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SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY

DOCKET NO. 900960-TL 920260-TL

DIRECT TESTIMONY OF CARL S. VINSON, JR.,

DIVISION OF RESEARCH AND REGULATORY REVIEW

ON BEHALF OF THE FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF COMMUNICATIONS

FILED: NOVEMBER 22, 1993

DIRECT TESTIMONY - CARL S. VINSON, JR.

Q. Please state your name and business address.

A. My name is Carl Scott Vinson, Jr. My business address is 101 East Gaines Street, Tallahassee, Florida 32399-0872

Q. By whom are you employed, and in what capacity?

A. I am a member of the Public Service Commission Staff, Division of Research and Regulatory Review. As a Management Review Specialist, I am responsible for conducting management audits of utility operations.

Q. Describe your educational background and work experience.

A. I graduated from Stetson University in 1980 with a B.B.A. in Finance. From 1980 until 1984, I was employed by Flagship Banks, Inc., and Florida National Banks, Inc.

From 1984 until 1989, I was employed by Ben Johnson Associates, Inc., a consulting firm specializing in utility regulation. As a Research Associate, my duties there included assisting with analyses of rate of return and revenue requirements issues and assistance with the preparation of expert testimony in telephone and electric utility regulation proceedings. This experience included assistance in proceedings involving Bell operating companies in Arizona, Connecticut, Michigan, North Carolina, Oklahoma, and Texas. In addition, I participated in three investigations of utility management prudence regarding nuclear generating plants in Arizona, Texas, and North Carolina.

I have been a member of the Commission Staff for four years. My duties have included conducting management audits and reviews of utility operations and developing recommendations for improvements to internal controls, practices, and procedures. These audits typically include assessments of management effectiveness and operational efficiency. To date, I have participated in management audits and reviews involving Southern Bell, Quincy Telephone, United Telephone, Gulf Power, Florida Power and Light, Florida Power Corporation, and Tampa Electric.

Q. Have you previously testified before this Commission, or any other regulatory commission?

A. No, however I am also filing testimony in Dockets 910163-TL/910727-TL.

Q. What is the purpose of your testimony in Docket 900960-TL?

A. My testimony in this docket presents the results of two separate management audits of Southern Bell-Florida. Both audits were conducted at the request of the Staff of the Division of Communications in conjunction with its analysis of issues in Docket 900960-TL.

The first of these two audits examined the internal controls surrounding Southern Bell's non-contact sales incentive programs. The audit report, entitled Non-Contact Sales Incentive Program Controls, is attached to my testimony as Exhibit CSV-SAL-1 (EXH___).

These audits were both performed in accordance with the standards of the Institute of Internal Auditors.

Q. Which issues in this docket does your testimony address?

A. My testimony addresses issues 204, 205, 206, and 402. It also relates to issue 201.

Q. What were the objectives of the Non-Contact Sales Incentives Program Controls audit?

A. The specific objectives of the audit of Southern Bell's non-contact sales incentive programs were to assess both the adequacy of the controls surrounding these programs, and the adequacy of Management's response to control problems and violations.

Southern Bell discontinued its most recent non-contact sales incentive program, Goldline, on July 31, 1991. Therefore, this audit necessarily examined past events, as well as procedures, practices, and controls that are no longer in effect. However, since Southern Bell may someday reinstate the use of non-contact sales programs, the adequacy of Goldline's controls for future use was also addressed.

This audit sought to answer three key questions:

1. Did Southern Bell provide adequate internal controls in its non-contact sales incentive programs to prevent the improper billing of customers?
2. Did the actions or omissions of Southern Bell management lead to the improper billing of customers?
3. Has Southern Bell management taken adequate steps to prevent the recurrence of improper billing of customers.

Q. Please summarize the findings of the Non-contact Sales Incentive Program Controls audit as detailed in Exhibit CSV-SAL-1.

A. Exhibit CSV-SAL-1 (EXH__) presents a total of six findings. Regarding the adequacy of controls through 1991, the report presents four findings:

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 internal audits and network staff reviews hindered detection of control failures.

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

Regarding the adequacy of management's response to control problems through 1991, the report presents two findings:

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

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

Q. What conclusions have you reached based upon these findings?

A. Based upon analysis of the information examined in the audit and the findings listed above, the following conclusions are presented in response to the three questions posed as the primary objectives of this audit:

1. Southern Bell did not provide adequate internal controls in its non-contact sales incentive programs to prevent or detect the improper billing of customers.

2. The actions and omissions of Network Department management led to the improper billing of customers.

3. If Southern Bell resumes the use of a non-contact sales incentive program based upon Goldline, additional controls are needed to prevent the recurrence of improper billing of customers.

Q. What were the objectives of the <u>Contact Sales Methods and Procedures</u> audit?

A. The specific objectives were the produce a complete and accurate picture of Southern Bell's various sales channels and sales-related procedures, to determine whether current methods and procedures comply with applicable FPSC rules, and to determine whether the Company's customers are treated fairly and ethically. This audit examined methods and controls employed in the sale of products and services to both residential and business customers.

Q. Please summarize the findings of the Contact Sales Methods and Procedures audit as detailed in Exhibit CSV-SAL-2.

A. Exhibit CSV-SAL-2 (EXH__) presents a total of four findings. Regarding the adequacy of present sales process controls, the report presents one finding:

1. Improved internal controls and scrutiny have increased the detection of sales falsification by Southern Bell customer service representatives.

Regarding specific improvements to current sales process controls, the report presents three findings:

2. Investigations of possible ethics violations detected by the Southern Bell-Florida Centralized Observing Team are not performed in a uniform manner by Customer Service Department Managers.

3. The Southern Bell-Florida Centralized Observing Team has not updated the sample size of customer contact observations to ensure a statistically valid sample.

4. BellSouth Communications, Inc.'s Premises Sales managers do not consistently document or retain evidence of transaction

spot checks conducted for control purposes.

Q. What conclusions regarding Southern-Bell Florida's contact sales methods and procedures have you reached based upon these findings?

A. In my opinion, Southern Bell's procedures and controls relating to the sales channels examined in the audit adequately comply with applicable FPSC rules and provide for fair treatment of customers and competitors. Improved controls, implemented within the past two years, have increased the Company's ability to detect and deter improper sales activity.

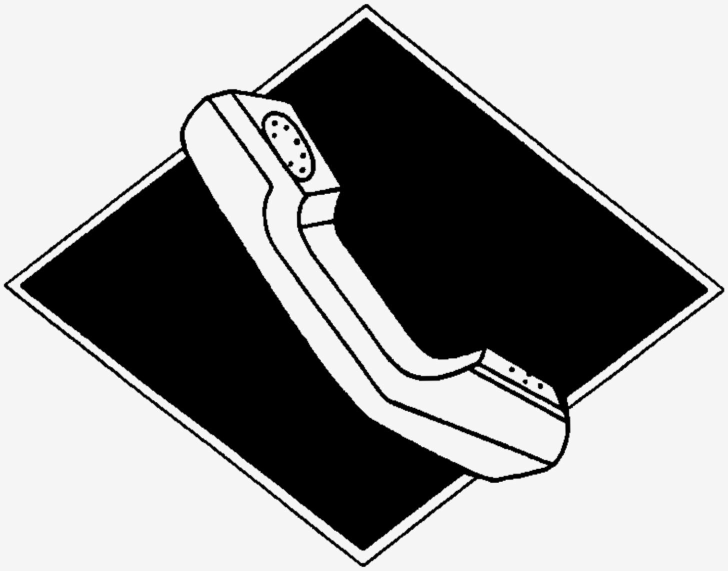
Q. Since completing the <u>Non-Contact Sales Incentive Program Controls</u> audit report in February 1993, have you become aware of any information that would cause you to change this report's findings or conclusions?

A. No. Since that date, I have attended additional depositions of Southern Bell employees, and have reviewed Southern Bell's responses to discovery. In addition, some of the information I gathered in conducting the <u>Contact Sales Methods and Procedures</u> audit also pertained to Southern Bell's non-contact sales incentive programs. However, this additional information does not alter the validity of the conclusions and findings presented in the <u>Non-Contact Sales Incentive Program Controls</u> audit report.

Q. Does this conclude your testimony?

A. Yes.

CSV-SAL-1



SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY

NON-CONTACT SALES INCENTIVE PROGRAM CONTROLS

FEBRUARY 1993

By Authority of
The State of Florida for
The Public Service Commission
Division of Research and Regulatory Review
Bureau of Regulatory Review

SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY

NON-CONTACT SALES INCENTIVE PROGRAM CONTROLS

Carl Vinson, Project Manager
Management Review Specialist

FEBRUARY 1993

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The State of Florida for
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TABLE OF CONTENTS

TABLE OF EXHIBITS

1.0 EXECUTIVE SUMMARY

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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 (the Company). 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, Southern Bell agreed to pay $10,500,000 to customers who were billed for optional services as a result of 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. The Advisory Opinion of the Tenth Statewide Grand Jury, 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 Southern Bell provide adequate internal controls in its non-contact sales incentive programs to prevent the improper billing of customers?
- Did the actions or omissions of Southern Bell Management lead to the improper billing of customers?
- Has Southern Bell taken adequate steps to prevent the recurrence of 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 programs 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 intent of the findings or conclusions were made as a result of the Company's input.

1.5 Findings and Conclusions

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

Adequacy of Controls - 1990 and Prior

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

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

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

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

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

Adequacy of Management's Response to Problems

Conclusion 2:	**The actions and omissions of Network Department management led to the improper billing of customers.**
Finding 5:	**Management Did Not Investigate Evidence Of Improper Sales And Misbilling In A Timely Manner.**
Finding 6:	**Management Did Not Improve Non-Contact Sales Controls In A Timely Manner.**

Adequacy of Present Controls

Conclusion 3:	**If Southern Bell resumes the use of a non-contact sales incentive program based upon Goldline, additional controls are needed to prevent the recurrence of improper billing of customers.**

2.0 NON-CONTACT SALES PROCESS OVERVIEW

2.0 NON-CONTACT SALES PROCESS OVERVIEW

2.1 Purpose of Non-Contact Sales Incentive Programs

Since the 1970's, Southern Bell has used incentive and recognition 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 approved by the Florida Network Vice-President and the Personnel Department. 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

