

Talbott  
Vandiver *WV*

FLORIDA PUBLIC SERVICE COMMISSION  
Capital Circle Office Center • 2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

MEMORANDUM

May 30, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)  
FROM: DIVISION OF LEGAL SERVICES (EDMONDS) *[Signature]*  
DIVISION OF COMMUNICATIONS (MOSES) *[Signature]*  
RE: DOCKET NO. 960617-TI - MCI TELECOMMUNICATIONS, CORP. -  
INITIATION OF SHOW CAUSE PROCEEDINGS FOR VIOLATION OF  
RULES 25-24.620, 25-24.630, 25-24.471, 25-24.515, AND 25-  
24.516, FLORIDA ADMINISTRATIVE CODE  
AGENDA: 6/11/96 - REGULAR AGENDA - PROPOSED AGENCY ACTION -  
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\CMU\WP\960617TI.RCM - PLACE AFTER  
DOCKET NUMBER 960492-TP

CASE BACKGROUND

Probably stimulated by recent news articles (pages 6-10) about overcharging for inmate calls by North American Intelcom, the Commission is now receiving complaints from inmate families concerning a \$2 surcharge increase added by MCI on each inmate call effective February 29, 1996. MCI is the new Department of Corrections (DOC) contract carrier and its new rates exceed NAI's, thus recipients of inmate collect calls are complaining to both DOC and the Commission.

Staff believes MCI's new rates exceed the rate cap required by Rule 25-24.630. Consequently, staff asked MCI why it should not withdraw its tariff and refile it to conform with applicable rules and refund all charges in excess of the rate cap (page 11). MCI responded that its tariff was Commission approved and therefore is not a violation of Rule 25-24.630 (pages 12-13). Staff disagrees. Staff believes a company cannot file a tariff in violation of the Rules. If staff misses a problem with the tariff, staff believes that carriers filing tariffs still have an obligation to conform to all applicable rules and in staff's opinion, MCI has not.

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In addition, staff has learned that MCI began carrying intraLATA calls in violation of Rules 25-24.620(c) and 25-24.515(7). Staff therefore makes the following recommendations.

#### DISCUSSION OF ISSUES

**ISSUE 1:** Should MCI Telecommunications, Inc. be required to show cause why it should not be fined or have its certificate cancelled for violation of Rules 25-24.515(7), 25-24.471(4)(a), 25-24.620(1)(c), 25-24.630(1)(a), and 25-24.630(1)(f), 25-24.515(5), and 25-24.516 Florida Administrative Code; be ordered to refund the overcharges resulting from billing in excess of the Commission approved rate cap, and refund overcharges resulting from overtiming of calls to the affected consumers and be ordered to refile its tariff in compliance with the rules?

**RECOMMENDATION:** Yes.

**STAFF ANALYSIS:** MCI Telecommunications, Corp. is providing both interexchange company (IXC) and pay telephone service (PATS), to the correctional facilities. Staff is identifying in the following analysis the multiple rule violations governing the provision of pay telephone service, interexchange service, and operator services. MCI as the provider of all three services to the inmates and their families is clearly required under the rules as defined below to route intraLATA and local traffic to the local exchange company.

#### **RULE 25-24.515(7)**

Rule 25-24.515(7), F.A.C. requires all intraLATA calls, including operator service calls, be routed to the local exchange company. MCI admitted in a letter (pages 14-15) dated May 14, 1996, that it has been carrying intraLATA calls in certain local exchange company territories because of a database discrepancy. Staff believes MCI should have completed testing its equipment prior to providing service to ensure compliance with the rules. It was not until notified by staff that MCI investigated this problem.

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**RULE 25-24.471(4) (a)**

Rule 25-24.471(4)(a), F.A.C. requires that the local exchange company be the sole carrier of 1+, 0+, and 0- intraLATA and local traffic. Therefore, MCI could not handle this traffic using its interexchange company authority.

**RULE 25-24.620(1) (c)**

Rule 25-24.620(1)(c), F.A.C. requires all operator service providers to route all end-user dialed 1+, 0+, and 0- intraLATA local and toll calls to the local exchange company. MCI is performing operator services functions to the inmates and their families, therefore, MCI is required under this rule to route intraLATA toll and local calls to the local exchange company.

Even using its alternative local exchange company authority, MCI is still precluded by law (Chapter 364.052, Florida Statutes) from carrying intraLATA and local traffic in rate base regulated companies' territories. As with other rules, MCI could have petitioned for the authority, but did not.

**RULE 25-24.630(1) (a) & RULE 25-24.516**

MCI further has apparently violated Rule 25-24.630(1)(a), F.A.C. which requires all operator service providers to charge and bill end-users no more than the Commission-approved rate for intrastate calls. This brings us to the main crux of this recommendation. It is our understanding that MCI is rating the calls using an automated operator system through a pay phone function much the same as store and forward technology. Therefore, the Commission approved rates for calls placed from a non-LEC payphone are defined in Rule 25-24.516, F.A.C. This rule sets the rate cap at \$.25 a minute, plus a \$.25 set use fee, plus a \$1.00 surcharge.

MCI filed a tariff effective February 29, 1996, which indicated the \$3.00 per call surcharge (page 16). On May 1, 1996, staff corresponded with MCI questioning the tariff and asked how MCI thought it was in compliance with the rules. MCI responded that since the Commission approved the tariff, it believed it is authorized to charge the amounts listed in its tariff. MCI further responded that it believed it is in compliance with Rule 25-24.630(1)(a) because AT&T's charges for a comparable call are set forth in its interstate tariff and include up to a \$3 charge. Staff points out that AT&T's interstate tariff has no bearing on

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rates allowed for intrastate calls within Florida since the Commission codified its policy concerning a pay phone rate cap in Rule 25-24.516, F.A.C.

