DRAFT

AUDIT OF SOUTHERN BELL REPAIR PROCESS CONTROLS

DRAFT REPORT

January 15, 1993

TABLE OF CONTENTS

1.0 EXECUTIVE SUMMARY

1.1 Background

This audit by the Division of Research and Regulatory Review was performed at the request of the Division of Communications to assist in the overall investigation of Southern Bell's repair reporting practices in Docket 910163-TL. As a result of both proven and alleged instances of falsification of repair records by Southern Bell employees, the Commission is investigating the Company's process of providing and reporting maintenance and repair service to its customers.

1.2 Objectives

The objectives of this audit were to identify the maintenance and repair controls presently and previously in place, to assess the adequacy of those controls, and to determine whether Company management has adequately performed its role in directing and controlling the repair process.

1.3 Scope

The major focus of the audit was the controls surrounding the maintenance and repair process. At the request of the Division of Communications, an effort was made to compare the controls presently in place to those in place in prior years.

In general, the time frame examined covered the period 1986 through 1992. Since many of the problems regarding repair falsification came to light in 1990, the controls in place during 1990 became a specific point of focus. Similarly, particular attention was paid to the control changes implemented in 1991 and 1992 as a result of these problems.

The area of operations examined centered upon the Installation and Maintenance Centers (IMCs) which handle the maintenance and repair of all residential and simple business customers. The roles of other line and staff operating units involved in the maintenance and repair function were also reviewed in examining the trouble reporting and repair process and related controls.

1.4 Methodology

For the purpose of auditing the Company's maintenance and repair practices and procedures, information was gathered through interviews, document requests, and formal

discovery. Company personnel interviewed represented a cross-section of management levels, staff support, and craft employees involved in the maintenance and repair process. Based upon analysis of the information examined, the findings and conclusions listed below were developed for consideration by the Division of Communications.

A draft of this report was provided to the Company to verify the factual accuracy of its contents. Based upon the Company's response, certain revisions were made to statements of fact. However, no changes to the analysis, findings or conclusions were made as a result of the Company's input.

1.5 Findings

The following audit findings are discussed in detail in Section 6.0 of the report.

Adequacy of Controls - 1990 and Prior

1. Repair process controls in place during and before 1990 were inadequate.

2. Network staff review coverage was inadequate during and before 1990.

3. Managers' attitudes towards attaining Commission Rule 25-4.070 performance

index requirements were inappropriate.

4. Repair process training was inadequate during and before 1990.

Adequacy of Management's Response to Problems

5. Management's response to instances of repair records falsification discovered before August 1990 was inadequate.

6. Management's response to the 1988 Internal Audit of LMOS security was inadequate.

7. Changes implemented during 1991 and 1992 represent significant control improvements.

Adequacy of Present Controls

8. Further control additions and improvements are needed to protect against recurrence of repair reporting falsification.

2.0 OVERVIEW OF REPAIR PROCESS

2.1 Report Origination

The flow of the repair process, depicted on Exhibit 1, usually begins with a customer originating a trouble report by dialing "611." The call is received at one of two Centralized Repair Service Attendant Bureaus (CRSABs) located in Jacksonville and Miami. Once the call is received at the CRSAB, the customer is given the option of reporting the trouble condition through the Automatic Interactive Report Ordering system (AIRO), which guides the caller to input information regarding the service problem via telephone touch-tone keys. If the AIRO option is not selected, the caller is automatically connected with the next available live repair service attendant (RSA) at either CRSAB. The RSA records the pertinent information given by the customer, and provides the customer with a commitment time by which the trouble will be cleared.

2.2 Testing and Screening

While the repair service attendant is receiving the trouble information, the line in question is automatically tested by the Mechanized Line Testing (MLT) system to diagnose the cause of the problem. Based upon the results of the tests, the trouble may be routed

to the appropriate IMC for dispatch direct to a service technician (ST). All other troubles are routed to the appropriate IMC for further determination of handling and resolution.

At the IMC, all of the trouble report information including MLT results is read by the Auto Screener system, which currently screens for a match with 13 predetermined conditions that will result in the trouble being routed for dispatch to a service technician in the field. The Company estimates that about 38% of trouble reports are currently handled by Auto Screener without assistance from maintenance administrators (MAs). If the Auto Screener does not find one of these specified conditions existing, the trouble is routed to the maintenance administrators in the IMC for further screening and disposition.

Based upon additional MLT results or communication with the customer, the maintenance administrator seeks to resolve the trouble reports that have not been readily diagnosed and dispatched. All pertinent information gathered by the maintenance administrator, and his/her handling of the trouble is recorded in the Loop Maintenance Operating System (LMOS). The maintenance administrator makes a determination of how the trouble report should be handled by either resolving it and notifying the customer, or by routing it for dispatch to a service technician.

2.3 Dispatch and Repair

The pool of trouble reports awaiting dispatch is monitored by assistant managers in the IMC who set handling priorities and seek to efficiently direct trouble reports to the service technician in the field. For example, trouble reports statused as Out of Service that are in jeopardy of exceeding the 24 hour period for resolution are highlighted in trouble analysis reports available to IMC management. Special priority is given to these trouble reports in order to restore service promptly.

Trouble reports are dispatched electronically to the service technicians via their portable Craft Access Terminals (CATs) which provide the information reported by the customer, MLT test results, and other information added by the maintenance administrator or CRSAB attendant who initially handled the report. The CAT also creates a detailed daily record of the STs activities, time elapsed between repairs, and other information used by Installation and Repair managers to monitor service technician activity.

At the point a trouble is pulled up by the ST, LMOS' Auto Reject feature performs an additional MLT test to verify that the originally detected problem still exists. If not, the dispatch is rejected, and the trouble is returned to the IMC for re-screening by the MA, since the problem may no longer require a service call.

As a trouble report is dispatched to a particular ST, his employee code and the time

of dispatch are recorded as part of the trouble history. On the site, the service technician performs inspections and tests to isolate the cause of the trouble, and may repair or replace malfunctioning equipment, such as dropwire. For billing and timekeeping purposes, the service technician must determine whether the cause of the trouble involves the customer's inside wiring or Customer Provided Equipment (CPE), such as telephone sets or jacks. If this is the case, the customer may be charged for the repairs, unless he/she subscribes to a Southern Bell maintenance plan.

2.4 Closing and Recording

Once a dispatched trouble is repaired by the ST, the customer is notified, and the information is stored in the LMOS system to provide the basis for record keeping and results monitoring. In addition, LMOS records and maintains a complete history of the handling of a repair, known as the Display Extended Trouble History (DLETH). This provides an ongoing record of what was done, when, and by whom in resolving the trouble report.

3.0 CONTROLS

3.1 Procedural and System Controls

3.1.1 BellSouth Practices

The Company's basic procedural guidelines for the trouble reporting and repair are set down in BellSouth Practices (BSP) 660-169-013BT, 660-169-12BT, and 660-169-011BT. BSP 660-169-013BT delineates the type, cause and disposition codes used to handle trouble reports. BSP 660-169-012BT discusses the specific trouble report items that are monitored by the Company through its internal Customer Service Quality Indicators, and by the Commission through the Schedule 11A, 11B, and 11C monthly reports required under Commission Rule 25.4.70. BSP 660-169-011BT describes the report categories (Customer Direct, Employee Originated, etc.) that determine whether the trouble report will be included in the Schedule 11 service quality indices.

These three BSPs have been in place for the entire period covered by the scope of this review, with relatively minor revisions in 1989 and 1991. In addition to the BellSouth Practices themselves, BellSouth issues Regional Letters (RLs) which serve to clarify or modify a specific BSP until formal revision and ratification is complete.

During December 1991 and April 1992, significant changes in the trouble reporting

and repair process were initiated through Regional Letters 91-12-034SV and 92-04-033BT. These changes are detailed in sections 5.1 and 5.2 of this report.

3.1.2 LMOS and MTAS

The trouble reporting and repair process is directed by the Loop Maintenance Operating System (LMOS), which controls the reporting, handling and record keeping functions. LMOS is actually a family of systems that work together to accomplish these functions. In performing its role, LMOS coordinates systems and applications which control the testing (Mechanized Line Testing or MLT), screening (Auto-Screener), dispatching, and monitoring, and closing the trouble reports.

LMOS has two basic components, the Front End and the Host, that are responsible for handling different phases of the trouble report and repair process. The Front End records and tracks trouble reports from the time they are received until the repair is completed, verified, closed and the information is sent to the LMOS Host.

The Host has two main functions. First, it stores and maintains detailed line record information on each subscriber. Second, it creates and maintains historical data based on closed trouble reports for each telephone number.

After reports are closed, the Host coordinates the summary analysis and results reporting through the Mechanized Trouble Analysis System (MTAS). Each day, MTAS

captures from LMOS some of the information contained in the closed out troubles. MTAS retains sufficient information from each trouble report to reconstruct the nature of the problem reported and all action taken by the Company. For example, for a particular trouble, MTAS can identify the type code, the MLT results, who dispatched the trouble, which service technician received the dispatch, the disposition and cause codes he assigned, when he cleared it, the time service was restored, and more. This data is retained 65 days for analysis.

Through MTAS, standardized reports are routinely generated which analyze trouble report handling information for use by management. In addition, IMC managers may generate customized reports for a variety of uses such as assessing the degree of compliance with procedures, diagnosing the cause of a problem in handling the load, or studying the processing and resolution of a sample of trouble reports.

3.1.3 MOOSA

Another trouble report and repair handling system application driven by LMOS is MOOSA, the Mechanized Out of Service Adjustment process. Based upon specific criteria, MOOSA credits accounts eligible for a rebate as required by Commission Rule 25-4.070 for a service interruption of over 24 hours.

Each day, LMOS identifies to the Customer Records and Information System (CRIS) the accounts that are due MOOSA adjustments. Once these are identified, MOOSA

calculates the rebates due and notifies the Customer Records and Information System (CRIS) to credit the customers' bills. Multi-line accounts are currently sent by MOOSA to the Customer Service Department for manual calculation and posting of rebates. Planned enhancements will allow MOOSA to mechanically handle these multi-line rebates. MOOSA verifies that each rebate identified by LMOS is eventually processed, as discussed in section 3.5.8 of this report, employing MOOSA's tracking system to reconcile accounts identified to CRIS for rebates versus rebates actually awarded.

Commission Staff analyses of samples of accounts potentially due rebates for service interruptions during 1990 reveal a major error in the Company's specified criteria for awarding service interruption rebates. This error results from the Company's misinterpretation of Commission Rule 25-4.070, and improperly deprives some customers of deserved rebates. Based upon the Company's current rebate criteria, customers who experience a 24 hour service interruption that is found to have been caused by customer premises equipment (jacks, inside wiring, telephone sets) are excluded from receiving rebates.

However, the Commission's rule implies that rebates should be awarded in such instances. Paragraph (1)(b) of Rule 25-4.070 states, ". . . if the company finds that it is the customer's responsibility to correct the trouble, it must notify or attempt to notify the customer within 24 hours after the trouble was reported." Therefore, if 24 hours has elapsed before the customer is notified (or notification is attempted), the Company has not complied

with this requirement. Therefore the customer should be awarded a rebate.

As discussed in section 5.1.7 of this report, bulk-dispatched Out of Service troubles exceeding 24 hours for resolution were not recognized by MOOSA as being due a rebate for the service interruption. These troubles were specifically excluded by the Company through the MOOSA rebate criteria until May 1991. Other than the rule interpretation and bulk-dispatch problems, Staff's analyses indicate an acceptable degree of accuracy in identifying and awarding rebates.

3.2 Review and Audit Controls

3.2.1 Network Staff Reviews

Periodic reviews by the Company's Installation & Maintenance/IMC Support Staff (or Network Staff) of IMC repair practices and operating results have been, and continue to be, a major component of Southern Bell's system of controls on the trouble handling and reporting process. These Network Staff reviews have proven capable of detecting the presence of repair records falsification. However, despite the potential value of these reviews, they were only sporadically performed over the period 1986 through 1990.

These operational reviews have been used by management as a monitoring tool to measure results and highlight areas in need of improvement. In contrast to internal audits,

these Network Staff reviews can provide more detailed and more frequent evaluations of the operations of the repair process. From a control standpoint, these reviews can provide an independent, objective assessment of adherence to Company procedures. In addition, they provide a means of measuring efficiency, productivity, training, and quality of customer service.

A variety of types of Network Staff reviews have been conducted including Operational Reviews, Technical Performance Reviews, Procedure and Statusing Reviews, and Key Results Reviews, all of which address subject areas pertaining to Maintenance Center operations. Of primary interest for purposes of this report is the Procedure and Statusing Review, and specifically its Standardization Review module. The Standardization Review provides an assessment of the proper handling and coding of trouble reports through sampling of specified types of trouble reports handled during the study period.

For example, as of 1990, the Standardization module consisted of eight sections evaluating the following areas: Employee Reports, Excluded Reports, Missed Premises Reports, CPE (Customer Premises Equipment) Codes, Out of Service Statusing, No Access Statusing, Non-Network Codes, CON (Carried Over No) statusing, and Auto Reject. As discussed in section 5.2.2 of this report, the Standardization Review module used in Network Staff reviews of IMCs was in the process of being revised and improved during 1992. The planned improvements should increase the reliability of conclusions drawn from samples of trouble reports.

As shown on Exhibit 2, over the period 1985 through 1990, 41 Network Staff reviews of various types were conducted throughout the state. The reviews conducted over this period are concentrated in the years 1985 and 1990. Of the total, 15 or 37% were conducted during 1985, while 14 or 34% were conducted in 1990. During the four year period from 1986 through 1989, just 12 reviews were conducted--just 1 during 1989, and 2 in 1987. The concentration of reviews in 1990 coincides with the detection of the problems at the North Dade IMC (discussed in detail in section 4.1.1), which appears to have triggered a flurry of review activity. Although 17 reviews were conducted over this 6 year period in the North Florida region, 11 date back to 1985, and none were conducted in 1986 and 1989.

Distribution of IMC Network Staff Reviews

	1985	1986	1987	1988	1989	1990	1985-90
North Region	11	0	2	1	0	3	17
Southeast Region	3	5	0	2	0	4	14
South Region	1	0	0	1	1	7	10
Florida Totals	15	5	2	4	1	14	41

EXHIBIT 2 *SOURCE:COMPANY RECORDS*

According to the Company's response to Staff's 3rd Set of Interrogatories, Item 12, over this period reviews were scheduled as directed by higher management rather than on the basis of a routine schedule. If no specific problems were perceived to exist, or if no changes requiring an inquiry into compliance were implemented, an extended period of time could apparently elapse without any Network staff reviews being conducted.

3.2.2 Internal Audits

Another component in Southern Bell's system of controls regarding the repair process has been the Internal Audit. These internal audits assess the adequacy of systems and controls rather than technical performance issues, and in general provide less detail regarding the handling of trouble reports than the Network Staff reviews.

Over the period January 1984 through May 1992, 41 internal audits related to the repair functions were conducted by Southern Bell. Of these, 32 or 78% were conducted during the four year period 1988 to 1991, while 9 or 22% were conducted during the four years 1984 through 1987. No audits were conducted during the first five months of 1992. According to the Company, during 1991, five additional audits were conducted under direction of the Legal Department, including audits of LMOS, MOOSA and FPSC Schedule 11 reporting accuracy. These audits were not reviewed by Commission Staff due to the Company's assertion of claims of attorney work product and attorney-client communication privileges.

Scheduled internal audits are prioritized on the basis of a risk assessment system which results in auditing an area of perceived greater risk on a more frequent basis. During the period reviewed, each scheduled audit was conducted every one to five years, based upon a point scoring system designed to assess each audit topic's individual risk. Audits may also be requested by management (such as those directed by the Legal Department) based upon a perceived need to analyze or investigate a particular area.

4.0 CONTROL PROBLEMS

4.1 Documented Control Problems

Despite the existence of procedural and audit controls, instances of abuse and control failures have occurred during the period reviewed. A review of such instances provides insight into the adequacy of the controls in place at the time, the methods used to circumvent them, and other areas where abuse potentially could occur without proper attention by management. The documented control problems discussed below are cited as examples and should not be viewed as the only instances of breakdowns in controls relating to the repair process.

4.1.1 North Dade

In many ways, the current investigation of Southern Bell's repair practices dates back to a 1990 Network Staff review that detected fraudulent activity at the North Dade IMC. The review sampled 50 August 1990 trouble reports originally statused Test OK (TOK) that were closed to an Out of Service (OOS) status. The detailed trouble histories for 39 of the reports lacked the supporting narrative required of the maintenance administrator to substantiate the reasons for status change. The reviewer noted that all of these TOK/OOS reports were handled by the same Maintenance Administrator on or about the last day of the month.

The Company's security investigation resulted in admissions from an Assistant Manager and a Maintenance Administrator that they were directed by the IMC Manager to fraudulently re-status the Test OK reports as Out of Service before closing them out. This served to inflate the base of troubles cleared, thereby increasing the North Dade District's percentage of Out of Service troubles cleared within 24 hours reported on the Schedule 11A results. Filed quarterly, the Schedule 11A reports indicate whether each exchange has met the Commission's requirement that at least 95% percent of OOS troubles be cleared within 24 hours.

The Company's security investigation determined that two months earlier, 156 additional reports had been incorrectly statused by a North Dade Assistant Manager, once again at the end of the month (June 30, 1990). However, this incident was apparently not viewed as intentional falsification.

The significance of the timing of both this incident and the August falsifications is that on or about the last day of a month, it can be determined whether an IMC is likely to miss the Commission's 95% OOS cleared requirement, and if so, what number of additional troubles cleared would be needed to attain the 95% mark. An employee willing to pad the base of troubles need not do so early in the month since enough time remains for the index to be met without such manipulation.

In addition, the Network Staff review detected problems in the use of the CON, or

Carried Over - No, intermediate status code. When used properly, an Out of Service trouble report could be carried over past the 24 hour point without being counted against the 95% objective, if the customer requested a commitment time beyond the standard commitment time offered at the time the trouble was reported. However, the review detected that 13 of 50 sampled troubles were improperly statused CON, and noted, "In all cases the report was statused to CON to eliminate an Out of Service Over 24 result because of extended appointment intervals." Although the reviewer does not elaborate further, he/she implies that the incorrect use of the CON status code was intentional in these instances where customers merely requested extensions on appointment times that apparently were not beyond the standard commitment time being offered.

4.1.2 Gainesville

In response to the discovery of repair records falsification at the North Dade IMC, the Company's Network staff organization performed mini-reviews of TOK trouble reports statused Out of Service at all Florida IMCs. At the Gainesville IMC, this mini-review uncovered fraudulent activity similar to that in the North Dade case. A sample of 50 Out of Service trouble reports from the month of October 1990 closed as TOK was found to include 34 fictitious reports generated at random from consecutive entries in the Gainesville telephone directory.

The impact of these false reports was to inflate the Gainesville district's October 1990 Schedule 11A percentage of Out of Service troubles cleared within 24 hours. A further

Network Staff review of all September and October 1990 Test OK reports statused as Out of Service before closing revealed that a total of 160 false reports had been entered.

In addition to the Test OK trouble reports falsely statused as Out of Service, the Company's follow-up security review in Gainesville also discovered apparent abuse of the CON intermediate status code. During November 1990, trouble reports were statused CON 15 times by an unknown employee using the same fictitious employee code used in the fraudulent restatusing of Test OK troubles as Out of Service.