SOUTHERN BELL NETWORK ORGANIZATION
AS OF 1991

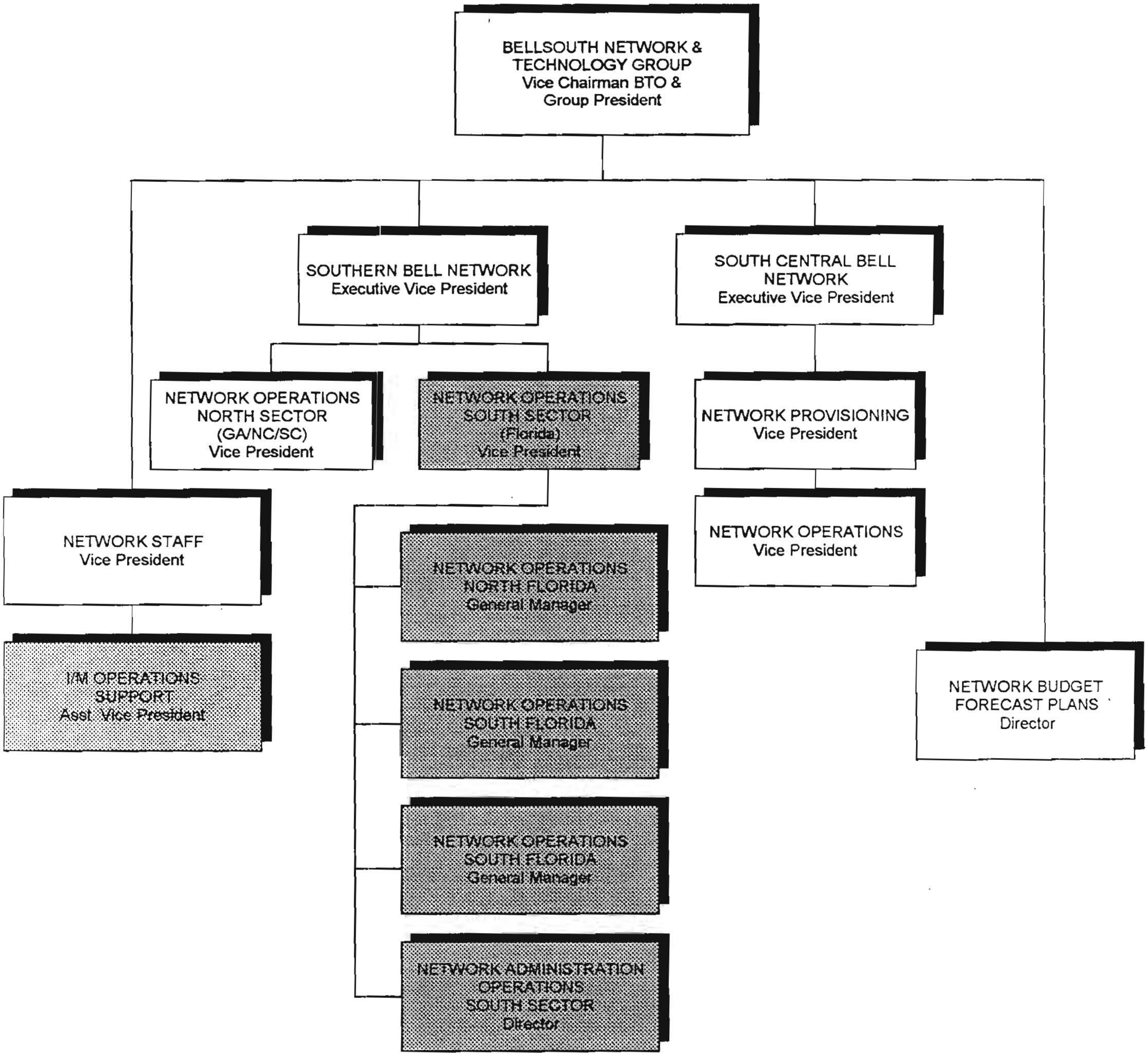


EXHIBIT 1 *SOURCE: COMPANY RECORDS*

NETWORK I/M OPERATIONS SUPPORT STAFF
AS OF 1991

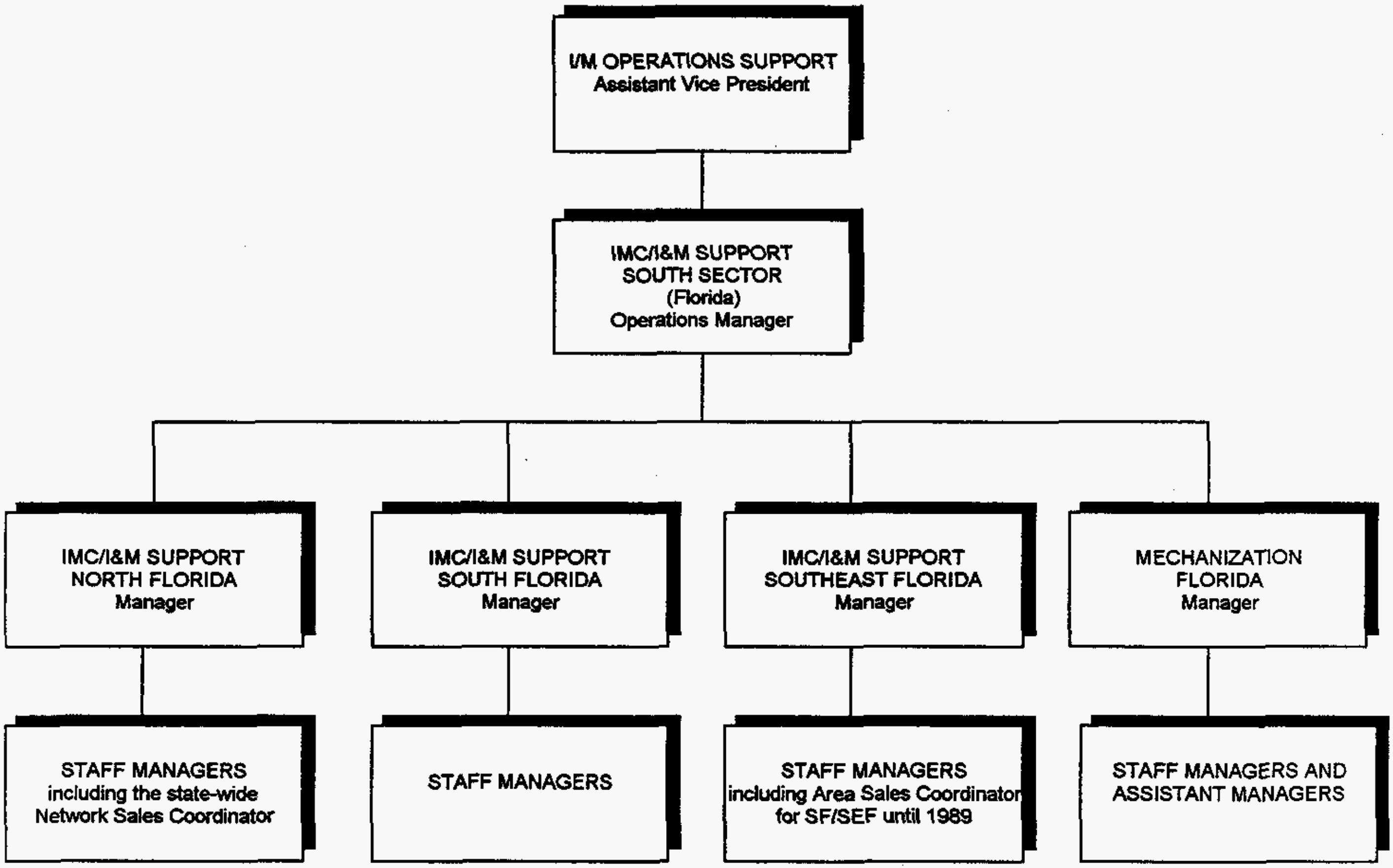


EXHIBIT 2 *SOURCE: COMPANY RECORDS*

**SOUTHERN BELL OF FLORIDA
NETWORK REPORTING HIERARCHY
AS OF 1991**

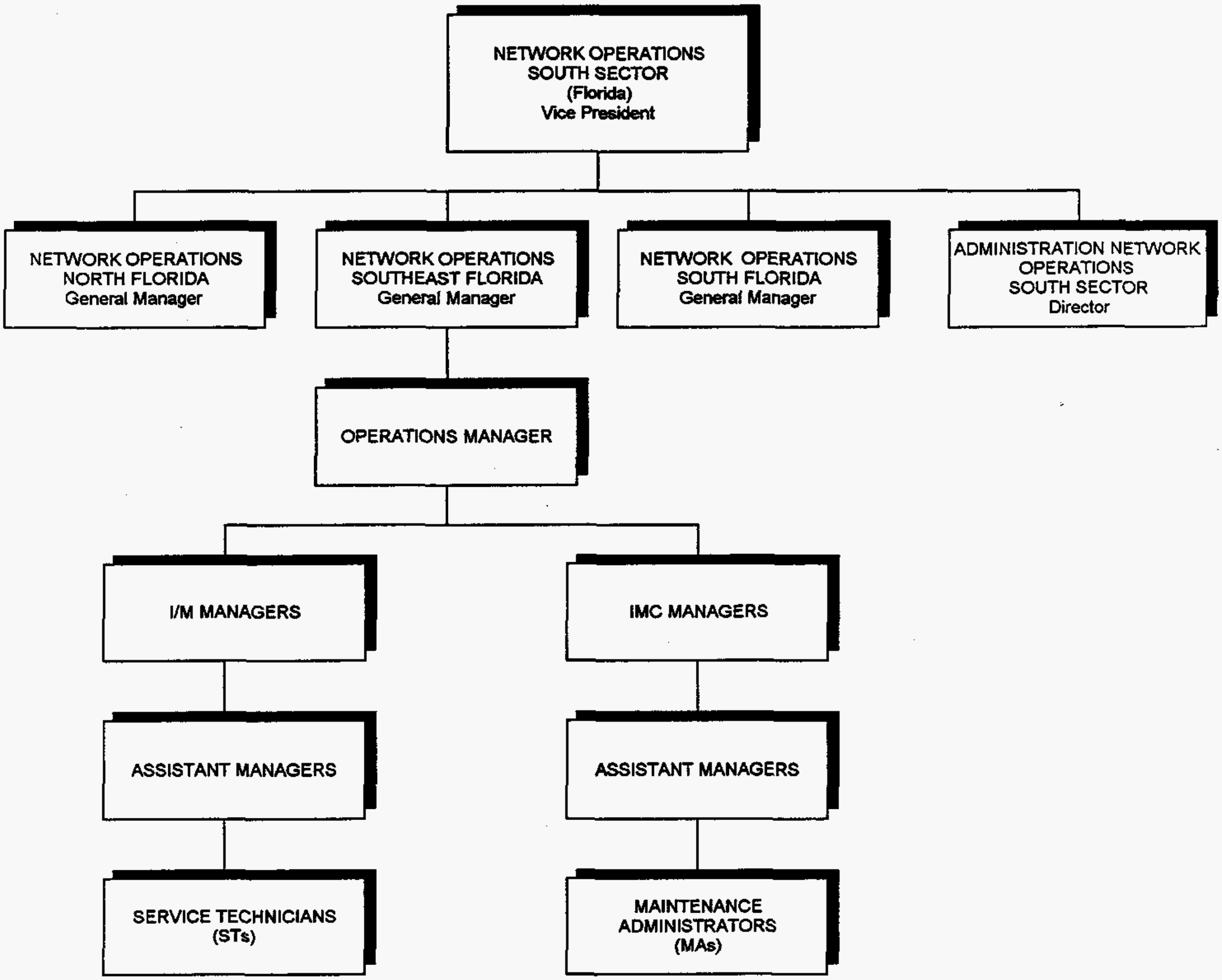


EXHIBIT 3

SOURCE: COMPANY RECORDS

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 Tax Office 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.

2.3 *Sales Referral Processing Methods*

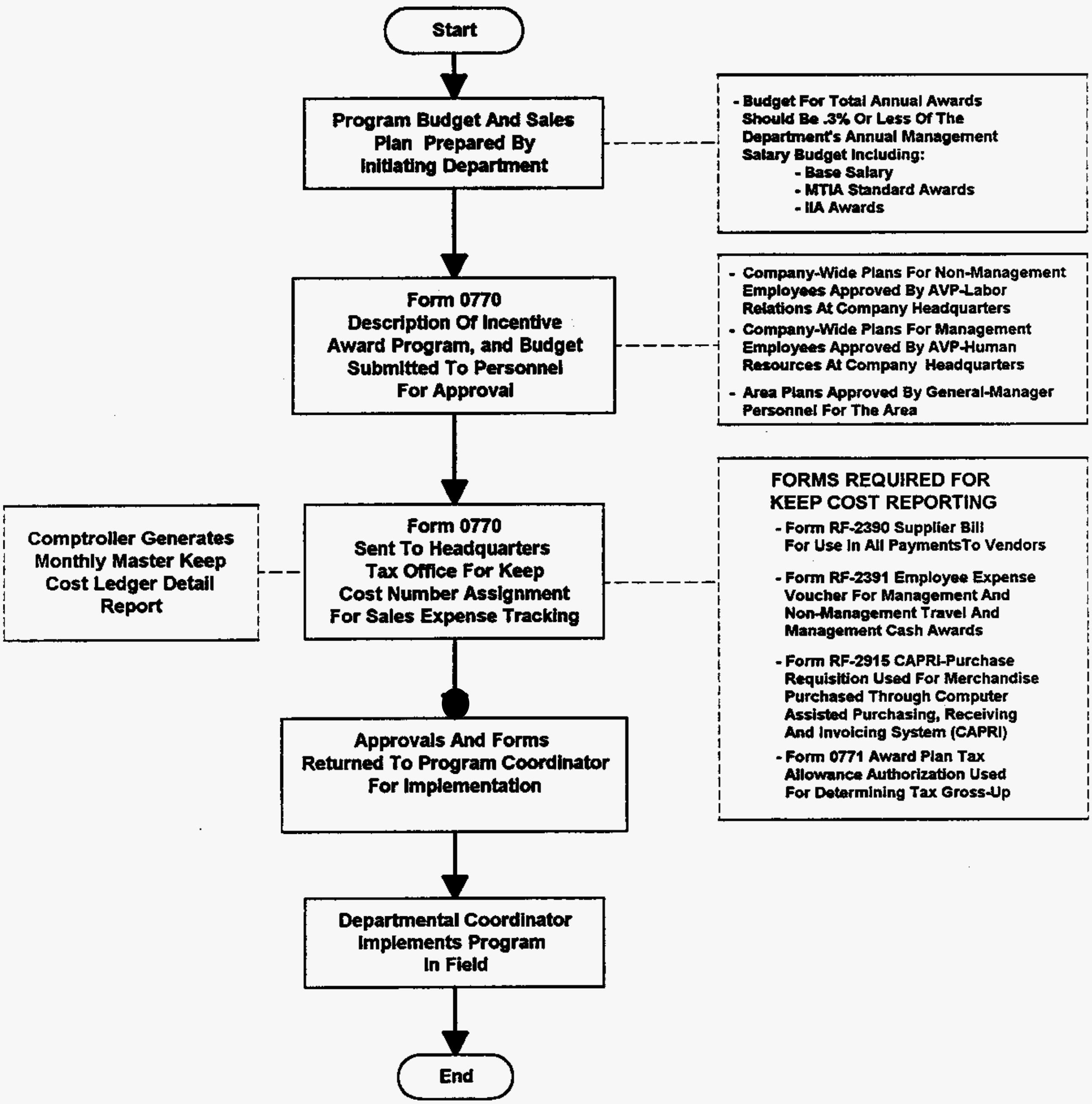
2.3.1 Basic Referral Processing

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.

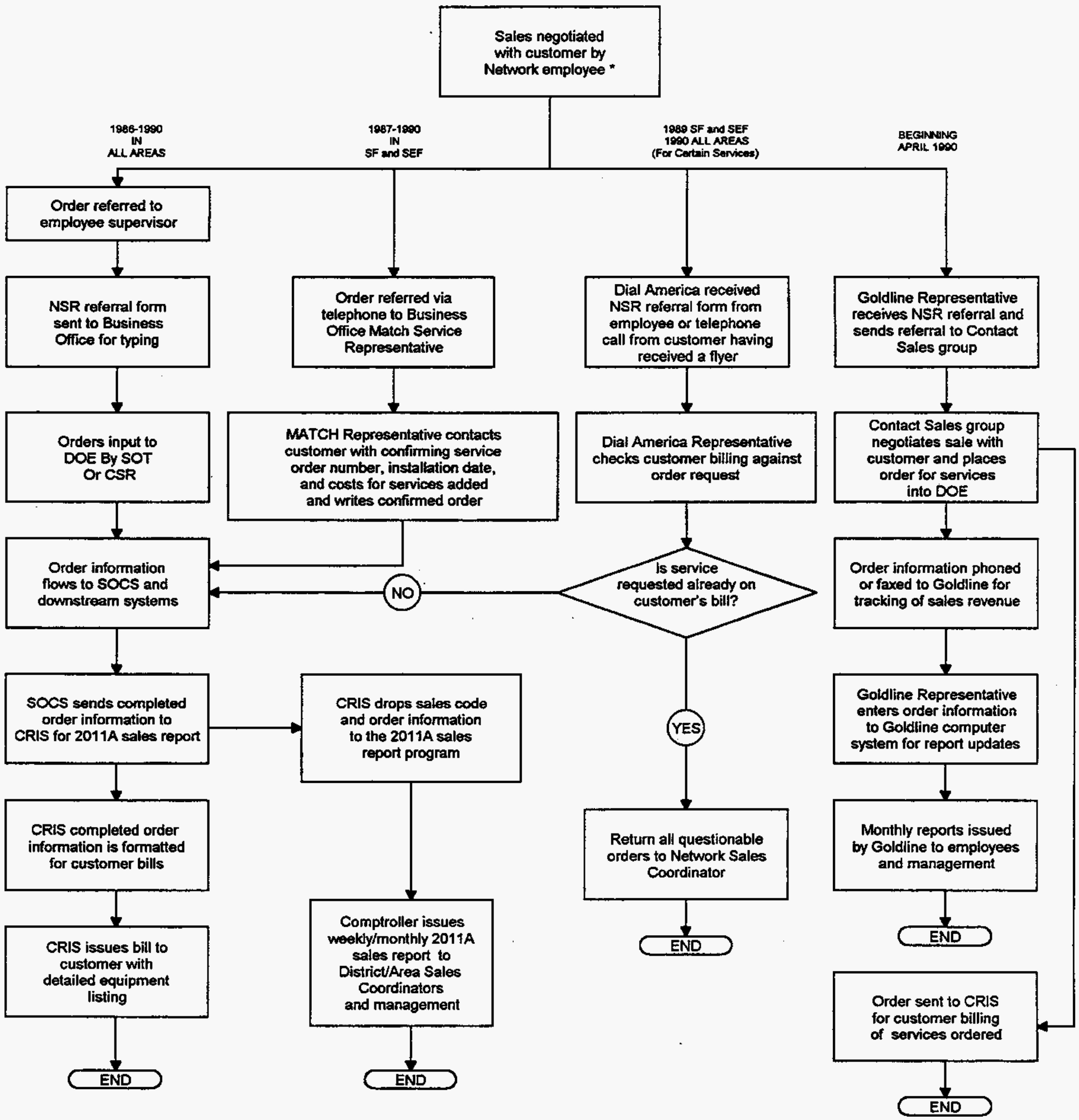
In 1986, the Network Sales Referral form, or NSR-86, was designed for the specific purpose of reporting sales of services by non-contact employees. This same form continued to be used through 1990, although varying methods for processing the Network Sales Referrals were employed over the years.

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 form included a space for the customer's signature evidencing his/her authorization for the services to be added. However, this control was

NON-CONTACT SALES PLANNING AND BUDGETING PROCESS
AS OF 1988



NON-CONTACT SALES REFERRAL PROCESS
1986-1991



CSR - Customer Service Representative
SOCS - Service Order Communication System
SOT - Service Order Typist
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

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.

A Service Order Typist or Customer Service Representative then entered the order into the Direct Order Entry (DOE) system, which forwarded the customer billing information to the Customer Record and Information System (CRIS).

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 objectives as a basic element of individual performance evaluations, 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 distrust which threatened cooperation between these two departments.

To allow Network employees the option of obtaining technical assistance from Customer Service personnel in making sales of complex services, 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 receive credit towards sales objectives for referrals made by the non-contact sales employees.

MATCH referrals were made by Network employees by calling the MATCH service representative in the business office on a special toll-free line. 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 into DOE. The MATCH service representative also recorded the sales codes of the Network employee who generated the lead and the Customer Services employee who closed the sale. The order flow 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 time to time during the years 1985 through 1990. DialAmerica processed reports of sales via telephone by non-contact employees 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 was sometimes 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. 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 was completed throughout the state. Although transition from the use of the NSR-86 form continued until June 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, the referring employee shared credit for this sale as well.

Completed sales orders from the business office contact sales group were processed via Direct Order Entry (DOE) and orders processed through the Marketing sales groups were processed through the VAX System for CPE sales tracking. Completed orders were forwarded to CRIS (Network Services) and to the CPE Billing System (CPE services) for subsequent issuance of customer bills. The 2011A system tracked sales of network services, however CPE sales by Marketing personnel were tracked by a separate system.

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 received sales credit in the Goldline computer system for the referral. The contact sales employee receiving the referral and completing the sale received credit towards his/her sales objective. 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, revised in 1988 to become the Form 2011A. This sales report was utilized to track Customer Service 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 additional revenue generated from each sale. The additional revenue was tracked on the basis of semiannual revenue for the purposes of incentive calculation. Based upon the Company's experience, these services were expected to be retained by customers for about 6 months. For example, a service with a $2 monthly fee was expected to generate $12 of revenue ($2 times 6 months), resulting in $1.20 in sales credit awards for the non-contact sales employee.

Of the sales credit awarded, 10% 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.

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 home or workplace. Tax expense reports were forwarded to the State Sales Coordinator who forwarded them

AWARD REDEMPTION PROCESS
AS OF 1988

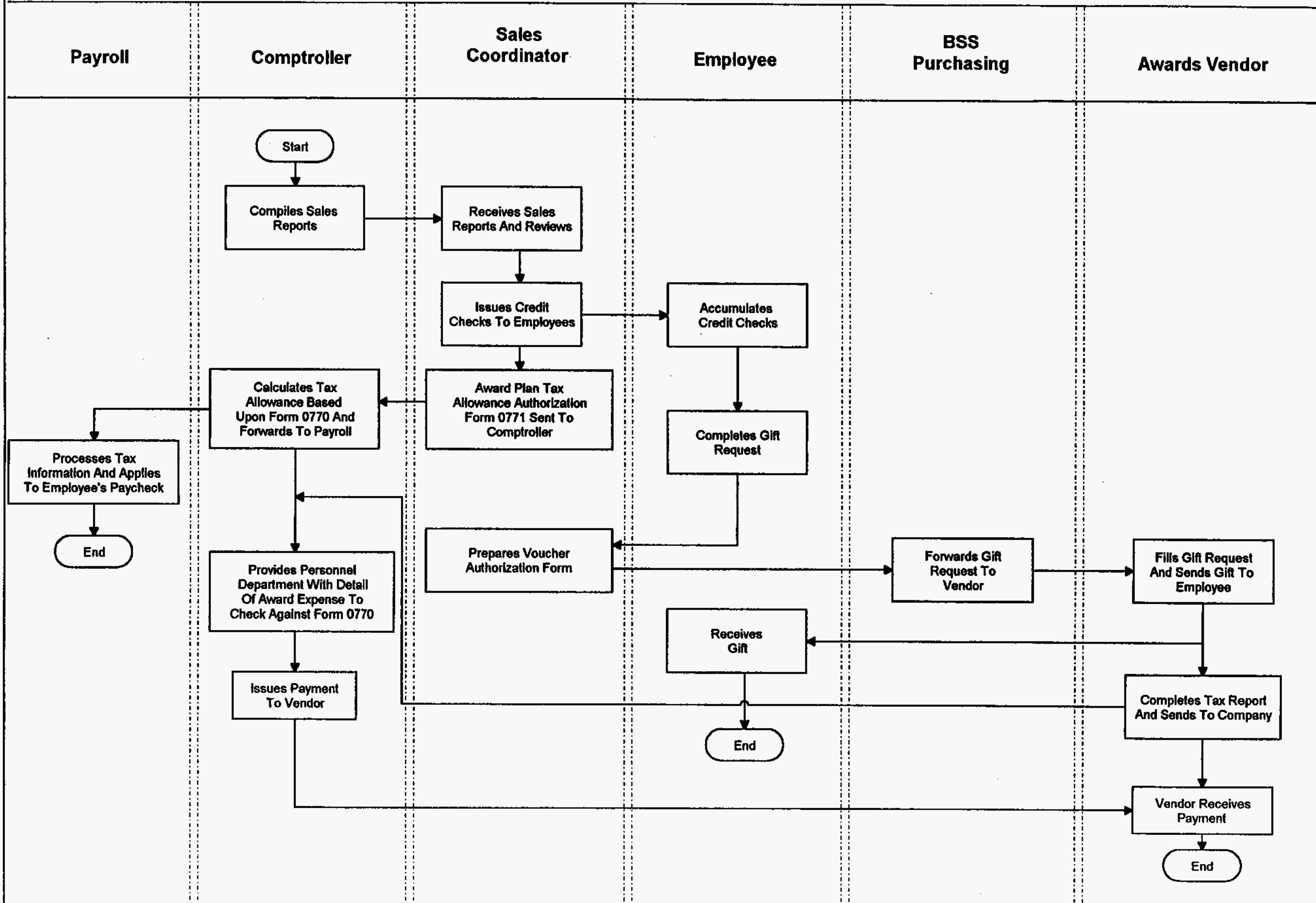


EXHIBIT 6

SOURCE: STAFF ANALYSIS

to the District Sales Coordinators. District Sales Coordinators were responsible for having forms approved by appropriate managers and sending them to Payroll for taxing 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 both employees and managers at a substantially lower rate. Through Goldline, the seller of services received just 4% of the resulting semiannual revenue, or less than half of the 10% awarded in prior incentive programs. First through fifth level managers received about one-tenth of the former revenue credit, or about .4%, .3%, .2% .1%, and .025%, respectively. Rewards for the sale of equipment were limited to $500 of sales credit.

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

3.0 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 at least partly 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 four 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.

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.

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.