Staff met with MCI and the Department of Corrections on May 21, 1996, and requested MCI to arrange for refunds of the overcharges in excess of the rate cap. MCI filed a response on May 23, 1996, stating that it believed refunds were not appropriate (pages 17-18).

It is staff's position that when a tariff is filed in violation of the Rules the rules prevail; therefore, the tariff is invalid and MCI should be ordered to refile the tariff in compliance with Rule 25-24.516, F.A.C. MCI should further be ordered to refund the difference between the \$3.00 surcharge and the authorized \$1.00 surcharge, plus the \$.25 set use fee to the affected consumers. This refund should be effected on the next billing cycle after the Commission's order is final.

**RULE 25-24.630(1)(f)**

Rule 25-24.630(1)(f), F.A.C. states that an operator services provider shall charge only for conversation time as rounded according to company tariffs. MCI apparently is charging in excess of conversation time as is evident in the billing records reflecting 16 minute calls. As discussed in the following analysis of Rule 25-24.515(5), F.A.C., MCI gives an oral announcement, according to Ms. Linda McCray, a complainant, and terminates conversation at 15 minutes. She also indicated that MCI terminates conversation in less than 15 minutes on occasion, but was very positive that no conversation could continue after 15 minutes because she timed the calls.

**RULE 25-24.515(5)**

Rule 25-24.515(5), F.A.C. requires all providers of pay telephone service to provide written and oral notice of termination of conversation after 15 minutes. MCI apparently terminates conversation after 15 minutes from payphones it provides on calls made from correctional facilities in Florida. Ms. Linda McCray, a complainant, indicated that she has timed her calls with a nurse's watch starting at the time she pressed a digit to accept the collect call and ending at the time she terminated the call. When compared to the billing record, she found that her calls are overtimed by 1 minute. A clear example of this is the bills showing the length of time to be 16 minutes. The payphone conversation is terminated at 15 minutes and should never be billed

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in excess of 15 minutes. If the conversations were not being terminated in 15 minutes, we believe we would see evidence of longer duration conversations other than the 15 and 16 minute times represented on the bills. A sample of the type of complaints we have been receiving that shows the increased surcharge and overtime is attached as pages 19 and 20.

In conclusion, staff believes the burden should be shifted to MCI to show cause how it is in compliance with the above rules and why it should not be fined or have its certificate cancelled for apparent violation of these rules. Furthermore, MCI should be ordered to effect refunds of overcharges resulting from the billing in excess of the rate cap as well as overcharges resulting from overtime of calls.

**ISSUE 2:** Should this docket be closed?

**RECOMMENDATION:** No.

**STAFF ANALYSIS:** This docket should remain open pending the resolution of the show cause order if issued. If not issued, this docket should be closed.

## 'Mom, It's Mugsy'

### Phone Firms Wrestle For Prisoners' Business In Hot Growth Market

#### Big Companies Dangle Cash, Add Antifraud Devices To Entice Jail Officials Callers Who Hate to Wait

By ALIX M. FREEDMAN

Staff Reporter of THE WALL STREET JOURNAL  
NEW YORK — In an airless cubicle, inmate Hugo Rivera intently cradles the telephone he describes as "the sunshine in this place." After 15 minutes, his call is automatically disconnected. Reluctantly ceding his spot to another prisoner, Mr. Rivera plants himself outside the phone room to wait for another turn.

"We're phone Joneses"—addicts—the burly 22-year-old explains. "This is our little bit of freedom, our step back into the street." Mr. Rivera, who has racked up \$80 phone bills each week since coming to the tough Rikers Island jail on a drug charge two months ago, adds a business note: "For phone companies, prisons are a sure score."

As Mr. Rivera has figured out, few have reaped richer rewards from the nation's tough stance on crime than telephone companies. Calls from most prisons must be made collect, one of the most expensive services. On top of that, the companies impose hefty surcharges on the recipients of prisoners' calls. Further, inmates' conversations tend to last longer than those of people on the outside. The upshot: A single prison phone can gross as much as \$15,000 a year — fully five times more than a pay phone on a street corner.

All this helps explain why AT&T Corp. and MCI Communications Corp. crave the inmates' business. Although the two biggest carriers aren't eager to publicize their efforts, they have been waging a fierce battle against the Baby Bells and a host of no-name carriers for control of some 50,000 pay phones in the roughly \$1 billion behind-bars business.

## WALL STREET JOURNAL

### 'Trash Traffic' No More

"The major players are showing up in force, with all the financial strength they can muster," marvels Sandy Vaelio, president of Northern American InteleCom Inc., a phone company owned by Dallas oil concern Diamond Shamrock Corp. "A couple of years ago, you couldn't entice the major carriers into looking at this traffic. It was trash traffic — and they didn't want it."

Nowadays, with competition intense for residential and commercial customers, AT&T and MCI can't afford to be so standoffish. The nation's more than one million inmate callers are already big customers, and their ranks are expected to double by the year 2006 if current trends continue. In fiscal 1995 alone, more than 150 new state and federal prisons are projected to be built, and 117 facilities expanded. In addition, correctional facilities offer a guaranteed lock on the traffic: unlike free citizens, inmates don't get to pick their favorite long-distance carrier. And a new breed of fraud-proof pay phones has reduced the risks of relying on customers who may have larceny in their hearts.

### 'Golden Egg'

"Prisons have the highest margins around," says John Gamino of John Richard Associates, an industry consulting firm. "It's a golden egg."