From a controls perspective, the weaknesses and control failures evidenced by the North Dade restatusing of Test OK troubles as Out of Service reports apply to the Gainesville case as well. A major difference between the North Dade and Gainesville falsifications was that in the latter case, a fictitious employee identification number was used in the creation of the 34 trouble reports initially detected. The use of the fictitious employee number was intended to prevent the identification of the actual perpetrator(s). In fact, the Security organization was unable to conclusively identify the responsible party or parties.

The control failure pointed out by the anonymous creation of trouble reports is noted in the Company's security report, which states, "There is no on-line program in [LMOS] that would provide an audit trail to identify a particular terminal position regarding activity to a specific subscriber record, or the position use to originate a trouble report." Since the

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4.1.3 Similar Repair Reporting Irregularities

Despite the attention given to the problems detected at the North Dade IMC, identical problems at other IMCs had been previously discovered and made known to Company management through review reports. As noted, the North Dade falsification was detected through a review of Test OK troubles improperly statused as Out of Service. However, this particular problem was not new to the Company, nor was it an isolated occurrence.

For purposes of illustration, additional examples of this identical repair reporting problems are discussed below. It should be noted that Network Staff reviews detected numerous instances of other types of significant deviations from Southern Bell's repair

handling procedures, some of which are discussed in section 4.2 of this report.

4.1.3.1 North Dade (1988)

Two years before the 1990 North Dade review, a June 1988 Network Staff review found that 21 of 25, or 84%, of the Test OK/Out of Service trouble reports sample were incorrectly statused as Out of Service at the time they were closed. The reviewer's recommendations advised, "Out of Service statusing on Test OK troubles needs to be reviewed . . . . The overstating of the Out of Service base . . . is having a dramatic impact on the official results in the OOS over 24 hours and analysis would be impossible."

The letter of transmittal accompanying the review report indicates the problems detected may have existed for some time, stating, "In some cases these areas were identified in previous reviews as requiring attention and they continue to be a problem . . . . All of the deviations were thoroughly discussed with your local managers and corrective measures . . . were recommended to be [put] in place immediately." Any prior efforts by management to solve the problems noted in this review had apparently been unsuccessful. Since the same problem noted in this 1988 review surfaced once again in 1990, any corrective action taken during this period was also apparently ineffective.

4.1.3.2 Central Dade (1989)

Over a year before the 1990 North Dade problems were detected, a July 1989 Network Staff review of the Central Dade IMC sampled 25 Test OK/Out of Service

troubles and found that all 25 had been improperly statused Out of Service at closing. The reviewer recognized the motive underlying these procedural violations stating, "The most prevalent problem with Out of Service statusing is the making of Test-OK troubles Out of Service. These troubles were not Out of Service and were shown Out of Service to overstate the OOS base thereby understating OOS over 24 hour result. This procedure must be stopped if any meaningful analysis is to be accomplished."

Despite this strongly worded recommendation by the Network Staff, the problem of Test OK troubles being statused Out of Service had still not been corrected at the time of the next Central Dade Operational Review in December 1990. Nine of the 12 trouble reports (75%) sampled at that time had been incorrectly statused Out of Service. Once again, any actions taken by management to correct the serious problem noted in 1989, apparently were ultimately ineffective.

4.1.3.3 Miami Metro (1990)

An October 1990 Operational Review of the Miami Metro IMC found that 100% of the 20 TOK/Out of Service trouble reports sampled were improperly statused at closing, apparently by the same Maintenance Administrator. These circumstances are identical to those found at North Dade a few months before.

Similar problems in the statusing of TOK trouble reports as Out of Service were noted at Miami Metro in a January 1988 Standardization Review. Of the 33 TOK/Out of

Service trouble reports sampled, 39% had been statused Out of Service incorrectly. Although the Network Staff reviewer recommended that Out of Service statusing on TOK troubles should be reviewed on a regular basis, this problem continued and actually increased in severity as indicated by the review results.

4.2 Potential Continuing Control Problems

In addition to the actual documented instances of repair records falsification, various opportunities for abuse of the repair reporting system either have existed or continue to exist within the repair handling process.

Many of these problem areas have been highlighted in the Network Staff reviews in the form of high error rates in the handling of certain types of trouble reports. These instances may or may not have involved intentional falsification, however, they do represent a potential weakness if an employee were to attempt to abuse the system.

4.2.1 Statusing of Out of Service Versus Service Affecting

As seen in the manipulation of Test OK troubles at North Dade, improper statusing of Service Affecting troubles as Out of Service can be used to manipulate Schedule 11A index results. This would add to the number of troubles successfully cleared within the 24 hour time limit. Conversely, improperly statusing Out of Service troubles as Service

Affecting could be used to manipulate Schedule 11A results when a heavy workload causes the IMC to miss the 24 hour deadline. The latter form of manipulation has a cost impact on the customers involved since they are not eligible for a rebate if the trouble is incorrectly statused as Service Affecting.

The Network Staff reviews conducted over the period 1985-1990 indicate a pattern of incorrect Out of Service statusing. In 1990 alone, review samples of troubles with MLT test results indicating an Out of Service condition were incorrectly statused as Service Affecting 86% of the time at South Dade, 80% at North Dade, 45% at Miami Metro, and 44% at Central Dade. In 1985, error rates above 20% in this category were found in reviews of the Gainesville, Orlando, and North Miami IMCs.

The accuracy of Out of Service statusing in the IMC hinges upon the performance of the maintenance administrators, who are called upon to apply judgement and experience in correctly making this determination. In addition to the problem of subjectivity, the complexity of the trouble handling process results in honest misinterpretations and errors in statusing.

As was the case at North Dade, if a maintenance administrator is directed to, or decides to manipulate Out of Service versus Service Affecting statusing, there are no specific systems controls preventing this activity. Therefore, this form of falsification could recur under current conditions.

4.2.2 Use of Cause Codes

Potential for manipulating the percentage of Out of Service troubles cleared within 24 hours also exists in the exclusion of trouble reports caused by specific conditions considered to be beyond the Company's control. For example, trouble reports attributed to weather-related cause codes (lightning, moisture, wind) or caused by non-employees (customers, other utilities) are not counted against the Company's service indicators.

Therefore, an incentive exists to over-use these exclude codes in a situation where for example, an IMC is in danger of failing to meet the 95% mark on restoring service within 24 hours. In determining the appropriate cause code to use, the service technician in the field is frequently required to interpret the evidence at hand. Due to the necessarily subjective nature of this decision, it would be difficult to prevent the use of an exclude code where it did not rightfully apply. For example, a service interruption due to a disconnected drop wire could be attributed to "wind" instead of improper installation, if service technicians were urged by a manager to use exclude codes wherever possible.

Although no documented instances of using exclude codes to falsify repair reporting results are known, managers have urged employees to make full use of exclude codes. At present there are no specific controls to prevent improper use of exclude codes in this way.

4.2.3 Classification of Customer Reports as Employee Reports

In calculating service quality indicators such as FPSC Schedule 11A results,

employee-originated (EO) trouble reports are not counted for measurement purposes. Clear guidelines are set down in BellSouth Practice 660-169-011BT to distinguish customer direct (CD) reports from employee-originated reports.

However, despite these guidelines, significant errors have been detected by the Network Staff reviews of trouble handling in the IMC. For example, in 1990 employee-originated reports sampled in reviews of the South Dade and South Broward IMCs revealed error rates of 83% and 76%, respectively. In both instances, the reviewer noted that most of these "looked like normal customer reports," suggesting a possibility that customer direct reports may have been improperly recorded as employee-originated, although no such documented instances are known.

During a period when an IMC is having difficulty keeping up with the workload, an incentive would exist to decrease the number of customer direct reports by classifying them as EO reports. Any of these reports requiring over 24 hours for restoration of service would therefore not count against the 95% out of service index.

Although the controls in place as late as 1990 would not have prevented an intentional falsification of this type, the recent limitations on the number of employees authorized to create employee trouble reports, described in section 5.1.4 of this report, may discourage such activity today.

4.2.4 Classification of Customer Reports as Customer Excluded

Trouble reports originated by customers are divided into two separate classifications: customer direct (CD) and customer exclude (CX). CD reports are reports of typical network troubles made direct to a Company employee either in person or by phone. The CX category includes non-repair inquiries, calls to cancel a prior trouble report, and certain types of calls regarding service order activity or problems accessing other subscribers. Since CX reports are not counted for measurements such as the Schedule 11A index, improper classification between these categories directly impacts attaining the 95% objective.

A widespread pattern of incorrectly categorizing CD reports as CX has existed for some time. Of the 36 Network Staff reviews conducted between 1985 and 1990, in nine instances over 20% of the trouble reports sampled were found to inadequately support their exclusion. In five other instances, over 50% of the excluded trouble reports were unsupported. Although the Network Staff reviewers frequently recommended additional training for MAs, this problem has continued.

No instances of intentional incorrect statusing of CD reports as CX have been documented, however no controls exist to prevent this method from being used to manipulate repair results.

4.2.5 Exclude Field on Final Status Mask

A potential problem related to improper exclusion of CD reports as CX is the use

of the exclude field by MAs on the Final Status (FST) mask. By entering an "X" in this field, a maintenance administrator causes the trouble to be omitted from the calculation of the Schedule 11A index and other measurements. As with other excluded trouble reports, a history of the trouble is captured and maintained by LMOS.

According to the Company's response to Staff's 5th Set of Interrogatories, Item 46, intended uses of this field include "excluding trouble reports for non-billed features, non-telephone company broken poles, and wiretap investigations." These examples represent situations which rightfully should not constitute a trouble report, and should not be counted in the Schedule 11 performance indices.

In July 1992, an LMOS enhancement added a flag to the DLETH record indicating the use of this field in closing a trouble report. Although this provides an audit trail of sorts, there are no specific controls which would prevent an employee from improperly populating this field with an "X" in order to decrease the pool of trouble reports used in calculating the Schedule 11A percentage of Out of Service troubles cleared within 24 hours. During a heavy workload period in an IMC, for example, during a period of wet weather, this feature could be used to limit the number of "misses" over 24 hours.

4.2.6 Creation of Fictitious Trouble Reports

One of the most common types of documented repair reporting fraud has been the creation of fictitious trouble reports. As discussed in section 4.1.2, this occurred in the

Gainesville IMC for purposes of "padding the base" of Out of Service troubles cleared to improve the Schedule 11A Out of Service more than 24 hour index results. Similarly, during October 1990, the South Dade IMC Manager caught a now-retired employee in the act of creating fictitious trouble reports straight from a stack of telephone directories.

Other instances of employees creating fictitious trouble reports have involved service technicians attempting to pad their individual productivity ratings. For instance, in a September 1990 Network Staff review of the Palm IMC, 83 of 100 employee reports sampled were found to be unsupported by the required narrative to substantiate the authenticity of the trouble. The reviewer observed that 40% of the Employee Originated (EO) reports dispatched to service technicians were cleared within 10 minutes, noting, "These reports may be being generated to help increase the task per day on which the technician and supervisor are being evaluated."

The Company has recently implemented control changes limiting access to the LMOS masks for creating trouble reports (discussed in section 5.1.4 of this report) and eliminating "troubles handled per day" quotas for STs (discussed in section 5.1.9). However, the creation of fictitious trouble reports could still be accomplished today as a result of pressure exerted by a manager in need of improved Schedule 11 results, as was the case at North Dade in 1990 and possibly in other instances. Given the difficulty of preventing this type of falsification, heavier reliance on controls such as Network Reviews and Internal Audits which serve to detect falsification are needed.

4.2.7 Manipulation of Clear Time/Final Status Time

Since repair objectives such as the Schedule 11A Out of Service >24 index are based upon the time elapsed between the receipt of the initial report and the restoration of service, accurate measurement of time is essential. Many changes in the handling of trouble reports have impacted the reporting of "clear time."

Prior to the current computerized environment, service technicians were required to call a maintenance administrator upon completing a repair to report the cause code, disposition code, clear time and close time. Frequently an hour or more may have elapsed between the point a service technician cleared a trouble condition, and the point he reported it to a maintenance administrator for closing. Due to this lag, a maintenance administrator would have, for example, entered a clear time of 11:30 AM at 1:30 PM, based upon the time reported by the ST. This entirely proper retroactive reporting of the actual point that service was restored to the customer was known as "backing up time" to many Company employees.

However, under these circumstances, the maintenance administrator had no means of verifying the time reported by the ST, and no specific restrictions prevented improperly reporting clear times. Therefore, the opportunity existed, for example in an instance where 25 hours had elapsed in clearing a trouble, for the service technician to "back up time" in another sense of the term, by falsely reporting a clear time within the 24 hour deadline. Due to the nature of this activity, no trace or audit trail would necessarily have been left,

making it nearly impossible to document even if it had been performed on a regular basis.

Still, allegations of improper "backing up" of clear times have persisted among the Company's employees. The disciplinary action described in section 5.1.10 taken during 1992 by the Company against some IMC managers may have been based upon instances of falsely "backing up time" according to depositions of disciplined employees, taken in Docket 910163-TL.

The possibility of committing this form of reporting fraud has been reduced by the change from the use of a computer-generated Final Status Time for measuring the 24 hour deadline. (For more detail, refer to section 5.1.2 of this report.) The computer-generated Final Status Time cannot be falsified. However, under present circumstances, a service technician could still manipulate the system to avoid passing the 24-hour point in repairing a trouble. For example, if a service technician observes that a trouble is about the cross the 24-hour mark, he could falsely report a trouble as being cleared even if he does not actually restore service until a few minutes after the 24 hours has elapsed. If there is no processing delay at the LMOS Host, this would trigger LMOS to assign a computer-generated Final Status Time of less than 24 hours before the trouble was actually resolved. With the problem of meeting the 24-hour deadline resolved, the ST could then complete the tasks necessary to restore service.

5.0 COMPANY'S RESPONSE TO CONTROL PROBLEMS

5.1 Company's Response to Procedural and Systems Control Problems

A number of control changes regarding the repair process were instituted by the Company since the last quarter of 1991. Most, if not all of these changes were made in direct response to the problems and allegations discussed above. As such, these changes represent the Company's recent efforts to respond to and correct these problems.

In addition, the Company has taken disciplinary action against selected employees as a result of the general security investigation conducted under the direction of the Southern Bell Legal Department.

5.1.1 IMC Personnel Retraining

As a result of investigating repair records falsification at the North Dade and Gainesville IMCs, management became concerned that a lack of understanding of trouble cause and disposition codes existed among many IMC personnel. During the latter half of 1991 all maintenance administrators, dispatch clerks, assistant managers and managers in the IMCs were required to attend refresher training sessions conducted by Network Staff. These training sessions covered the basic procedures spelled out in BellSouth Practices 660-169-013BT, 660-169-12BT, and 660-169-011BT.

5.1.2 Length of Service Interruption Based On Final Status Time

Also in response to the repair problems and allegations, the Company enacted a significant control change in requiring that regulatory reports (including the PSC Out of Service Over 24 objective) and customer rebates would be measured based upon the Final Status Time rather than the reported cleared time. This change was dictated in Regional Letter 91-12-034SV (dated December 31, 1991) and formally incorporated in BSP 660-169-012BT (Issue F, dated January 1992).

According to the Company, this change was intended to eliminate the previous distinction and confusion between the "clear time" (point at which service was restored) and "close time" (point at which technician is prepared to leave the job site). Because of this

distinction, employees on occasion felt they were being asked to improperly "back up" clear times that were substantially earlier than close times.

Final Status Time is the point at which the LMOS system accepts and records the trouble as cleared. There may on occasion be significant delays between the clear time and the Final Status Time that is recorded by LMOS. All other things being equal, the measurement change from trouble report receipt time to Final Status Time instead of clear time will require the Company to report additional "misses" in the Schedule 11A index where service was actually restored within 24 hours.

The Company has analyzed the impact on Schedule 11A results due to the change to measuring to Final Status Time over the first 10 months of 1992. As a result of the change, an additional 51 exchanges have failed to meet the 95% restored within 24 hours requirement. By comparison, during the first 6 months of 1992, 112 exchanges were missed, with 22 or about 20% of these due to the measurement change alone. This analysis indicates that the Company's Schedule 11A results may give the appearance that speed of restoring service outages has deteriorated substantially, whereas only the means of measurement has changed. As a result, the reporting change hinders the intended purpose of the measurement index.

However, from the standpoint of controls, this change represents an improvement in that service technicians and maintenance administrators no longer have the ability to

manipulate the time shown as the clear time, since the Final Status generated by LMOS are beyond their control. Therefore, a service technician or maintenance administrator would not benefit from backing up a clear time that has already exceeded the 24 hour period, since the Final Status Time will reflect the true time of closure within LMOS. However, as noted in section 4.2.7, in certain circumstances, an ST could falsely report a trouble as cleared to beat the 24-hour deadline.

5.1.3 Auto Screen Rule Standardization

An additional change mandated by Regional Letter 91-12-034SV and the 1992 issue of BSP 660-169-012BT was the adoption of a single statewide set of Auto-Screener rules. Thirteen specific Out of Service criteria represented by combinations of type codes and VER codes (MLT results) were selected by Network Staff and are restricted from being changed by local management. Any future changes to these criteria must be approved and implemented by regional staff in Jacksonville and headquarters staff in Atlanta.

Further, IMC management will no longer be allowed to maintain additional sets of Auto-Screener criteria for use during wet weather. From a control standpoint, this change reduces IMC management's ability to fine tune the number of troubles rated Out of Service by manipulating the number subjected to the judgement of MAs and managers.

5.1.4 Limited Access to Trouble Report Creation

As mentioned, a major element in the Gainesville repair records falsification was the

lack of adequate controls restricting computer system access. This control problem was addressed in a number of changes announced in April 1992 through Regional Letter 92-04-033BT. This letter requires approval by a Pay Grade 5 manager for an employee to be allowed access to the trouble creation screens, or "masks." Records of the authorized employees are required to be maintained by the IMC.

In addition, use of the Access Networking System (ANS) is now required to provide security over LMOS access. ANS contains user profiles which include each end-user's login ID, unique password, and authorized LMOS transactions. Therefore, access to LMOS is gained only by inputting a valid login ID and password, and even then the user is limited to specified types of transactions appropriate to that user's function. Another system access control is an automatic logoff feature when a terminal is not in use for ten minutes. This feature would limit the impact of an unauthorized employee making entries on a terminal left unattended.

Also announced in this Regional Letter, the Company created an Employee Trouble Entry mask (ETE) through which all Employee Originated (EO) or Referred In (RI) troubles are to be entered. The standard Trouble Entry Mask (TE) will continue to be used for Customer Direct (CD) trouble reports. In addition, the Regional Letter prohibits employees from reporting troubles through the AIRO system unless the trouble pertains to the employee's personal telephone service.

Management has indicated that further directions suggest the authorization of employees in the IMCs to create trouble reports should be limited to 10% (or 10 employees, whichever is less). The Company states that its aim is to limit access and control accuracy.

From a control standpoint, the limited access to trouble entry screens and the login/password security afforded by ANS are significant additions to control against unauthorized entry of false repair information such as occurred in Gainesville. The reduced population of employees authorized to create trouble reports would run a greater risk of detection under these new controls. Similarly, the creation of the Employee Trouble Entry mask restricts access for creation of employee originated trouble reports, increasing the risk of detection for an employee creating false reports.