Specific, detailed instructions were needed to insure that a consistent, professional, and effective approach would be taken in these sales programs that involved thousands of employees with diverse job and training histories. Detailed written procedures would have provided Network Department line managers with a consistent means of evaluating the quality of his/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 the technician's 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 provided an opportunity for managers and others to become aware of any problems with the sales being reported. In addition, the Form 2011A 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 the specific role and duties of the managers involved in these sales programs, such as monitoring the 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 Item 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 Network Department 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. According to the Company's responses to Staff's Third Set of Interrogatories, Item 47, Goldline was implemented "as a result of efforts to enhance Southern Bell's employee referral program". Goldline represented an effort to correct problems with the prior non-contact sales incentive programs. Many of the control improvements represented by Goldline directly related to problems encountered in the prior programs.

One control improvement from the Goldline program was that 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.

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, frequently Customer Service Representatives. 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.

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), VAX CPE sales processing system, and the CPE Billing System.

The mechanized process began when the NSR-86 sales referral form information was typed into DOE by the Customer Service Representative or Service Order Typist. After the implementation of Goldline in 1990, the sales referral information was entered into the Goldline system by Goldline personnel. The information was sent via fax to the business office or Marketing Department for handling. 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 IBOSS 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 employees 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.

Orders were entered into the Direct Order Entry System (DOE), then forwarded through the Installation and Maintenance Center and dispatched to an installer in the field. The order information was forwarded to SOCS, the Service Order Communication System, and then to downstream systems. After processing through all applicable systems, orders were completed in CRIS, and billing was generated. CRIS then sent the customer an itemized bill showing the services added, monthly billing for all equipment and services, and installation charges. Orders also dropped to a file run against the 2011A program to generate the weekly and monthly sales reports and summaries.

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 obtained from CRIS. 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. In these instances, the referral forms were returned with a notation that the customer already subscribed to the service sold. Without a formal record of the handling of a referral, such allegations were difficult to prove. The 2011A form itself did not provide a means of determining whether the sales reported therein were improperly handled or legitimate sales.

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 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. However, [redacted]

[redacted]

[redacted]

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, this group did not provide such reviews or examinations regarding the overall practices and controls in 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. However, the formal internal audits conducted during the period 1985 through 1989 were only occasionally of direct relevance to the non-contact sales incentive programs.

[redacted]

[redacted]

[redacted]

4.0 CONTROL PROBLEMS

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 take adequate action on each situation identified, the amount of surviving information varies. In some instances, allegations and evidence of potential fraud triggered requests by the managers involved for an investigation by the Security Department, while other similar situations were handled internally by the managers involved. In cases where no Security Department investigation was requested, potentially valuable documents were discarded and employees had the opportunity to change their tactics. As a result some allegations of potential fraud were never resolved. 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.

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. At the same time, Service Representatives, following up on their own sales orders, reported finding their sales codes removed and replaced by those of Network employees.

These complaints, and a large quantity of questionable 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, they may have numbered in the hundreds since the forms in question were described as a stack about six inches high. These forms were later destroyed by the Customer Services Staff.

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 documentation of action or security investigation exists.
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 documentation of action or security investigation exists.
1987 DECEMBER	MIAMI • Two Miami Metro District 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.
APRIL 1989-JUNE 1990	ORLANDO • Two employees make approximately 40,000 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 non-management employees and an Assistant Manager.
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 retired at the Company's direction, and Southeast Florida Network General Manager was disciplined.
1990 OCTOBER	STATEWIDE • Southern Bell 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*

4.1.2 North Miami 1986

As early as 1986, a Service Technician in North Miami was terminated for falsifying sales in a non-contact sales incentive program. According to personnel file records, the Commercial Department discovered in October 1986 that the employee was reporting sales to disconnected telephone numbers. Despite being warned and reminded of proper methods for making sales, customer complaints continued to be received regarding additions of services resulting from this employee's sales. In November 1986, the Service Technician's supervisor checked 17 suspect sales, finding that all 17 lines were either disconnected or assigned to another customer. These incidents of sales falsification, along with other procedure violations were cited as the reasons for dismissal of this employee in December 1986.

4.2 *Sales Falsification: 1987*

4.2.1 Orlando 1987

In May 1987, an Assistant Manager in Customer Services reported a problem to the Network Sales Coordinator regarding sales made by a top seller in Orlando. The Network Sales Coordinator arranged for the Assistant Manager Customer Services to meet with the selling employee's supervisor, also an Assistant Manager, and left the problem with them to be resolved. No follow-up was made by the 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 1988, one of the largest instances of sales falsification was identified by Customer Service business office employees in West Palm Beach. However, full resolution and investigation spanned over two years. 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 supervising the employee suspected of generating the false sales, and issuing follow-up warning memos without results, the Customer Services Manager refused to process these suspicious referrals and referred the matter to the Customer Services staff support organization.

However, the Network Assistant Manager was not easily deterred from having his group's sales processed. During early 1988, this Assistant Manager had found a way to bypass controls to have his group's sales referrals processed. This required the agreement of a second Customer Services Manager to allow a Network clerk to use of a computer terminal in her business office to input sales orders. In exchange for allowing this unusual arrangement, that circumvented the proper separation of duties, the Network Assistant Manager agreed to share sales credits with the Customer Services work group.

In mid-1989, the Customer Services Manager who had originally detected the fraudulent nature of these sales referred the problem to the Assistant Staff Manager for Customer Services. The Customer Services Manager also provided a number of the falsified referral forms for examination. 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. Under this agreement, Network Sales Referrals were to be sent directly to DialAmerica.

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 and one Service Technician 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 Network Department 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 sections 4.2.1 and 4.3.2 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. According to the Company, the delay was due to other investigations being conducted.

The initial Orlando investigation was completed in early October, 1990, and revealed that certain employees had added services to customer bills without authorization.

Investigation records showed the unauthorized billings affected over 20,000 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.

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 October 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. Additionally, a Network Operations Manager was retired at the Company's option, and a Customer Services Operations Manager and the Network General Manager for Southeast Florida were counselled and received financial penalties.

The terminated employees were those originally suspected in 1988 who produced high volumes of suspect referrals that were refused processing by a 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, employees 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

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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 Company managers at many levels. 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, the disciplinary actions later taken by the Company against 4 levels of managers indicate that certain managers "dropped the ball" in discovering, investigating or correcting abuses within their organizations. As indicated in the response to Staff's 17th Request for Production of Documents, Item 1, the grounds for these disciplinary actions clearly state that the Company found most of these managers to have "inadequately investigated complaints of improper activities."

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 refers to a recent meeting with the Network Vice-President and the other two Network Operations General Managers, where the use of boiler rooms apparently 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.

Management did not adequately pursue potential evidence of wrongdoing and adequate control improvements despite the clear early warnings provided by the 1986 North Miami and 1987 Miami Metro incidents that resulted in terminations 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 occurrence 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 occurrences received less than adequate attention from management.

Disciplinary action taken against a Network General Manager, who reported directly to the Network Vice-President, indicates some responsibility for sales fraud problems lies with the highest levels of the Network Department. The early detection and protracted resolution of the West Palm Beach sales fraud was documented by the Company's Security Department investigation. According to the Response to Staff's First Set of Interrogatories, Item 12, the disciplinary action against the Network General Manager was imposed by Southern Bell due to his "[f]ailure to manage responsibilities properly and failure to exercise satisfactory judgement."

5.2 Investigations And Audits: 1990

During 1990, Security Department investigations finally triggered a chain of events that led to widespread activity to expose 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. Southern Bell has stated that it 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. Also, Southern Bell identified and notified customers potentially affected by improper sales practices, and issued refunds to customers.

5.3 Employee Disciplinary Actions

Exhibit 8 shows the number of disciplinary actions taken against employees involved in all sales-related incidents during the years 1986-1991. All 36 employees formally disciplined during the period 1986 through 1991 received the disciplinary action because they were found by the Company to have 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. By far the largest number of disciplinary actions took place in 1990, as a result of the security investigations of non-contact sales programs. It should be noted, however, that the employees disciplined in 1990 had actually committed the various infractions and violations during the years 1987, 1988, 1989, and 1990. Therefore, the fact that most of the related discipline was meted out in 1990 does not mean the improper activity was limited to the year 1990 alone.

The 24 employees disciplined in 1990 included 5 Customer Service Department employees engaged in their normal customer contact sales activities. In addition, one Customer Services Department manager and 18 Network Department employees were disciplined for actions or omissions related to non-contact sales. Of these 18 Network employees, 15 or 83% were management employees, and 3 or 17% were craft (non-management) employees.

Although numerous non-contact employees may have participated in the sales programs over the years, the number of disciplinary actions taken represent enough abuses to question the adequacy of controls involved. Based upon the statements made by employees in the Company's Security Department investigations, it would also be unrealistic to believe that all of the employees involved were detected or identified In addition, the number of employees involved, their geographical distribution, and the timeframe associated with these disciplinary actions contradict a claim that abuses were limited to a few isolated incidents of improper activity. These violations involved dozens of employees and were detected in all three of the Company's state regions over a seven-year time period.

Three of the terminated Network employees admitted to adding unauthorized services to customer bills. Every other Network 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.

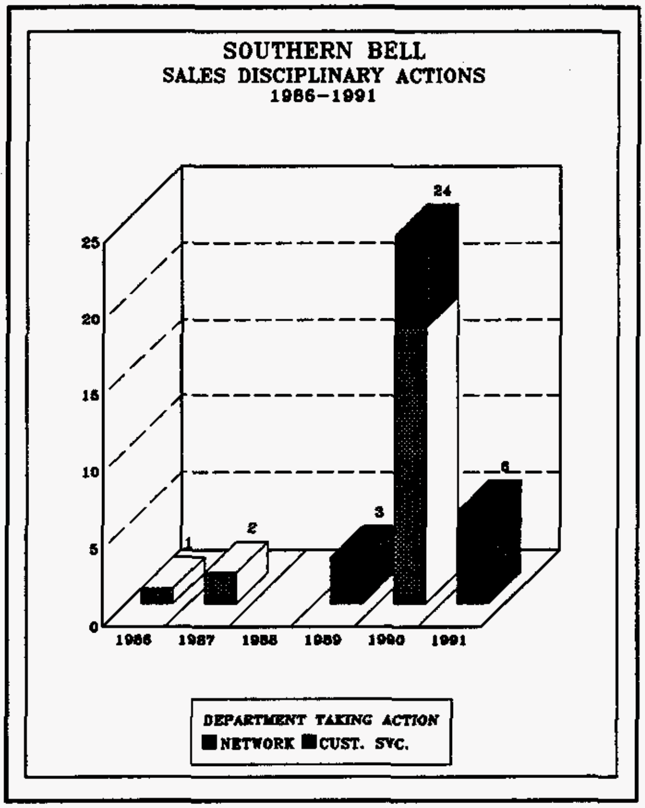

EXHIBIT 8 *SOURCE: Staff POD 17, Item 1; Staff 1st Interrogatories, Item 12.*

5.3.1 North Florida

A total of 13 disciplinary actions were taken in 1990 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 Operations Manager, one Manager, one Support Manager, and three Assistant Managers. The basis for these actions as stated by the Company in these employees' personnel record entries included "mismanagement", "failure to properly utilize employees in their proper work assignments", "failure to adequately investigate complaints of improper activity", "failure to properly supervise subordinates", and "failure to exercise satisfactory judgement."

An investigation of other divisions within the North Florida area resulted in 1990 disciplinary action against a Jacksonville Service Representative who received counseling as a disciplinary action. Three Service Representatives in Cocoa were also suspended in 1989 for falsely reporting sales items on service orders.

However, according to the deposition of the Operations Manager who was counselled, 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 11 employees in three locations within the Southeast Florida region received disciplinary actions. As a result of the West Palm Beach investigation, seven Network Department employees received disciplinary actions by the Company. These included a Manager and a Service Technician who were terminated, an Operations Manager was retired at the Company's option, an Assistant Manager who received two weeks suspension without pay, and an Administrative Support Manager who was counseled. Most significantly, the Southeast Florida Network General Manager, who reports directly to the Network Vice President, was also disciplined and was denied incentive pay compensation for 1990 and 1991. The Company's grounds for the actions against the other employees included "failure to adequately investigate complaints regarding improper activity" and "misconduct that resulted in certain subscribers being charged for certain services they neither requested [n]or authorized."

The Customer Services Department employees disciplined in 1990 included one Operations Manager and one Service Representative who were counselled, one Service Representative who was suspended, and a third who was terminated. The latter three were disciplined for adding services customers did not authorize in the course of their normal contact sales roles. However, the Operations Manager was found to have inadequately handled evidence of the West Palm Beach non-contact sales falsification.

In 1991, six additional employee disciplinary actions relating to sales violations were taken by Southern Bell. The Southeast Florida region accounted for three employee disciplinary actions involving Customer Service Representatives. In incidents stemming from their normal contact sales activities, one Service Representative in Fort Lauderdale was terminated for adding services to customer records that were not requested or authorized, a second in Fort Pierce was suspended for the same cause, and a third in West Palm Beach was warned for "involvement" in similar actions.

5.3.3 South Florida

The earliest terminations resulting from improper non-contact 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. In each instance these terminations stemmed from the investigation of customer complaints of services being added to their accounts without authorization. These events provided warning signs that should have been heeded in subsequent years. However, when the same signals were observed later, they were not adequately investigated and resolved.

In the South Florida region, there were three employee disciplinary cases relating to customer contact sales during 1991. One Miami area Service Representative was terminated for adding services without proper authorization and two others were warned for the similar activity.

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 given refunds.

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 contacted by mail and asked to review the accuracy of the services for which they are being billed. In July, 1991, the Southern Bell of Florida President ordered approximately 140,000 letters sent to selected customers, in an effort to notify customers that had potentially been affected by unauthorized employee upgrades of customer services statewide.

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 AND CONCLUSIONS

6.0 FINDINGS AND CONCLUSIONS

6.1 Adequacy of Controls: 1990 and Prior

Conclusion 1: **Southern Bell did not provide adequate internal controls in its non-contact sales incentive programs to prevent or detect 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.

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

During the period 1986-1991, 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 verify sales referrals with customers to check their validity
- the failure of Customer Service Representatives and Service Order Typists to verify suspect orders against customer billing records
- 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 weakest control checks.

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.

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.

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. As a result of the lack of sales training and procedures, in some quarters improper practices became a routine method of producing sales.

Finding 3: Lack of Non-Contact Sales Internal 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 [redacted] Without proper time reporting of non-contact sales activities to the individual incentive programs Southern Bell would not have been able to accurately track the expenses associated with each program.

Conclusion 2: **The actions and omissions of Network Department management led to the improper billing of customers.**

Sufficient evidence exists to conclude that Network Department 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.

Finding 5: 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
- 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 6: 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.

Conclusion 3: **If Southern Bell resumes the use of a non-contact sales incentive program based upon Goldline, additional controls are needed to prevent the recurrence of improper billing of customers.**

As of July 31, 1991 the Company discontinued non-contact sales incentive programs. However, at the time these sales programs were discontinued, Southern Bell had not implemented adequate controls to prevent the recurrence of fraudulent billings. If in the future, the Company bases a new program on Goldline, or introduces a new program with similar controls, an examination of the adequacy of these controls is warranted. The greatest need is for verification of all sales, not just those involving new or transfer customers.

The Goldline program, instituted in April 1990, improved the verification of sales somewhat, through greater separation of duties between those employees referring sales and those making sales. After receiving a sales referral from the Goldline Center, the Customer Services or Marketing Department employee contacted the customer and completed the sale. The referral from another employee insured the existence of a legitimate potential customer. However, there was no further verification after the sale to be sure that the customer received only the service(s) authorized.

Since the sale was both made and reported by the contact employee alone, this afforded the opportunity to 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 (listening to) contact sales personnel by supervisors. Each quarter, a minimum of 18 customer contacts by each service representative are monitored to verify proper customer handling and sales technique. This control can deter or detect some fraudulent activity. But, more complete protection is needed to ensure that the customer is billed only for what he/she agreed to buy.

More complete protection against false sales would require additional follow-up by the supervisor. This follow-up should include verifying the conversation monitored against the printed sales order. Monitoring procedures do not currently include these verification steps. Neither the Company's sales performance evaluation practices (BSP 735-800-01SV) nor the *Observer Guidelines for Contact Referral* provide for such verification on a routine basis. Instead, sales calls are evaluated on: "recognized opportunity, discovering, proposing, and assuring", and "courtesy, accuracy, overall call handling, and bridging/sales techniques." The *Contact Observer Guidelines* do state that if a manager hears a potential ethics violation while listening to a call, the sale should be more closely examined. However, simply listening to the monitored calls without reviewing the corresponding sales orders leaves the Company at risk for the most common methods of adding false sales that have been documented.

An additional problem with sales conversation monitoring is that no matter how many sales conversations are observed, the fraudulent reporting of sales from conversations that never took place at all, would still escape detection. No matter how large a sample of each employees' sales are monitored, an employee could simply report a sale made from a referral without ever contacting the customer.

6.4 *Further Action*

Although the Company is not conducting any non-contact sales incentive programs, past control problems are nevertheless relevant to the Company's ongoing efforts to sell its optional services. Based upon the control problems described in this report, the following actions should be strongly considered:

1. Require the Company to provide customers with a complete itemization of services billed in each monthly statement.

2. Require the Company to obtain written authorization from customers before additions of optional services are made to customer bills.

3. Require the Company to perform a review of sales practices and procedures employed by the Company's customer service representatives and other contact sales personnel.

4. Require the Company to perform a review of the time recording practices currently employed in the sale of regulated versus non-regulated services by the Company's customer service representatives and other marketing personnel.

7.0 APPENDIX

7.0 APPENDIX

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 centers of sales activity 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-based 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 COMMUNICATION 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.

ST (SERVICE TECHNICIAN) - Field technician responsible for installation of new service and repair of network facility and equipment problems.

TIP (TROUBLE ISOLATION PLAN) - Service for locating repair problems within customer premises or network facilities.

USOC (UNIFORM SERVICE ORDER CODE) - Alpha-numeric code used to identify each service or product billed to customers.

VAX - Computer operating system for processing and tracking CPE sales by Marketing personnel.

WC (WORK CENTER) - A central reporting location for service technicians and other employees involved in field related activities.