John Jacquay, an MCI senior vice president, estimates that his company's aggressive push into the prison market has increased its share of inmates' long-distance calls to about 30% from 10% three years ago. As he delicately puts it: "We want to go after those situations where we know there is a high propensity for people to want to communicate outside of where they're staying." Dana Motyl, an AT&T inmate-calls manager, acknowledges that captive customers represent "one of the only growth spots out there in the declining collect-call market," though she won't divulge specifics on AT&T's market share or profits.

If the phone companies seem a bit shy about admitting their infatuation with criminals, the prison community isn't nearly so reticent about the objects of its affection. Wardens revere telephones as a management tool — one of the few luxuries they can withhold as punishment. Prisoners extol them as a preserver of family ties. Phones also incite inmates to jealous

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cc: Taylor  
Moses

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pages. Two years ago, a Rikers inmate killed another who failed to get off the phone quickly enough.

**Holding the Line**

A new Rutgers University study at Rikers shows that officials managed to cut phone-related violence in half by automatically disconnecting calls to reduce waits. In his latest single, "Behind Bars," incarcerated rapper Sick Rick alludes to a fight triggered by an inmate who hogged the phone "like he didn't know how to hang up." During a recent MTV interview, the star opined that "phones are like diamonds in jail."

Phone firms have learned that, as with most other aspects of prison life, inmates' keepers hold the keys. So valuable is the business that companies now routinely pay prison systems millions of dollars in annual fees, which they call commissions, for the exclusive right to operate the phones. Firms also offer signing bonuses and up-front advances. The money has become a mainstay for strapped state and county corrections bureaucrats. For instance, last

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*Continued From First Page*  
year Massachusetts received about \$3 million in commissions from inmate phone calls. In addition, prisons often get free use of phone technicians and pricey equipment to tape inmates' conversations.

In return comes the exclusive right to a given facility's local or long-distance traffic; depending on regulatory constraints, sometimes the same carrier gets both.

**Statewide Contracts**

With AT&T and MCI salesmen beating down doors, the fight for statewide prison systems, which boast the most inmates and the most long-distance traffic, is particularly fierce. In December, MCI captured Kentucky's 7,500 inmates by agreeing to return to the state 56% of its gross on an estimated \$5 million of long-distance and local-phone revenues. This was about double Kentucky's previous take. Ken Dressman, principal assistant to the corrections commissioner, says the munificence left him "flabbergasted."

MCI and AT&T are romancing the local sheriff, too. Late last year, AT&T wrested the three-year long-distance contract for the Los Angeles County jail system, the nation's largest, from LDDS Communications Inc., a Jackson, Miss., firm. Now with a guaranteed \$4 million in commissions under his belt, Terry Carlton, the corrections official who pulled off the deal,

is already anticipating the next bidding war. While San Francisco-based Pacific Bell has his jail system's local traffic locked up for the next few years, Mr. Carlton says MCI and AT&T have made no secret of their expansionist intentions. Nor is this official averse to divulging his: "Three years from now, I hope to sit in a big chair and watch them all throw money at me," he says.

The bidding war over commissions has put a temporary damper on profit margins, though not on the phone companies' ardor. MCI's Mr. Jacquay says "very hungry" competitors have eroded profit margins in the niche to "less than 5% compared to 10% to 12% four or five years ago." Another special challenge in this market is controlling bad debt, whether from fraud or unpaid bills.

Still, the business is worth pursuing. notes an AT&T spokesman, "because it contributes to the company's overall market share." And it is widely believed in the industry that once the giants push smaller companies out of the niche, commissions will come back to earth. Even now, AT&T is finding ways to cushion its costs. The company recently imposed a special fee of \$3 on interstate collect calls made from the prisons where its antifraud equipment is in use. Now AT&T is seeking regulatory approval to apply the surcharge to in-state long-distance calls as well.

AT&T says it is only trying to recoup the costs of supplying special equipment. But James Burton, president of Telequip Labs Inc., a Richardson, Texas, provider of antifraud devices, says that "the industry knows this is 100% about AT&T defraying the costs of its commissions, but everyone is ecstatic because they can ride the windfall, too."

All this wheeling and dealing was unheard of just a decade ago. Before deregulation, the prisons that provided telephones at all tended to be customers of the local phone company and were usually treated like stepchildren. The big problem from the phone companies' perspective? "Live operators weren't trained to handle corrections traffic so they were highly susceptible to the conning ability of inmates," says Marty Goldman, a market manager at Executive Information Systems Inc., of Milford, Conn.

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## WALL STREET JOURNAL

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## Instant Highfliers

By the late 1980s, small, independent pay-phone carriers revolutionized the turf. Their innovation: substituting the BYE operators, who handled collect calls, with automated voices. The ensuing reduction in fraud and labor costs made the business so lucrative that independents began relying heavily on commissions to nail down the business. This strategy — often financed by huge increases in the prices paid for prison calls — turned a number of tiny carriers into instant highfliers.

But competition and closer scrutiny by state officials are eliminating most opportunities for price-gouging. The Louisiana Public Service Commission, for instance, ordered Global Tel-Link, a Mobile, Ala., unit of Schlumberger Technologies Inc., to refund \$1.2 million in alleged overcharges from June 1993 to May 1994. Independents are also finding it difficult to hold their own in an escalating technology war.

Indeed, phone companies are increasingly combining their promises of big commissions with claims of ever-more-sophisticated measures to combat fraud. It's no wonder: Prisons are schools for scam artists. Frederick's of Hollywood, the famed purveyor of frilly lingerie, estimates that 25% of its credit-card fraud emanates from prison. The retailer keeps a list of prison zip codes and subjects prison-bound orders to additional scrutiny.