The prohibition of use of AIRO by employees to report troubles was a necessary step by management to discourage creation of false reports. However, no control exists to enforce this prohibition. Due to the necessary accessibility of AIRO, it is virtually impossible to prevent an employee from abusing the system if he/she chooses to do so.

5.1.5 Elimination of CON Status Code

Regional Letter 91-12-034SV and BSP 660-169-012BT also called for the elimination of the intermediate status code of Carried Over No (CON) which was used when the customer requested an appointment time that exceeded the 24 hour period for clearing an Out of Service condition. Once statused CON, the 24 hour clock was effectively stopped,

since the delay resulted from the customer's request.

Despite its intended purpose, the CON status could have been manipulated to stop the 24 hour clock on a trouble report by an employee seeking to avoid a missed deadline. Company management states that the elimination of CON status was implemented because it recognized the CON transaction presented an opportunity for abuse. The Security organization's investigation report indicates such abuse may have actually occurred at the Gainesville IMC, although it was unable to document this to be the case.

As a result of this change, the transactions where CON could legitimately have been utilized will now be reflected as "misses" at restoring service within 24 hours. However, some control change was necessary to prevent abuse.

5.1.6 Prevention of Obsolete Disposition and Cause Code Use

Regional Letter 91-12-034SV also announced measures to eliminate and prevent the use of cause and disposition codes that are no longer valid. As a temporary measure beginning January 1, 1992, IMC management would be provided with weekly MTAS reports that identified employees having used obsolete codes to close trouble reports. These reports allowed managers to keep abreast of any training problems and to quickly resolve them. The long-term solution to discontinue use of no-longer-valid codes was an LMOS software change implemented in mid-1992 that prevents the entry of obsolete cause and disposition codes.

5.1.7 Rebates Awarded for Bulk Dispatched Troubles

As of mid-1991, any bulk-dispatched Out of Service troubles exceeding 24 hours for resolution were not recognized by MOOSA as being due a rebate for the service interruption. This problem was identified in the Gainesville area during April 1991 as a result of a Commission staff service evaluation according to the Company's response to Staff's 5th Set of Interrogatories, Item 38. Corrective action was taken in May 1991 by deleting the exclusion of bulk-dispatched trouble reports from the MOOSA rebate criteria. Refunds for rebates denied under this practice were awarded by the Company statewide.

5.1.8 MOOSA to CRIS Interface Added for Verifying Rebates

As of January 15, 1992 an added MOOSA-CRIS interface allows the Company to identify specific types of service interruption rebates to be forwarded to Customer Services for manual handling and adjustment. These include multi-line accounts and other transactions which reject from the normal MOOSA rebate calculation. The goal is for these manually handled transactions to be completed the next day.

To monitor and document the handling of rebates forwarded to CRIS, the MOOSA Tracking System (implemented in October 1991) produces a daily CRIS Reconciliation Report. The accuracy of the reported transactions is verified by the Regional Accounting Office through daily sampling of rebates awarded. The results are returned to the MOOSA Area Staff Coordinator to complete the loop.

These additions provide an extra layer of protection against unprocessed rebates being delayed or deleted by CRIS and provides necessary separation of duties through the verification of the processed rebates by a third party, i.e., the Regional Accounting Office.

5.1.9 Reliance on External Service Quality Indicators

Since employees were falsifying repair results to meet PSC performance index requirements, management observed that reaching these index results had replaced a proper concern for the quality of customer service. In response, management has sought to reestablish the importance of customer service as the ultimate goal of the Network organization.

Beginning in 1992, Network Department management sought to emphasize external service indicators such as TELSAM instead of using PSC indices as a sole determinant of service quality. For example, managers are evaluated in part based upon TELSAM results pertinent to their area of responsibility.

Another example of this shift in emphasis is the change in performance requirements for service technicians in the field. Prior to 1992, service technician performance was evaluated in part upon the number of troubles handled daily. Currently instead of being required to handle at least 5 or 6 troubles daily, STs are encouraged to spend additional time on each assignment to detect and correct all current and potential repair problems to the complete satisfaction of the customer. According to preliminary studies in Southeast

Florida, on average, service technicians are completing fewer calls daily, however, offsetting improvements have been observed in fewer repeat troubles. A net result in terms of controls is that service technicians now have less incentive to create fictitious trouble reports or to falsify the amount of time spent on a particular service call.

It is likely that the repair falsification problems that occurred in Gainesville and North Dade, as well as those alleged elsewhere resulted at least in part from internal pressure placed upon managers and their employees to meet PSC index objectives and other internal productivity objectives. To the extent this was the case, the change in emphasis to other service quality measurements can reduce the motivation for falsification. However, this change in philosophical emphasis alone does not entirely remove the incentive to falsify results that will affect PSC indices.

5.1.10 Disciplinary Action Against Selected Managers

In response to both the results of security reviews triggered by the August 1990 discovery of repair record falsification at the North Dade IMC, the Company has taken disciplinary action against selected management employees throughout the state. This discipline ranged from entries on the employees' personnel records, counselling, financial penalties, and in two instances, termination.

Nearly all of the cases of disciplinary action resulted from the findings of the general security investigation directed by Southern Bell's Legal Department. Since the Company

asserts that this investigation is protected under claims of attorney-client privilege and attorney work product privilege, the specific reasons for the disciplinary action against each employee has not been disclosed.

In fact, the employees themselves have not been informed of the specific reasons why they were disciplined. From a controls standpoint, this approach is a cause for concern because it defeats the underlying purpose of the controls provided by investigations and reviews, as well as the disciplinary process itself.

Without this essential information, the disciplined managers have no means of identifying the specific problem or problems in need of correction. In some instances certain employees may be able to infer the reasons behind their own disciplinary action. However, in most cases, these employees may not know what, if anything, they did wrong and may therefore be unable to correct a continuing problem.

5.2 Company's Response to Review and Audit Control Problems

5.2.1 Quarterly IMC Internal Compliance Reviews

In late 1991, the performance of quarterly IMC self-reviews became mandatory for all IMC managers. These reviews consist of the same modules examining IMC performance that are examined in Network Staff reviews. They are conducted by the local manager and

reported to the three Network General Managers. Documentation of the results is required to be kept for five years.

Properly conducted, these self-reviews should prove to be a valuable control which would allow timely detection of problems in the handling of trouble reports, including attempts to falsify repair results. In comparison to the reviews performed by the Network Staff organization, the quarterly self-reviews have the advantage of being much more frequent. However, since they are self-reviews they do lack the independent viewpoint and objectivity provided by the Network Staff reviews. Therefore, both self-reviews and continued periodic Network Staff reviews are needed to provide a complete and objective picture of IMC performance and compliance with procedures.

5.2.2 Revision of Network Standardization Review Package

The Standardization Review module used in Network Staff reviews of IMCs has been revised and standardized on a BellSouth-wide basis and as of mid-1992 was in the final testing phase. A major emphasis of the revisions to the Standardization Review module is the introduction of statistically valid sampling techniques. Previously, standard sample sizes of 50 were generally used regardless of the size of the universe being sampled. Therefore, some conclusions or quantitative results drawn may not have been statistically valid.

The frequency of performing the Network Staff reviews, once the new Review Package is implemented, has not yet been determined. Network Support Staff management

has indicate each IMC may be reviewed on an annual basis. If so, this would represent a substantial increase in the frequency of reviews displayed in Exhibit 2.

5.2.3 IMC Results Monitored by Network Vice-President's Staff

Beginning in January 1992, a member of the Network Vice-President's staff has been charged with the responsibility of conducting ongoing reviews of IMC results, in parallel with both the quarterly self-reviews, and the Network Staff reviews. This additional review and analysis can be conducted through MTAS without the knowledge of IMC management and personnel, providing another layer of control in detecting irregularities in the handling of trouble reports. Any operational problems will be discussed with IMC management. Any integrity-related problems will be reported directly to the Vice-President.

5.2.4 PSC Compliance Position Added

In August 1991, a position was created on the staff of the Network Vice-President with the sole function of monitoring PSC rule compliance and results. This position is intended to provide additional monitoring of trends, results and problems related to the PSC service indices which were a root cause of the instances of repair record falsification.

5.2.5 Network Staff Review Reporting Procedure Changes

The Company has revised the procedures for operational reviews requiring that specific management positions receive feedback, formal follow-up reports be produced on all adverse findings, the performance of follow-up reviews, and the retention of supporting

documentation. Regional Letter 92-05-038BT was issued on May 29, 1992 introducing the standardized Installation Maintenance Center Regional Review Package, and related procedures. These new requirements specify procedures for feedback and follow-up in response to a review. Informal and then formal feedback meetings are now required for local management and the review team, who agree on plans for correcting weaknesses noted in the reviews. Any integrity issues detected are required to be reported to the review team leader who in turn report them to the appropriate company officer, such as the Network Vice-President.

In addition to the meetings, written feedback is required to be provided to responsible line management (manager, operations manager, general manager, and vice-president) as well as staff management (operations manager, director, and assistant vice-president). Written documentation of the improvement plan must be provided within 14 days after the formal feedback meeting. Follow-up reviews of sub-modules rated "unsatisfactory" will be performed within 3 months of the review. All review documentation is to be retained for five years.

6.0 FINDINGS AND RECOMMENDATIONS

6.1 Adequacy of Controls - 1990 and Prior

Repair Process Controls In Place During And Before 1990 Were Inadequate.

As described in sections 4.1 and 4.2 of this report, the documented instances of fraudulent or questionable trouble report handling provide clear and convincing evidence that the Company's repair process controls were inadequate as late as 1990. These incidents were widespread, involving the North Dade, Gainesville, Central Dade, Metro Miami, South Broward, and Palm Installation and Maintenance Centers. Company employees were, over an extended period of time, able to use a variety of methods in different locations throughout the state to manipulate the trouble report handling process. Therefore, these problems support the conclusion that control weaknesses were systemic rather than isolated occurrences.

In addition, as discussed in section 5.0 of this report, the Company has voluntarily implemented several control changes and improvements in response to these instances of repair system falsification. Having assessed its trouble reporting and repair process in response to serious problems, the Company apparently found its controls to be lacking and in need of these additions and changes to ensure proper handling of trouble reports.

Network Staff Review Coverage Was Inadequate During And Before 1990.

As noted in section 3.2.1 of this report, the performance of IMC reviews by the Network Staff Support organization was sporadic over the period 1985 through 1990. The reviews that were conducted were concentrated in the years 1985 (13 reviews) and 1990 (16 reviews), while only 7 were conducted between 1986 and 1989.

In addition to the imbalance over time, the reviews were not balanced geographically. After 1985, just one review was conducted in the North Florida region, while most of the South Florida reviews were conducted in 1990. The Southeast region was virtually ignored over this entire six year span, with only two reviews conducted.

Ironically, as indicated in sections 4.1 and 4.2 of this report, the potential value of these reviews is underscored by the fact that when they were conducted, they were successful in detecting many instances of falsification and violation of procedures.

Managers' Attitudes Towards Attaining Commission Rule 25-4.070 Performance Index Requirements Were Inappropriate.

The root cause of the falsifications described in section 4.1 of this report was attempting to meet the requirements of Commission Rule 25.4.70 at any cost. This philosophy resulted in direct and/or indirect pressure being applied to motivate employees

at the North Dade and Gainesville IMCs to knowingly violate rules and procedures, presumably to enhance their own performance ratings or those of their superiors. In these documented instances, the pressure was exerted by IMC management. Although it is not known whether this pressure was internally generated or external in origin, it is apparent that IMC managers perceived fraudulently attaining these performance index results to be worth risking their careers.

Viewing the Commission's Schedule 11 performance indices as an end in themselves represents a misinterpretation of their intended purpose. These indices should serve as indicator of the quality of service provided by the Company to its customers rather than goals to be attained. The appropriate goal should be service to the customer. As mentioned in section 5.1.9, the Company has sought to re-establish customer service as the underlying goal of the Network Department.

However, the Company should not be relieved of its obligation to comply with the requirements of Commission rule 25-4.070 as a result of this recent re-emphasis of customer service. In fact, proper attention to quality customer service should ultimately result in improved results towards meeting these requirements.

Repair Process Training Was Inadequate During and Before 1990.

A continuing need for additional training of personnel involved in the handling of

trouble reports and repairs was consistently pointed out by the results of Network Staff reviews, as mentioned in section 5.1.1. In numerous instances training was specifically recommended, while in others, high error rates in trouble handling indicated a lack of understanding of proper procedures.

Some instances of apparent falsification may have actually represented an ignorance of proper procedures, and vice-versa. However, in either case, emphasizing adherence to proper procedures through retraining can diminish ignorance and deter fraud.

6.2 Adequacy of Management's Response to Problems

Management's Response To Instances Of Repair Records Falsification Discovered Before August 1990 Was Inadequate.

Although the discovery of the North Dade and Gainesville falsifications beginning in August 1990 focused top-level management attention on investigating and correcting problems associated with falsified repair reporting, the handling of similar problems previously discovered at other IMCs is equally important.

These additional documented instances of repair records falsification are significant for two reasons. First, from a controls perspective, management's failure to properly address

and correct the problems detected through the Network Staff reviews in itself represents a control failure. The purpose of the reviews is frustrated if management fails to act upon the findings presented.

Second, the additional instances of actual or possible falsification that predate the August 1990 discovery of fraudulent activity at North Dade and Gainesville should have triggered equally vigorous responses from management. As discussed in section 4.1.3, these earlier instances at the North Dade, Central Dade, and Miami Metro IMCs were virtually identical, were detected through the same means, and were clearly recognized as serious problems by the Network Staff reviewers.

These earlier instances of repair falsification, though made known to management through Network Staff review reports, failed to trigger the extensive corrective action and close scrutiny that began in August 1990. Decisive management action taken at an earlier date could have prevented future occurrences and reduced the negative impact these events have had upon ratepayers, the Company and its employees.

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Changes Implemented During 1991 And 1992 Represent Significant Control Improvements.

Taken as a whole, the control changes described in section 5.0 of this report should have a meaningful impact upon the integrity of information provided through the trouble report handling process. These changes represent targeted efforts to resolve the more serious control problems, both in terms of preventing and detecting future abuses.

For example, prevention of the creation of false trouble reports to artificially increase

the percentage of service interruptions cleared within 24 hours is enhanced through limiting the number of employees charged with trouble report creation, and the improper backing up of reported trouble clear times can be prevented through the current use of the computer-generated Final Status Time. On the other hand, since no system of controls is fraud-proof, the Company appears to have recognized a need to enhance its capability for detecting falsified results through improved Network Support Staff review methods, and proper response to problems uncovered through these efforts.

Some of these control changes and additions could have been made earlier in instances where the associated problems came to light as early as 1988 or 1989, but received inadequate attention by management. However, this fact does not reduce their value now that these various control changes and additions have been made.

Unintended impacts of some of the control changes may require future adjustments on the part of the Company. For example, as stated in sections 5.1.2 and 5.1.5 of the report, the effect on Schedule 11A results from the measurement of service outages to Final Status. The Company's own analysis indicates that the change to FST caused the 95% requirement to be missed approximately 20% more often since the change causes some troubles cleared within 24 hours to be reported as having required over 24 hours.

The results of an increased emphasis on customer relations by field service technicians and a resultant reduction in number of customers served by each service

technician daily may also negatively affect the Schedule 11A results as STs may tend to take more time resolving service outages through this approach.

6.3 Adequacy of Present Controls

Further Control Additions and Improvements Are Needed To Protect Against Recurrence Of Repair Reporting Falsification.

As noted in section 4.2 of this report, the potential for repair falsification still exists in several areas. Many portions of the trouble handling process are inherently difficult to completely protect from falsification, and it is unrealistic to expect any system of controls to completely prevent fraud. However, a careful review of both previously used and potential methods of falsification such as those noted in sections 4.1 and 4.2 could result in the development of additional controls which would further reduce the recurrence of fraud.

In general, the control improvements made during 1991 and 1992 represent efforts to solve specific targeted problems. A broader effort to evaluate the trouble reporting and repair process in terms of controls may be necessary to detect control weaknesses that have not yet developed into serious problems.

In addition, substantial emphasis should be placed upon controls aimed at detecting

falsification once it is attempted, such as internal audits and Network Staff reviews. Although management has not always properly utilized the results of reviews and audits, these controls have been effective in detecting the presence of fraud or control weaknesses.

The FPSC Staff specifically recommends that implementation of the following additional controls be strongly considered:

1) Increase the frequency of Network Staff IMC reviews by adopting and adhering to an annual review schedule. As indicated in section 3.2.1, Network Staff review frequency was not adequate during the period 1985 through 1990. The performance of these reviews should not be made known in advance to the IMCs.

2) Increase the use and capabilities of Auto Screener in handling and processing trouble reports. For example, this could include increasing the percentage of troubles processed by Auto-Screener, and improving its processing capabilities beyond merely screening for 14 specified sets of conditions. Potential benefits include reduced opportunities for falsification, decreased human error and subjectivity. Over the past few years, the percentage of troubles handled by Auto Screener has increased from about 31% in 1990 to about 38% in 1992.

3) Automate the process of assigning the Service Affecting versus Out of Service

status to trouble reports prior to routing them to an IMC. This could be accomplished through comparison to a predetermined combinations of trouble report data characteristics similar to Auto Screener.

4) Develop automated edit routines programmed to prevent service technician logic errors in combinations of cause codes, disposition codes, VER codes, and other inputs. This will increase data accuracy and restrict opportunities for falsification.

5) Eliminate the capability for a trouble report to be excluded for measurement purposes by means of a single entry to the LMOS Final Status mask. This will reduce the capability to "hide" a problem trouble report, such as an OOS over 24 hours old by means of excluding it. Since the intended uses of this field are to exclude examples such as trouble reports on non-billed features, non-telephone company broken poles, and wiretap investigations, a very limited use and need for this field appears to exist. In comparison to the risk of misuse and manipulation, the benefits of retaining this field are small. Therefore, it should be eliminated. Reports such as the non-billed features and wiretap investigations should be handled via the Customer-Excluded (CX) category upon receipt. If this Final Status field is not eliminated, a means of monitoring and investigating the troubles excluded through its use should be developed.

6) Direct the Internal Auditing Department to conduct a comprehensive audit of maintenance and repair controls in cooperation with the Network Staff Organization and relevant computer system support personnel. Since the Company's efforts have largely centered upon the control weaknesses that have actually caused problems to date, a proactive logical second step is to identify potential problems. Such an audit was not among those. It could be used to identify additional needs for fraud prevention controls.

7.0 APPENDICES

7.1 GLOSSARY OF TERMS AND ACRONYMS

AIRO (Automated Interactive Repair Ordering) - Automated system of trouble report entry which allows the caller to input information regarding the service problem via telephone touch-tone keys.

ANS (Access Networking System) - LMOS-based system controlling LMOS access based upon each end-user's login ID, unique password, and authorized LMOS transactions.

Auto Screener - LMOS-based system that routes for dispatch all trouble reports meeting any one of specified combinations of VER codes and type codes.

BSP (BellSouth Practice) - Official BellSouth system procedural guidelines.

CAT (Craft Access Terminal) - Portable computer terminal used by service technicians in the field primarily to receive dispatched troubles and to record the handling and closing of the trouble.

Cause Code - Three digit code identifying the cause of the reported trouble such as Company employee or non-employee action, plant or equipment, or weather.

Clear Time - Point in time when customer's ability to place and receive calls is restored.