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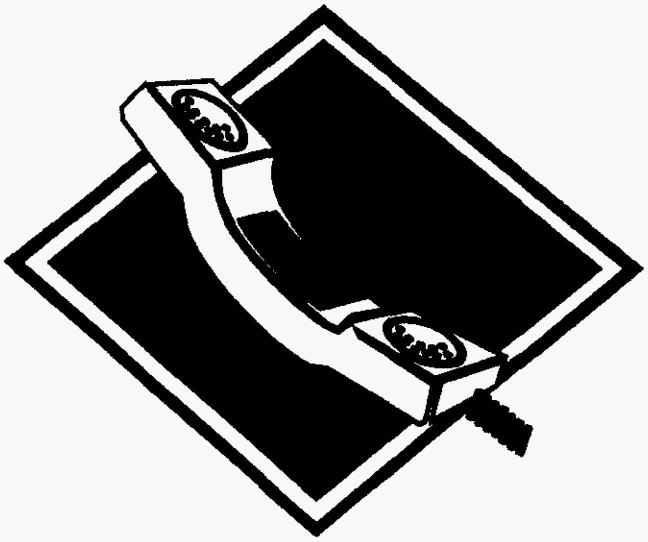

SOUTHERN BELL TELEPHONE [redacted] AND TELEGRAPH COMPANY

CONTACT SALES METHODS AND CONTROLS

OCTOBER 1993

By Authority of
The State of Florida for
The Public Service Commission
Division of Research and Regulatory Review
Bureau of Regulatory Review

SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY

CONTACT SALES METHODS AND CONTROLS

Carl Vinson, Project Manager
Management Review Specialist

OCTOBER 1993

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The State of Florida for
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TABLE OF CONTENTS

TABLE OF EXHIBITS

1.0 EXECUTIVE SUMMARY

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1.1 Background

This audit of Southern Bell's customer contact sales operations was conducted by the Division of Research and Regulatory Review, Bureau of Regulatory Review in response to a March 1993 request for audit assistance from the Division of Communications. The purpose of this audit was to provide the Division of Communications staff with a broader understanding of the various methods and organizations through which Southern Bell sells its products and services. This information in turn will provide Staff with a broader perspective for analyzing issues related to Docket 900960 (now consolidated with Docket 920260, Southern Bell rate proceeding).

1.2 Objectives

The objectives of the audit were threefold. First, the audit was to produce a complete and accurate picture of Southern Bell's various sales channels and their methods of operation. Second, the audit was to determine whether current sales methods and practices comply with applicable FPSC rules. Finally, the audit sought to determine whether the Company's customers are treated fairly and ethically.

1.3 Scope

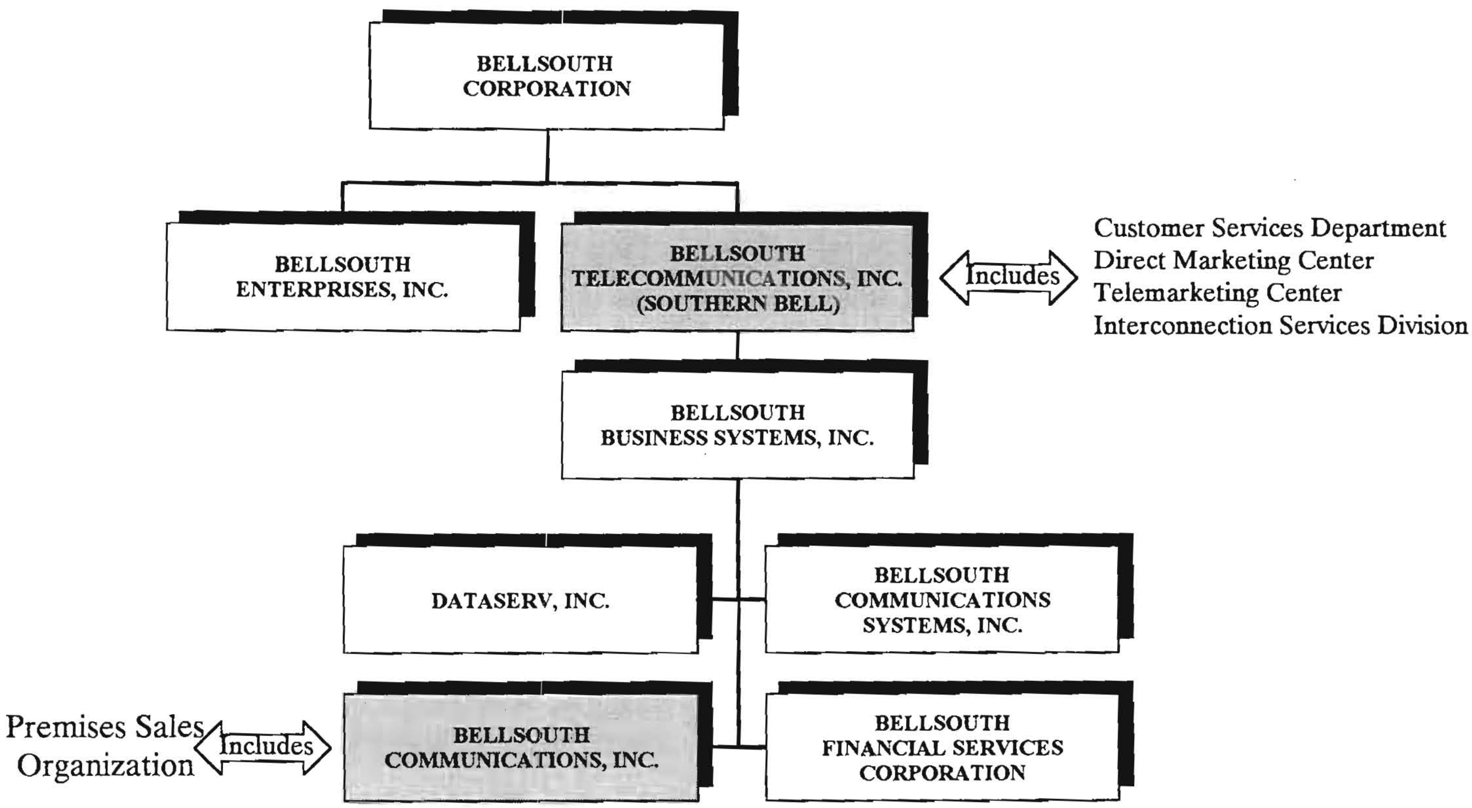
The scope of the audit included all Company sales channels for reaching both residential and business customers. These sales channels are:

- Customer Services Department
- Direct Marketing Center
- Telemarketing Center
- Premises Marketing organization
- Interconnection Services

Exhibit 1 shows the locations of these sales channels within the BellSouth corporate structure. The Customer Services Department, which includes the Direct Marketing and Telemarketing Centers, sells services to residential and small business customers. The Premises Marketing organization sells to small and large businesses, and the Interconnection Services organization provides services to interexchange carriers and resellers. Chapters 2.0 and 3.0 describe each of these sales groups and their methods of operation.

The audit focused upon examination of current sales practices, procedures and controls. In some instances, data was gathered from recent years to provide a basis of comparison. Where applicable, information was solicited regarding planned changes to sales methods, strategies, and organizational structure.

SOUTHERN BELL - FLORIDA
SALES CHANNELS OVERVIEW



SOURCE: BELLSOUTH CORPORATION
"BELLSOUTH CORPORATE STRUCTURE 6/30/92"

EXHIBIT 1

1.4 *Methodology*

Information was gathered through an initial audit survey, interviews with managers responsible for various sales functions, live observation of sales transactions, review of documentation of sales transactions, and review of materials provided through the discovery process in Dockets 900960, 910163, and 920260.

A copy of the final draft of this report was provided to Southern Bell to solicit comments and corrections regarding the factual accuracy of information gathered. An exit interview was conducted with Southern Bell Customer Service Department representatives to discuss the final report and its findings.

1.5 *Findings*

Based upon analysis of information gathered, the following four audit findings were developed:

1. Improved internal controls and scrutiny have increased the detection of sales falsification by Southern Bell customer service representatives.

2. Investigations of possible ethics violations detected by the Southern Bell-Florida Centralized Observing Team are not performed in a uniform manner by Customer Service Department Managers.

3. The Southern Bell-Florida Centralized Observing Team has not updated the sample size of customer contact observations to ensure a statistically valid sample.

4. BellSouth Communications, Inc.'s Premises Sales managers do not consistently document or retain evidence of transaction spot checks conducted for control purposes.

Section 4.0 of this report discusses these audit findings and supporting information in detail. Section 5.0 presents recommended actions to be taken to improve problems addressed in these findings.

1.6 *Overall Opinion*

Southern Bell's procedures and controls relating to the sales channels examined in this audit adequately comply with applicable FPSC rules and provide for fair treatment of customers and competitors.

Improved controls, implemented within the past two years, have increased the Company's ability to detect and deter improper sales activity. Continued analysis, by Southern Bell and the FPSC, of detected instances of improper sales will be necessary to determine the effectiveness of these improved controls for two reasons.

First, controls such as the Centralized Observing Team, Self-Inspection Reviews, confirmation letters, and itemized monthly statements are relatively new, and insufficient time has passed to establish a "track record" of detection and deterrence. Second, even with improved controls, continued instances of sales falsification have occurred during 1992 and 1993. Continued analysis is necessary to determine whether sales abuses decline or eventually increase.

Southern Bell's re-audit of Customer Services Contact Sales Activities, to be completed in late 1993 will provide further information of progress in adherence to proper sales procedures by customer service representatives. Future audit follow-up in this area will also help establish whether improper activity is declining or increasing.

The procedures and practices examined are adequate for conducting the Company's sales efforts, other than the exceptions noted in the findings. Procedural changes are needed to ensure that managers consistently handle investigations of detected violations, and to document managers' review of the integrity of sales.

If implemented, the recommended actions presented in Section 5.0 of this report should further increase the likelihood that Southern Bell's sales function will treat customers and competitors fairly.

1.7 Implementation

The recommended actions in section 4.0 that Southern Bell agrees to implement will be tracked by the Bureau's implementation system. Southern Bell will update the status of recommended actions through quarterly progress reports in keeping with action plans approved by the bureau. Upon completion of a recommended action, Southern Bell will present documentation to verify full implementation, and upon approval, each item will be closed. Items that Southern Bell does not agree to implement will remain open for possible reconsideration by the Company.

2.0 SALES CHANNELS

2.0 SALES CHANNELS

2.1 Customer Services Department

2.1.1 Sales Function

As the name implies, this department performs numerous service functions for customers, handling almost any customer request or inquiry other than maintenance and repair problems. As the primary point of contact in dealing with customers, the customer service representative position plays a key role in the sale of Southern Bell products and services.

This sales channel sells all network basic and vertical services. Among others, these include:

- residential flat rate service
- residential measured service
- business flat rate service
- business measured service
- Custom Calling features
- Touchstar®
- Prestige®
- MemoryCall®
- RingMaster®
- call hunting
- area calling plans
- directory listing options
- non-regulated maintenance plans
- touch-tone
- calling cards

Sales of these services result from incoming calls placed by customers or potential customers. New customers may call in requesting new service connections. Existing customers may request transfer of service to a new address, or simply call to ask about their bill's due date. While performing his/her job as defined by Southern Bell, any of these customer contacts may result in a sale of a product or service by the customer service representative involved.

First, a service representative seeks to fill any request for services specifically made by the customer. In addition, in training customer service representatives, the Company stresses the concept of "customer-centered" or "needs-based" selling. In dealing with customers, CSRs are instructed to ask probing questions and listen for clues to the individual customer's needs for Southern Bell services. The customer service representative then is to link this discovery of a need to the service that can fill the need. For example, a new customer may mention that her teen-age son ties up the phone frequently. The customer service representatives may suggest the customer add Southern Bell's Call Waiting service and describe the advantages to the customer. This linking of a customer need to a

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product description is called "bridging" and is considered an essential skill in maximizing sales opportunities.

In addition to bridging, a customer service representative has access to the calling customer's account information that may allow the CSR to identify which services the customer on the line does not presently have. For example, by accessing the Business Office Customer Records Information System (BOCRIS) a CSR could notice that a customer calling to inquire about adding Call Forwarding has not subscribed to Inside Wire Maintenance. The CSR could then ask the customer to consider this optional service.

Once the sale is made, the customer service representative enters the order into the Direct Order Entry System, and the service is added to the customer's account. The Form 2011 sales results tracking system then tabulates sales credit, maintains individual totals, and provides management reports. The process flow is shown on Exhibit 2.

2.1.2 Organizational Structure

The Customer Services Department is one of Southern Bell's largest, accounting for over 3,400 total employees, including approximately 2,000 customer service representatives. Exhibit 3 displays the location and upper management reporting structure of Customer Services and the Company's other sales channels. The Florida Customer Services organizational structure is depicted on Exhibit 4. Headed by a statewide General Manager, Customer Services is divided functionally into operating groups headed by eight operations managers. Four of the operations managers oversee provision of residential customer service and one oversees customer service to small business customers. These five operations managers are responsible for 30 Service Centers statewide--20 residential centers and 10 business.

Customer Sales and Service Centers (CSSCs) are geographically distributed throughout the service territory. Each is headed by a Manager and composed of work groups supervised by assistant managers. Approximately 10 to 12 customer service representatives report directly to each assistant manager, who is responsible for training, evaluating and other supervisory functions.

Residential Service Centers and Business Service Centers are nearly identical in structure and staffing, and differ mainly in the type of customers being assisted. Although they may serve businesses with up to seven access lines, Business Service Centers most frequently deal with those having just one or two lines. Sales to these customers usually involve simple basic services. However, requests for complex services such as ESSX® service are referred to the Special Services Groups, separate work units of the Business Service Centers. In addition, all requests for additional trunks for PBX expansion are routed to the Special Services Group.

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SOUTHERN BELL - FLORIDA
CUSTOMER SERVICE DEPARTMENT PROCESSING OF CUSTOMER ORDERS

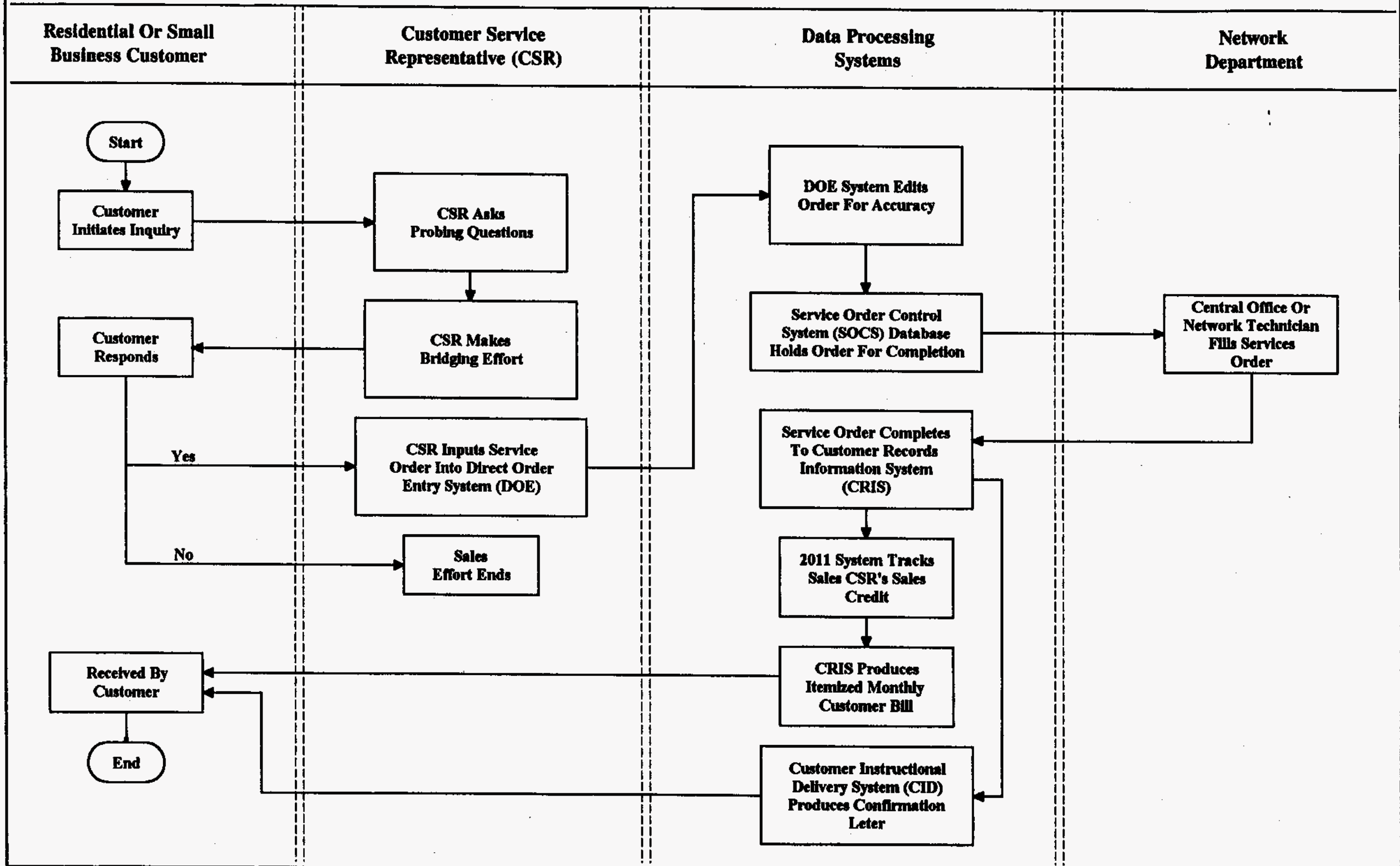
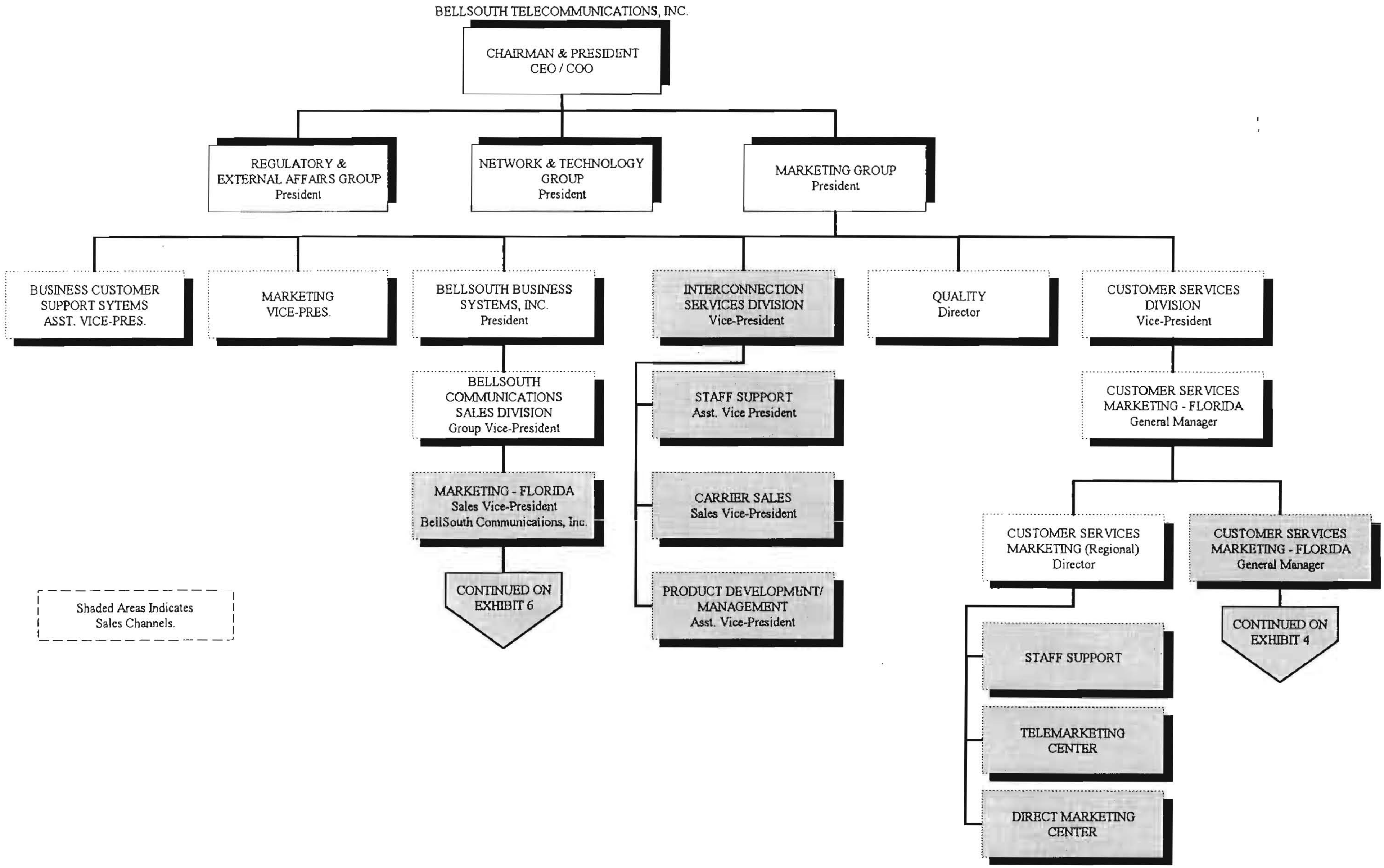