George Wagner, warden at a county jail in Flemington, N.J., describes the conventional phone system there as a breeding ground for larceny. By posing as a police officer doing a credit-card investigation, one jail inmate recently got people to divulge their credit-card numbers over the phone and then dialed out again for more than \$2,500 of goods.

To deter such shenanigans, even the most basic prison-~~phone~~ contracts generally provide for systems that announce on the line the identity of both inmate and prison before a collect-call conversation can get under way. Beyond that, the more advanced systems enable corrections officials to block selected numbers, thus preventing inmates from dialing

out at random. Toll-free numbers are also off limits. Increasingly, too, state prisoners are confined to a small list of preapproved phone numbers. Phone marketers even have begun to hawk a "voice-verification" feature. This takes a digital print of an inmate's voice to ensure that prisoners aren't calling fellow inmates' approved numbers.

## 'Strike Three'

Phone firms are now racing to find a solution to an additional problem: inmates' penchant for dialing friends and family members who, in turn, forward the calls to accomplices, witnesses or mail-order houses.

To deal with this concern, AT&T has been particularly aggressive in touting its device, which it dubs "Strike Three," designed to detect and disconnect such third-party calls. The phone giant claims that Strike Three, which works by listening for clicks and silences on a phone line, is 93% effective in tests conducted by Bell Laboratories, AT&T's in-house testing facility. "No one else comes close," its ads in prison-industry magazines proclaim, though some competitors sharply disagree.

Eavesdropping equipment is another feature that is popular with wardens. Though the phone companies generally don't manufacture such devices, they often provide them to prisons at no charge. In the recording and monitoring room at the Massachusetts Correctional Institution in Norfolk, Mass., an alarm goes off intermittently. Stephen Gatewood, a security officer, explains that this alerts officers whenever an inmate under active suspicion

dials out. At a visitor's request, Mr. Gatewood monitors one such call, placed by an inmate suspected of drug activity. Not only does Mr. Gatewood get to listen to the conversation as it unfolds but his computer gives him access to all sorts of other crucial data. He can see the number the inmate is calling, which prison phone he is calling from and even how often this number gets called by other inmates.

"Phones have definitely become an investigative tool, like informants and other types of surveillance techniques," Mr. Gatewood says. Just the day before, he adds, the prison recorded an inmate who had been denying suspected drug use behind bars. In the ersatz privacy of the phone room, he confided his heroin use — to his mother.

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Investors Who Wealth International  
to refund some money under  
court-approved plan, Page F2.

Laura

## Offices burbs

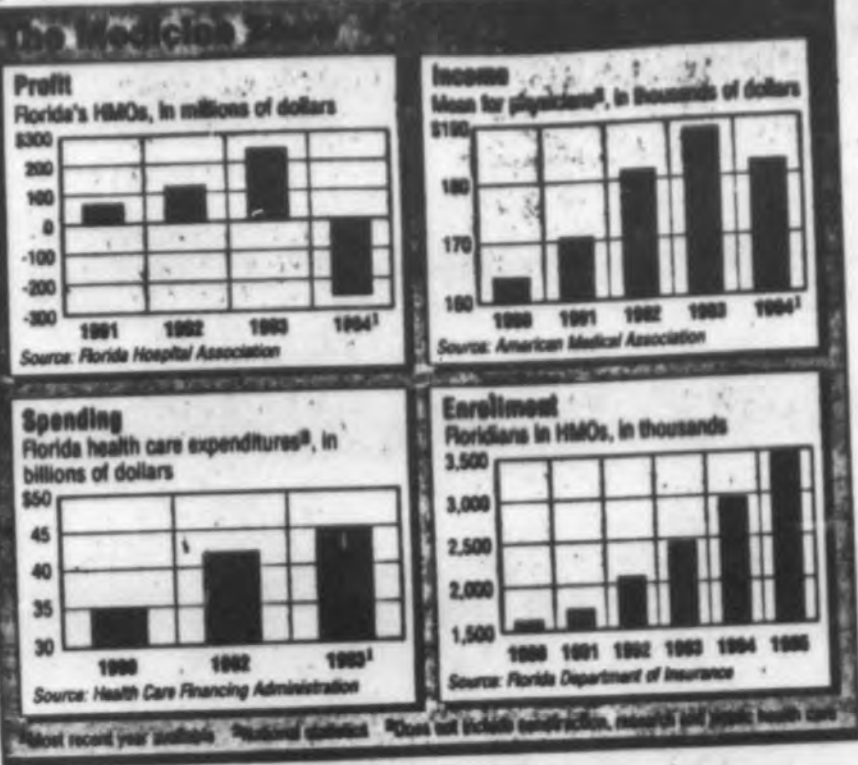
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F2, Column 1



## Doctors Fail to Find Cure For Ills of Managed Care

By PETER MITCHELL  
Staff Reporter of THE WALL STREET JOURNAL

Bill Welch has patched together thousands of accident victims at St. Petersburg's Bayfront Medical Center, but the 46-year-old surgeon's skills with scalpel and suture can't protect him against the injuries he is suffering from managed health care.

He and many of his colleagues among Florida's 45,000 doctors have been struggling in recent years to reverse declines in income caused by pressure from insurers to keep down costs. They have formed professional networks, set up health-maintenance organizations of their own—in effect acting as insurers—and even created unions to cope with the ever-widening scope of managed care in the medical industry.

And so far, most of it isn't working out very well. Many doctors are finding that they bought into strategies that have produced nothing but consultants' bills, time-consuming meetings and false hopes.

Three years ago, Dr. Welch, a director of Bayfront's trauma center, began recruiting Tampa Bay surgeons into a so-called independent practice association. As members of an IPA, he told colleagues, they could cut

better deals with insurers than they would get by signing up independently with a health-maintenance organization. A dozen of his colleagues invested up to \$2,500 apiece.