CON (Carried Over No) - Intermediate status assigned to trouble reports when customer asks for an extended repair commitment time beyond that being offered.

CPE (Customer Premise Equipment) - Telephone sets, jacks and other customer-owned equipment located on the customer's premises beyond the network protector, or point of demarcation.

CRIS (Customer Record and Information System) - Billing and customer information operating system.

CRSAB (Centralized Repair Service Attendant Bureau) - One of two trouble report receiving facilities located in Jacksonville and Miami which generate and route trouble reports to nearest IMC.

Disposition Code - Four-digit code identifying the source of the defect or problem that was resolved to clear the trouble such as defects in Company equipment, customer provided equipment, customer error, or other condition.

DLETH (Display Extended Trouble History) - LMOS history of all trouble reports made on a particular telephone number including a record of all screening, handling and repair action taken.

FST (Final Status Time) - Point in time when LMOS host receives a closed trouble report.

IMC (Installation and Maintenance Center) - Network Department operations unit usually responsible for trouble report handling, monitoring, and dispatching functions.

LMOS (Loop Maintenance Operating System) - Family of systems controlling repair and maintenance handling processes including reporting, handling and record keeping functions.

MA (Maintenance Administrator) - IMC employees responsible for screening, testing, dispatching, monitoring, and resolution of trouble reports.

MLT (Mechanized Line Testing System) - LMOS-based automated trouble diagnostic system.

MOOSA (Mechanized Out of Service Adjustment System) - LMOS-based system that identifies customers due rebates for service interruptions of over 24 hours, calculates rebates, and instructs CRIS to credit the affected accounts.

MTAS (Management Trouble Analysis System) - System used to extract and analyze LMOS trouble report handling results.

OOS (Out of Service) - Trouble report status assigned by an MA, ST, or Auto Screener when the customer is unable to receive or place calls.

OOS>24 (Out of Service Over 24 Hours) - Trouble reports involving service interruptions over 24 hours in length.

RL (Regional Letter) - Official pronouncements which clarify or modify a specific BellSouth Practice until formal revision and ratification of a practice is complete.

RSA (Repair Service Attendant) - CRSAB employees whose function is to receive initial calls from customers and originate trouble reports.

SA (Service Affecting) - Designation given to non-Out of Service trouble reports, i.e. those that do not prevent customer from receiving or placing calls. Examples include static and intermittent interference from other lines.

Schedule 11A - Monthly report required by Commission Rule 25.4.70 indicating whether each exchange has cleared at least 95% percent of OOS troubles within 24 hours.

Schedule 11B - Monthly report required by Commission Rule 25.4.70 indicating whether each exchange has cleared at least 95% percent of SA troubles within 72 hours.

Schedule 11C - Monthly report required by Commission Rule 25.4.70 indicating whether each exchange has experienced less than 6.0 trouble reports per hundred access lines, and less than 20% repeated trouble reports (troubles recurring within 30 days.)

ST (Service Technician) - Field technician whose responsibilities include both installation of new service and repair and resolution of trouble reports.

TELSAM (Telephone Service Attitude Measurement) - A series of customer service monitoring surveys regularly conducted by outside contractor.

Trouble - Any trouble report, initiated by a customer or Company employee, including Out of Service conditions and Service Affecting problems.

TOK (Test OK) - Disposition code used when follow-up MLT results indicate the original trouble condition no longer exists.

VER Code - MLT test results.

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DRAFT

AUDIT OF SOUTHERN BELL

NON-CONTACT SALES INCENTIVE PROGRAM CONTROLS

DRAFT REPORT

January 15, 1993

TABLE OF CONTENTS

6.0 FINDINGS

7.0 APPENDICES

TABLE OF EXHIBITS

1.0 EXECUTIVE SUMMARY

1.1 Background

This audit of Southern Bell's non-contact sales incentive programs was performed by the Division of Research and Regulatory Review, Bureau of Regulatory Review at the request of the Division of Communications. The purpose of the review was to assist in the investigation of Southern Bell's non-contact sales practices in Docket 900960-TL.

On December 6, 1990, in response to allegations of improper billing of Southern Bell customers, the Division of Communications requested a docket be established to initiate show cause proceedings against Southern Bell. In response, the Commission issued Order Number 24041, directing that no show cause order be issued at that time, but that an investigation be conducted to fully disclose the facts surrounding the allegations of improper billing. This order also required Southern Bell to file a weekly report reflecting the number and amount of refunds made to customers who were improperly billed for services they did not authorize.

In July 1991, the Company discontinued its non-contact sales incentive program, Goldline. Since that date, no other non-contact sales incentive programs have been implemented.

The Company's weekly refund reports to the Commission indicate that as of September 30, 1991, the Company had refunded over $800,000 to about 34,000 customers throughout the state. Since that date, the required weekly reports have provided no updates to this dollar amount, and the Company's response to Staff's Third Set of Interrogatories, Item 28, indicated that as of October 1992, the final refund totals were "not yet available."

In October 1992, through a settlement with the Office of Statewide Prosecution, the Company agreed to pay restitution of approximately $15,200,000 to more than 900,000 customers, and to revise billing practices and controls. Of this amount, Bell agreed to pay $10,500,000 to customers who were billed for optional services as a result of through the Company's non-contact sales programs, and $3,005,000 to customers who may have been denied rebates for service outages. The settlement stipulated that no admissions of wrongdoing or liability were made by the Company, and noted that penalties for any such wrongdoing fall under the jurisdiction of the Public Service Commission.

1.2 Objectives

The primary objectives of this audit were to assess both the adequacy of the controls surrounding the Company's non-contact sales incentive programs and the adequacy of Management's response to control problems and violations. More specifically, Regulatory Review staff sought to answer three key questions:

- Did the Company provide adequate internal controls in its non-contact sales incentive programs to prevent the improper billing of customers?

- Did Company Management take adequate steps to prevent the recurrence of improper billing of customers?

- Did the actions or omissions of Company Management lead to the improper billing of customers?

1.3 Scope

This audit focused on internal controls surrounding the Company's various non-contact sales incentive programs. These programs were intended to generate additional revenue through the sale of services by "non-contact" employees; those whose regular duties did not include sales. Since these programs were primarily targeted at the Network Department, the review was directed towards Network personnel and activities. However, the roles of other key groups involved in these sales incentive programs, such as the Customer Services Department, were examined as well.

The timeframe analyzed in this audit was the period 1985 through 1991, when Southern Bell Executive Management discontinued all non-contact sales programs. Since

the Company sought to improve the controls surrounding non-contact sales controls during late 1989, the control changes implemented by the Company in 1990 became a point of specific focus.

1.4 Methodology

Information regarding non-contact sales program methods and controls was gathered through employee interviews, document requests, and formal discovery. Interviewed Company personnel represented a cross-section of management levels, staff support personnel and craft employees involved in non-contact sales programs.

The findings and conclusions summarized below were developed for consideration by the Division of Communications based upon analysis of the information examined. Where applicable, recommended improvements regarding any future resurrection of non-contact sales incentive programs by the Company are also presented in this report.

A draft of this report was provided to the Company to verify the factual accuracy of its contents. Based upon the Company's response, certain revisions were made to statements of fact. However, no changes to the analysis, findings or conclusions were made as a result of the Company's input.

1.5 Findings

The following is a list of findings related to the specific objectives identified in section 1.2 above. Detailed information pertaining to each of these findings can be found in section 6.0 of this report.

Adequacy of Controls - 1991 and Prior

1. Controls over sales referral processing and verification were inadequate.

2. Non-contact employees received little training and guidance in proper sales methods.

3. Lack of non-contact sales audits and network staff reviews hindered detection of control failures.

4. Procedures for tracking employee time spent in non-contact sales were inadequate.

Adequacy of Present Controls

5. Goldline controls for verification of sales need improvement.

Adequacy of Management's Response To Problems

6. Management did not investigate evidence of improper sales and misbilling in a timely manner.

7. Management did not improve non-contact sales controls in a timely manner.

1.6 Conclusions

Based upon analysis of the evidence obtained, and the findings listed above, the following conclusions are presented. These conclusions provide responses to the three questions posed (in section 1.2) as the primary objectives of this audit. These conclusions are discussed further in section 6.0 of this report.

Conclusion 1: **The Company did not provide adequate internal controls in its non-contact sales incentive programs to prevent the improper billing of customers.**

Conclusion 2: **Company management has not taken adequate steps to prevent the recurrence of improper billing of customers.**

Conclusion 3: **The actions and omissions of Company management led to the improper**

billing of customers.

2.0 NON-CONTACT SALES PROCESS OVERVIEW

2.1 Purpose of Non-Contact Sales Incentive Programs

Since at least the 1970's, Southern Bell has used incentive programs to generate additional revenues through sales of services by "non-contact employees". These employees, such as maintenance administrators and service technicians, perform functions that do not involve selling. However, the Company recognized that selling opportunities may arise in the course of performing many non-sales jobs. For example, while repairing a service outage, a service technician may discuss Southern Bell's inside wire maintenance plan with the customer, thereby generating a sale of this service and additional revenues. To reward these employees for the additional effort required, incentives were offered.

Initially, these incentives were of nominal value, such as coffee mugs for top sellers or a breakfast for the top-producing workgroup. By the mid-1980's, the potential value of incentive awards had greatly increased. Participating employees accumulated sales credit "points" which could be redeemed through a catalogue for prizes such as guns and wide-screen TV sets. Through a pyramidal scoring system, the top sellers' managers were able to earn catalogue merchandise or luxury cruises.

Although the value and level of sophistication of the incentives offered through the

non-contact sales programs increased over time, the basic process and related internal controls changed little. In order to understand the controls surrounding non-contact sales programs, and the problems the Company eventually experienced, it is necessary to understand how these programs were developed, monitored and administered.

2.2 *Sales Incentive Program Guidelines*

Prior to 1987, the Atlanta-based I/M Operations Support Staff organization assisted the Florida Network Support Staff in the development of non-contact sales programs. After that date, the Florida IMC/I&M Support Staff (Network Staff) developed programs, which were still approved at the Headquarters Staff level. Exhibits 1 and 2 display the organizational relationships as of 1991 between the various groups involved in planning and participating in non-contact sales programs. Exhibit 3 displays the organization of the Florida Network Department and the various positions participating in non-contact sales programs.

Written program guidelines were required to include at a minimum the planned time frame (generally less than twelve months), a description of eligible employees, criteria for determining award recipients, a description of awards and awards distribution, and a budget providing total costs. Once developed, these guidelines were reviewed and approved by the Vice-President and the General Managers of the sponsoring department (e.g., Network), and

by the Comptroller's and Personnel Departments.

Exhibit 4 shows the non-contact sales incentive program planning and budgeting process for submitting non-contact sales programs as of 1988. Guidelines for the development of these programs were provided in Southern Bell's *Executive Instructions* and *Personnel Policy Manual*. Specifically, *Executive Instruction Number 4* addresses the general policy for incentive programs, including types and levels of awards, the responsibilities and roles of various departments and entities involved, and reports and controls.

Additional guidelines for the development of non-contact sales incentive programs were provided by the *Personnel Policy Manual*, Section 51.102, Employee Compensation Management and Non-Management Special Award Programs - Sales and Performance. This interdepartmental procedure further defined the necessary program criteria, departmental budget requirements, approval requirements, expense reporting and tracking forms, and types of award programs.

Sales incentive awards for non-contact sales employees were limited by the *Personnel Policy Manual* to .3% or less of the department's annual Management Salary Budget. The budget included base salaries, Management Team Incentive Awards, and Individual Incentive Awards.