EXHIBIT 2

SOURCE: Audit Survey, Item 9

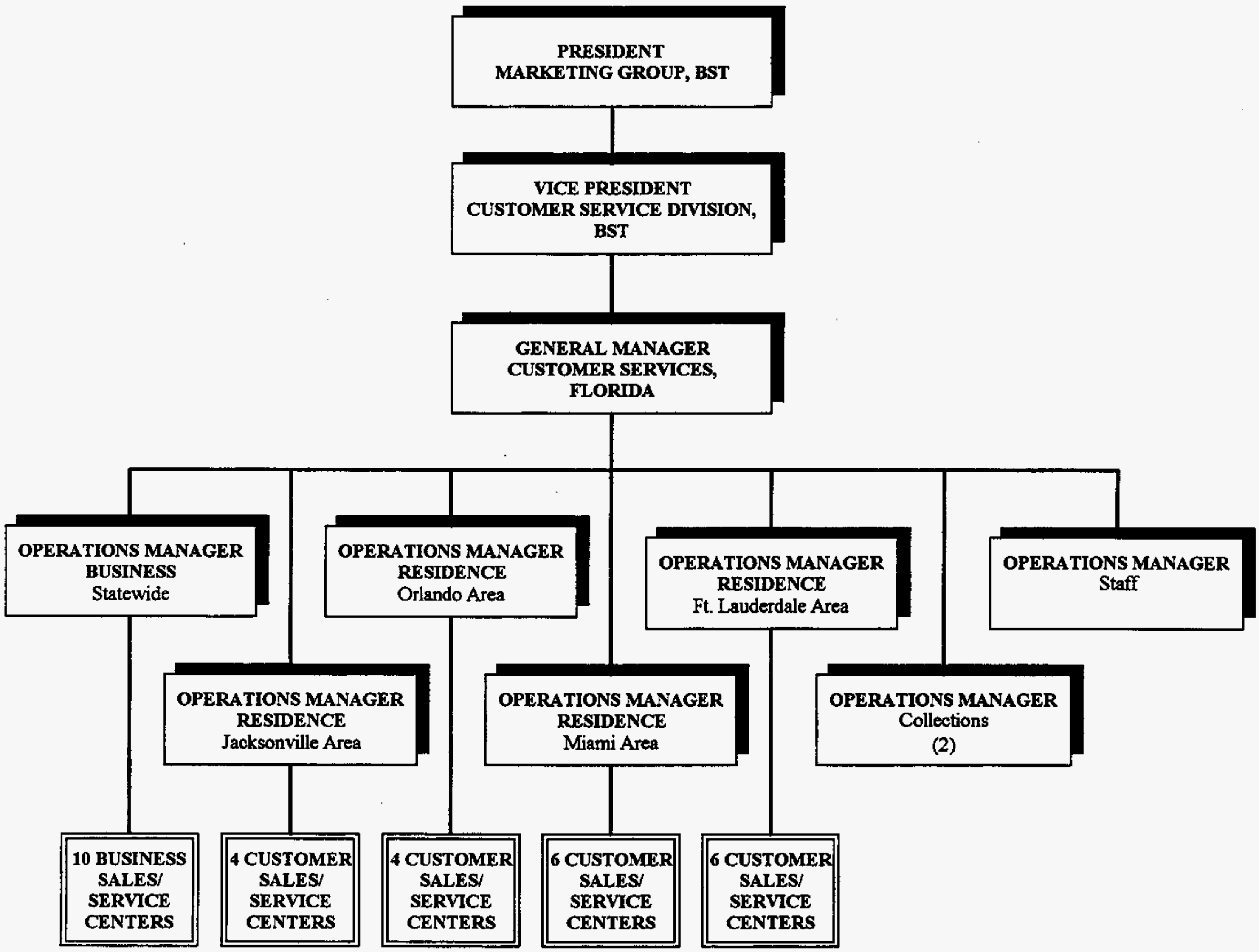
SOUTHERN BELL - FLORIDA
SALES CHANNEL ORGANIZATIONAL STRUCTURE



SOURCE: BellSouth Corporation, "BellSouth Corporate Organizational Structure" August 1992

EXHIBIT 3

SOUTHERN BELL - FLORIDA
CUSTOMER SERVICES DEPARTMENT
ORGANIZATIONAL STRUCTURE



SOURCE: AUDIT SURVEY, ITEM 4

EXHIBIT 4

In addition to the operations managers who oversee the customer service line function, one manages the Customer Service staff support function. The areas covered by this staff function include: the Centralized Observing Team (discussed in section 3.1.2), evaluation criteria design, sales objective setting and results tracking, training, new methods and procedures implementation, and other quality control functions. Finally, two operations managers oversee collection of accounts--one for North Florida and the other for South and Southeast Florida.

2.1.3 Sales Objectives and Compensation

Annually, BellSouth Telecommunications develops a statewide total dollar sales objective based upon assumptions including access line growth, economic and demographic trends. The General Manager then allocates the Florida Customer Services Department sales objective among the line operations managers based upon similar considerations. These revenue objectives are stated in terms of six months of revenue for each service sold, based upon an assumed average of six months retention of a service by customers.

Exhibit 5 displays a comparison of revenue objectives and achieved results for the period 1989 through 1993. As indicated, the small business sales objective was met each year from 1989 to 1992. Residential revenue objectives were met in 1989 and 1991, but sales fell below the objectives in 1990 and 1992. As of June 1993, small business and residential sales were 3% and 9% below the annual revenue objectives, respectively.

On an individual basis, the statewide department revenue objective translates to an individual customer service representative sales objective. CSRs are evaluated upon attainment of this individual sales objective and the quality of service provided to customers. The quality of service evaluation component is based upon their assistant managers' observations of a specified number of customer contacts each month. Evaluation monitoring is discussed in detail in section 3.1.1.

The weighting between the sales dollars objective and quality of service components was changed from 50%/50% to 30% sales/70% service quality in July 1993. Depending upon their service quality performance, CSRs who fail to meet their sales objectives may receive a less than satisfactory rating. Continued failure to meet sales objectives results in a four-step progressive disciplinary action.

Customer service representatives earn hourly wages prescribed under the terms of Southern Bell's Agreement with the Communications Workers of America (CWA). Currently, customer service representatives also may earn sales points redeemable for retail store gift certificates through the MiBanc program. These points are awarded for exceeding the individual CSR sales objective, and are accumulated in each customer service representative's MiBanc "account". This incentive program is offered throughout the nine BellSouth states, with sales credit and redemption accounted for centrally at Southern Bell headquarters in Atlanta. Total Customer Service sales incentive programs expenditures averaged about $372 per employee in 1991, with costs of $964,000 applied to 2,592 employees. The 1993 budget of $1,104,390 represents an increase to $426 per employee, assuming the total number of employees is equal to the 1992 level.

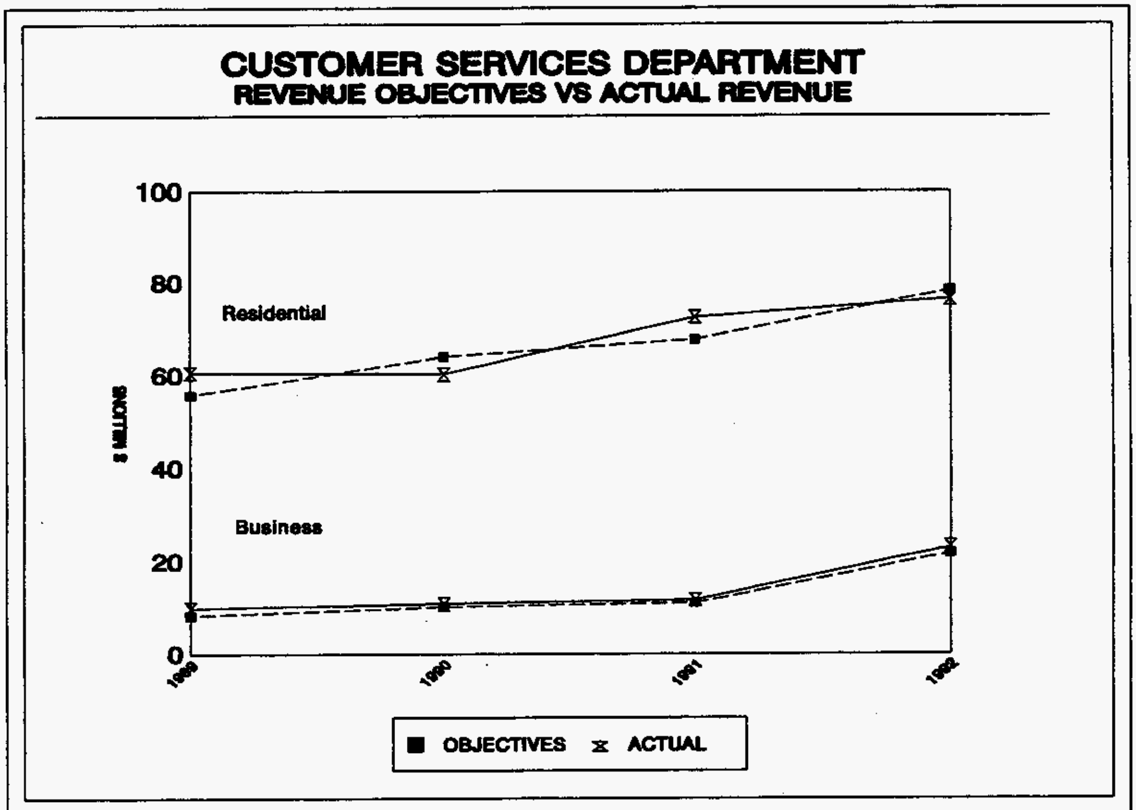


EXHIBIT 5

SOURCE: Audit Survey Item 6

2.2 *Premises Sales Organization*

2.2.1 Sales Function

The sales channel primarily responsible for sales of products and services to small, medium, and large businesses is BellSouth Communications, Inc., or BCI. Most commonly referred to as the Premises Sales organization, BCI is a wholly-owned subsidiary of BellSouth Telecommunications, Inc., as shown on Exhibit 1. The Premises Sales name is descriptive of BCI's basic sales approach of customers assigned to account executives (AEs) who make sales calls on the customers' premises. AEs focus upon adding vertically to the products and services used by their customers rather than adding new customers.

Selling to business customers with seven lines or more, the Premises Sales organization may provide most of the tariffed network services, customer premises equipment, and MemoryCall Service. Due to the more complex communication needs of business customers served by Premises Sales, much of the sales activity deals with the more complex services such as ESSX, PBX, Synchronet® service, and Megalink® service. The Premises Sales organization faces direct competition from providers of similar or substitute services.

As BCI's sales representatives, account executives seek to maintain contact with their assigned customer base, allowing him/her to help in identifying needs and to protect the existing relationship against encroachment from competitors. This arrangement ensures that a customer will always have a specific name to call for any type of inquiry. Once the AE identifies a need, the AE works with the customer, and possibly with Premises Sales technical support personnel, in the design and installation of the products needed. In the case of non-tariffed equipment or services, the AE also negotiates pricing.

2.2.2 *Organizational Structure*

BCI, which operates in all nine BellSouth states, is headed in Florida by a Sales Vice-President, as shown on Exhibit 6. Five regional sales managers, assisted by Sales Managers and account managers, oversee more than 480 statewide BCI employees including Account Executives, technical support personnel (e.g., System Designers, Service Consultants), and administrative support personnel.

For organizational purposes, each account executive services an assigned customer base. Business customers are stratified based upon number of access lines or total revenue billings. Therefore each account executive's customer base contains businesses of roughly similar size and roughly similar product needs. The customer categories in this stratification are: General Business, Large Business, and Major Accounts. Account executives assigned to the Large Business module are officially "senior account executives," while AEs for Major accounts are known as "account managers."

General Business is defined as customers with 7 to 11 access lines, while the Large Business category includes those with 12 to 21 lines. Major Accounts are identified as those with monthly billings by the Company of $80,000 or more. Individual account executives assigned to General Business service a base of approximately 300 customers, while those assigned to Large Business cover about 150. To ensure a high degree of attention, just three or four businesses in the Major Accounts category are assigned to each account executive. Major Accounts are Southern Bell's most valuable customers in terms of revenues.

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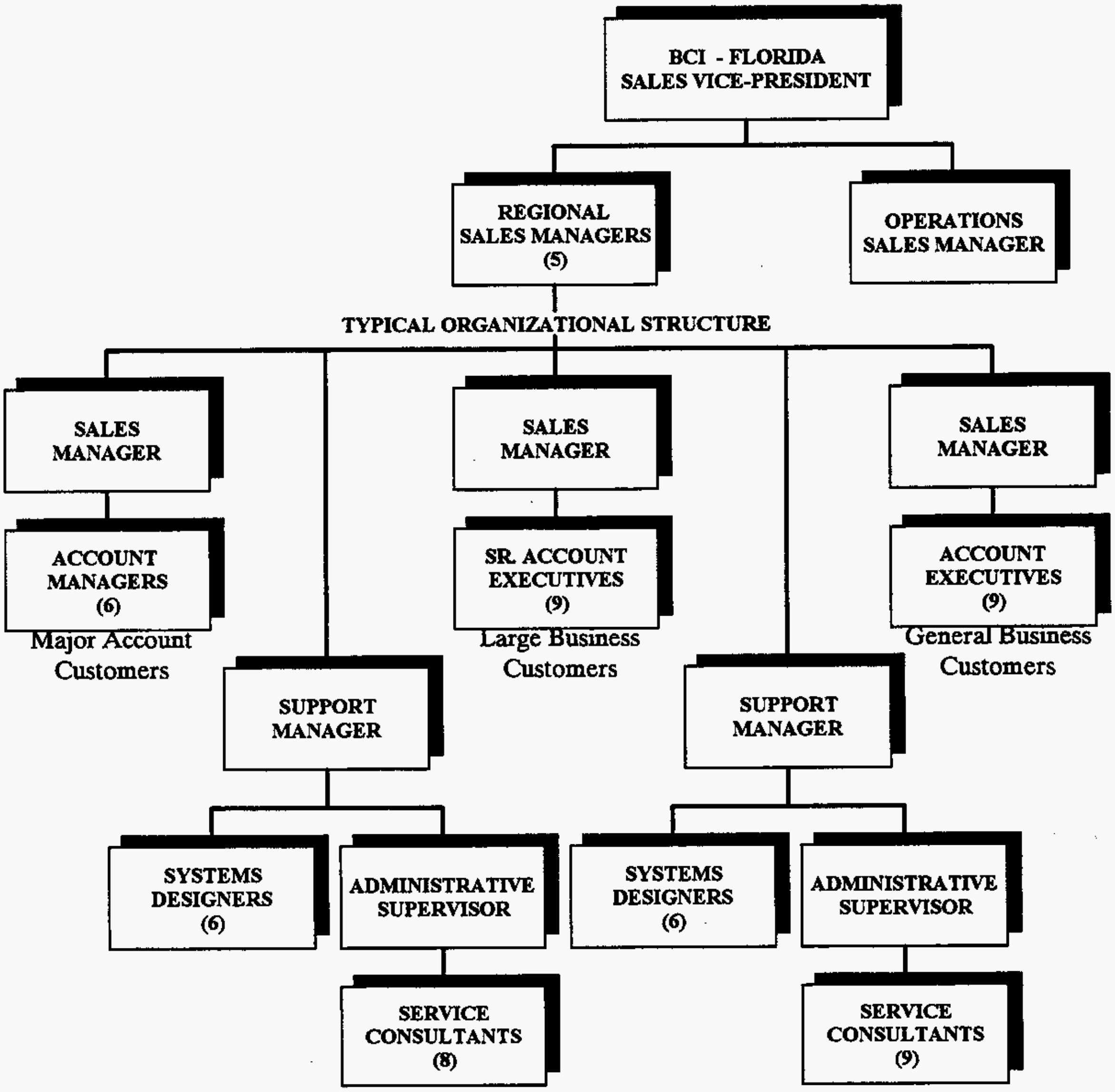
BELLSOUTH COMMUNICATIONS, INC.
PREMISES SALES ORGANIZATIONAL STRUCTURE



SOURCE: AUDIT SURVEY, ITEM 4

EXHIBIT 6

2.2.3 Sales Objectives and Compensation

Similar to Customer Services, a statewide dollar sales objective for Premises Sales is developed centrally by BCI based upon selected economic and business assumptions. As shown on Exhibit 7, the Florida Premises Sales organization has exceeded its sales objectives by a wide margin over most of the years 1989 through 1992. As of June 1993, sales were once again well ahead of the revenue objective.