So Dr. Welch found himself literally in the business of medicine, hiring consultants for the IPA, shopping for patient-tracking software and fretting over the possibility of antitrust charges. "You have to do things that you never learned about in medical school," he says.

Today, the IPA hasn't even a single contract with an insurer, and Dr. Welch and his colleagues are left with only one choice on managed-care contracts: Take it or leave it.

Floridians have a lot at stake in the tangle between doctors and the managed-care industry. Nearly a third of the 11 million insured Floridians belong to HMOs, 18% more than in 1994. Many more—at least another third—are in other, mostly unregulated managed-care arrangements such as preferred-provider organizations, whereby patients choose from a network of independent doctors.

While HMOs, most of them backed by

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## Prison Calls Are a Steal, Officials Say

By PAT BRALL  
Staff Reporter of THE WALL STREET JOURNAL

A program that lets Florida prisoners make collect calls to friends and family is coming under fire for alleged overcharging and conflicts of interest.

A recent investigation by the chief inspector general for the governor's office has raised questions about the manner in which two phone companies won lucrative contracts to provide the service. In a report on their probe, investigators also say that two years after state auditors warned that the prison system needed to track the calls, corrections officials are still having trouble calculating the number of calls made, the charges incurred and the sums the state should receive.

The Public Service Commission, in a separate report, says one company has rung up almost \$400,000 in overcharges to people on the receiving end of prisoners' calls.

"Thousands of people have accepted calls from family and loved ones, and some really cannot afford to just give money away," says Jeri Friedman, a Tallahassee woman who has agreed to receive such calls for years from two prisoners—one a former fiance—but has become a critic of the way the phones are managed. "The family breadwinner is already in prison," she says. "These families can't afford to be giving money to a phone company."

The system, started in 1987, allows prisoners to call friends and family members who agree to receive the calls, thus providing a captive market for the phone companies holding the contracts. The state, in turn, receives an agreed percentage of the revenue.

That cash is a boon to taxpayers, generating about \$8 million a year for the state's Welfare Inmate Trust Fund. The fund pays for prison chapels, libraries and recreational facilities that would otherwise be paid for with tax dollars.

But according to documents recently released by the Public Service Commission, prisoners' friends and families have been overcharged. For example, the PSC says Ms. Friedman has been billed for calls from up to 200 miles away, in Malone, Fla., though the origin of her approved calls is the New River Correctional Institution in

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## Squelching Debate

Florida Journal:

Your criticism of the Federation for American Immigration Reform in the March 13 article about the illegal-immigration-control measure Proposition Fla-1E7 ("Critics Assail Main Backer of Fla-1E7") was unfair.

FAIR has been on record for 25 years in its statement of purpose "that U.S. immigration policy should not discriminate for or against persons of a particular race, religion, culture or national origin." Your reporter chose to omit that fact, all the better to smear our reputation and distract from the true issues of immigration reform.

About seven of every eight Americans want immigration reform, and FAIR is not racist for helping them get it. Your article is trying to muddy the waters, and squelch open discussion about the urgent need for immigration reform. It is no wonder the American people have lost faith in the media.

DAN STEIN

Executive Director  
Federation for American Immigration Reform  
Washington, D.C.

## Bravo to New School

Florida Journal:

Your article about the newly formed Florida Coastal School of Law was distressing because it cast a negative shadow on the school ("New School Makes a Case for More Florida Lawyers," March 13).

It is very difficult for any fledgling enterprise to be successful, and positive comments could well mean the difference in its viability.

The location of the school was characterized as being "next to a defunct Po' Folks cafeteria"—and this has a negative connotation. The focus of the curriculum seems to involve dispute resolution, without the necessity of possible litigation. This is a positive attribute, in light of your many articles regarding the litigation explosion, the clogged court system and the costs incident to litigation.

If the school is successful and its students do achieve the personal and professional rewards they seek, I trust that your next article will be laudatory about its achievements.

WALTER R. STEDFORD

Jacksonville

FLORIDA JOURNAL welcomes your comments—by mail, phone or fax. Letters should be addressed to Robert Johnson, editor, Florida Journal, 2251 Presidents Dr., Orlando, Fla. 32809-7694. The phone number is 407-857-3800; the fax number is 407-857-3797; the E-mail address is flaj@jnl.com

## Probes Find Firms Overcharge On Collect Calls From Prisoners

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Railford, just 26 miles away.

A PSC investigator also found that when making test calls from various prisons, the charges were inflated by as much as 30%. On one, a 34-second chat was billed as three minutes.

The phone company named by the PSC is North American InTeleCom Inc., San Antonio. Earlier this month, the company agreed with the PSC to refund nearly \$400,000 to Florida inmates' friends and families.

A PSC memorandum in 1992 predicted the problem, suggesting that the phone companies couldn't afford to pay high commissions to the state—now averaging 50% of their revenue from the contracts—with-out overcharging. But some of the companies say that isn't true, and they add that they could pay even higher commissions and still make a profit.

"If run correctly, it's a very good business," says Donald Vaglio, president of North American InTeleCom, which recently lost its Florida contract for about 35 prisons, but still operates similar services in 33 other states. He denies that the company intentionally overcharged for the service, but says it has had technical problems with the system. He won't rule out the possibility of bidding for another prison contract in Florida.

Only two months ago, the state inspector general's report sharply criticized two top corrections officials for destroying public records showing that the department had violated its own rules to give North American InTeleCom a contract last year after staffers recommended MCI Communications Inc., Washington, D.C.