SOUTHERN BELL NETWORK ORGANIZATION
AS OF 1991

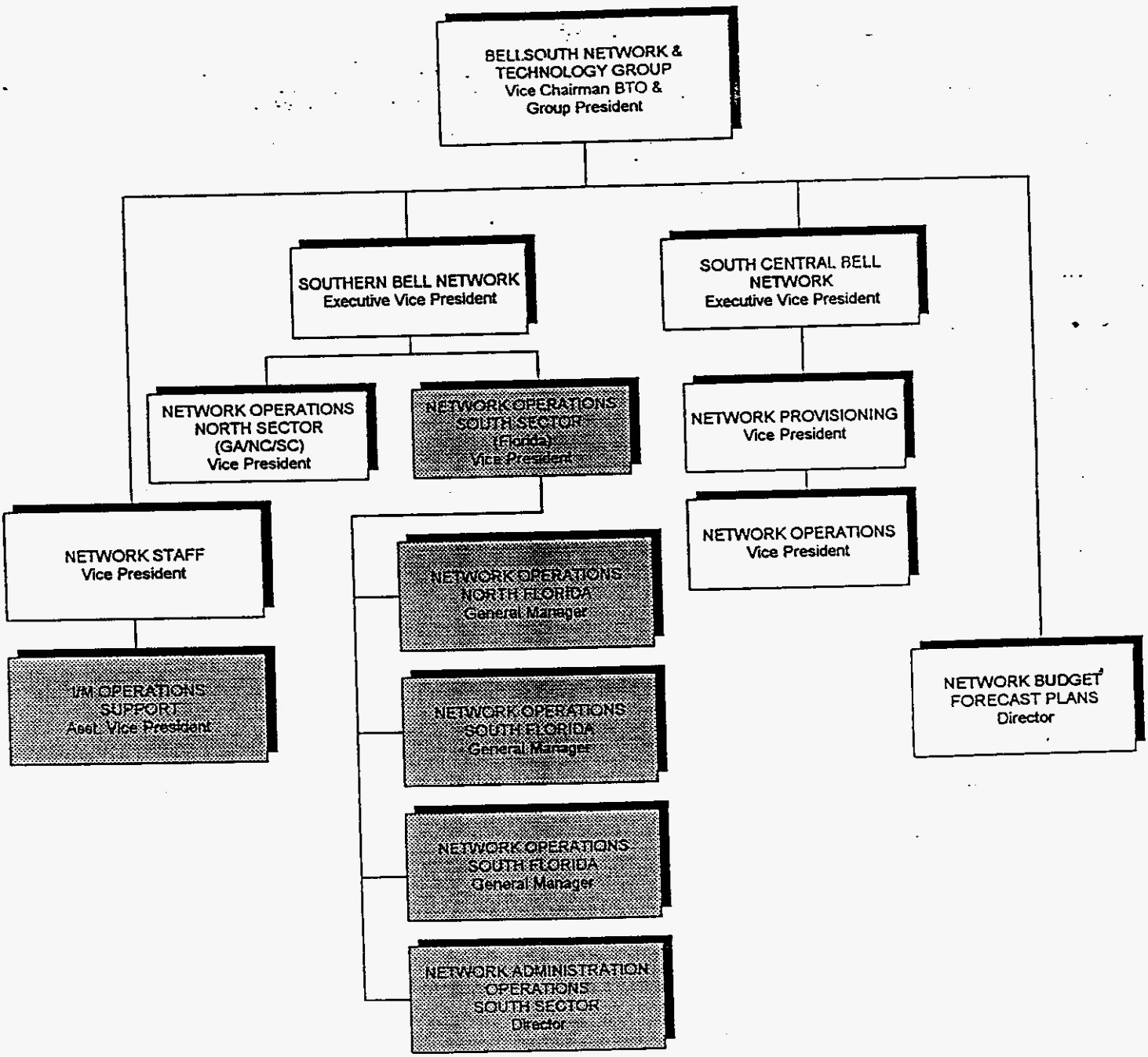


EXHIBIT 1

SOURCE: COMPANY RECORDS

NETWORK I/M OPERATIONS SUPPORT STAFF
AS OF 1991

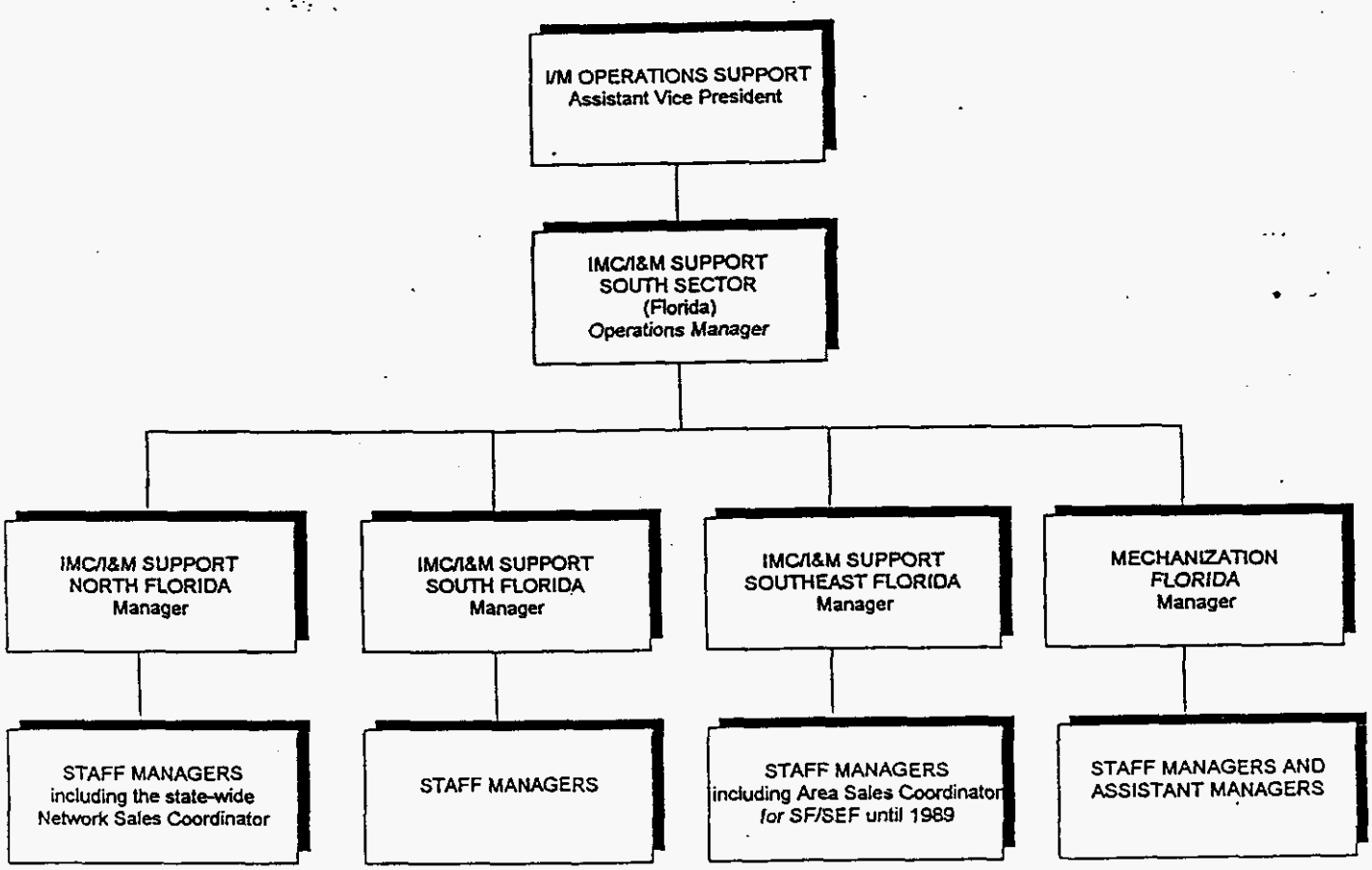


EXHIBIT 2

SOURCE: COMPANY RECORDS

SOUTHERN BELL OF FLORIDA
NETWORK REPORTING HIERARCHY
AS OF 1991

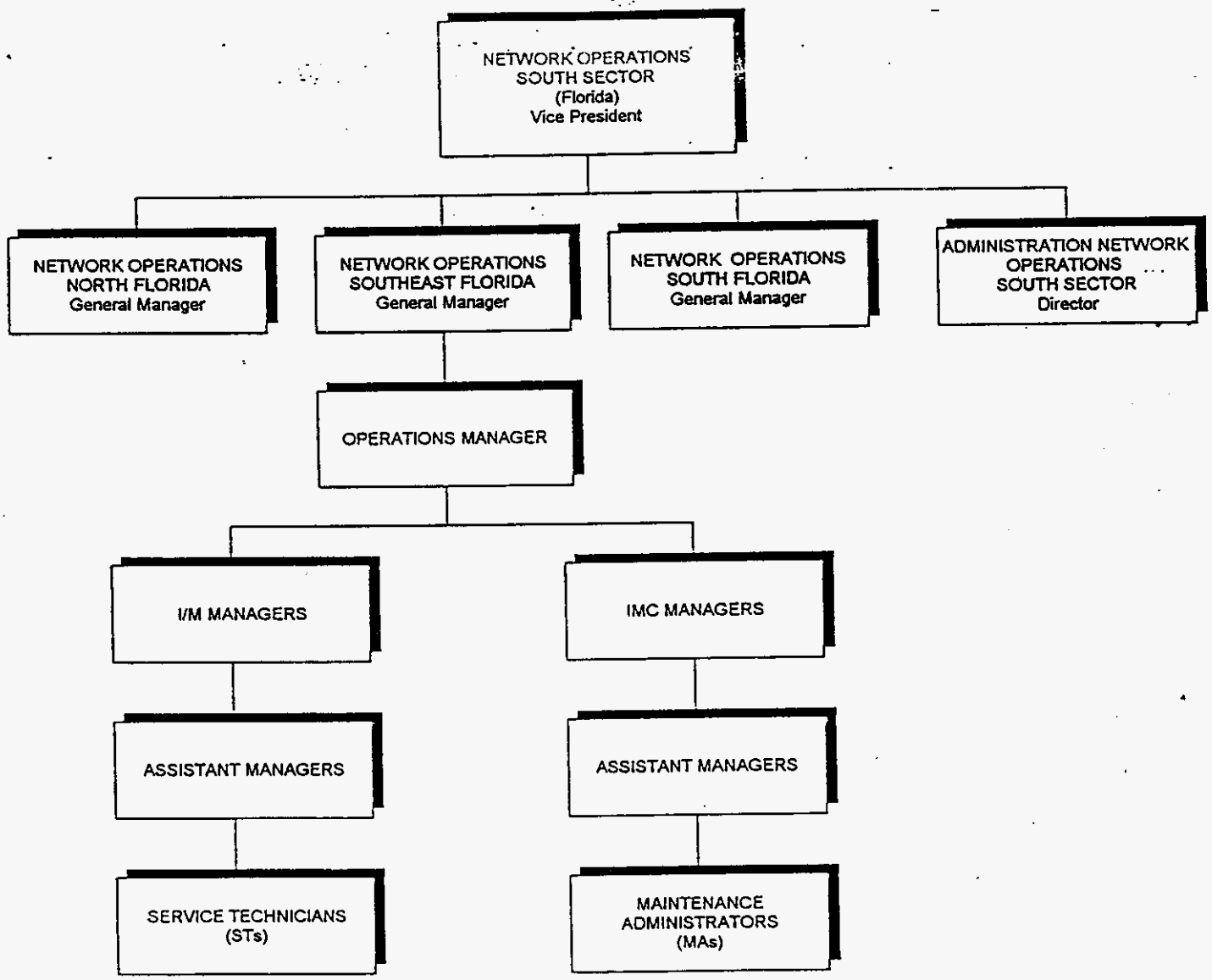


EXHIBIT 3

SOURCE: COMPANY RECORDS

NON-CONTACT SALES PLANNING AND BUDGETING
AS OF 1988

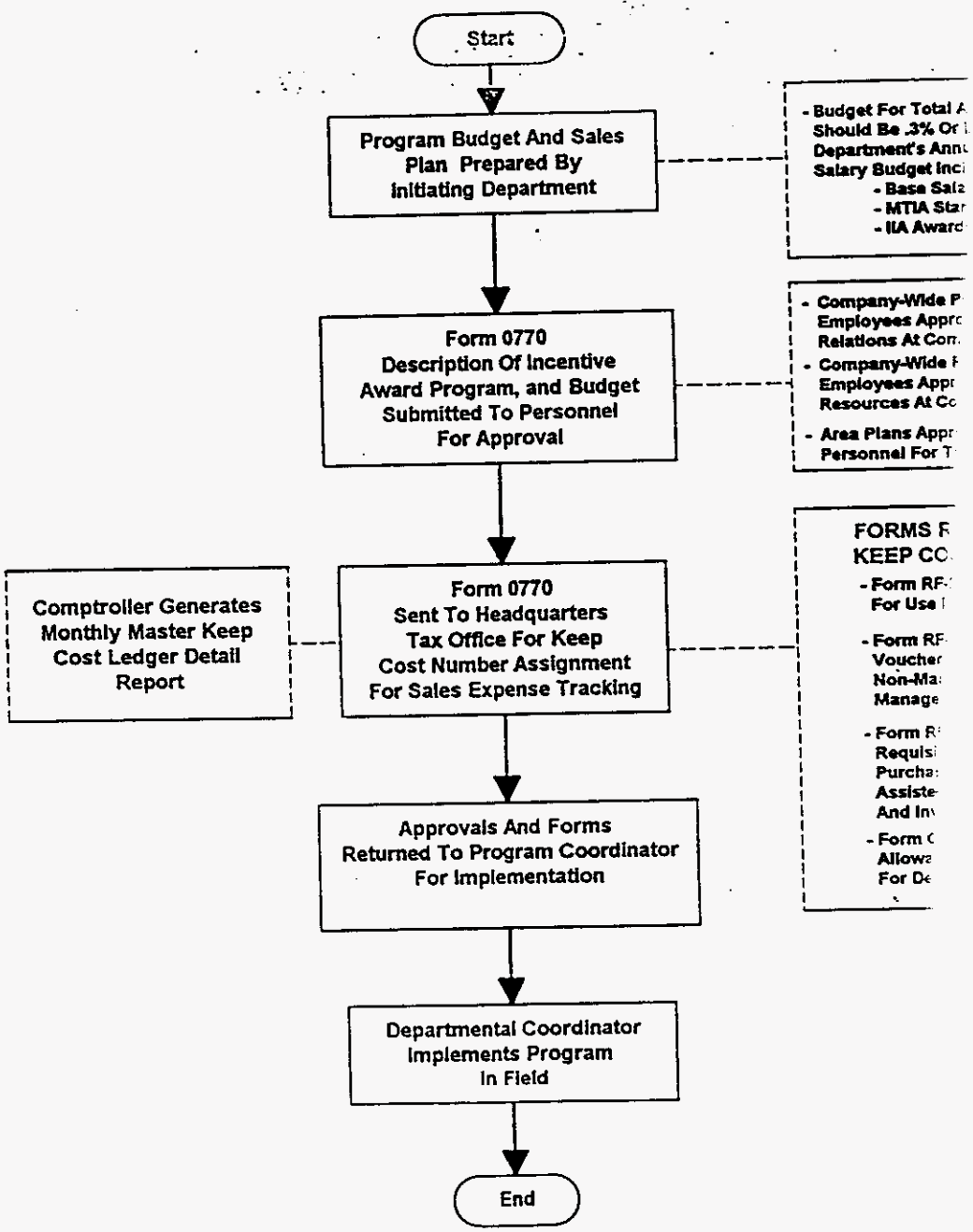


EXHIBIT 4

2.3 *Sales Referral Processing Methods*

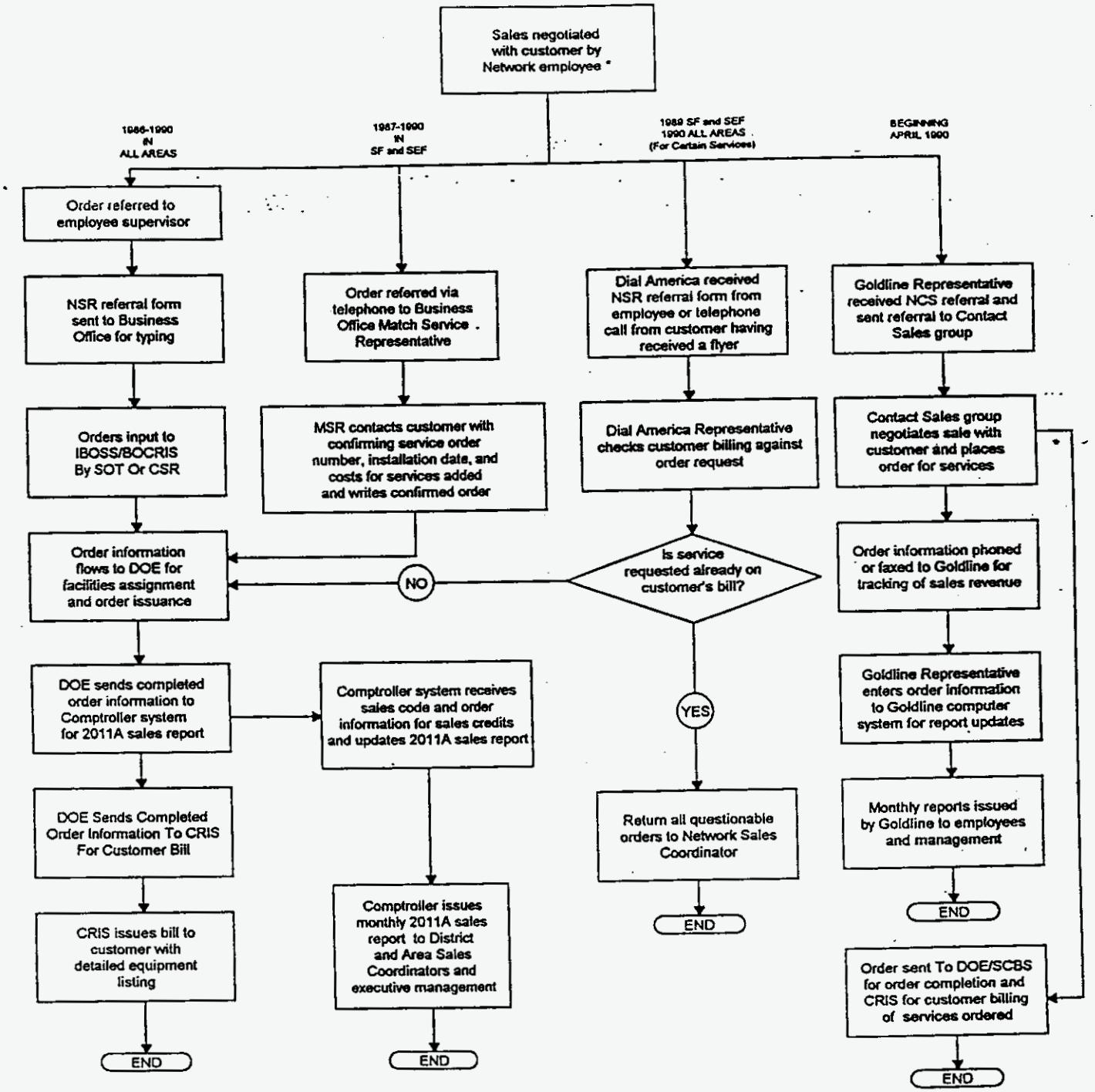
2.3.1 Basic Referral Processing

Prior to 1986, sales of services were negotiated by service technicians while on customers' premises and reported through the installation or repair service order form. To ensure receiving proper credit for the sale, the service technician recorded his assigned sales code on the service order. Uniform Service Order Code (USOC) notations of the service additions were also entered on the existing installation or repair order and processed with the completed order.

In 1986, the Network Sales Referral form, or NSR-86, was designed for the specific purpose of reporting sales of services by non-contact employees. This same form continued to be used through 1990, although varying methods for processing the Network Sales Referrals were employed over the years.

As shown in Exhibit 5, upon completion of a sale, the NSR-86 was forwarded to the employee's immediate supervisor, then to the local business office for input by the Customer Service Department. The NSR-86 included a space for the customer's signature evidencing his/her authorization for services to be added. However, this control was not always used, since employees had the option of telephoning in completed sales. In these instances, the Customer Service employee filled out the NSR-86 over the telephone and these forms would not include a customer signature.

NON-CONTACT SALES REFERRAL PROCESS
1986-1991



IBOSS - Interim Billing and Order Support System
BOCRIS - Business Office Customer Record Information System
SOT - Service Order Typist
CSR - Customer Service Record
NCS - Non-Contact Sales
NSR - Non-Contact Sales Referral
NF - North Florida
SF - South Florida
SEF - Southeast Florida

* Network employees involved in non-contact sales were:

1. Repair Service Attendants (RSA)
2. Maintenance Administrators (MA)
3. Dispatch Clerks (DC)
4. Service Technicians (ST)
5. Outside Plant Technician (OPT)
6. Construction Repair Technicians (CRT)

EXHIBIT 5

SOURCE: STAFF ANALYSIS

A Service Order Typist or Customer Service Representative then entered the order into the Interim Billing and Order Support System (IBOSS). Next, the Direct Order Entry (DOE) system, which contained information on pending orders, forwarded the customer billing information to the Customer Record and Information System (CRIS). Employee sales information was also sent via DOE to the Comptroller system, for development of the monthly employee sales report, known as the Form 2011.

2.3.2 MATCH Program Referral Processing

During 1986, the processing of a high volume of NSR-86 forms increased the workload of the Customer Service Department, resulting in resentment towards the Network Department. The Customer Service Representatives involved received no incentive awards for their role in processing the NSR-86 forms. Further, since these Customer Service Representatives were (and still are) responsible for meeting sales quotas as a basic component of individual pay, the Network employees making sales of the same services were viewed as competitors. The increased workload of processing NSR-86 forms and the perceived competition resulted in widespread distrust which threatened cooperation between these two departments.

To alleviate this problem, and to allow Network employees the option of obtaining technical assistance from Customer Service personnel in making a sale, the MATCH program was developed in 1987. This program was set up in South and Southeast Florida to receive and process non-contact sales referrals through the business office. MATCH

established a means for Customer Service Representatives to share sales credits for referrals made by the non-contact sales employees.

A MATCH referral could be made by a Network employee using the NSR-86 form, or by calling the MATCH service representative in the business office. After receiving the referral, the MATCH representative would call the customer to complete the sale. Once completed, the sale was reported by the MATCH service representative, who entered the order and recorded the sales codes of the Network employee who generated the lead and the Customer Services employee who closed the sale. The order flow, NSR-86 processing, and sales reporting flow were the same for the MATCH program as previously described.

2.3.3 Referral Processing by DialAmerica

The Company used DialAmerica, a direct marketing contractor, to process referrals for non-contact sales programs from 1985 through 1990. DialAmerica processed both reports of sales via telephone by non-contact employees and NSR-86 forms via mail, to reduce processing delays and relieve some of the additional workload placed on the Customer Services Department.

However, since DialAmerica was located in Atlanta, receiving sales credit from mailed-in referral forms was delayed. As a result, some Network employees, such as many in North Florida, continued to have their sales referral forms processed through Southern Bell business offices.

Exhibit 5 shows how DialAmerica received referrals from non-contact sales employees via the NSR-86 form or over the telephone. Some customer telephone calls resulted from promotional Company mailings or fliers given out by employees with their sales code and the DialAmerica contact number. Upon receiving the referral, the DialAmerica representative verified through CRIS records that the customer did not already subscribe to the service requested. If there were no problems with the order, it was processed through the Direct Order Entry (DOE) system and followed the normal order flow. If the service requested was already listed in the customer billing records, DialAmerica representatives returned the order to the Network Sales Coordinator without entering it into DOE.

DialAmerica's capabilities were limited to issuing orders for custom calling, inside wire maintenance, Touchtone, and Touchstar services. Orders for other services were forwarded to Southern Bell for handling.

2.3.4 Goldline Program Referral Processing

By late 1989, the Company recognized a need to redesign its sales incentive programs. The new program, called Florida Goldline, included improved internal controls and operations centralized to a single location and staff. In April 1990, implementation of Goldline began in South Florida, and was completed throughout the Company by the end of 1990. Although transition from the use of the NSR-86 form continued well into 1990, Goldline became the only sales referral processing method for non-contact sales during

1991. Goldline was used to refer leads for the sale of all services and equipment offered by Southern Bell.

The Goldline program allowed all Florida employees to participate in referring sales leads to the Goldline staff, who routed the referrals to appropriate contact sales groups. The sales office representative then contacted the customer, negotiated the sale, and placed the order for the services sold. If additional services were negotiated by the contact sales employee, he/she and the referring employees shared credit for this sale as well.

Completed sales orders from the business office contact sales group were processed through Direct Order Entry (DOE) and orders processed through the Marketing sales groups were processed through the Service Order Control System (SOCS) for order completion. Both systems then forwarded sales information to the Comptroller system for development of sales reports and to the Customer Records and Information System (CRIS) for the issuance of the customer's bill.

Information regarding sales, made from the non-contact employee referral, was also sent back to the Goldline office by the contact sales office. The non-contact sales employee and the contact sales employee generating the sales referral shared sales credit in the Goldline computer system for the referral. The Goldline system produced individual monthly statements accounting for referrals and sales made by each participating employee and manager. Monthly reports to employees were only issued if the employee had been

involved in sales activity during the reporting period. If sales referrals were made in one month, and completed by the contact sales employee in the next month, a report would not be issued until the month the sale was completed and issued.

2.4 Sales Incentive Program Administration

2.4.1 Role of Sales Coordinators

The Florida Network Staff administered the non-contact sales incentive programs through the Operations Manager, IMC/I&M Support Staff and two area sales coordinators, shown on Exhibit 2. Under the direction of the Operations Manager, the coordinators helped implement annual sales programs developed by Headquarters I/M Operations Support Staff in Atlanta, and beginning in 1987 prepared and implemented programs customized for Florida.

Annual campaigns promoted year-long programs and themes, while spurt campaigns promoted short-term localized emphasis on specific Company services. Area sales coordinators disseminated information to the districts, and conducted program kickoff meetings. One coordinator was responsible for programs in North Florida and the other was responsible for Southeast and South Florida programs. These coordinators carried out their duties as an additional assignment to their existing Network Staff workload. In 1989, the duties of the two area coordinator designations were consolidated under one statewide

Network sales coordinator.

Local or district sales coordinators, appointed by district management, also assisted in administering the non-contact sales programs by tracking and monitoring local sales and revenues, and preparing sales credit checks for disbursement after review by appropriate managers. District sales coordinators reported sales results for individuals, work groups and the district in which they served. Like their area sales coordinator counterparts, district coordinators were given these sales responsibilities as an extra assignment, in addition to regular duties.

2.4.2 Sales Results Reports

The mechanism for reporting and tracking completed sales was the Form 2011 (modified slightly in 1988 to become the Form 2011A). This sales report was utilized to track Customer Service and Marketing Departments' sales, as well as non-contact sales program results. Generated monthly by the Comptroller system, the 2011 and 2011A profiled individual, group and district sales totals. The 2011A report continued to be the primary method of reporting non-contact sales results until the Goldline program was established with its own results tracking system in April 1990.