Based upon the statewide Premises Sales revenue objective, each account executive agrees with his/her manager upon an individual sales objective. Based upon attainment of this sales objective, the "at risk" or sales-based portion of an AEs compensation is determined. Premises Sales personnel are compensated according to a sliding percentage based salary/"at risk" component depending upon the employee's position. For example, AEs servicing Major Account customers receive 75% base salary and 25% upon attaining their individual sales objective. General Business AEs receive 60% base salary and 40% upon attaining the sales objective. Account executives are eligible for other incentives such as salary escalator payments for exceeding the sales objective.

Additional incentive programs included "significant contribution bonuses" for significant customer base protection and revenue growth activities, and cash bonuses tied to limited deployment products and short-term incentive programs. Relative to total base salaries, these Premises Sales incentive program awards were small, totalling just $49,600 in 1992, having decreased from $87,019 in 1989.

AEs are also eligible for the new T.E.A.M. (Team Excellence Award for Managers) Incentive Award bonuses based upon team attainment of specified objectives. The T.E.A.M. awards replaced the former Management Team Incentive Awards and Individual Incentive Awards in 1992.

2.3 *Interconnection Services*

2.3.1 Sales Function

The Interconnection Services organization (formerly known as Carrier Services) is a unit of the BellSouth Telecommunications' Marketing Group that provides services to interexchange carriers (IXCs), resellers, and wireless service providers. Although Interconnection Services also includes functions such as serving customer-owned coin-operated telephones (COCOT), this audit focussed only upon the sales unit of the organization, directed by the Sales Vice-President. Services sold by this group include switched and special access to the local network, billing and collection services, and directory data.

BELLSOUTH COMMUNICATIONS INC. PREMISES SALES
REVENUE OBJECTIVES VS ACTUAL REVENUE

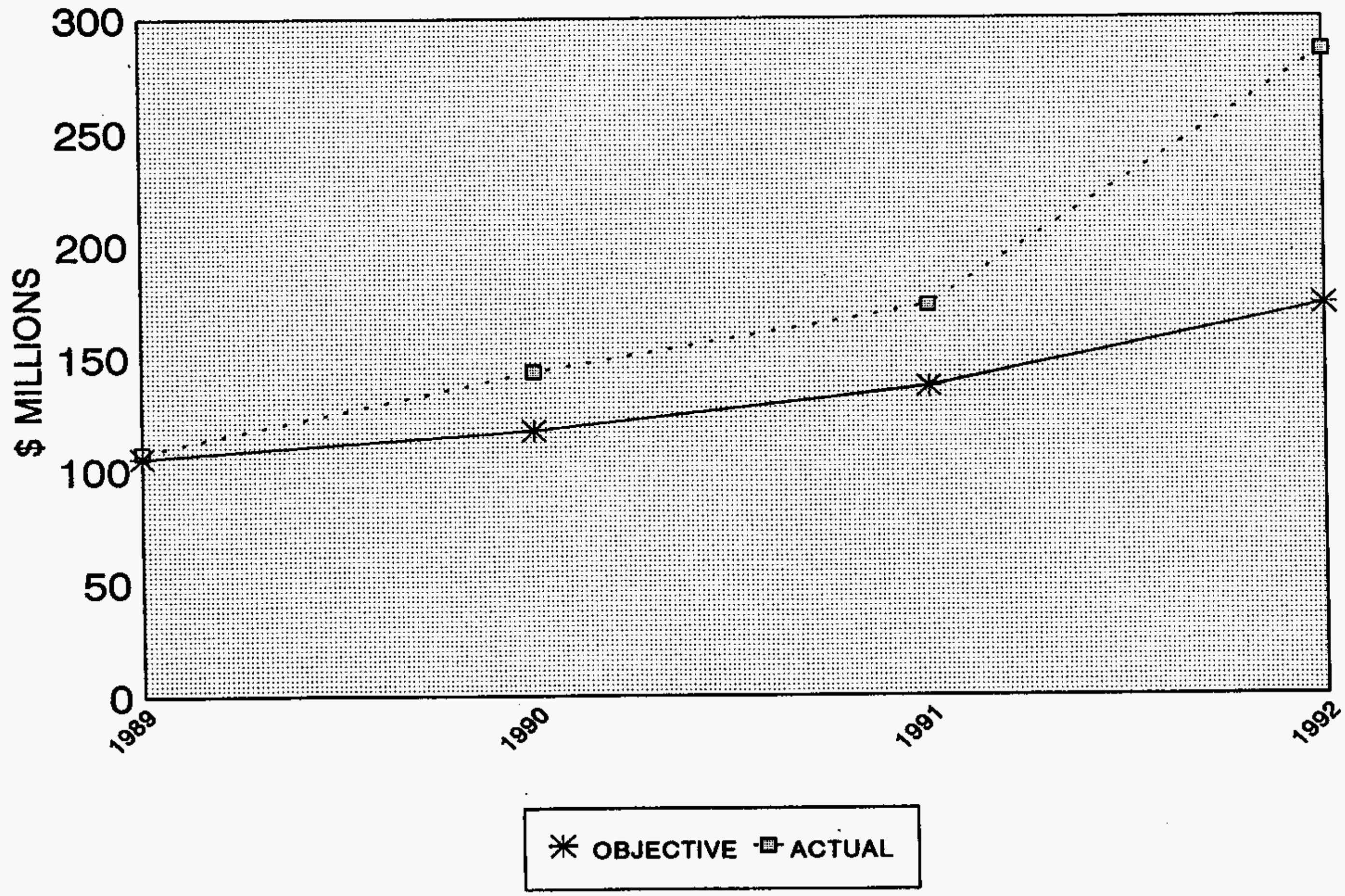


EXHIBIT 7

SOURCE: Audit Survey Item 6

Because the carriers and other customers served by Interconnection Services are large volume users of a variety of complex and changing services, they are served by account teams rather than individual account executives. Each major account team is responsible for: meeting their customer's current needs for products and services, acting as a point of interface or liaison, and anticipating the customer's needs. The latter function is particularly important due to the pace of regulatory and technological changes, and competition from alternative access providers. By emphasizing new product development and forward-looking attention to customer needs, the Interconnection Services organization attempts to protect these valuable customer relationships and the associated revenue base.

Network access may be sold through an access order, typically requested by the IXC in conjunction with the sale of a DS1 to an end user. Upon receiving the request, the network access section of the IXC account team issues a service order and sends a Firm Order Confirmation to the IXC to verify the details of the order. The design layout is then prepared, sent for approval by the IXC, implemented and tested. Finally, on the agreed-upon due date, billing and traffic begin. Generally, Interconnection Services completes routine orders within two days. The Network Access section of the IXC account team is also responsible for access charge billing.

Many services, such as billing and collection of individual IXC customers are provided through contracts. The consumer services section of the account team coordinates the negotiation of changes to these agreements and other modifications such as revisions to bill formats. In addition, this section of the account team coordinates with the carrier regarding individual customers' selection of their long distance carrier.

2.3.2 Organizational Structure

Due to the need to provide access and related services uniformly to regional customers throughout the BellSouth states, the Interconnection Services organization for the nine BellSouth states is based at BellSouth Telecommunications' headquarters in Atlanta and Birmingham. As shown on Exhibit 3, Interconnection Services is headed by the division Vice President who reports to the Marketing Group President. The sales unit includes the major account teams (serving AT&T, MCI, and Sprint), a similar unit serving other carriers, and a staff support group.

Each major account team is overseen by a Director who also provides high-level liaison with IXC top management. All members of major account teams are management level employees, which according to Company management is due to the high level of responsibility involved in servicing these vital customers.

2.3.3 Sales Objectives and Compensation

The Interconnection Services organization's regional revenue objective is developed from the bottom up, with each operating unit developing its own individual revenue estimate. For example, the AT&T major account team may set its goals based upon recent sales trends, known future sales from products still under development, anticipated sales of new products, the impact of specific regulatory rulings, and staffing or other known budget constraints. These objectives are revised at mid-year to consider the impact of unforeseen developments such as regulatory delays or the impact of changes in the economy.

Due to the team nature of the sales produced by their groups, Interconnection Services employees do not have individual sales objectives per se. However, a particular manager may be assigned responsibility for a particular segment of the team's objective. Managers in the Interconnection Services sales unit receive a base salary and are eligible for semiannual bonuses. These bonuses are awarded for significant accomplishments in one or more of the following areas:

- customer base protection
- competitive wins
- new applications of service
- product sales
- extraordinary customer service
- extraordinary sales plan execution

A review board, comprised of the Interconnection Services Vice-President and Assistant Vice-Presidents, awards these bonuses.

2.4 *Direct Marketing Center*

2.4.1 Sales Function

The Direct Marketing Center (DMC) is a specialized unit of BellSouth Telecommunications' Customer Services Staff organization. The DMC provides targeted marketing of products and services to residential and small business customers throughout the BellSouth states. The DMC receives responses from direct mail and television advertising aimed at residential and small business customers. Through their special marketing methods, the DMC can stimulate additional sales, capture marketing and advertising data. This allows Southern Bell to efficiently employ marketing dollars to contact large numbers of customers.

The DMC receives and responds to residential and small business customers' inquiries about optional vertical services via mail and telephone. Approximately 55% of these inquiries are mail responses, while 45% are telephone responses. These responses provide information used by BellSouth Telecommunications to assess the effectiveness of its advertising and market targeting. For example, mail responses are coded to identify the targeted customer group and mailer that successfully elicited a response.

Customer service representatives in the DMC employ the same sales techniques and sales processing steps used in the Customer Service Centers. A major difference in DMC operations is the use of contractors, such as DialAmerica to perform these same services. DialAmerica provides overflow coverage for the DMC on nights and weekends, responding to customer inquiries just as Southern Bell CSRs do. A limited computer interface allows a DialAmerica representative to access a residential customer's current optional service information, while blocking other confidential information. Similarly, DialAmerica is provided limited access to BellSouth Telecommunications' Direct Order Entry (DOE) system for inputting service orders for residential services sold. DialAmerica can only input Custom Calling Services, TouchStar Services, and Calling Cards. All other services must be input by DMC personnel.

Significantly, no sales solicitation efforts for the DMC have been targeted to Florida residential customers since July 1992. This decision was made to avoid possible negative customer reaction to active sales solicitation because of allegations of improper sales activity being investigated by the Commission in Dockets 900960/920260. However this situation will be addressed in these dockets and eventually will be resolved in the minds of customers. The Company may choose to reconsider this decision at some future time, and reinstate marketing efforts among Florida customers. If Florida marketing efforts are resumed, and carried out through vendors such as DialAmerica, Southern Bell should provide controls on vendor operations comparable to those governing its own efforts.

2.4.2 Organizational Structure

The DMC provides centralized marketing services in all nine BellSouth states as part of the regional Customer Services staff organization (Exhibit 3). Before 1992, Southern Bell and South Central Bell each operated a separate DMC to serve their respective four- and five-state areas. The two DMCs were each merged into a single region-wide facility after 1991 as a cost saving measure.

The DMC is staffed by 40 to 50 customer service representatives organized into work groups supervised by 4 assistant managers. The center is directed by a manager who reports to the Operations Manager for Customer Services' headquarters staff. Additional clerical staff perform service order input and similar support functions. Headquarters staff personnel also support DMC operations but are not involved in the sales process.

2.4.3 Sales Objectives and Compensation

Sales objectives are set annually for the DMC by the center's manager based upon advertising plans, product introduction, and recent sales trends. Separate objectives are set for internal DMC revenue production and for contract vendor revenue production. Actual revenue attainment by the DMC has not matched revenue objectives in recent years, as shown on Exhibit 8. Two main causes of this disparity are the curtailment of Florida-targeted efforts in July 1992, and the transfer of small business service sales to the TeleMarketing Center in January 1992 (discussed in section 2.5.1). Since the DMC's role is totally dependent upon customer response to advertising, revenues vary with the

DIRECT MARKETING CENTER Florida Revenue Objectives vs. Actual Revenue ($ millions)				
Year		Revenue Objective*	Actual Revenue**	Percent Variance
1989	DMC Vendor	NA NA	$5.9 combined	NA NA
1990	DMC Vendor	$3.0 NA	$2.7 $3.1	(10%) NA
1991	DMC Vendor	$3.5 $1.9	$1.9 $2.0	(46%) 5%
1992	DMC Vendor	$2.7 NA	$1.8 $1.3	(33%) NA
1993***	DMC Vendor	$0.5 $0.4	$0.4 $0.5	(20%) 25%

*NA indicates no individual state objective set.
**Basis of calculation: 1989-91=annualized revenue plus one-time charges, 1992=6 months revenue plus one-time charges, 1993=6 months revenue without one-time charges.
***Through 6/30/93. Inbound sales only.

EXHIBIT 8 *Source: Audit Survey Item 6, Document Request 6, Item 17.*

effectiveness and volume of advertising efforts. During the first half of 1993, DMC sales fell short of the revenue objective, while the contractor sales exceeded the revenue goal.

DMC customer service representatives earn hourly wages under the CWA contract. Managers earn a salary including the management incentive award. Since 1989, the DMC has participated in the MiBanc incentive program, although the basis both for eligibility and the calculation of awards has changed. From 1989 through 1991, management employees participated in MiBanc, and the gift certificate credit was awarded to the top revenue producers. Beginning in 1992, managers were not eligible and awards were based upon CSRs exceeding their individual sales objective. During the years 1989 through 1991, average participant awards were $941, $952, and $1,060, respectively. In 1992, the average dropped to $415, and 1993 awards are budgeted at $421 per participant.

2.5 *Telemarketing Center*

2.5.1 Sales Function

Like the DMC, BellSouth's Telemarketing Center (TMC) is a specialized unit of the Customer Services headquarters staff. TMC marketing efforts are directed at small business customers with less than seven access lines. Telemarketing sales representatives (TSRs) at the TMC perform outbound cold-calling to small business customers. Telemarketing sales representatives work from assigned lists to identify customer prospects. TSRs prequalify prospects by noting the services and equipment already employed, the customer's toll history, calling patterns, and credit history. TSRs' efforts are frequently coordinated with advertising campaigns, direct mail, and new product availability.

Through the TMC, large numbers of small business customers can be reached and informed more cost-effectively than would be possible through in-person calls by an account executive. The services sold by TSRs include: the vertical network services also available to residential customers, WATTSaver® service, additional lines and hunting, Usage Based Calling Plans, and 800 service. Sales efforts center on following Southern Bell and South Central Bell advertising campaigns, direct mail advertising, and new service offerings.

From 1988 to January 1992, the TMC function was to sell customer premises equipment (CPE). In January 1992 CPE sales duties were reassigned, and the TMC role was redefined. This new role was the sale of vertical network services to small businesses, a task previously handled by the DMC.

Like the DMC, no sales efforts are currently being made by the TMC in the Florida market, but for a different reason. For a number of years, the TMC has noted very weak results from its efforts in the Florida market as a whole, particularly in South Florida. In comparison to customers in other states, Florida business customers react negatively to any telemarketing approach. Except for limited efforts in November 1992 and July 1993 (both of which failed to produce satisfactory results), the TMC has avoided the Florida market to focus its efforts in more productive areas. TMC management does not plan any sales efforts directed at Florida customers in the foreseeable future.

2.5.2 Organizational Structure

The TMC provides centralized marketing services in all nine BellSouth states as part of the regional Customer Services staff organization (Exhibit 3). Before 1992, Southern Bell and South Central Bell separately operated telemarketing centers located in Atlanta and Birmingham. The merger of these facilities in January 1992 coincided with the definition of the TMC's new role.

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TMC staffing is authorized to include up to 50 TSRs and support personnel, organized into work groups supervised by four assistant managers. The center is directed by a center manager. Clerical support staff perform service order input and similar support functions. Headquarters Staff personnel also support TMC operations but are not involved in the sales process. Unlike the DMC, the TMC employs no contractors to assist in its operations.

2.5.3 Sales Objectives and Compensation

TMC sales objectives are set annually on a region-wide total basis and not separately by state. Revenue attainment is measured through a system of weighted sales credit dollars and can be tracked by state. Florida revenue sales credit in 1992 was just $2.0 million out of a region objective of $49 million, and as of June 30, 1993 sales credit totalled $0.4 million out of a total objective of $30 million. These figures suggest the relative insignificance of Florida sales to total TMC operations.

TMC sales representatives and managers receive a base salary plus an "at risk" base amount (equal to 50% of base salary for TSRs) by attaining individual sales objectives. Incentive payments are awarded for exceeding 100% of the annual sales objective. Due to this open-ended performance-based compensation system, the TMC has not participated in MiBanc or similar programs.

3.0 SALES PROCESS INTERNAL CONTROLS

3.0 SALES PROCESS INTERNAL CONTROLS

3.1 Customer Services Department

The Customer Services Department has traditionally employed direct monitoring or observation of customer contacts to allow managers to assess the quality of customer service representatives' efforts in sales and service. Currently, four types of customer contact monitoring serve varying internal control purposes:

- evaluative monitoring
- Centralized Observing Team
- Quality Efficiency Skill Team
- self-evaluation monitoring

Other controls surrounding the Customer Services sales function include:

- customer confirmation letters
- itemized monthly billing statements
- internal audits

Each of these controls is discussed separately in sections 3.1.1 through 3.1.7. For purposes of comparison, characteristics of the four major sales- and service-related internal controls are summarized in Exhibit 9.

3.1.1 Evaluative Monitoring

Through "evaluative" monitoring, managers periodically observe each CSR's handling of customer calls to assess individual performance in service and sales. Evaluative monitoring has long been the primary method of customer contact observation. However, under the terms of an August 1986 Memorandum of Agreement with the CWA, the Company has been required to turn on a special "indicator light" to notify CSRs when evaluative monitoring is being conducted. Evaluative monitoring also may be performed in the CSR's presence at his/her work station.