Another contract the inspector general singled out for criticism went to LDDS Worldcom Inc. of Jackson, Miss., in 1993. The company was awarded the contract without submitting a competitive bid.

In winning a renewal of its contract in 1994, LDDS offered the state 32 cents on the dollar, compared with the 53 cents MCI is paying on its contract. The amount was raised to 40 cents on the dollar in September 1995, but even the new rate is about \$1.4 million a year less than if it had been competitively bid, according to the inspector general.

"The notion that any of these contracts would not be competitively bid is disturbing to me," says state Sen. Charles Crist, a member of the Corrections Committee who would like to see more PSC oversight of prison contracts. "I can't imagine what the rationale would be."

According to the inspector general's report, several corrections officials criticized links between the Department of Corrections and Liddon A. Woodard Jr., LDDS's Tallahassee representative. Mr. Woodard is a former state corrections official and personal friend of William Thurber, the department's deputy secretary, according to the report.

Both men acknowledge their friendship, and the two men occasionally attend sports events together. The inspector general found nothing illegal, but cited "an appearance of impropriety" and suggested that the contract be put up for bid when the current one expires next February.

LDDS declined to comment on the inspector general's findings. In Tallahassee, Mr. Woodard says he has no role in negotiating the LDDS contract and that his connections to corrections officials have been exaggerated.

"Way out of proportion" is how Mr. Thurber describes the allegations. He says LDDS won its first state contracts mostly because larger phone companies weren't interested in providing the special phones to prisons at the time.

Since then, Mr. Thurber says, LDDS has "given us good rates and good service."

Commissioners:  
SUSAN F. CLARK, CHAIRMAN  
J. TERRY DEASON  
JULIA L. JOHNSON  
DIANE K. KIESLING  
JOE GARCIA



DIVISION OF COMMUNICATIONS  
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## Public Service Commission

May 1, 1996

Ms. Martha P. McMillin  
MCI Telecommunications Corporation  
780 Johnson Ferry Road, Suite 700 [Fax (404) 250-5992]  
Atlanta, Georgia 30342

Dear Ms. McMillin:

Rick Moses wrote you today concerning complaints we have begun receiving about MCI's charges for calls from Florida inmate facilities. Mr. Moses's letter will reach you under separate cover. Meanwhile however, additional details have come to our attention to prompt this further inquiry.

MCI has apparently raised the rates for collect calls from inmate facilities by \$2.00 each via its presumptively valid tariff, effective February 29, 1996. This raises a number of issues. Accordingly please provide your response to the following by May 15, 1996.

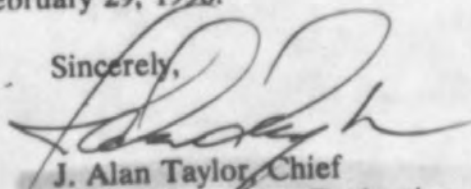
Rule 25-24.630(1)(a) caps the rates operator service providers may charge. It is well understood from relevant commission orders that the cap is the current AT&T rate for a comparable call. Therefore, please explain why MCI is not in violation of this rule.

Rule 25-24.485(1)(a) provides for special contract rates. If MCI relies on this provision in setting its inmate charges, please explain why the commission should authorize a special or contract arrangement with a party that does not pay the bill, but imposes the special higher charges on a third-party.

Staff understands from Department of Corrections officials that they believe the DOC contract with MCI provides for rates to the called party not to exceed AT&T's rates. Please address this issue in your response.

Finally, please explain why MCI should not withdraw its tariff and refund each of the additional \$2.00 surcharges imposed since February 29, 1996.

Sincerely,

  
J. Alan Taylor, Chief  
Bureau of Service Evaluation



MCI Telecommunications Corporation  
Regulatory and Governmental Affairs  
780 Johnson Ferry Road  
Suite 700  
Atlanta, Georgia 30342



May 15, 1996

SENT VIA FACSIMILE AND U.S. MAIL

Rick Moses  
Engineer Supervisor  
Bureau of Service Evaluation  
Division of Communications  
Capital Circle Office Center  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399

Re: Letter dated May 1, 1996 pertaining to telephone bill of Linda McCray

Dear Mr. Moses:

I am writing in response to the above-referenced letter in which you raise certain issues pertaining to its enclosed March 17, 1996 telephone bill of Linda McCray. Most of the issues raised were addressed in my response sent today to Alan Taylor's letter dated May 1, 1996 pertaining to MCI charges for inmate collect calls. I am also faxing a copy of that response to you.

The charges on Ms. McCray's bill are for collect calls from a Florida correctional facility. You inquired as to whether the charges exceed the Commission's rate cap and questioned why calls no. 23 and 25 were rated at a \$ 2.00 difference for the same duration and time of day. The MCI response to Mr. Taylor's letter sets forth our position as to why these charges, which are billed pursuant to a tariff effective February 29, 1996, are appropriate. The effective date of the tariff explains the \$ 2.00 difference in call no. 23, which was made on February 26, 1996, and call no. 25, which was made on February 29, 1996. The latter call was rated and billed pursuant to the tariff which increased the surcharge by \$2 and went into effect on that date.

You also questioned why MCI charged for a sixteen minute call "when the call was actually limited to 15 minutes." It appears that the equipment used in this specific inmate calling service records and rates any call over fifteen minutes as a sixteen minute call. MCI is in the process of working with the equipment vendor to investigate, test, and correct this situation.

In response to the issue of refunds to the customer, I would like the opportunity to investigate whether refunds have already been promised. From the notes on the bill, there is a suggestion that Ms. McCray may have been promised a credit on her phone bill. I will continue to investigate this matter and will follow up



page two

with you with a more definitive response.

