports detailing the ANI and all associated compensable calls. The CDR report is totaled for the number of records per customer, and that number is used as the reconciled number for comparison and dispute against the carrier bill.

While there are discrepancies between the call count that was sent from the carrier to the aggregators and the final paid amount, most of the discrepancies between the PSP invoice and the CDRs stem from complete vs. incomplete calls. The reports received from the underlying carriers are unable to capture call completion information, and thus the reconciliation and audit assists the aggregators in validating the completeness of the completed call records processed for payment. We reviewed trending of completed and PSP compensable calls to determine that the percentage of complete vs. incomplete calls

did not decrease over time, and also tested to ensure that the CDRs coming from the switches to the Informix were complete. Appears materially reasonable.

We noted that Locus does not perform any review of the ANI payment to ensure against calling fraud. Per discussion with Software Engineering, Locus relies on the PIN authentication process to establish the validity of each call. Additionally, all calls are terminated 20,000 seconds after it connects to the carrier. Appears reasonable.

## **Processing Detail**

As end-users dial calls using the 800 numbers on the prepaid calling cards from Locus, the Excel switches receive the calls from the originating carriers based on capacity and 800 number provider programming. When the 800 provider sends the call to the Locus switch, it sends the info digit and the 10 digit ANI+DNIS. The switch control host controls the switch and authenticates the call and the user PIN, and accepts the terminating number. Once the termination number is entered and validated, it is sent out over Least Cost Routing programming. A call record generates at the time the call hits the Locus switch, recording the header information, including origination, routing, time stamp, program, product rate and termination information. If answer supervision is attained, then the talk time begins to record. The call record completes when the call is terminated, and is updated to the switch database in real time. Calls are attempted for 60 seconds before the call is considered incomplete.

If the connection between the Switch Control Host and the Switch Database is broken, switch control maintains the CDR in backup until it can reconnect with the database. The Main database server imports new CDRs and transaction records from all Excel switches in real time. The number of imports running in real time is also monitored, and discrepancies are notified and monitored on a daily basis.

Each quarter, Youngho Chun, database engineer, runs reports out of the Excel switch sorted by PSP (aggregator) and date. These reports are delimited text files run in the Informix (reporting interface) from the switch. PSP contact and ownership information is relayed to the SBR in a separate file, and is used to prepare final reporting back to the aggregators. When ownership of an ANI is in dispute, Locus will pay the first owner noted, and notify the alternate party of dispute procedures. Appears reasonable.

## **Data Integrity**

Per Hye-Jin Lee, Regulatory Compliance Specialist, and Young Ho Chun, Database Operations engineer, all records have been kept since inception. Information related to CDRs is maintained live at the switch database for two months, and the main database keeps records for four months. After this period, all files are compressed and burned to CD and stored at an offsite location. Regular testing of the back-up data integrity,

including uploading the offline database to an archive server and restoring the data to a server which is running Informix, is performed regularly.

### **Reconciliation Process Detail of DAC for PSPs**

The Payphone Service Providers submit their ANI information either directly to Locus or through aggregators and IXC's. Per the Order, PSPs are able to make claims against the current quarter and prior five quarters, for a total of six quarters. We note that Locus retains a database of all unpaid ANIs from each quarter and runs all ANI requests against each open quarter individually, appears reasonable.

As the LEC does not send ownership information for the payphones, the LEC and the aggregators remain responsible for validating the ownership and payment information coming in from the LEC and the PSPs. Locus updates existing ANI look-up tables with new invoices sent in each quarter by the carriers/PSPs for changes to the information and disconnects that are processed each quarter. A Utility program is used to process the disconnect files and updates to the ANI data.

Locus then runs the updated ANIs against the CDRs for the quarter to match ANIs, and the payphone detail reports are created. The reports created are stored and archived to CD. All the invoices are processed together as one look-up table to prevent duplicate payment for a dual-paid ANI. Calls are sorted into categories by PSP and LEC, or SBR, Unclaimed calls, or records that have payphone indicators but are not claimed by any of the invoicing PSPs are kept in the database for 27 months until expired.

Discrepancies in ANI reporting, as when a number is claimed by more than one party are attempted to be resolved first by comparing the data to prior quarter is used to try to identify the owner. If there is no way to substantiate one claimant over another, the first claimant is paid. The alternate PSP is then sent a copy of the dispute procedures in case they want to file a dispute with Locus by providing documentation of their claim.