The Goldline program established its own reports to monitor sales results and referrals received. These reports included: monthly sales totals for managers, individual employee monthly statements tracking results of each referral and total sales credit, sales

transactions producing six-months' revenue of $1,000 or more, percentage of successful referrals, and status of unresolved referrals.

2.4.3 Pre-Goldline Sales Credits and Award Redemption

Over the period 1986 through 1990, sales credit incentives were set at 10% of the addtional revenue generated from each sale. The additional revenue was tracked on the basis of semiannual revenue for the purposes of incentive calculation. For example, a service with a $2 monthly fee was considered to have generated $12 of revenue ($2 times 6 months), resulting in $1.20 in sales credit awards.

Of the 10% of sales credit awarded, 4% went to the employee actually making the sale, 3% to his Pay Grade 3 manager, 2% to his Pay Grade 4 or 5 manager, and 1% to his Pay Grade 6 or 7 manager. The rewarding of managers and supervisors for their employees' efforts was intended to provide an incentive for managers to motivate employees to generate sales revenue.

Equipment sales revenues, consisting of one-time charges, were computed by using 10% of the gross sales revenue. The maximum sales credit accrued for any one equipment sales referral was $500. Sales credit from sales of equipment or services completed through MATCH referrals was shared 50/50 by the selling and referring employees involved.

Based upon the 2011 report, the district sales coordinators prepared bonus point

checks for employees who had accumulated sales credit, as shown in Exhibit 6. Initially, coordinators issued bonus point checks monthly. To reduce administrative time and cost, sales credit redemption checks were eventually issued quarterly, and ultimately on an annual basis. The 2011 sales report initially did not reflect sales subsequently cancelled by customers. In 1987, the Company began deducting sales credit when customers cancelled services within 60 days of the sale.

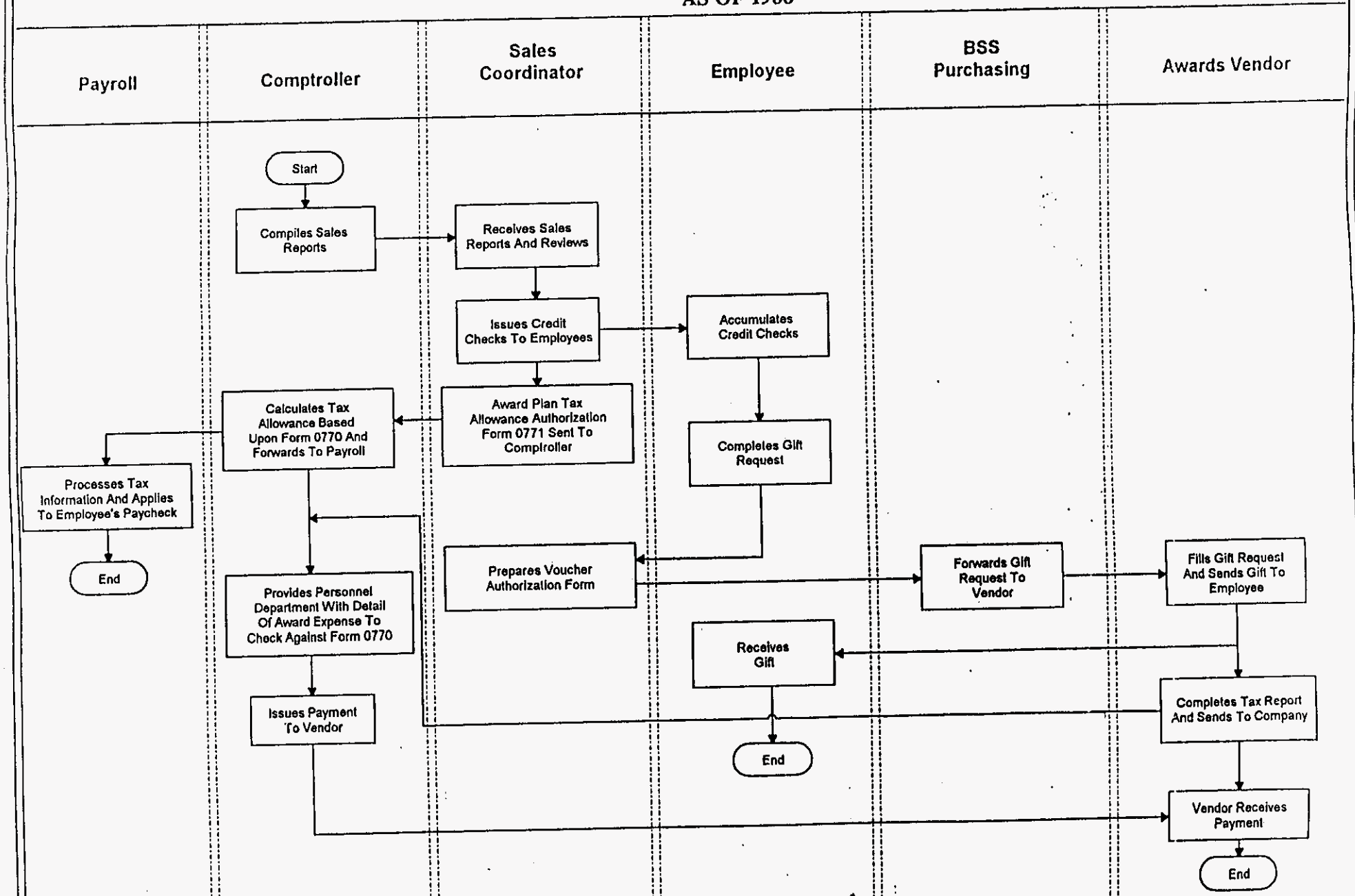
During the period 1986 through 1989, employees redeemed bonus point checks for items selected from a catalog through E.F. MacDonald Company. Reports of sales credit checks issued and the merchandise orders were sent to E.F MacDonald through BellSouth Services Purchasing. The merchandise was delivered to the employee's workplace. Tax expense reports were forwarded to the Comptroller Department by the vendor, for employee tax notification and gross-up. This information was then forwarded to Personnel for posting to payroll records.

2.4.4 Goldline Sales Credits and Award Redemption

Goldline sales credits were awarded in a manner similar to earlier sales programs, but credits were awarded to managers for their employees' sales at a substantially lower rate. Through Goldline, the seller of services still received 4% of the resulting semiannual revenue, as in prior sales programs. However, the first through fifth level managers received just .4%, .3%, .2% .1%, and .025% of revenue credit respectively. Rewards for the sale of equipment were limited to $500 of sales credit.

AWARD REDEMPTION PROCESS

AS OF 1988



SOURCE: STAFF ANALYSIS

EXHIBIT 6

Under the Goldline program, sales credit for each employee was tracked through the individual monthly statements. Employees accumulated sales credits and at their discretion, requested issuance of gift certificates by the Goldline center. The certificates could be redeemed for merchandise through Marketing Innovators, Inc. for merchandise from specified local retailers. Redeemed sales credits were to be reported to the Comptroller and Personnel Departments for tax calculation and reporting purposes.

3.0 CONTROLS

3.1 Procedural Controls

The three primary procedural mechanisms used to guide and control the non-contact sales program were the *Executive Instructions*, the *Personnel Policy Manual*, and the *Program Guidelines* for each of the sales programs. These policies and guidelines evolved over time in response to changes such as problems encountered with the sales incentive programs.

As discussed, the *Executive Instructions* were issued by Southern Bell Corporate Headquarters as a means of providing common policy and guidelines to the nine state operations of Southern Bell. These instructions set forth company-wide policies and procedures essential to conduct and guide business operations in an orderly and efficient manner.

Revised guidelines provided in the *Personnel Policy Manual*, Section 51.102 for Sales Awards Programs were issued by the Vice President-Personnel, in Atlanta, on November 27, 1990. These supplemental guidelines represent in many instances notable departures from prior practices in sales incentive programs.

For example, these guidelines specified that all awards recognition should be nominal

in value, that all programs should be approved in advance by the Legal Department, that customer canvassing, telephone banks, boiler rooms and related sales activity should be specifically authorized, that managers not directly involved in sales efforts could be recognized for sales results of subordinates, but should not be eligible to accumulate points toward awards for a subordinate's sales, that awards points should not be shared or transferred between employees, and that employees should not be reassigned from their normal job duties to be devoted to sales efforts.

Further procedural guidelines for non-contact sales programs were included in the *Program Guidelines* issued with each sales program, from the IMC/I&M Support Staff. During the period 1988 through 1990, 20 non-contact sales incentive programs were developed by the Florida Support Staff, and guidelines were issued to provide basic instructions about each particular program.

Other than the brief *Program Guidelines*, no training manuals, procedural manuals or other literature was provided to participating managers and employees. Although the *Program Guidelines* provided an example or two of how a sales opportunity could be recognized, the actual implementation of the sales effort and sales practices were left up to the program participants.

Specific, detailed instructions can serve as a quality control to insure that a consistent, professional, and effective approach is taken in a program that involves thousands of

employees with diverse job and training histories. Detailed written procedures also provide Network Department line managers with a consistent means of evaluating the quality of his or her organization's efforts and results in the unfamiliar area of sales.

3.2 Processing and System Controls

The process of generating and handling sales and sales referrals varied over the period reviewed in this audit, but the underlying controls changed little. Some controls were built into the handling of the reported sales. Others were provided through the computer systems that processed the sales. Despite the discovery of problems with sales reported by incentive program participants, over the period 1986 through 1991, changes in controls were few. Most of the control changes made were associated with the implementation of the Goldline program in 1990.

3.2.1 Documentation of Pre-Goldline Sales

During the period before 1986, when non-contact sales were simply added to the service order by service technicians, the sales of services was less than fully documented by means of his written additions to the service order. As the sales order was processed, it may not have been reviewed by anyone other than the Service Order Typist.

With the inception of the NSR-86 form, a separate piece of documentation was

created solely for the purpose of documenting the sale. This 3-part form provided a copy to be reviewed by the district sales coordinator and the selling employee's manager, a copy for the employee to retain to verify his receipt of proper sales credit, and a copy to be processed by the business office. This form at least provided the opportunity for managers and others to become aware of any problems with the sales being reported. In addition, the Form 2011 provided individual and group sales results.

In response to the Staff's January 3, 1991 request for information, the Company described the management controls for verifying the correctness of the information reported by the employees in the non-contact sales programs. First and second-level managers provided the front line of defense, according to the Company's response. The Company stated, "The primary management controls over the sales programs prior to 1990 were vested in the first and second level managers in the various districts in Florida. These managers received regular reports on the sales results of their subordinates and were in a position to identify any anomalies in the level of reported sales."

Despite this response, the Company's sales program guidelines and literature did not clearly establish the duties and responsibilities of managers for monitoring the quality of the sales effort or the resulting sales themselves. Extensive documentation provided by the Company indicates that managers were urged to motivate employees to sell, but little mention is made of any other role of the managers, such as monitoring this sales effort.

The Company's response to the January 3, 1991 Staff request maintains that a secondary control was also provided by sales coordinators and customer service representatives. In its response to Items 13(f) and 13(g) of this request, the Company stated, "In addition, the sales coordinators received copies of the Form 2011As which reflected the sales made by the various employees working within each sales coordinator's geographic area of responsibility, which should have enabled the sales coordinators to identify abnormal activities," and ". . . the Company's service representatives were responsible for handling customer complaints and informing their supervisors if they became aware of problems that were repetitive or appeared to represent some inappropriate activity; which is how the matter now under investigation came to the attention of the appropriate management personnel."

Interviews with Company employees indicate that managers and sales coordinators paid little attention to this monitoring role since they were primarily responsible for their main job duties, and since the sales programs were just an added peripheral activity. There appears to have been a misconception among non-contact personnel that monitoring of sales quality was to be performed by the Customer Service Department upon receipt of the sales referral forms. Some checking was performed by Customer Services at the point the NSR-86 information was being input. However, this was largely limited to the verification, by checking the CRIS records, that the sale reported did not involve a service that was already being provided to the customer.

The Company's response to Staff's First Set of Interrogatories, Item 10 indicates that the Company introduced a confirmation letter in early 1987 that was sent upon completion of new and transfer orders. However, this would not provide verification of sales to existing customers, who were the main target of the sales incentive participants.

3.2.2 Documentation of Goldline Sales

With the implementation of Goldline, controls surrounding the selling and reporting of sales were improved in several ways. However, according to the Company's responses to Staff's Third Set of Interrogatories, Items 46 and 47, Goldline was implemented "as a result of efforts to enhance Southern Bell's employee referral program" rather than an attempt to correct problems with the prior non-contact sales incentive programs. Despite this response, many of the control improvements represented by Goldline directly related to problems encountered in the prior programs.

The primary control improvement in the Goldline system was the separation of the sales process into two parts: the referral and the closing of the sale, each performed by different employees. The referral provided by the non-contact employee was telephoned or faxed into the Goldline center, and passed on via fax to designated contact sales personnel. Once the assigned contact sales employee contacted the potential buyer, he or she reported the results to the Goldline Center, usually via fax. This, in effect, represented a separation of duties between the three employees involved, increasing the difficulty of reporting a fictitious or unauthorized sale.

But, since the sales effort and results reporting was handled by the contact sales person alone, this could afford the opportunity to still report a fictitious sale. According to the Company's response to Staff's Third Set of Interrogatories, Item 45, the control that would discourage such activity is the routine monitoring of contact sales personnel by supervisors. Conversations are monitored monthly to verify both the use of proper sales technique and the accuracy of reports of whether sales were made. Still, this monitoring was infrequent and if the employees were aware of when it was taking place, its value would be diminished.

Since Goldline sales were eventually closed by trained contact sales employees this decreased the chance that customers were given incorrect information, or that pressure sales tactics were used. In addition, the tracking of sales referrals through the Goldline system protected the accuracy of sales credit and provided a means of assigning responsibility if an unauthorized sale was discovered.

The processing of all sales referrals through a single point and single method was itself an improved control. The fact that Goldline provided a central processing point increased the likelihood that problems, trends, or program weaknesses would be detected. For example, all sales referrals were routinely examined mechanically to insure there were no duplication of sales.

3.2.3 System Processing Controls

The mechanized systems for inputting contact and non-contact sales programs were shared since non-contact sales were not essentially different from the contact sales routinely made by Customer Service and Marketing personnel. Therefore, mechanized system controls in place for non-contact sales were very similar to those of the contact sales program.

Once received by the business office (and after 1990, by the Goldline Center), mechanized processes issued the order, billed the customer for the service ordered, gave employees sales credit, issued monthly sales reports and accounted for individual and company tax liability. The mechanized systems involved were: Interim Billing and Order Support System (IBOSS), Business Office Customer Records Information System (BOCRIS, which was developed to replace IBOSS), Direct Order Entry System (DOE), and the Customer Records Information System (CRIS).

The mechanized process began when the NSR-86 sales referral form information was typed into IBOSS by the Customer Service Representative or Service Order Typist. After the implementation of Goldline in 1990, the sales referral information was entered by Goldline personnel. IBOSS was used by the business office to display customer billing information on Customer Service Representative screens for use in discussing bills or making sales to customers. IBOSS provided customer record information, such as the customer name, address, telephone number, equipment billing, and credit class.

In 1991 Southern Bell replaced the IBOSS system with the Business Office Customer Record Information System (BOCRIS). IBOSS and BOCRIS were both points of control for the Sales Referral Process. These systems provided a check point to compare the services requested by non-contact sales referrals against current customer billing, and to determine whether related or pending orders were issued by other departments for the same services. These systems also allowed the business office to determine whether sales referrals included services for which the customer was already being billed.

From IBOSS/BOCRIS, orders were forwarded into the Direct Order Entry System (DOE), where the services, cable assignment, telephone number assignment, completion date, and employee sales code were issued in the form of a service order. DOE was used to track the progress of orders currently being worked and was the source of sales code and order information extracted to report sales revenues and issue customer bills for services sold to the customer.

From DOE, the order was forwarded through the Installation and Maintenance Center and dispatched to an installer in the field. Once the order was received from the field as completed, the information required to bill the customer was forwarded to the Customer Records Information System (CRIS). CRIS is the billing system that used the order information extracted from DOE to prepare the detailed billing explanation of services and charges applicable to the customer. CRIS then sent the customer an itemized bill showing the services added, and the monthly billing for all equipment and services, as

well as other installation and service order charges.

3.2.4 Sales Credit Tracking Controls

Sales credit information, including the code for the product or service sold, the revenue increase or decrease, and the employee sales code for awarding sales credit was extracted from DOE. This information was then compiled and output in the form of the 2011A report, which shows monthly sales revenue for individual employees, groups, and management employees. From the 2011A report the district sales coordinator issued a sales point credit check to employees. The sales point credit checkbooks were maintained and manually administered by each district sales coordinator, rather than being centrally administered by a single source.

The 2011A report acted as the primary control to determine whether sales credits were correctly issued. The appropriate sales credits for the period could be determined by multiplying the total sales revenues reported on the 2011A by the number of points per dollar assigned by the sales program guidelines. However, the 2011A did not include a record of each NSR-86 submitted and its outcome. Some Network employees accused Customer Service employees of "stealing" sales and claiming credit by entering their own sales codes. No audit trail of the handling of a repeat sale was provided under the 2011A system.

Under Goldline, the means of tracking sales credit became the individual monthly

statement that was produced by the system developed specifically for Goldline in 1990. This statement did provide the seller with a list of all referrals he or she submitted, and indicated for each one whether a sale was made. If a referral was disputed, it could be traced from its receipt to its assignment to a contact sales employee. The Goldline system also had the advantage of being administered through a single point of control, the Goldline Center in Miami, as was the sales credit redemption process.

3.2.5 Employee Time Reporting Controls

The Mechanized Time Reporting (MTR) system, implemented on August 1, 1989, categorized the time spent by employees in the course of their work. The MTR system information provided management with a measurement of time individual employees and employee groups spent in sales activities.

The MTR system is dependent upon the accurate recording of Job Function Codes (JFCs) to detail employee time spent in these different activities.

On August 1, 1988, employees were instructed to designate JFC 2230 for time

spent selling Network services, but no provision was made for separately designating time spent selling regulated versus nonregulated services. Due to the understandable emphasis placed by Network sales technicians and maintenance administrators on selling inside wire maintenance plans, much of the sales time can be concluded to have been focused on nonregulated services.

Finally, in April 1989, employees were instructed to specify JFC 2230.49 on their time sheets for nonregulated sales activity,

3.3 Review and Audit Controls

Within the area of audit and review controls, the IMC/I&M support staff organization was available to assist the Network managers in examining sales practices, results, or other aspects of the programs. In other areas of Network operations, the Network Staff performs periodic reviews testing adherence to procedures, accuracy of reported results, and other information supporting management of the Network Department's daily operations. However, the support staff's role regarding the sales

programs was not defined. Therefore this group did not provide such reviews or examinations regarding the non-contact sales incentive programs.

As with any function within the Company, formal internal audits represent a significant control, enabling management to detect and prevent fraud.