Please contact me at 1-800-283-6140 if you have any additional questions about this matter.

Very truly yours,

*Martha McMillin*

Martha McMillin  
Senior Attorney

cc: Richard D. Melson

RECEIVED  
JAN 15 1983  
FEDERAL BUREAU OF INVESTIGATION  
WASHINGTON, D.C.



MCI Telecommunications Corporation  
 Regulatory and Governmental Affairs  
 780 Johnson Ferry Road  
 Suite 700  
 Atlanta, Georgia 30342

RECEIVED  
 FLORIDA PUBLIC  
 SERVICE COMMISSION  
 96 MAY 14 1996  
 MAIL ROOM

RM

VIA FAX: 904 413-6583

Rick Moses, Engineer Supervisor  
 Bureau of Service Evaluation  
 Florida Public Service Commission  
 2540 Shumard Oak Boulevard  
 Tallahassee, Florida 32399-0850



Re: Letter dated April 18, 1996 pertaining to 0+ intraLATA traffic

Dear Mr. Moses:

I am writing in response to the above-referenced letter in which you request certain information from MCI Telecommunications ("MCI") pertaining to the carriage of 0+ intraLATA traffic from prison confinement facilities. We appreciate you bringing this matter to our attention.

Your letter points out that certain rate base regulated local exchange companies ("LECs") are not subject to competition, meaning that MCI does not have the authority to handle 0+ intraLATA traffic at this time from confinement facilities in those areas. As you requested, identified below are the confinement facilities located in local exchange territories that are precluded by law from competition as well as the date MCI began carrying intraLATA traffic at each of those facilities:

CONFINEMENT FACILITY	LEC TERRITORY	MCI START DATE
Taylor Correctional Institution	Gulf	1/22/96
Gulf Forestry Camp	St. Joseph	12/21/95
Gulf Correctional Institution	St. Joseph	1/4/96
Calhoun Correctional Institution	St. Joseph	12/12/95
Liberty Correctional Institution	St. Joseph	12/12/95
River Junction Correctional Institution	St. Joseph	12/12/95



page 2

CONFINEMENT FACILITY	LEC TERRITORY	MCI START DATE
Hamilton Correctional Institution	Alltel	12/3/95
Hamilton Correctional Institution Annex	Alltel	12/26/95
North Florida RC-Main	Alltel	11/29/95
North Florida RC-West	Alltel	1/16/96
Franklin Work Camp	St. Joseph	12/18/95
Quincy Correctional Institution	Quincy	12/12/95

MCI carried intraLATA traffic at these facilities because the Automated Call Processing ("ACP") equipment contained database discrepancies. When this problem was discovered, MCI requested the ACP manufacturer to develop software which would distinguish between local, intraLATA, and interLATA traffic. This has now been accomplished. As of May 10, 1996, MCI has corrected the routing tables for the ACP equipment in St. Joseph's territory so that all intraLATA calls are now routed to St. Joseph. The ACP equipment in all other independent territories is being checked, as we are completing audits of the routing tables at each location specified above to confirm that intraLATA traffic is routed to the independent LEC. Any discrepancies found will be corrected by May 31, 1996.

Your letter requested the amount of revenue MCI received from carrying intraLATA traffic at the facilities and during the periods identified above. I am still attempting to obtain this information. The problem is that it is not readily obtainable and thus far my internal contacts have been unable to fashion a way to identify and calculate this sum. I will continue to pursue this issue.

Thank you for allowing extra time to respond to your letter. Your consideration is much appreciated.

Very truly yours,

*Martha McMillin*

Martha McMillin

cc: Richard D. Melson

SECTION 4 - RATES

4.5 SPECIAL SERVICE ARRANGEMENTS

4.5.2 MCI Maximum Security Collect

MCI Maximum Security Collect allows for calling from MCI pre-subscribed authorized institutional phones. Only Operator Dialed Collect or Person-to-Person Collect calls may be placed from authorized institutional telephone numbers to customers who have previously agreed to accept these calls.

4.5.2.1 Intrastate Usage Rates - The following per minute usage rates apply to all MCI Maximum Security Intrastate long distance 0+ calls. The appropriate Operator Assistance surcharges listed in Section 4.5.2.2 also apply.

INTERCITY MILEAGE BAND	Business Day		Evening		Night & Weekend	
	1st Min.	Add'l Min.	1st Min.	Add'l Min.	1st Min.	Add'l Min.
0 - 10	\$.1800	\$.1800	\$.1300	\$.1300	\$.1100	\$.1100
11 - 22	.2000	.2000	.1500	.1500	.1200	.1200
23 - 55	.2300	.2300	.1700	.1700	.1300	.1300
56 - 124	.2500	.2500	.1700	.1700	.1400	.1400
125 - 292	.2600	.2600	.1800	.1800	.1400	.1400
293 - 430	.2600	.2600	.1900	.1900	.1500	.1500
431 - 624	.2600	.2600	.1900	.1900	.1500	.1500

4.5.2.2 Surcharges - The following surcharge applies to all MCI Maximum Security Intrastate long distance calls.

MCI Maximum Security  
Operator Dialed Collect \$3.00

MATERIAL FOUND ON THIS SHEET WAS PREVIOUSLY LOCATED ON SHEETS 26.8, 26.8.1, AND 26.8.1.3.