Once any errors have been corrected, ANI status report files are created for each PSP summarizing the ANI, and the amount paid, and the underlying carrier, satisfying the reporting requirement to the PSP. Locus relies on the PSP aggregator, LEC, or IXC to distribute payments to their constituency. Ownership is represented in the files sent by the PSP aggregators, and only duplicate claims require and are given further testing parameters, as described.

At any time during the quarter, the PSP aggregator or LEC may submit new information relating to the ownership of certain ANIs, and they are incorporated into the quarter being processed and run against the prior 5 quarters, as noted above.

### **Call Records**

Locus Telecommunications ensures the completeness and accuracy of the call records through their CDR gathering process.

Locus Telecommunications sells 800 service for calling cards to their customers, including LECs and other SBRs (switch based resellers) who want to offer 800 based calling cards to their customers. These numbers are then printed on cards and sold to end users. Thus, all the calls processed through the Excel switches are coinless calls, although both payphone and hotel phones are common service providers.

Each 800 DNIS that hits the switch is preprogrammed to a single customers account for a specific product. If an 800 number is dialed, sent over the carrier and the Locus switch does not recognize it, it is not processed by the Excel Switch. All 8XX calls that originate on the carrier's network are routed via LCR for termination of the dialed number.

Per Hye-Jin Lee, each of the Excel Switches are managed through a Switch Control Host, which controls the actions of the switch and begins documenting the CDR with the receipt of the info-digit and ANI+DNIS. When calls are terminated, the CDR is recorded as complete and sent real-time to the Informix database. For each CDR, the system generates fields to identify the origination and completion information on the call. These are set up through logic that is programmed into the Locus Telecommunications Platform.

- Infodgt-identifies what the service originating the call. 07, 27, 70, 29 and sometimes 00 are the proper identifiers for payphone services.
- ANI –This is the payphone indicator and the basis for payment
- Call Type – We note that this field tracks completed and incomplete calls. A “1” indicates answer supervision. Appears reasonable.

We note that new products have warranted the addition of new fields like off-peak and peak rating, but these do not affect per-call compensation-appears reasonable. There are no dial-around fields since the caller has already selected Locus as the prepaid carrier, and Locus uses least cost criteria to route the end-user call. Appears reasonable. The Switch Control Host will attempt completion for up to 1 minute before determining an incomplete call, which is recorded as a “2” or “3” in the Answer field.

The call records sent over are then run against the ANI invoice look-up tables for the quarter, and the calls are allocated to PSP and LEC, as required. Quarterly reports are generated 65 days after the quarter close indicating what is being paid out to the LECs, IXC's and the aggregators on behalf of the PSPs, and payment is sent on or before the 91<sup>st</sup> day.

When PSP payments are approved via the report, the payment schedule files are used to create a spreadsheet that is sent to the accounting department to process wire transfers or

checks. The files are also used to create payment summary reports that are sent to the PSPs with their check.

Once payments are sent, the CDRs are marked as paid in the system, archived and closed out of the open item reports, thus recording which calls have been paid upon and which remain outstanding due to no claims or disputes. Disputed calls are generally paid to the vendor of record, where prior claims can be used to determine status. All NO CLAIM calls, where the CDR reflects an ANI that is not appearing on any invoice are accrued for possible prior quarter billing, and run independently against future invoices.

When a quarter becomes ineligible for payment request, it is no longer run against the ANI master list. Using this process, Locus expunges expired quarters. Appears reasonable.

Quarterly information is stored indefinitely. Stored databases are analyzed periodically to ensure that the data remains intact. The switch records are stored by Locus Telecommunications for 2 years, and are analyzed to ensure that they remain intact.

## **Disputes**

If a PSP or aggregator has a dispute about the payment made, the PSP can request that its original file (or a newly submitted file) be checked in greater detail. As stated above, most disputes are related to either ANI ownership or incomplete calls. Locus has a process by which they will request the disputing PSP provide ownership documentation and submit signed documentation from both the overpaid and the underpaid parties that agree upon the ownership of the payphone. If this information is not available, Locus requests the PSP to pass on the dispute to the LEC to try to obtain additional information (i.e. affidavits, etc.) and resolution. Appears reasonable.

We note that there are no material disputes outstanding.