It was not until 1990 that the Company conducted an audit specifically dedicated to the non-contact sales programs. At the request of Southern Bell's Legal Department,

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4.0 CONTROL PROBLEMS

Over the period 1985 to 1990, instances of sales falsification marred the Company's non-contact sales incentive programs. Viewed separately, these unauthorized additions to customer bills may appear to be isolated instances over a period of time. However, when viewed chronologically together, the incidents described in this section of the report show patterns of recurring problems, and failure by management to detect and prevent continuing unauthorized customer billings. Exhibit 7 presents a timeline of selected events that illustrate these patterns. These incidents are described in detail in this section.

Because management did not vigorously pursue each situation identified, the amount of surviving information varies. In some instances, allegations and evidence of potential fraud were triggered requests by the managers involved for an investigation by the Security Department, while other similar situations were merely handled internally by the managers involved. In cases where no Security Department investigation was requested, potentially valuable documents disappeared and employees had the opportunity to change their tactics. Therefore allegations which may have been true were never proven. Eventually, well-documented cases gave detailed evidence of the problems, causes, and effects. However, complete investigation of the earliest instances and appropriate follow-up by management could have brought the problems into the open years sooner.

SOUTHERN BELL NON-CONTACT SALES CONTROL PROBLEM TIMELINE

DATE	EVENTS
1985	SOUTH FLORIDA • Large number of suspect sales forms provided to Customer Service Department Staff General Manager who contacted Network Department Staff General Manager. No action or investigation resulted.
1986 DECEMBER	NORTH MIAMI • Service Technician is terminated for falsifying sales of Trouble Isolation Plan
1987 MAY	ORLANDO • Customer Services Assistant Manager reports Maintenance Administrator in Orlando to Network Sales Coordinator in Jacksonville for adding unauthorized services to customer bills; no action or investigation resulted.
1987 DECEMBER	MIAMI METRO • Two Service Technicians are terminated for falsifying sales of Call Waiting services, with one ST blaming management pressure to sell as the reason for falsifying sales.
1988 MARCH	WEST PALM BEACH • Manager, Customer Services questions a large volume of NSR sales forms submitted for processing by a single employee; contacts employee's Network Assistant Manager to report suspicions of unauthorized sales.
1988 JUNE	WEST PALM BEACH • Manager-Customer Services sends memo to inform Network Assistant Manager that suspected fraudulent non-contact sales will no longer be processed by her workgroup.
1988 JUNE	MIAMI • General Manager-Network contacts Operations Manager-IMC/I&M Support regarding revamping entire state sales program, methods of improving verification of referrals, and insuring boiler room operations are not rewarded. Recommended changes provided in response were not implemented.
1988 DECEMBER	ORLANDO • Administrative Support Manager-Network is informed by Business Office of 20 complaints concerning unauthorized service additions. Network employees assure manager sales are ok, Network and manager dismisses questionable sales as insignificant versus high volume of sales made by the employees. No other action taken.
1989 MARCH	WEST PALM BEACH • West Palm Beach Network Assistant Manager agrees to share sales credit with Customer Services workgroup to input suspect sales orders.
1989 APRIL to 1990 JUNE	ORLANDO • Two employees make 44,516 unauthorized sales, allegedly at the direction of their supervisor; one employee admits 75% of her sales during the period were unauthorized and the other admits that all of his sales were unauthorized.
1990 JUNE	ORLANDO • Network Operations Manager-Orlando requests SBF Security Department to investigate possible fraud by the two Orlando Network employees. Security investigation begins September 1990.
1990 OCTOBER	ORLANDO • Orlando investigation completed resulting in the termination of two employees.
1990 OCTOBER	WEST PALM BEACH • Investigation of West Palm Beach uncovers unauthorized customer billings for the Inside Wiring Maintenance Plan, results in termination of a Manager-Network and Service Technician, suspected of making unauthorized sales referrals since 1988. Operations Manager was also retired at the Company's direction.
1990 OCTOBER	STATEWIDE • BellSouth General Attorney requests investigation into Inside Wire Maintenance/Tip Plan.
1990 OCTOBER	STATEWIDE • Southern Bell General Attorney requests Southern Bell General Internal Auditor to conduct an audit of Non-contact Sales (Number F00-19-67).

EXHIBIT 7

SOURCE: STAFF ANALYSIS

4.1 Sales Falsification: 1985-1986

4.1.1 South Florida 1985

In 1985, a number of South Florida Customer Service Representatives received customer complaints of improper billing for services they claimed not to have ordered. Service Representatives, following up on their own sales orders, reported finding their sales codes removed and replaced by those of Network employees. At the same time, business offices were receiving complaints from subscribers being billed for services they had not ordered, primarily Custom Calling services, and that orders for these services had Network sales codes assigned to them.

These problems, and a large quantity of sales forms, were referred to Network and Customer Services Support Staff. A Customer Services Support staff member in turn notified her General Manager of this problem. The General Manager - Customer Services Support indicated the problem had been referred to the Network General Manager - IMC/I&M Support. Any action taken as a result is unclear. However, the Security Department was never requested to investigate the situation, nor was the Internal Auditing Department requested to perform an audit to identify control weaknesses or recommend improvements to non-contact sales programs.

Although the actual number of suspect sales is unknown, the forms in question appear to have numbered in the hundreds. These forms were apparently later destroyed by

the Customer Services Staff.

4.1.2 North Miami 1986

As early as 1986, a Service Tech[illegible] North Miami was terminated for falsifying sales in a non-contact sales incentive [illegible]. According to personnel file records, the Commercial Department discovered in 1986 that the employee was reporting sales to disconnected telephone numbers. D[illegible]ng warned and reminded of proper methods for making sales, customer complain[illegible]ued to be received regarding additions of services resulting from this employe[illegible] In November 1986, the ST's supervisor checked 17 suspect sales, finding that[illegible]es were either disconnected or assigned to another customer. These incidents[illegible] falsification, along with other procedure violations were cited as the reasons f[illegible]sal of this employee in December 1986.

4.2 Sales Falsification: 1987

4.2.1 Orlando 1987

In May 1987, an Assistant M[illegible]Customer Services reported a problem to the Network Sales Coordinator regardi[illegible]ade by a top seller in Orlando. The Network Sales Coordinator arranged for the [illegible]Manager Customer Services to meet with the selling employee's supervisor, also [illegible]nt Manager, and left the problem with them to be resolved. No follow-up was [illegible]e Network Sales Coordinator.

The same top seller was later accused of adding unauthorized services to customer bills in 1989, and again in 1990. Finally in 1990, when Company Security was requested to investigate suspected fraud by employees in the Orlando non-contact sales program, this employee admitted to adding unauthorized services to customer bills and was terminated, along with two others, as discussed in Section 4.4.1 below.

4.2.2 Miami Metro 1987

In 1987, two Miami Metro district Service Technicians, who were assigned full-time to sales activities, were terminated for intentional falsification of sales. One of these employees confessed to adopting the fraudulent techniques of her co-worker as a result of perceived pressure from a first-line manager to equal the co-worker's higher sales results.

The improper sales were discovered as a result of complaints from customers who discovered services added to their bills without their consent. These customers included Southern Bell employees and their relatives. Services were reported on the NSR-86 form, and since there was no verification control, these false sales were input to the billing records by the Customer Services Department.

The Company's security investigation included detailed examination of evidence of nearly 200 disputed or suspicious sales by these employees, indicating the incident did not result from honest errors or misunderstandings with customers. The total number of sales reported by these two individuals totalled in the thousands. The employee who confessed

stated that the majority of her sales were false. These two employees focused almost exclusively upon the sale of the Company's Call Waiting service.

4.3 Sales Falsification: 1988-1989

4.3.1 West Palm Beach 1988-1989

In early 1988, one of the largest instances of sales falsification was identified by business office employees in West Palm Beach, requiring a year for investigation and resolution. Discovery of this fraud began when a Customer Services Manager in West Palm Beach questioned the large volume of Network Sales Referral Forms (NSR-86) submitted for processing, most generated by a single employee. From her own familiarity with sales, she suspected these results were not humanly possible and later noticed the forms submitted were in street address sequence. Her analysis of a sample of 50 reported sales indicated that none of these customers had been actually contacted about subscribing to the Wiring Maintenance Plan.

After contacting the Network Assistant Manager above the employee suspected of generating the false sales, and issuing a follow-up warning memo without results, the Customer Services Manager refused to process these suspicious referrals in June 1988. However, the Network Assistant Manager in West Palm Beach merely bypassed the original Customer Services work group through the use of another Customer Services Manager's

service representatives to input orders. In exchange for processing these sales referrals, the Network Assistant Manager agreed to share sales credits with the Customer Services work group. The second Customer Services Manager agreed to this credit sharing arrangement despite previously having been made aware of the suspicions that the sales referrals involved were fraudulent.

The Customer Services Manager referred the problem to the Assistant Staff Manager for Customer Services, and provided the falsified referral forms in question. Rather than reporting the problem to appropriate upper management within the Network Department, an agreement was reached in late 1989 among the DialAmerica representative, the North Florida Customer Services Sales Coordinator, the Area Sales Coordinator, and the Assistant Staff Manager-Customer Services to have Network Sales Referrals sent directly to DialAmerica, except for MATCH Program Referrals, because the business office received half of the credit for referrals under this program.

This indirect solution was intended to relieve Customer Services of responsibility for processing the questionable sales and to deter the efforts of the Network Manager and his employees. DialAmerica was to handle the referrals and forward questionable ones to the Area Sales Coordinator for resolution. However, this problem was not resolved by the action taken and the questionable sales continued. Finally, the situation was investigated and resolved in 1990, as discussed in Section 4.4.2 below.

4.3.2 Orlando 1988

In late 1988 the Administrative Support Manager-Network Orlando, was informed of a list from the Business Office reflecting the names of about 20 customers complaining that services had been added to their telephone without authorization. The list reflected that two Maintenance Administrators (MAs) and one Service Technician (ST) had issued the orders in question.

The Administrative Support Manager questioned the Service Technician about the suspect sales referrals. The Service Technician assured the Administrative Support Manager that they were valid. The Assistant Support Manager dismissed the questionable sales as being a few complaints out of the hundreds of orders issued by the Service Technician, and failed to examine whether a larger pattern of problems might have existed. No sampling of orders submitted by the Service Technician was conducted to determine whether other sales might have had similar problems.

4.4 Sales Falsification: 1990

4.4.1 Orlando 1990

In June of 1990, a series of customer complaints in the Orlando area initiated events that resulted in recognition by top Company management that serious problems existed regarding the legitimacy of sales made through the non-contact sales programs. According

to Southern Bell's Florida Vice President-Network, "Our first knowledge that something was awry came about in the Orlando area, and it came to us by customer complaints". Despite this statement, the 1990 Orlando events were not new developments--they were merely the continuation of the 1988 problems discussed in section 4.2.1 above.

On June 26, 1990, the Network Operations Manager-Orlando Division requested the Security Department to begin an investigation into possible sales fraud. Security was delayed in beginning the investigation in Orlando until September of 1990, due to investigations being conducted into allegations of falsified repair reporting by Company employees.

The initial Orlando investigation was completed by the end of October, 1990, and revealed that certain employees had added services to customer bills without authorization. Investigation records showed the unauthorized billings affected over 40,000 customers within the Orlando service area.

The two employees involved had made 44,516 sales over a period extending from March 1989 through mid-June 1990. One employee admitted that all 25,292 of the Inside Wiring Maintenance upgrades submitted during the period were unauthorized, while the other employee estimated that at least 75% of the 19,224 sales she made were false.

Both employees stated that they falsified the sales at the direction of their immediate

supervisor, an Assistant Manager, and that other managers were aware of improper sales. The Assistant Manager denied the accusations of the two employees, but all three were later terminated by Southern Bell, as a result of further investigation. A total of twelve employees in the Orlando operations were either counseled, suspended, or terminated.

Other activities signalling weakened controls were uncovered by the Orlando investigation, provided the opportunity for abuses. These included Network repair employees assigned exclusively to sales activity, including some taken "off load" to improve sales results, ... employees sharing sales credits to support the boiler-room operations, and employees adding Wiring Maintenance Plan upgrades to telephone service that was restored for non-payment without authorization.

Statements provided by employees questioned in the Security investigation support the weak nature of the controls. A Customer Services Manager stated, "I never really looked through the forms, so I did not become aware of any problems unless they were reported by my subordinates". A Network Assistant Manager noted there were "no procedures in place that called for calling customers to verify orders", and that there was, "no possible way they could do that while supervising, on the average, twenty employees".

4.4.2 West Palm Beach 1990

On October 18, 1990, the BellSouth General Attorney requested an investigation into the Inside Wire Maintenance Plan/Tip Service in Southern Bell of Florida. This

investigation coincided with the conducting of Internal Audit FOO-19-67. The investigation of non-contact sales operations in West Palm Beach began in November of 1990.

The West Palm Beach investigation finally brought to resolution the incidents previously mentioned in Section 4.3.1. Several improper sales methods were reported in the West Palm Beach investigation. These included Network employees assigned exclusively for sales, boiler-room operations conducted at several different locations, employees selling from their home, employees canvassing entire areas by telephone and in person, the sharing of sales credits among the work group, and the use of calling cards and fliers intended to cause new tenants to initiate their new services through the non-contact employee, rather than the business office.

As a result of the West Palm investigation, a top-selling Service Technician and his manager were terminated, and an Operations Manager was retired at the Company's option. The terminated employees were those originally suspected in 1988 who produced high volumes of suspect referrals that were refused processing by one Customer Services Manager. Since inadequate handling of a clearly improper situation allowed this top-selling employee to continue to operate for two additional years, thousands of additional customers may have been wrongfully charged for services not requested.

4.4.3 Miami 1990

After the investigation of the West Palm Beach non-contact sales operations, the

Security investigation moved to the South Florida area. Interviews were conducted during November 1990. While the investigation did not result in dismissal and identification of specific falsified sales, it did note practices identical or similar to those used to generate improper sales in the West Palm Beach and Orlando areas. Many of these control weaknesses and improper methods were reported to have occurred during 1988 and 1989 in South Florida.

Among the control problems and questionable methods noted were: sales to customers already subscribing to a particular service, sales on lines with disconnected service, sales referrals for telephone numbers in numerical sequence and address sequence, referral forms not reviewed by managers and suspicious referrals not investigated, employees designated for full-time sales selling from their homes and working overtime on sales, brochures or fliers provided to cause customers to request new service through non-contact employees, boiler-room operations, sale of Custom Calling features to pay phones, and sales that resulted in reduced Company revenue but producing individual sales credit.

5.0 MANAGEMENT'S RESPONSE

5.1 Lack of Corrective Action, 1985-1989

As revealed in the various incidents described throughout Section 4.0, the eventual resolution of evidence of improper activity all too frequently did not include corrective action by all levels of Company management. A common thread running through many of these incidents was that such evidence was either passed on to others for review, or merely explained away and ignored. For most of the period 1985 through 1989, Company management missed opportunities to pursue and detect sales fraud, and then to discover and correct the control weaknesses that allowed the fraud to occur.

For example, as early as 1987 in Orlando, an employee was suspected of improper sales, but was not fired until 1990, after a security investigation was finally requested and conducted. Due to inadequate follow-up by the Network Sales Coordinator, the selling employee's manager, and managers to whom each of these reported, the resolution of this problem and proper corrective action was delayed for years.

Similarly, suspicions about the top seller in West Palm Beach which began in 1988 were not adequately pursued to resolution until his termination in 1990. This lost opportunity to expose the improper activity resulted from simple failure by the Customer

Service Department managers to contact Company Security or the Network managers involved.

Direct involvement or tacit cooperation on the part of other Network and Customer Services managers involved also presented a roadblock to investigating and correcting the underlying problems. As noted, one of the terminations resulting from 1990 West Palm security investigation was a manager who defied warnings that his employee was generating false sales. He was also assisted by the cooperation of a Customer Service Department manager who agreed to process these sales. Despite these difficulties, lower level managers were the first line of defense for preventing and detecting abuses. In many cases, disciplinary action later taken by the Company against managers bears out the conclusion that managers frequently "dropped the ball" in discovering, investigating or correcting abuses within their organization.

A series of 1988 memoranda indicate that upper management also failed to correct problems that led to abuses. In May 1988, the South Florida Network Operations General Manager directed a Network IMC/I&M Support Operations Manager to develop suggestions for standardizing the sales programs, and to discourage the use of "boiler rooms" and canvassing sales techniques. In this request, the South Florida General Manager alludes to a recent meeting with the Network Vice-President and the other two Network Operations General Managers, where the use of boiler rooms was discussed.

In response, a June 1988 memorandum was produced by the Network IMC/I&M Support Operations Manager, transmitting the requested suggestions to all three Network Operations General Managers. One improvement suggested was enforcing proper use of the NSR-86 form, requiring that the customer's signed authorization be verified by Customer Services before processing the sale. Another suggestion was for Network Staff to conduct periodic spot reviews and direct telephone call verification with customers of reported sales. According to the South Florida General Manager's deposition, however, these suggestions were apparently not implemented. This incident reveals that Company upper management was aware as early as mid-1988 of potential problems with current sales practices and the need for improved controls, but that incomplete action was taken to follow through on this need.

The failure of management to adequately pursue potential evidence of wrongdoing is surprizing in light of the clear early warnings provided by the 1986 North Miami and 1987 Miami Metro incidents that resulted in termination of 3 employees for fraudulent sales. Since a security investigation was conducted in the Miami Metro case, the resulting report informed managers such as the South Florida Network Operations General Manager, Personnel General Manager and corporate Assistant Vice President of Security of the incident. The occurence of these two separate incidents close together should have caused concern among all levels of management, and increased attention to preventing and investigating any additional cases. Instead, the subsequent occurences received less than adequate attention from management.

5.2 Investigations And Audits, 1990

During 1990, two Security Department investigations finally triggered a chain of events that led to widespread activity to investigate and curb abuses related to non-contact sales incentive programs. As discussed in section 4.4.1, in June 1990, the Operations Manager-Network in Orlando requested a Security Department investigation into possible fraud. After the completion of the investigation in October 1990, the Company's General Attorney for Florida requested additional interviews be conducted to determine whether there might be possible involvement by other employees.

On October 16, 1990 the Company's General Attorney requested the Internal Audit Department to complete an audit of non-contact sales. On October 18, the BellSouth Corporation General Attorney requested the Security Department to conduct an internal investigation of Inside Wire Maintenance/TIP (Trouble Isolation Plan) service within Florida. The Company notified the U.S. Attorney, the Florida Attorney General, and members of the Public Service Commission later in October 1990.

As part of the identification process, and in conjunction with the investigations, the company extracted employee sales data for the highest sales producers, and those employees found to have submitted unauthorized order referrals. This information was used to scrutinize high sales producers for possible fraudulent actions.

Upon completing the identification of the problems associated with the non-contact sales program, Southern Bell began a series of disciplinary actions against employees, identifying and notifying customers potentially affected by improper sales practices, and issuing refunds to customers.

5.3 Employee Disciplinary Actions

Exhibit 8 shows the number of disciplinary actions taken against employees involved in non-contact sales related incidents during the years 1986-1991. All twenty-seven employees disciplined during 1990 and 1991 received the disciplinary action because they either engaged in improper sales practices, because they knew or should have known of such practices, or because they failed to take appropriate management action. Of the 21 employees disciplined in 1990, 13 or 62% were management employees, and 8 or 38% were craft employees.

Although thousands of non-contact employees may have participated in the sales programs, the number of disciplinary actions taken represent enough abuses to question the adequacy of controls involved. It would also be unrealistic to believe that all of the employees involved were caught and disciplined. In addition, the geographical distribution of these employees contradicts a claim that abuses were limited to a few pockets of improper activity.