A prescribed number of evaluative customer contacts is observed by managers each quarter to assess each CSR's performance in handling customer calls. At least six customer contacts per quarter are observed if the CSR was rated "above satisfactory" at his/her last review, 12 contacts for satisfactory-rated employees, and 18 for new CSRs or those rated "less than satisfactory." Prior to 1993, nine observations per quarter were required for "known good performers" and 18 for all other CSRs. An improvement in current procedures now requires that 50% of the contacts observed include sales of services. This requirement

SOUTHERN BELL - FLORIDA Customer Service Department Sales and Service Monitoring Controls Comparison				
	Evaluative Monitoring	**Centralized Observing Team (COT)**	**Quality Efficiency Skill Team (QUEST)**	**Self-Inspection Monitoring**
Performed by	Fla. Customer Sales & Service Center (CSSC) work unit Managers & Assistant Managers	3 Fla. Customer Services Assistant Managers, rotated weekly, directed by COT leader	BellSouth Telecommunication s Customer Service Staff (Atlanta)	Fla. Customer Service Staff
Purpose	Individual service representatives' job performance (sales & service)	Fla. work unit performance (sales & service), quality inspection and support	Regionwide work unit performance (sales & service) ethics violation detection	Optional service disclosures, confirmation letters, ethics violations
Frequency & Nos. of Observation	6 to 18 quarterly contacts per service representative, 3 to 9 must be new, transfer or change orders	302 Fla. customer contacts observed weekly covering residential and small business work units	72 Fla. customer contacts observed weekly covering all CSSC work units	30 annual contacts per sales work unit, 15 must include sales of services
Results Received and Reviewed By	Customer Sales & Service Center (CSSC) work unit Managers & Assist. Managers	State President, Cust. Svc. VP, Gen. Mgr.-Fla., Oprns Mgrs., COT leader, work unit Mgrs. & Assist. Mgrs.	Cust. Svc. VP, Gen. Mgr.-Fla, Oprns. Mgrs., COT leader, work unit Mgrs. & Assist. Mgrs.	State President, VP Cust. Svc., Gen. Mgr.-Fla., Oprns. Mgrs., sales work unit Mgrs.
Date of Initiation	August 1986	September 1991	October 1991	January 1993
Notice Given Prior to Observation	Indicator light visible to CSRs being observed	None	None	None

EXHIBIT 9 *Source: Audit Survey Items 8,13,15-18; Audit Interviews 6,7,12,13,19.*

will provide adequate evidence of the CSRs' handling of sales contacts. This assures that each CSR's evaluative monitoring will cover potential sales situations, and situations where the optional services disclosures are required.

Besides using customer contact monitoring in conducting performance reviews, managers may use monitoring in one-on-one "coaching" for skills development, or for general service quality monitoring. If instances of sales fraud or customer abuse are observed during either evaluative or service quality monitoring, this evidence may be used in disciplinary action against the employee. However, the Company's 1991 internal audit of Customer Services (No. F10-24-34-A-SAF) found that [redacted] This audit is discussed in more detail in section 3.1.7.

3.1.2 Centralized Observing Team

The second form of customer contact monitoring is performed by the Centralized Observing Team, or COT. This program was initiated by the Department's General Manager-Florida in September 1991, just after the 1991 Customer Services sales audit which questioned the effectiveness of evaluative monitoring at detecting improper sales practices.

In contrast to individual evaluation monitoring, the purpose of the COT monitoring is to monitor overall service quality for operating units, as indicated on Exhibit 9. For example, the unit's training needs, or adherence to a policy change, is assessed through COT, while individual performance is not. Therefore, under the 1986 Memorandum of Agreement with the Communications Workers of America, Southern Bell is authorized to use evidence obtained through COT in investigating possible instances of ethics violations or customer abuse.

Through the COT, a weekly random sample of customer contacts from each Customer Service Center statewide is observed from remote locations (i.e. other Service Centers) around the state, documented and analyzed. In 1991, the weekly COT sample size was set based upon a statistically significant size sample of total call volume. The weekly customer contact observation sample size was based upon a goal of observing 20% of the Florida customer service representatives each month. This same sample size is still in use, consisting of 238 residential customer contacts and 64 business customer contacts. Customer service representatives have no means of telling that they or their sales center are under observation. Since the observations occur continuously on a random basis each week, and are performed in a location where the observers cannot be seen, CSRs can only assume that any call may be under observation.

The observation duties are rotated, with three different assistant managers from around the state serving as COT observers each week. This provides fresh and objective perspectives, and an opportunity for assistant managers to compare their group's performance to other areas in the state. The COT observers document the prescribed number of customer contacts from each Customer Service Center in Florida. Each contact is scored for errors or omission in the following areas:

- manner and professionalism
- complete information
- accurate information
- effective approach
- recapping order
- correct clerical action
- service added without negotiation
- questionable sales technique
- deviation from procedures
- optional services disclosures
- used/missed bridging opportunity

In contacts resulting in a sale, the observer also compares the service order issued to the conversation record to verify that the customer received what was requested. This verification is documented through attaching a printout of the service order to the contact evaluation form for that call.

The Centralized Observing Team process is diagrammed on Exhibit 10. Any sales contacts observed involving questionable sales practices or customer abuse, are brought to the attention of the Customer Service Staff's COT coordinator. The observed behavior can range from misquoted tariffed rates to adding services not discussed with the customer. What may begin as a technical procedural violation observed through the COT may lead to documentation of sales fraud upon further monitoring and inquiry.

The COT coordinator then notifies the CSR's Operations Manager and first-level manager of the need for an investigation by issuing a Centralized Observing Referral Form. This form describes the sales contact that initiated the inquiry. A Centralized Observing Referral Response form is provided to the CSR's manager indicating the specific information to be obtained during the inquiry.

To determine whether the perceived infraction was merely an error or an intentional act, the manager performs and documents additional remote observations of the CSR. Managers are instructed to observe the same type of transaction as the one in which the perceived infraction occurred, to conduct monitoring during times of day when few managers are present, and to have more than one manager perform the monitoring.

Once the additional observations are complete, the manager also may contact customers involved to obtain their description of the transactions. At this point, the manager usually asks the employee to explain the questionable action. Once all the information is reviewed, the manager determines what disciplinary action, if any, is appropriate. If such action is taken, he/she will seek assistance from the Company's Legal and Labor Relations departments. The manager's decision and actions are reported back to the COT coordinator on the original inquiry form, which is retained with the documentation of the inquiry.

SOUTHERN BELL - FLORIDA
CENTRALIZED OBSERVING TEAM PROCESS

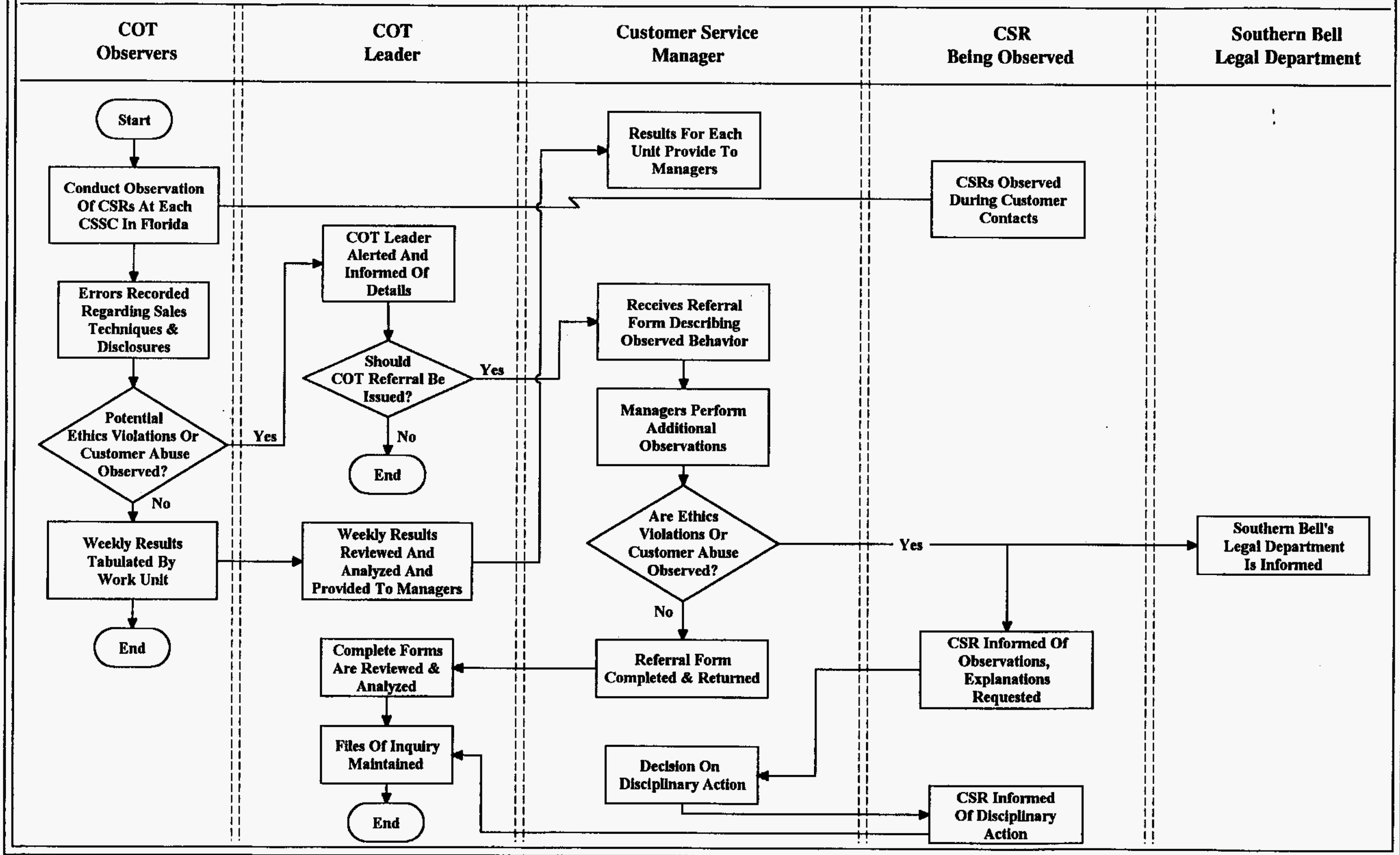

EXHIBIT 10

SOURCE: Audit Survey, Item 16

During 1992, 29 ethics inquiries were triggered by the COT, resulting in disciplinary action against seven employees, including four terminations for adding services not requested by the customer. The other three disciplinary actions resulted from improper disclosures related to sales of optional services. In the other 22 inquiries, no disciplinary action was taken, however in many cases the managers noted on the inquiry form an intention to conduct additional follow-up monitoring of the employee's customer contacts. According to the Company, by the end of April 1993, another five customer service representatives had been terminated for sales falsification. One of the terminations resulted from a COT referral. During the first six months of 1993, 17 COT-triggered inquiries were conducted. Disciplinary action other than termination was taken against five other CSRs during the period January through April 1993.

3.1.3 Quality Efficiency Skills Team

The Quality Efficiency Skills Team, or QUEST, performs region-wide customer contact monitoring much like Florida's Centralized Observing Team. Monitoring, performed by the Customer Services Department's regional BellSouth Telecommunications staff, began in October 1991. Monthly, QUEST performs observations in each business office in the nine BellSouth states. The sample size target is 25 observations every other month from each management unit, or 150 per year per unit. Based upon a Florida total of approximately 2,000 customer service representatives, this equates to 3,750 observations per year, or 72 per week. In contrast, the COT performs approximately 300 observations of customer service representatives weekly.

The categories rated for each QUEST observation are:

- order accuracy
- manner/professionalism
- information accuracy
- use of bridging techniques
- use of needs-based selling
- rate quoting accuracy
- optional services disclosures

Reports are provided to the Operations Manager summarizing the results for each business office monitored. In addition, comparative regionwide reports are made available to the state General Manager. QUEST reports are also provided to the Customer Services Staff Operations Manager, who is responsible for the Centralized Observing Team. These reports provide percentage error rates that highlight particular areas in need of improvement. Any ethics violations or customer abuse detected through QUEST is treated in the same manner as described for the COT.

3.1.4 Self-Inspection Monitoring

Under the terms of the Company's October 1992 settlement with the Office of the Statewide Prosecutor, annual self-inspection reviews of each Customer Service Center work unit are to be conducted for a period of three years from the effective date. The correct and timely performance of these reviews by the Customer Service Staff organization, are to be verified by the accounting firm of Peat Marwick.

Since the settlement, these reviews have been conducted according to a schedule approved by Peat Marwick. The reviews include monitoring of 30 customer contacts, 15 of which must include sales orders. Self-inspection monitoring is similar to COT and QUEST, except that it focuses upon ethical sales practices without also examining effective use of sales opportunities. As is the case with COT monitoring, the self-inspection reviews note whether specific disclosures regarding optional services are provided by the CSR during the negotiation of the sale. According to the terms of the settlement, the CSR must:

- make clear the optional nature of services not required for basic service
- clearly describe each optional service discussed
- accurately quote the rates charged for each such service
- advise that optional services can be removed any time at no cost

The self-inspection review of each work unit is rated either "satisfactory", "satisfactory with findings", or "significant adverse findings". Work units rated "significant adverse findings" are re-audited within 6 months. Both these, and units receiving reviews rated "satisfactory with findings" are required to submit action plans outlining improvements to be made to resolve the findings noted. If an apparent ethics violation is discovered through the self-inspection monitoring, the same inquiry process used in COT is employed.

Finally, the self-inspection reviews are also required to verify that confirmation letters are provided to customers when services are added to their accounts. This control is discussed in section 3.1.5.

Of the 27 reviews and re-reviews conducted through July 5, 1993, eight were rated "significant adverse findings." The primary cause of these ratings was a high rate of failure by CSRs to include all of the above-listed required disclosures relating to optional services.

One instance of disciplinary action for an ethics violation resulted from the customer contact monitoring conducted for these 27 self-inspection reviews. The customer service representative involved was observed to have added a service not requested by the customer. Similar actions by the employee on other occasions were confirmed through further investigation. As a result, this employee was terminated. Other self-inspection reviews led to three separate inquiries of CSRs who also appeared to have added services not negotiated with the customer. However, in all three cases, further observations of customer contacts handled by these employees indicated that disciplinary action was not warranted.

The earliest self-inspection reviews detected a few instances of failure to send sales confirmation letters, but the causes have apparently been eliminated. In three of the first five reviews conducted, one confirmation letter was found not to have been sent in each instance. These errors, detected in January and March 1993, were attributed to programming errors. No further failures of this type were noted in "significant adverse findings" reports over the period April 1993 through July 1993.

3.1.5 Sales Confirmation Letters

Since September 1991, the Company has used confirmation letters to verify changes initiated by customers that added charges to their account. In March 1993, the Company also began sending confirmation letters for orders resulting in changes to customer records that do not increase charges.

The various confirmation form letters are used to inform the customer of the specific service added, the charges involved, and provide the disclosure information discussed in section 3.1.4. The letters remind the customer that the services ordered will be itemized in the next monthly billing statement. Depending upon the particular services sold, the letter may include instructions and other information, such as a Calling Card personal identification number.

These letters are centrally generated by the Customer Instructional Delivery system (CID). Through CID, the generation of confirmation letters is automatically triggered by the processing of the service order. Production control logs are maintained for verification of letters printed and mailed. The segregation of responsibility for this function away from the Customer Service Center helps ensure that this control will function as intended to notify customers of changes to their accounts, and verify that service requests are executed as negotiated.

3.1.6 Itemized Billing Statements

In January 1993, the Company began providing itemized service information in each monthly bill to ensure that customers are aware of all products for which they are being charged. Southern Bell plans to change the itemization portion of the monthly bill beginning in October 1993 to make it easier for customers to read and understand.

3.1.7 Internal Audits

Since 1989, two internal audits applicable to the Customer Service Center sales function have been conducted. The audit entitled "Sales Awards Programs - Customer Services" (No. F10-24-34-A-SAF) was completed in September 1991. A follow-up audit entitled "Contact Sales Activities - Customer Services (F20-24-34-R-SF) was completed in April 1993 to review the conditions noted in the 1991 audit and to determine whether corrective actions had been taken.

An additional audit entitled "Contact Sales Activities - Customer Services" was begun early in the fourth quarter and is expected to be completed late in 1993. This audit is intended to examine sales for optional services, controls over the administration of sales programs, and the adequacy of sales methods and procedures.

The 1991 audit was rated "significant adverse findings." One finding concluded, [redacted]

This audit also found that [redacted] This audit appears to have provided full or partial impetus for many of the control changes implemented since it was conducted. These changes included the formation of COT and QUEST, the current use of confirmation letters, and the standardization of monitoring procedures.

The re-audit of Contact Sales Activities, completed in April 1993 was rated "Satisfactory with Findings." As in the 1991 audit, the re-audit report noted that [redacted] one CSR was terminated and another was induced to resign.

In response to this audit, Southern Bell required all contact sales employees to read and sign a Form 3181-A, which warns that violations of Southern Bell's ethics policies may result in termination without the normal progressive disciplinary actions of counselling, warning and suspension. The signed 3181-A forms retained in each employee's personnel files provide a warning to CSRs that sales falsification will be dealt with severely.

3.2 Premises Sales Organization

The Premises Sales organization relies upon processing controls due to the nature of the sales methods used by its account executives. For example, AEs' mode of operation does not lend itself to the direct customer contact monitoring used in Customer Services.

Instead, the controls for the Premises Sales organization are centered in the area of sales processing controls. The work flow of processing and documenting sales is displayed on Exhibit 11.

3.2.1 Sales Confirmation Notice Forms

Once an account executive has completed the preliminary negotiation of a sale, he/she prepares a Support Assignment Sheet detailing the customer's request and the support needed from system designers and service consultants. The AE coordinates with the system designer if any design work is required. Next the assigned service consultant(s) prepares the documents necessary for the AE to generate the service order.

At the same time, the AE prepares a Sales Confirmation Notice, a four-copy form that serves a variety of functions. One copy goes to the customer to confirm the sale agreed upon. Another copy is forwarded to the BCI compensation coordinator to document the sales credit to be awarded upon execution of the service order. One copy is matched by the local administrative supervisor against the service order, who also verifies that the AE's sales credit information is correct. The final copy is retained by the account executive for his/her records. The handling of the Sales Confirmation Notice by these various parties ensures that the customer agrees with what is being bought, that the product was actually delivered as agreed upon, and that proper compensation credit is awarded to the AE.