## ***Internal Controls***

### **Control Environment and Organizational Chart**

Locus's organizational structure, its management responsibilities, and its culture are important components of the DAC system's control structure. The DAC system is under the direction of Sam Lee, Controller. The assignment of responsibility and authority to deal with the DAC system's goals and objectives and system requirements, including regulatory requirements and customer obligations has been completed by Locus' management.

The following organizational chart summarizes those with responsibilities for DAC services;

# Sam Lee, Controller, Locus Communications

Hye-Jin Lee,  
Manager , Regulatory  
and Tax Compliance

YoungHo Chun,  
Director  
MIS

Kevin Kim,  
Sr. Manager  
Switch and Network  
Operations

Taewon Cho,  
Back-up MIS  
Administrator

Jay J. Jee, Switch  
Administrator

Mr. Young Ho Chun, Senior Manager MIS, is the administrator for the switch databases (SunSolaris, Windows NT, and Informix). The Switch systems all have Taewon Cho

as a back-up administrator, and Windows NT has Shaun Ventura as a secondary administrator. Mr. Chun programs the system to locate info digits and other information relevant to the DAC system. All access is limited to specific tasks, user-profiled, and secure. Personnel with programming access for the database are not the same as personnel with network control. **Only Mr. Chun has access to change payphone logic.**

Hye-Jin Lee receives the invoices from the carrier/LECs and the PSPs. The invoice disks are updated by Youngho Chun for any changes in payphone ownership and disconnects, and then are processed against the downloaded CDRs. The invoice payment report is reviewed by Hye-Jin Lee before sending them out to ensure that they appear materially accurate and that there are no large or unusual aspects to the report before they are sent over. If there are discrepancies, Mr. Chun reruns the report, and then the report is reviewed manually. Sam Lee, Controller, then processes for payment via wire transfer or check.

The payment detail report is received within 65 days after the quarter end. It is reviewed by Hye-Jin Lee and is both trended against prior quarters for reasonableness and reconciled against summary monthly reports on payphone records collected. Additionally, a completeness percentage report is run to ensure that the percentage of call complete trends accurately from one quarter to the next. Payments are made to the PSPs by the end of the month. As approval and preparation of reporting information are kept separate, there appears to be little room for internal employee fraud outside of collusion. Invoices from the PSP are due by 30 days after the quarter end, so that the PSP can be paid by the last day of the next quarter. Appears reasonable.

We note that the Locus reconciliation process and the overall integrity of the DAC system rely on several internal controls to ensure the integrity of the system. These controls are communicated and complied with by Locus Telecommunications in the following:

### **III. General Control Considerations**

The DAC system at Locus has been designed assuming certain control responsibilities would be implemented in non-DAC specific areas of the company. These include;

#### **Contract and Regulatory Requirements**

Locus has warranted via letter signed by senior staff that the company and their representatives are responsible for maintaining compliance with laws, regulations, tariffs, and other general requirements in the course of doing business. Locus Telecommunications has provided documentation that they recognize these requirements and understand their responsibilities to comply with them. The integrity of the compensation system requires that Locus remains in compliance with all their attestations under the agreement. We obtained and reviewed an executed copy of this letter, which indicates that the parties understand their obligations. Appears reasonable.

#### **Access Controls**

Locus Telecommunications has maintained sufficient controls over who has access to switch and the reporting systems and under which circumstances changes and updates can be performed. The controls in place include:

- Limited access to switch and reconciliation processes
- Segregation of duties among report generation, reconciliation, and payment approval

Appears reasonable.

#### **File Completeness and Timeliness**

Locus Telecommunications provides complete files, including completed call records for payphone originated calls, and are responsible for the completeness, accuracy, and timeliness of the call record files. The controls in place to provide such files are:

- Payphone logic that is standardized and verified
- Easily tracked sorting and filtering parameters
- Verification field in the reports
- Monthly reports are generated on the 3<sup>rd</sup> of the subsequent month

#### **Payment Authorization**

Locus Telecommunications generates and reviews reports for reasonableness and makes payments to PSPs and aggregators from the summary payment documents run from the

intersection of the ANIs billed and the CDRs for the quarter. Proper approval is controlled by Sam Lee, Controller.

### **Completeness of Records Processed**

The Excel switches collect data that is transferred into the Informix database real time, and tags all information to ensure that the transfer is complete. Locus does not filter the CDRs for payphone flag, but processed the ANI look-up tables against all CDRs for ANI matches. Completion rates are tracked to ensure that the trend of call completion is consistent. Appears reasonable.