Three of the terminated employees admitted to adding unauthorized services to customer bills. Every other employee who was disciplined as a result of the investigations denied any improper conduct, or in the case of management employees, denied knowing of, or authorizing, improper employee conduct. All disciplined employees were required to return prizes earned through sales programs to the Company.

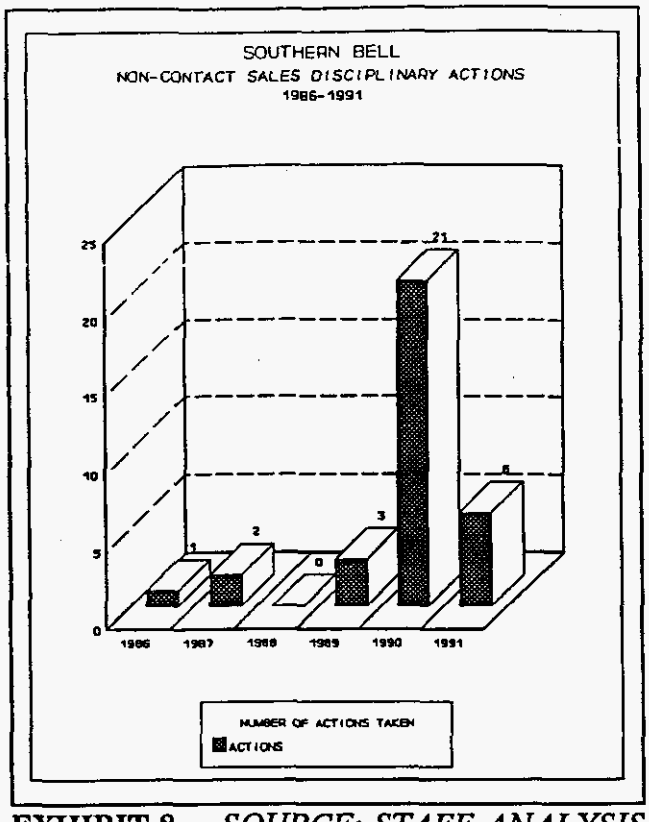

EXHIBIT 8 *SOURCE: STAFF ANALYSIS*

5.3.1 North Florida

A total of eleven disciplinary actions were taken against employees in the Orlando area, which is included in the Company's North Florida region. As a result of the September 1990 Orlando internal investigation described in Section 4.4.1, the Company terminated three employees directly involved in adding unauthorized services to subscriber's billing. In addition to the terminations, the disciplinary actions taken included the two-week suspension without pay of two Managers and one Assistant Manager, and the counselling of one Manager, one Support Manager, and three Assistant Managers.

An investigation of other divisions within the North Florida area resulted in disciplinary action against a Jacksonville Service Representative who received counseling as a disciplinary action. All disciplinary actions taken in the North Florida serving area were conducted in 1990.

However, according to the deposition of an Orlando Operations Manager, an additional employee had been terminated in 1988 ostensibly for performance and attendance problems, when she was known to be generating false sales. During the last eighteen months of her employment, she was credited with nearly 15,000 sales of wire maintenance plans.

5.3.2 Southeast Florida

In 1990, a total of nine employees in three locations within the Southeast Florida region received disciplinary actions. An Assistant Manager in Riviera Beach received two weeks suspension without pay. In Fort Lauderdale, one Service Representative was terminated and another was warned. In the West Palm Beach investigation, a total of six employees received disciplinary actions by the Company. One Manager and one Service Technician were terminated, one Operations Manager was retired at the Company's option, one Service Representative was suspended, one Administrative Support Manager was counseled, and one Service Representative was warned.

In 1991, six additional employee disciplinary actions, relating to non-contact sales,

were taken by Southern Bell. The Southeast Florida region accounted for three employee disciplinary actions, each involving Service Representatives, reported in separate locations. One Service Representative in Fort Lauderdale was terminated, while a second in Fort Pierce was suspended for four days, and a third in West Palm Beach was warned.

5.3.3 South Florida

The earliest terminations resulting from improper sales occurred in the South Florida Region's North Miami and Miami Metro districts. There, one employee was discharged in 1986, and two were discharged in 1987. However, the warning signs that these events could have provided were apparently missed in subsequent years as other incidents surfaced that were not adequately investigated or resolved.

The South Florida area saw three employee disciplinary cases relating to non-contact sales during 1991. One Miami area Service Representative was terminated and two were warned.

5.4 Refunds To Customers Affected

Beginning in 1990, the Company implemented efforts to identify the scope of misbilling associated with the non-contact sales program revealed by the Orlando investigation. These efforts centered around identifying and notifying customers thought to

be affected. Since the Orlando investigation focussed on two employees who had produced unusually high sales of the Inside Wiring Maintenance Plan, an effort was made to identify other possible fraud by employees with the highest levels of sales. However, these analyses produced no other suspects. According to the Company, the customers identified as having services added by these employees were notified by letter and provided with refunds.

In July, 1991, the Southern Bell of Florida President ordered over 100,000 letters sent to selected customers, in an effort to notify customers that had potentially been affected by unauthorized employee upgrades of customer services in the West Palm area. According to the Company's response to Staff's 3rd Set of Interrogatories, Item 32, all Florida customers who were sold services through non-contact sales programs were later contacted by mail and asked to review the accuracy of the services for which they are being billed.

By order of the Commission, weekly refund status reports have been submitted since January 1991. As of September 30, 1991, Southern Bell had refunded a total of $804,515 to 33,830 customers who had services added to their bills improperly through the non-contact sales incentive programs. According to the Company's response to Item 28 of Staff's 3rd Set of Interrogatories, as of October 1992, final totals of refunds were not yet available.

Under the terms of the October 1992 settlement with the Office of Statewide Prosecution, the Company has also agreed to refund $10,500,000 to customers who were sold services through non-contact sales programs. In addition, the Company agreed to an

extended controls and procedural review process to be conducted by an outside consultant.

6.0 FINDINGS

6.1 Adequacy of Controls - 1990 and Prior

Finding 1: Controls Over Sales Referral Processing And Verification Were Inadequate.

During the period 1985-1991, controls over sales referrals failed to prevent Southern Bell employees from generating unauthorized customer orders for services. In each of the incidents, controls were circumvented simply by submitting unauthorized order forms for adding services to customer bills.

Several weaknesses in sales referral processing controls allowed these unauthorized customer billings to occur, including: the processing of sales referrals without completed customer contact and signature information, the failure of managers and supervisors to periodically verify sales referrals with customers to check the validity of sales referrals, the failure of Customer Service Representatives and Service Order Typists to verify orders against current customer billing uniformly, and with customers when discrepancies arose, the simultaneous use of different methods and locations for processing of referrals, allowing employees to circumvent controls by finding the processing method that offered the least control checks.

These control weaknesses in processing sales referrals allowed unauthorized orders to be issued without being detected unless customers monitored their bills and reported the problem. Ultimately customer complaints about unauthorized billings, and not internal controls, led Southern Bell to recognize these problems existed.

Additionally, the lack of uniform Network procedures assigning specific responsibilities for verifying non-contact sales referrals to managers, supervisors and business office representatives served to weaken controls over the process. District sales coordinators, supervisors and managers also admitted that they did not verify orders, and there were no procedures requiring such actions.

The only verification routinely performed was by the Customer Service employees who typed orders into the Direct Order Entry system. They compared the referral order with the customer billing record to assess whether the service requested was currently being billed. However, this did not guarantee that the sale was legitimate, only that the service had not already been sold to that customer.

Finding 2: Non-Contact Employees Received Little Training And Guidance In Proper *Sales Methods.*

Employee interviews and Company Security investigations indicate that little attention was given to training non-contact sales employees in proper sales methods and techniques.

Usually sales duties were relegated to a few employees interested in working full-time in sales, or to light duty personnel used for telephone solicitation because they could not perform their normal duties due to injury or illness.

Sales training generally consisted of employees observing other employees successful in making sales. While this informal method was better than no training, it did not necessarily insure the use of professional and ethical methods. Security investigations revealed that methods of circumventing controls were passed on through this type of informal training, sometimes with the consent of managers.

The absence of formal sales training in accepted methods and sales techniques left managers and non-contact sales employees to determine their own methods and techniques for reaching sales goals. The lack of formal sales training placed managers unfamiliar with sales methods in the position of providing whatever training they could, contributing to inconsistency among methods used in different areas of the Company. Indirectly, the message was that "anything goes" and improper practices such as the use of unauthorized secret boiler-room operations became an accepted method in some quarters.

Finding 3: Lack of Non-Contact Sales Audits and Network Staff Reviews Hindered Detection Of Control Failures.

Although the IMC/I&M Support Staff organization performed operational and

compliance reviews in other areas of Network Operations, no such reviews were performed for the Network Department's sales programs. The only evidence of Network IMC/I&M Support Staff reviews of non-contact sales programs was an assessment conducted in 1988 at the request of the South Florida Network Operations General Manager, as described in section 5.1. This assessment offered recommendations for improvement that were never implemented by the Florida Network Operations General Managers and Vice-President.

Regular Network Staff reviews should have been performed to evaluate whether programs were being conducted according to standards, and whether improvements to the programs were necessary. Similarly, periodic internal audits of the sales incentive programs would have helped identify weaknesses in controls and assess the need for control improvements. The absence of regular Network Staff reviews and internal audits of the non-contact sales programs contributed to the control failures by allowing improper activities and practices to continue undetected throughout the period evaluated in this audit.

One advantage of a review or audit function performed by a separate group is the company-wide or macro perspective of such a group. This often allows quicker identification of trends throughout the Company. For example, individual Network Department managers may not have been aware of incidents in other districts, whereas auditors may have been able to recognize patterns and similar recurrent problems observed in audits of other districts.

Finding 4: Procedures For Tracking Employee Time Spent In Non-Contact Sales Were Inadequate.

The proper reporting of employee time spent in sales activities was important to maintaining the separation of regulated and nonregulated expenses and in tracking and reporting program expenses accurately. Until August 1988 there were no Southern Bell procedures for tracking non-contact sales activities separate from regular duties. In addition, there were no procedures to capture separate non-contact sales time spent in regulated and non-regulated services.

Employee interviews, Security investigations and the Internal Audit of non-contact

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6.2 Adequacy of Present Controls

Since the cancellation of Goldline in 1991, the Company has not employed non-contact sales programs, making the question of the adequacy of present controls moot. However, if the Company chose to revive non-contact sales programs, for the purposes of this audit, it is

assumed such a program would be similar to Goldline. Therefore, Goldline's controls have been assumed to represent "current" controls.

Finding 5: Goldline Controls For Verification Of Sales Need Improvement.

The Goldline program, instituted in April 1990, provided greater separation of duties between those employees referring sales, those making sales, and those reporting the sales. A customer contact was made by the employee making the sale, but there was no verification after the sale to be sure that the customer got what was ordered, or was satisfied with the benefits of the service.

Under Goldline procedures, the contact sales employee completing the sale reported the services sold. Although the separation of duties represented by the provision of the referral by another employee may insure the existence of a legitimate potential customer, the selling employee could still report a sale where none was made.

The control provided by periodic monitoring of sales employees may not be sufficient protection, especially if the monitoring is predictable, detectable, or too infrequent. In addition, complete protection against false sales would require detailed follow-up by the supervisor comparing sales results versus the conversation monitored. A more positive direct follow-up verifying the sale with the customer would provide more dependable verification of the legitimacy of the sale.

6.3 Adequacy of Management's Response to Problems

Finding 6: Management Did Not Investigate Evidence Of Improper Sales And Misbilling In A Timely Manner.

As discussed earlier, all levels of Company management missed opportunities to identify improper sales activity by failing to adequately investigate customer complaints or reasonable evidence of improper activity by Company employees. These complaints were not disjointed, isolated incidents. Instead, their frequency and similarities should have provided a warning that action was required.

Since sales falsification was not limited to one location, one employee, or one time frame, the widespread nature of this failure represented a systemic problem. Security investigations repeatedly revealed that managers of employees generating questionable referrals considered the number of customer complaints very small, compared to the large number of orders being processed, and did not feel there was a problem. Managers did not look beyond the immediate problem to determine what other problems may have existed with employee sales referrals.

No incentives existed to prompt managers to aggressively pursue non-contact sales problems. Obstacles to uncovering and resolving these problems included: a lack of written

procedures requiring managers to verify the integrity of orders, upper management emphasis on enhancing non-contact sales revenues, reluctance to discourage honest sales by appearing suspicious, competition among managers to increase revenues, direct personal benefit for improper sales through sales incentive awards, and the impact of sales on other management compensation, such as MTIA and IIA awards.

These factors may have deterred some managers from aggressively pursuing the symptoms of the deeper problems with the sales incentive programs. Whatever the cause, management appears to have been unaware or unconcerned about the possibility of sales fraud and did not create an atmosphere of dealing aggressively with improper activity.

Because management failed to provide proper controls, employees easily circumvented the ones that were in place, while simultaneously reaping personal financial gains, winning recognition from their supervisors, and enhancing the Company's bottom line. Since they did not create an atmosphere which inhibited the acceptance of fraudulent activity, top managers appear to have either placed an inordinate degree of trust in human nature, or were not serious about controlling possible abuses. Because managers frequently did not aggressively pursue the evidence of wrongdoing, the problems of sales fraud through unauthorized billings continued to grow until 1990, when the problem could no longer be ignored.

Finding 7: Management Did Not Improve Non-Contact Sales Controls In A Timely Manner.

Although numerous incidents of unauthorized billings and improper practices continued to take place during the period 1985-1990, Southern Bell did not take adequate and timely actions to effectively improve the non-contact sales controls. Well before 1990, the use of boiler-rooms was known to Network General Managers as were the improper acts of terminated employees. Patterns of customer complaints, and allegations between the Network and Customer Services Departments were numerous and could not have escaped the attention of upper management.

The result of this delay was that customers continued to be improperly billed for services not requested, while the Company profited. At worst, the Company's actions imply it felt there was no incentive to give up this additional source of revenue. At best, this failure implies a degree of carelessness, naivety, or incompetence.

Still, until 1990 and the development of Goldline, no substantive response to these obvious problems was made by Company management. Although Goldline included some improved controls over sales referrals, it also contained control weaknesses. Finally, in 1991 the Company's President discontinued Goldline, ironically bringing non-contact sales programs to an end without ever correcting the underlying problems.

6.4 Conclusions

Conclusion 1: **The Company did not provide adequate internal controls in its non-contact sales incentive programs to prevent the improper billing of customers.**

Southern Bell did not have adequate controls in place to prevent non-contact sales employees from improperly billing customers prior to 1990. Although controls were improved during 1990, sufficient internal controls were still not in place to prevent possible improper billing of customers as of 1991, when non-contact sales incentive programs were eliminated. The lack of sales order verification with customers was the most important control weakness allowing employees to continue to add unauthorized services.

Conclusion 2: **Company management has not taken adequate steps to prevent the recurrence of improper billing of customers.**

As of July 31, 1991 the Company discontinued non-contact sales incentive programs, preventing the recurrence of misbilling due to improper sales practices. However, at the time these sales programs were discontinued, Southern Bell had not implemented adequate controls to prevent the recurrence of improper billings. If in the future, the Company resurrects its most recent sales incentive program, or introduces a new program with similar controls, an examination of the adequacy of these controls may be warranted.

Conclusion 3: **The actions and omissions of Company management led to the improper billing of customers.**

Sufficient evidence exists to conclude that Company management did not fulfill its obligation to properly manage the non-contact sales function. Some managers appear to have encouraged improper billing of customers. Other managers failed to adequately investigate evidence of improper activity, thereby extending the duration of intentional misbilling of customers. In general, management created an atmosphere stressing the desired end (i.e., sales and revenue generation) without appropriate attention to the means used.

7.0 APPENDICES

7.1 Glossary of Terms and Acronyms

BOCRIS (BUSINESS OFFICE CUSTOMER RECORD INFORMATION SYSTEM) - A business office record information system, replacing IBOSS, providing customer billing and order information.

BOILER ROOMS - Unofficial sales centers where Network employees were assigned to solicit sales of optional services to customers via telephone.

CAPRI (COMPUTER ASSISTED PURCHASING, RECEIVING AND INVOICING SYSTEM) - The BellSouth purchasing system used for ordering and tracking employee award choices from the awards vendor catalog.

CPE (CUSTOMER PREMISES EQUIPMENT) - Telephone sets, jacks and other customer-owned equipment located on the customer's premises beyond the network protector, or point of demarcation.

CRIS (CUSTOMER RECORD AND INFORMATION SYSTEM) - Billing and customer

information operating system.

CRSAB (CENTRALIZED REPAIR SERVICE ATTENDANT BUREAU) - One of two trouble report receiving facilities, located in Jacksonville and Miami, which generate and route trouble reports to the nearest IMC.

CSR (CUSTOMER SERVICE REPRESENTATIVE) - Customer Service Department employees responsible for negotiating and inputting customer orders for new service, ... changing existing service, relocating service, removing service and answering billing inquiries.

DC (DISPATCH CLERK) - Network Department clerical support employees who assign installation and repair orders to service technicians and process the completed orders for billing.

DIALAMERICA - Atlanta-base telemarketing contractor used by Southern Bell to perform special promotions and assist with the processing of non-contact sales orders.

DOE (DIRECT ORDER ENTRY) - A system used to enter and track information for customer service orders.

GOLDLINE - Company-wide sales incentive program employed during 1991 to process sales referrals for all Southern Bell services through a centralized referral point.

I&M (INSTALLATION & MAINTENANCE) - Area of Network operations involving repair and installation of service.

IBOSS (INTERIM BILLING AND ORDER SUPPORT SYSTEM) - A system providing the business office with customer billing information used to negotiate sales and discuss customer billing problems.

IIA (INDIVIDUAL INCENTIVE AWARD) - Annual lump sum payment awarded to selected managers based upon the individual performance of the employee and the amount of the award pool.

IMC (INSTALLATION AND MAINTENANCE CENTER) - Network Department operations unit usually responsible for trouble report handling, monitoring, and dispatching functions.

MA (MAINTENANCE ADMINISTRATOR) - IMC employees responsible for screening, testing, dispatching, monitoring, and resolving trouble reports.

MATCH - Sales incentive program in which Network employees referred sales leads to Customer Services Representatives, sharing sales credit upon completion of a sale.

MTIA (MANAGEMENT TEAM INCENTIVE AWARD) - Annual lump-sum payment to

selected management employees based upon the overall financial performance of the team (state organization) and the individual manager's performance level.

MTR (MECHANIZED TIME REPORTING SYSTEM) - Computer system for tracking and categorizing employee time spent in various activities designated by job function codes.

NSR-86 (NON-CONTACT SALES REFERRAL FORM) - The printed form used for recording, transmitting, and inputting sales by non-contact employees.

OPT (OUTSIDE PLANT TECHNICIANS) - Field technician responsible for repair of existing distribution cable and plant facilities.

RSA (REPAIR SERVICE ATTENDANT) - CRSAB employees who receive initial repair calls from customers, recording pertinent information to originate a trouble report.

SOCS (SERVICE ORDER CONTROL SYSTEM) - Computer system used to process marketing and special service orders and provide order information to marketing representatives handling customer billing and order requests.

SOT (SERVICE ORDER TYPIST) - Customer Service Department employees responsible for inputting service orders to DOE.