3.2.2 Sales Confirmation Letters

Although the Sales Confirmation Notice serves the same purpose to an extent, the Premises Sales organization in Florida began issuing formal sales confirmation letters to customers in January 1993. The letter is jointly prepared by the AE and the service consultant, and is mailed by the records clerk who also retains a file of confirmation letters to document that they have been sent.

3.2.3 Contract Documentation

Contracts provide a legally binding assurance that both parties agree upon the products and services being purchased. If the sale in question involves contracted sales or service such as ESSX, the executed contract will be attached to the Support Assignment Sheet when submitted. Therefore, the service order prepared by the service consultant will accurately reflect the actual terms of the sale.

In 1992 the standard ESSX service contract form was revised to refer to the pricing attachment, which specifies the installation and service establishment charges and monthly rate. This reduces any possible confusion or opportunity for manipulation that existed before these terms were included in the contract.

BELLSOUTH COMMUNICATIONS INC.
SALES PROCESSING AND DOCUMENTATION

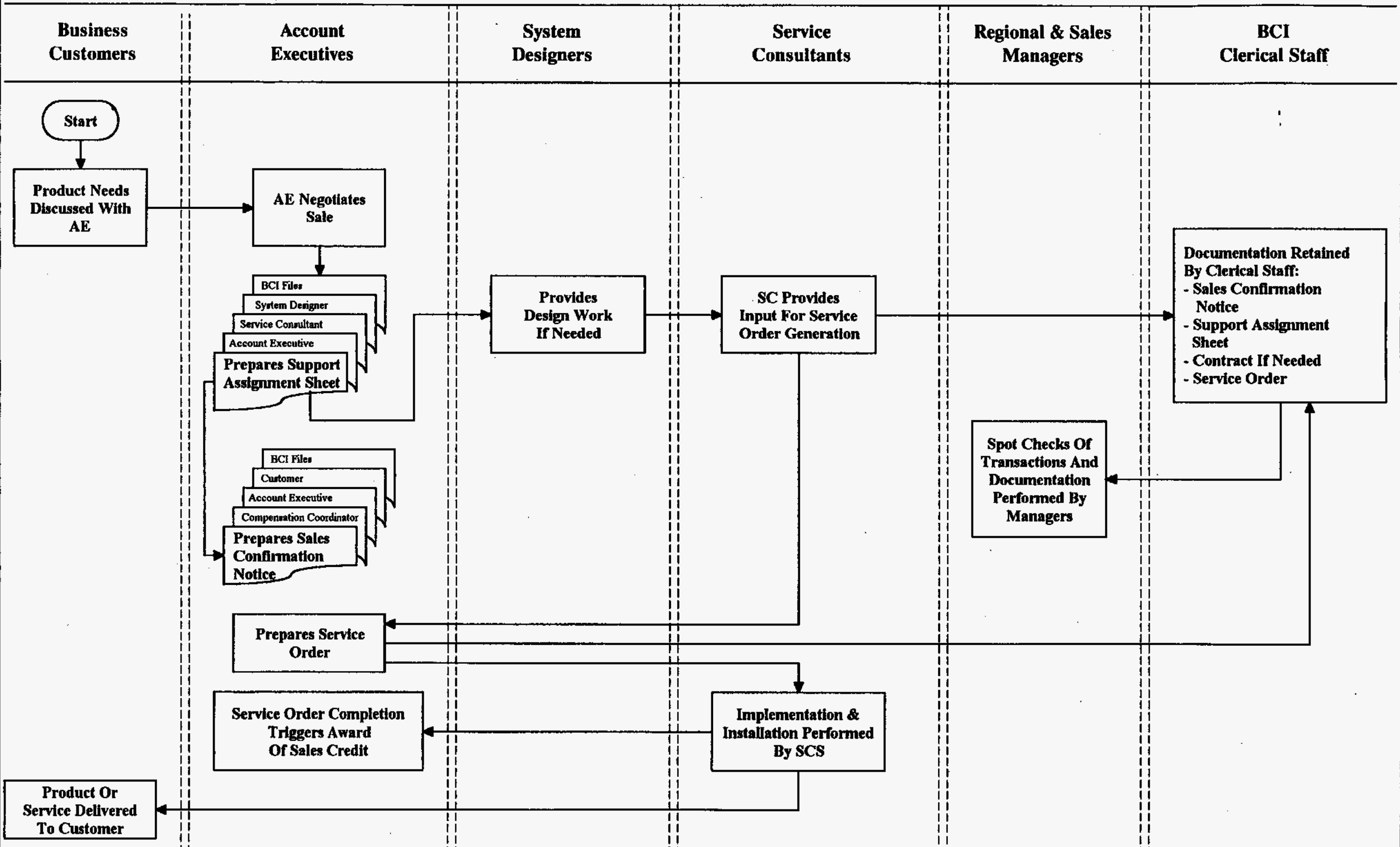

EXHIBIT 11 *SOURCE: Audit Interviews 15, 16*

3.2.4 Supervisory Spot Checks

To monitor the accuracy and integrity of individual sales, managers perform random "spot checks" of transactions, verifying documentation, pricing, and sales revenue reporting. In addition, Sales Managers may call customers to inquire about an AE's satisfactory handling of a sale as a means of verifying the accuracy of the information provided in the documentation. These spot checks are performed on an ad hoc basis and are not consistently documented and retained for review. Currently, documentation is retained in instances where the spot check leads to disciplinary action.

3.2.5 Customer Satisfaction Plan Surveys

Customer Satisfaction Plan (CSP) surveys provide a means of evaluating the handling of a particular account by the assigned AE. These surveys can show whether the AE gives responsive, quality service, or whether the customer experienced problems that could be clues to unethical behavior. Similar to the monitoring of calls in a business office, these surveys provide insight into how an AE interacts with the customer and whether proper procedures and sales techniques are being followed.

Different survey vehicles are used for different sizes of customers. CSP-1 surveys are used for customers in the major business module, CSP-2 surveys are used for large business customers, and CSP-3 surveys are used for general business accounts. CSP-3 surveys are conducted annually, while CSP-2 and 1 surveys are conducted quarterly. CSP-2 and -1 surveys are followed up with a meeting with the AE to discuss the survey results, including specific improvements to be made, if applicable.

3.2.6 Prohibited Referrals

Because of Southern Bell's position as a monopoly local service provider, competitors of its BCI subsidiary's Premises Sales organization must go through Southern Bell in many instances in completing a service order for a customer. If not properly controlled, this situation could lead to anti-competitive practices through abuse of information Southern Bell obtains as the local service provider. For example, if a competitive PBX provider makes a sale and requests addition of lines for a Southern Bell customer, this information could be referred to Southern Bell's Premises Sales for the purposes of counter-selling that customer.

This potential for abuse prompted the FCC to require restrictions on CPE vendors obtaining customer proprietary network information (CPNI). These restrictions, implemented through the Southern Bell Service Order Negotiation/Issuance Operating Standards, require annual written notification be made by customers indicating any CPE vendor (including Southern Bell and its affiliates) from whom the customer wants CPNI withheld. This restriction if exercised, blocks the specified CPE vendor(s) from being given the customer's proprietary network information and employing this information to sell its products.

To further guard against the possible appearance of anti-competitive use of customer proprietary network information, customers who are under contract with a BCI Premises Sales competitor are required to provide BCI with a written request for a price quote. This notification indicates the customer's intention to negotiate a replacement contract with BCI Premises Sales. This notification verifies that the customer has dealt directly with the Premises Sales organization, rather than having been referred from within Southern Bell.

3.2.7 Internal Audits

Since 1989, one Florida internal audit of the Premises Sales organization has been conducted. A 1989 internal audit entitled "Marketing Incentive Salary Plan and Merit Awards" found [redacted] Prior to 1989, AEs were responsible for reporting reductions to their own sales credit in such instances upon the execution of a service order cancelling a service. As a result of the audit, system enhancements were made allowing the service order system to trigger automatic notification of the compensation system outside the control of the AE involved.

3.3 Interconnection Services

Operating in a team-oriented environment, Interconnection Services' basic processes provide for internal review of many transactions. Few transactions are handled by one employee, but are subject to the scrutiny of the various team members who play a role. Many transactions are defined by a formal contract, subject to review by technical and legal personnel. Many non-contract sales are documented by the Firm Order Confirmation that specifies products, services and terms.

Due also to the sophisticated nature of most of the clients served, internal controls are provided by the clients' own scrutiny of transactions. For example, the large carriers will not pay an invoice that does not bear a valid project control number, purchase order number and a verification against their records including cost variance within a specified tolerance range.

No internal audits have been conducted of Interconnection Services since 1989. However, financial audits are conducted by outside C.P.A. firms of access charge billing, and billing and collection services.

3.4 Direct Marketing Center/Telemarketing Center

As units of the BellSouth Telecommunications Customer Services Staff organization, the DMC and TMC employ some of the same controls already described in section 3.1. Itemized billing and confirmation letters protect customers who purchase services through the DMC, its vendor contractors, and the TMC. Customer contact monitoring of the CSRs and TSRs is performed in much the same way as in local Customer Service Centers. In the DMC, two to three observations of each CSR are conducted each month, while in the TMC, three observations are conducted monthly.

Recently, each of these regional centers has improved internal controls by beginning participation in the QUEST program. QUEST evaluation of the DMC began in early 1993 and began in the TMC in August 1993.

In January 1993, the DMC began to use the 2011 sales tracking system used throughout the Customer Services Department for recording sales results. Previously, an in-house system had been in use for at least five years. The change not only ensures standardization with other Customer Services operations, but provides an improved audit trail, and verification of sales reported. The in-house system awarded sales credit based upon the CSR's report of his/her own sales, whereas the 2011 report awards sales credit only upon execution of the associated service order.

In September 1992, the TMC initiated a Quality Assurance program. This consists of random calling of customers recently contacted by a Telemarketing sales representative. The purpose of this effort is to gain direct customer feedback on the overall quality of the Telemarketing sales representatives' sales contacts and follow-up efforts, if applicable. An indirect benefit to internal controls could be information regarding improper sales methods.

4.0 FINDINGS

4.0 FINDINGS

The findings resulting from this audit are discussed below. Each *finding* begins with a statement identifying a concern, issue or problem. The *condition* describes the current situation taking place at the Company. The *standard* explains would should be happening. Finally, the *conclusion* describes corrective or preventive actions that can prevent recurrence of the problem cited.

Finding 1: **Improved internal controls and scrutiny have increased the detection of sales falsification by customer service representatives.**

Condition - (What is happening?)

The most significant improved control is the remote monitoring of Customer Service Department sales by the Centralized Observing Team. This relatively new internal control has proven much more effective than prior means of detecting sales falsification by customer service representatives. Before the Centralized Observing Team's implementation in September 1991, all customer contact monitoring of customer service representatives was performed in the Customer Service Centers by local managers.

The increased effectiveness of COT is underscored by the fact that during the nearly seven-year period January 1985 through August 1991, a total of three customer service representatives were terminated for sales falsification. During the period September 1991 through April 1993, a total of ten such terminations have occurred. From the detection perspective, this may be viewed as a positive development. Conversely, the fact that nine sales-related terminations took place during 1992 and the first four months of 1993 may be cause for concern. This is particularly true in light of the widespread Security investigations conducted by the Company, a sales abuse investigation docket by the FPSC, the requirements of the settlement with the Office of the Statewide Prosecutor, and widespread media attention to allegations of sales abuses.

Standard - (What should be happening?)

Once implemented, effective controls should provide increased deterrence to fraud. Because prior controls were less effective, it is not possible to determine whether instances of sales fraud are increasing or whether detection is increasing because of improved controls. In either event, the effectiveness of controls should be examined periodically. By gathering information concerning the effectiveness of its controls, and the behavior of contact sales employees, the Company can more quickly recognize any need for additional controls or other corrective action. This information should be regularly provided to appropriate levels of management within each of the Company's sales channels examined in this audit. If the Company's recent attempts to stress the importance of integrity and fair treatment of customers are being heeded, instances of sales abuse should decline over time.

Conclusion

Southern Bell-Florida should regularly monitor, analyze, and report trends in detected instances of sales abuse in its various sales channels.

Finding 2: **Investigations of possible ethics violations detected by the Southern Bell-Florida Centralized Observing Team are not performed in a uniform manner by Customer Service Department Managers.**

Condition - (What is happening?)

The Centralized Observing Team provides referrals to Customer Services field managers when their customer contact monitoring detects potential sales fraud or customer abuse. However, managers are free to conduct the investigation as they wish since there are *no* specified guidelines concerning the number of customer contacts to be observed. While one manager may deem a handful of additional observations to be sufficient, another may collect data for several days. Since the manager already has a relationship with the CSR in question, he/she may be influenced by prior perceptions of the employee's integrity or performance.

Standard - (What should be happening?)

To ensure a thorough and consistent investigative effort, managers' actions should be directed by a standardized procedure.

Conclusion

Southern Bell-Florida should develop standard procedures requiring a minimum number of customer contact observations by managers investigating a COT ethics referral.

Finding 3: **The Southern Bell-Florida Centralized Observing Team has not updated the sample size of customer contact observations to ensure a statistically valid sample.**

Condition - (What is happening?)

The Centralized Observing Team based its original sample size in 1991 upon that year's call volume. Because 1992 call levels may have been impacted by allegations of sales and repair records falsification and by Hurricane Andrew, this sample size has not been updated. Without performing such an update, the COT cannot be sure whether its sample is large enough to provide statistically valid conclusions.

Standard - (What should be happening?)

A statistically valid sample should be used to provide accuracy and reliability within a desired confidence level. This sample size should be updated annually so it will more closely reflect the population it represents.

Conclusion

Southern Bell-Florida should update the COT sample size annually based upon the prior year's call volume to reflect a statistically valid sample.

Finding 4: **BellSouth Communications, Inc.'s Premises Sales managers do not consistently document or retain evidence of transaction spot checks conducted for control purposes.**

Condition - (What is happening?)

Random spot-checks of sales transactions are conducted on an ad hoc basis by managers in the Premises Sales organization. However, these spot-checks and their results are not consistently documented or retained to verify that they were performed or what the results were. As a result, continuing problems or violations cannot be proven or may recur.

Standard - (What should be happening?)

Documentation of the reviews should be retained to allow future use of the information provided. This would be of value to substantiate any disciplinary action taken, to establish a pattern of performance and an audit trail for future use, or to provide a means of educating employees about needed improvements. Similar documentation should be maintained for investigations of potential ethics policy violations.

Conclusion

Spot-checks by BellSouth Communications, Inc.'s Premises Sales managers of transactions should be performed, documented, and retained according to a prescribed schedule.

5.0 RECOMMENDED ACTIONS

5.0 RECOMMENDED ACTIONS

The following is a list of recommended actions intended to correct the conditions noted in the findings discussed in Section 4.0. Each recommended action is assigned a priority rating of high, medium or low. An item of high priority is defined as one that would provide immediate benefits to the Company and ratepayers through savings, more efficient use of resources, or correction of internal control weaknesses, and should be addressed by the Company within three months. For an item of medium priority, a medium degree of risk of uncertainty exists. Cost-saving benefits to the Company would not be as substantial, but operational effectiveness and efficiency, or adequacy of controls would be increased. These concerns should be addressed within six months. A recommended action with a low priority is desirable for Company performance, but is not critical to the function being reviewed. The low priority concern should be addressed within 12 months.

1. Southern Bell-Florida should regularly monitor, analyze, and report trends in detected instances of sales abuse in its various sales channels. (High priority)

2. Spot-checks by BellSouth Communications, Inc.'s Premises Sales managers of transactions should be performed, documented, and retained according to a prescribed schedule. (High priority)

3. Southern Bell-Florida should develop standard procedures requiring a minimum number of customer contact observations by managers investigating a COT ethics referral. (Medium priority)

4. Southern Bell-Florida should update the COT sample size annually based upon the prior year's call volume to reflect a statistically valid sample. (Low priority)

6.0 COMPANY COMMENTS

6.0 COMPANY COMMENTS

6.1 Recommended Action Number 1

Southern Bell-Florida should regularly monitor, analyze, and report trends in detected instances of sales abuse in its various sales channels. (High priority)

Company Response: Agree [X] Disagree [ ]

Company Comments:

Southern Bell does monitor, analyze, and report instances of sales abuse in Florida. With the implementation of COT we have not only been able to detect sales violations, but also looked at overall service quality and identified areas of improvement.

We will continue to analyze centralized observing and self inspection reports to provide management with necessary data to detect trends and control weaknesses.

6.2 Recommended Action Number 2

Spot-checks by BellSouth Communications, Inc.'s Premises Sales managers of transactions should be performed, documented, and retained according to a prescribed schedule. (High priority)

Company Response: Agree [X] Disagree [ ]

Company Comments:

Currently, sales managers' "spot checks" of transactions completed by Premises sales contact employees, are documented and retained until follow up is completed with the employee. The "spot checks" that show satisfactory performance are not documented or retained.

All "spot checks" performed by Premises sales managers will be formalized to ensure that all "spot checks" are documented and retained for evaluation purposes.

6.3 Recommended Action Number 3

Southern Bell-Florida should develop standard procedures requiring a minimum number of customer contact observations by managers investigating a COT ethics referral. (Medium priority)

Company Response: Agree [X] Disagree [ ]

Company Comments:

Instructions are provided to managers on how to proceed with an investigation on a COT ethics referral, including, but not limited to contacting the customer. The number of observations taken by the manager is a judgement decision, however, there should be a sufficient number to determine that an ethics problem does or does not exist.

The instructions provided to managers will be revised to quantify the range of observations to be performed on a COT referral. This will standardize the observation requirement for an investigation.

6.4 Recommended Action Number 4

Southern Bell-Florida should update the COT sample size annually based upon the prior year's call volume to reflect a statistically valid sample. (Low priority)

Company Response: Agree [X] Disagree [ ]

Company Comments:

The COT sample size is the most extensive used by any of the monitoring processes to measure the quality of service we provide to our customers. Results are used by management to coach and develop the service representative. The opportunity for assistant managers to observe, as a member of the COT, provides the State Staff additional information to verify and standardize observation criteria.

The BST statistician will evaluate the current and previous years' calls volume to validate the current sample size or to provide us with new guidelines to ensure a statistical valid sample for COT purposes.