### **Dispute Resolution**

The FCC requires that a standardized process be in place to settle disputes that is data reliant. Telecommunications has a dispute resolution process in place whereby all parties are informed when ANIs are claimed by multiple PSPs, and dispute processes are communicated in case the resolution is not acceptable to all. Locus Telecommunications requires consensual documentation from all interested parties that the resolution is fair and accepted. PSPs and their aggregators are required to provide whatever detail support may be necessary to validate any particular claim against a CDR or its DAC status. Appears reasonable.

### **Payment Rate**

All Locus Telecommunications customers use the default rate with their PSPs, there are no exceptions. Because the reconciliation is done quarterly and each CDR is time and date stamped, the rate calculations are performed on the individual CDR. Internal controls testing relating to rate verification include validating on Locus' summary report that all calls are included at the .494 per eligible call rate.

### **Fraudulent Call ID and High Volume Call Identification**

Locus Telecommunications relies on the authentication of the call via the PIN. Since the card needs to be bought to be used, the hidden PIN authenticates the user as a purchaser of the prepaid phone service, and has its own limitations in the amount of service available on that card. Any single call cannot exceed 20,000 seconds, or it is terminated by the switch. Thus, threshold per ANI are not considered necessary, and all calls made from a payphone are considered compensable. Appears reasonable.

### **Contingency Procedures**

The switch information and CDRs are backed in internally in the switch control host if connection between the switch database and Excel switch is broken. The switch databases back up to the Informix database in the main server, and communications failure between these two systems resets the system to reload any untagged CDRs. Appears reasonable. Reconciliation processes are automatic, but do not require special

services or systems to perform, since the reconciliation is performed between raw data CDRs and billed ANIs in a lookup table. All disputes are reviewed through a case-by-case manual process. Appears reasonable.

### **DAC System Documentation**

Locus maintains complete records of protocols and procedures involved in DAC systems, including personnel involved, responsibilities and file formats. Changes to these procedures and protocols are updated as necessary in a timely manner.

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

The principal objectives of the system of internal controls pertaining to recordkeeping, reporting, and payment verification are as follows:

- Policies and procedures are in place to ensure payment rates conform to FCC rules, either by default or as agreed to between parties.
- Policies and procedures are in place relating to reporting elements as required by FCC Order.
- Data is stored for a period at least as long as required by FCC rules.
- Procedures are in place to establish, corroborate and validate proper PSP ownership.
- System reporting for all eligible calls is both accurate and complete, and parameters for excluding calls are reasonable and consistent with the Order.
- Specific personnel have been identified as responsible for drafting and maintaining necessary business requirements relating to Locus system requirements.
- Specific personnel has been identified for verifying compensation to PSPs
- Specific Personnel has been identified for handling dispute resolution with PSPs
- Quarterly reports are verified for payphone call counts, PSP identities, numbers called, and infodigits.
- Procedures are in place to identify and investigate potentially fraudulent calls and are resolved.
- Polices and procedures are in place to properly compensate all compensable calls originated from validated payphone ANIs. In addition, such reports are maintained for the period required by the FCC.
- Policies and procedures are in place regarding controls over changes to applicable software, including persons responsible, management of the changes, and validation of such changes, ensuring that the changes do not negatively affect integrity of the records processed or the results of processing such records.

## **V. Description of Controls and Tests Performed**

Our test of the effectiveness of the policies, procedures, and controls included tests we considered necessary to evaluate whether those controls, and the extent of the compliance with them, is sufficient to provide reasonable, but not absolute, assurance that the specified control objectives were achieved during the period between October 1, 2009 and September 30, 2010. Our tests of the operational effectiveness of controls were designed to cover the period from October 1, 2009 through September 30, 2010.

Test procedures performed in connection with determining the operational effectiveness of controls are described as follows:

1. Corroborative inquiry – Made inquires of appropriate personnel and corroborated responses with other personnel to ascertain the compliance of controls.
2. Observation – Observed application of specific controls.
3. Inspection of evidentiary material –inspected documents and reports indicating the performance of the systems and controls.
4. Transaction testing – Used reports to recreate and document controls.
5. Trending and analysis-Reviewing percentage of calls over quarters.

### **Key Control Objective #1**

*Payment rates can either be based on a rate negotiated between the user and the PSP or the FCC default rate.*

### **Tests Performed**

- 1) Locus calculates their DAC obligations based on the rates negotiated between the SBR and the PSP, or where applicable, the rates included in FCC Order 96-128. Per discussion with Hye-Jin Lee, there are no agreements for alternative rates with PSPs, All rates at this point are the FCC default rate, which is currently .494 cents per compensable call.

We reviewed the DAC summary reports, noting that the calls paid for the quarter for PSPs of carriers processed by Locus were at the default rate(s) of .494. Per discussion with management, there are no contracts for rates other than federal mandated rates. We reviewed the detail to ensure that all calls were at .494 per call. Appears reasonable.

- 2) For the remainder of the carriers, we reviewed the reconciliation Locus performed against the LEC invoices, noting that discrepancies were based on number of calls, but that every carrier is paid a minimum of .494 per compensable call. We found no exceptions. Appears reasonable.

## **Key Control Objective #2**

*Policies and procedures are in place relating to reporting elements as required in by FCC Order.*

### **Policy or Procedure**

Per discussion with Hye-Jin Lee, Accountant-Tax and Compliance, reports are prepared on a quarterly basis for use by LECs, SBRs, and PSPs detailing the calls that originate by ANI, the amount paid per ANI, carrier IDs. Additional reports may be constructed for any party including long calls, dispute items, and other, as deemed necessary by any party.

### **Tests Performed**

- 1) We reviewed the reports that were provided by Locus, reconciling a variety of sample calls to switch reports and ANIs invoiced.
- 2) For the category “unclaimed ANIs”, we noted that the detail for these calls was maintained for accrual and investigation purposes.

## **Key Objective #3**

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

### **Policy or Procedure**

Through interviews with key personnel, we noted that all records are kept on the switch platform for two months, and live in the Informix database for four months. All CDRs are downloaded each month to text files, compressed and stored on CDs. Duplicate copies are made and kept forever. Per YoungHo, data integrity on these CDs is regularly tested, including uploading the offline database to an archive server and restoring the data to a server which is running Informix.

## **Key Objective #4**

*Procedures are in place to establish proper PSP ownership*

### **Policy or Procedure**

Locus Telecommunications receives the ANI invoice and the PSP ownership listing from the PSP aggregators. Claim reports match the ANIs to the CDRs, and then the completed call report is processed with the PSP ownership information. Appears reasonable.

### **Test Performed**

- 1) We reviewed the payment summary reports sent to the PSP aggregators and noted that PSP IDs are present and consistent.
  
- 2) We tied a sample of PSP IDs to the ownership listing from the aggregator invoices.

## **Key Objective #5**

*System reporting for all eligible calls is both accurate and complete*

### **Policy or Procedure**

Because Locus runs the ANI look-up tables against all info-digit positive, completed CDR records for the quarter, the payphone flag is not used as a filtering system that might remove potentially compensable calls. Since Locus is a pure coinless facilities-based reseller, all calls with matching ANIs are considered compensable with the exception of '00' infodigits forced over to accommodate a COCOT line. These ANIs will be compensated after affidavits are received from the PSPs ensuring that they are payphone ANIs and ownership is verified. These programs produce a matched report which is then sorted for consistency with the FCC and APCC reporting requirements, and used to substantiate the payment. There are no material discrepancies. The CDRs are also reviewed to ensure that the completion rate for all calls and the completion rate for DAC calls from prior quarters are consistent with the current DAC completion rate. Payphone reports are validated before checks are created in payment.

### **Tests Performed**

- 1) We interviewed personnel responsible for various aspects of the reconciliation process, including key personnel at Locus to gain an understanding of the process and the internal control environment. Appears reasonable.

- 2) We reviewed the payphone logic and determined that the field parameters are sound.
- 3) We statistically sampled calls from the original switch CDRs to the Informix CDRs for those dates, and then to the payphone compensation reports generated for ultimate payment. For our sample, we noted that the entire sample of proper infodigit calls tested appears on the Locus report. Appears reasonable.

### **Key Objective #6**

*Specific personnel have been identified as responsible for drafting and maintaining necessary business requirements relating to Locus Telecommunications system requirements.*

*Specific personnel has been identified for verifying compensation to PSPs*

*Specific Personnel has been identified for handling dispute resolution with PSPs*

### **Policy or Procedure**

Locus Telecommunications has substantially segregated and assigned responsibility for drafting and maintaining necessary business requirements, like switch program logic, report preparation and formatting, validation of payment to PSPs and validation of reporting to various parties within the Locus Telecommunications organization.

### **Tests Performed**

We interviewed various personnel to understand their roles in the DAC process, noting:

- 1) That Kevin Kim, is responsible for all the validity of the initial CDRs,
- 2) That Young Ho Chun, Programmer, runs the quarterly report in Informix for comparison to the ANI invoices of the PSPs,
- 3) That YoungHo Chun, MIS, reviews the call records that were sent for payment validation to be consistent with the payphone infodigit CDRs that are presented through the switch originally,
- 4) That Sam Lee authorizes the wire transfers and checks for PSP payment after review of the report sent by Hye-Jin Lee,
- 5) That Hye-Jin Lee is responsible for dispute resolution with carrier-customers and their PSPs, generating CDRs and reports that are used in dispute resolution, most often to validate the claims of incomplete calls that indicate a non-compensable call.

Appears reasonable.

### **Key Objective #7**

*Quarterly reports are verified for payphone call counts, PSP identities, numbers called, and infodigits.*

### **Policy or Procedure**

Locus Telecommunications uses switch CDRs to compare to ANI invoices from PSPs and generate payments for compensable calls. Locus keeps monthly files of CDRs with payphone flags, ANIs, numbers called and infodigits so that originated calls with eligible DAC can be determined, and validated ANIs, non-validated ANIs, and calls with ownership issues can be identified.

### **Tests Performed**

With the exception of ANI ownership testing, quarterly reports are reviewed for pertinent information and exceptions and unusual items are pulled for further investigation. We reviewed two quarters of reconciliation to determine the basis for disputes, which were LEC invoices denied for incomplete calls. Appears reasonable.

We tested the quarterly reports against the statistical sampling of data for the quarter, noting that the information from the CDRs was captured accurately as compensable or non-compensable calls. No exceptions.

### **Key Control Objective #8**

*Procedures are in place to identify and investigate potentially fraudulent calls and are resolved.*

### **Policy or Procedure**

All calls passed to the Locus Telecommunications switches required a PIN authentication and are limited in their abuse, given the nature of the prepaid phone card. System checks on ANIs include termination of calls over 20,000 seconds.

### **Tests Performed**

We inquired of personnel whether any fraudulent usage had yet been identified, and there has been no abuse or customer service complaints relating to non-authorized calls. Given the pre-use authentication required, appears reasonable.

## **Key Control Objective #9**

*Policies and procedures are in place to properly compensate all compensable calls originated from validated payphone ANIs. In addition, such reports are maintained for the period required by the FCC.*

### **Policy or Procedure**

See the narrative on DAC reconciliation and payment process above for greater detail. In summary, CDRs from the switch are sorted for matching ANIs by payphone infodigits, and these records are summarized in the appropriate format for the PSP or aggregator. A second report for '00' infodigits is created by matching PSP ANIs sent. A summary report filtered by payphone flag field is not created, and the raw CDR data is used for determining compensable calls. PSP information related to ANI ownership is created from the invoices of the PSPs. The results are tested for consistency with historic completion rates. Locus Telecommunications reviews the report before check creation for payment to the PSP.

All data is stored on CD offsite, and 4 months are stored live in daily archives on a database server on the system. Per discussion with key personnel, Locus has begun uploading archived data to a dummy server and testing it for data integrity.

### **Tests Performed**

- 1) We interviewed personnel responsible for various aspects of the reconciliation process, including key personnel at Locus to gain an understanding of the process and the internal control environment. Appears reasonable.
- 2) We statistically sampled calls from the original CDR for those dates to the payphone reports generated for PSP payment, noting that the entire sample of payphone flagged calls tested appears on the Locus compensation report.

## **Key Control Objective #10**

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

### **Policy or Procedure**

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

- System change approval

- Identification of responsible persons
- System security controls
- Program security controls
- Capabilities to test changes and compare to known results

### **Tests Performed**

We interviewed key personnel and reviewed the logic associated with generating payphone flags, as well as authentication of calls and completed calls. We reviewed documentation with regard to the above and noted that it was consistent with stated policy. Appears reasonable.