ISSUED: January 30, 1996

EFFECTIVE: FEB 29 1996

by:

Sherry Schelble  
Manager, Rates and Tariffs  
780 Johnson Ferry Road  
Suite 800  
Atlanta, Georgia 30342





MCI Telecommunications  
Corporation

Regulatory and Governmental Affairs  
780 Johnson Ferry Road  
Suite 700  
Atlanta, Georgia 30342

May 23, 1996

HAND-DELIVERED

J. Alan Taylor, Chief  
Bureau of Service Evaluation  
Division of Communications  
Florida Public Service Commission  
Capital Circle Office Center  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Re: 5/21/96 meeting pertaining to MCI charges for calls from  
Florida inmate facilities

Dear Mr. Taylor:

I am writing as a follow-up to the above-referenced meeting attended by you; me; Rick Moses of your Staff; and from the Department of Corrections ("DOCs"), Jim Bidy, Tom Brooks, and Lynn Griffin. In that meeting, you requested that MCI send this letter.

As we discussed, MCI's position with regard to our charges for collect calls from Florida inmate facilities used with an inmate control system is set forth in my letter to you dated May 15, 1996. MCI understood its approved tariff for a \$3 surcharge for inmate collect calls to be in compliance with the terms of its contract with DOCs and the Commission's rules and regulations. Without waiving that position, and solely in an effort to enhance goodwill with the Commission and MCI's customer, DOCs; to expeditiously resolve this matter to the mutual satisfaction of the three parties; and to set a clean slate for future dealings, MCI proposes the following points as a resolution of the concerns the Commission and DOCs have raised over MCI's charges for collect calls from inmate facilities:

- (1) MCI will charge rates for collect calls with an inmate control system which shall not exceed those of AT&T for collect calls with an inmate control system; specifically, rates that "shall not exceed the dominant carrier (AT&T) rates for the same call - distance, length of call, time of day and day of week. These maximum allowable rates shall reflect the AT&T interlata and interstate rates in effect at the time of the call....There shall be no add-ons, such as service charges or surcharges, which are not in the approved AT&T tariff." (Section 4.2 of the Invitation to Bid); and
- (2) because MCI assessed its rates and surcharges based on an approved tariff which was publicly available, refunds



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for surcharges billed pursuant to our tariff are inappropriate.

MCI requests the assistance of the Commission Staff to identify the rates/surcharges that AT&T charges for collect calls with an inmate control system and to specify the rates AT&T charges as set forth in the language quoted from Section 4.2 of the Invitation to Bid. This first point of our proposal allows the parties to establish a clean slate as to what will be the rates and surcharges going forward.

The second point is tied to the first: in creating a new scenario for the future, it is appropriate that MCI not be punished for past actions which were publicly noticed and approved by the Commission. MCI's good faith in dealing with the issues raised by Staff warrants consideration on this point. We are mindful of your letter of May 1, 1996 and the letter from Nancy Wittenberg of DOCs, dated May 10 and received on May 16, factors which motivate us to offer early on this mutually fair resolution.

Thank you for your consideration of this proposal.

Very truly yours,

*Martha McMillin*

Martha McMillin  
Senior Attorney

cc: Rick Moses



Dear Mr. Rick Moses

May 2, 1996

I am writing in regards to the outrageous tariff placed on all Correctional Institutions phone calls. It has increased from \$1.00 to \$3.00 per call. How can an increase like this be justified? I would call it price gouging.

M.C.I. is the worst carrier of long distance calls I've dealt with. Not only did we loose good service, we lost a discount that A.T. & T was giving for any type calls.

Also we are being charged for 16 min. on some calls, when the phone shuts off at 15 min. Granted, it is only a few cents, but in my case there are 99 of them over a period of 4 mos. That definitely adds up. At 17¢ for each 16 min. call, that comes to \$16.83. My husband has restrained from calling home so often & still our phone bill is over & above what it was with A.T. & T.

Enclosed are copies of our bills for the last 4 mos. (Jan-Apr.). Yes, I am outraged at this increase & surely do not understand why. I feel we are being taken advantage of by this increase. We are forced to use M.C.I. & now a forced increased tariff. I think these long distance contracts should be rebid more often to allow us lower rates.

We would appreciate you're looking into this problem. At the end of this letter you will find my address. Please explain this increase. Thank you for your time

Mrs. Romeeria Darden  
31 Saragossa St #3  
St. Augustine, Fla. 32084

Sincerely,  
Mrs. Romeeria Darden

### Detailed Statement of Charge

Amount

**Itemized Calls (continued)**  
**Collect Calls (continued)**

Date	Called From	Number	Rate*	Time	Min	Amount
30. 02/24	RAIFORD FL	904 431-1612	KNS	09:06PM	16	3.24
31. 02/25	RAIFORD FL	904 431-1612	KES	09:10PM	15	3.55
32. 02/26	RAIFORD FL	904 431-1612	KES	08:37PM	15	3.55
33. 02/26	RAIFORD FL	904 431-1612	KES	08:54PM	15	3.55
34. 02/27	RAIFORD FL	904 431-1612	KES	08:39PM	16	3.72
35. 02/28	RAIFORD FL	904 431-1269	KES	07:25PM	16	3.55
36. 02/28	RAIFORD FL	904 431-1612	KES	08:47PM	15	3.55
37. 02/29	RAIFORD FL	904 431-1612	KES	08:45PM	15	3.55
38. 03/01	RAIFORD FL	904 431-1612	KES	09:17PM	15	3.55
39. 03/01	RAIFORD FL	904 431-1612	KES	08:53PM	15	3.55
40. 03/02	RAIFORD FL	904 431-1612	KNS	09:03AM	15	3.55
41. 03/02	RAIFORD FL	904 431-1612	KNS	05:04PM	15	3.55
42. 03/02	RAIFORD FL	904 431-1612	KNS	08:14PM	15	3.55
43. 03/03	RAIFORD FL	904 431-1612	KES	08:20PM	16	3.72
44. 03/04	RAIFORD FL	904 431-1612	KES	08:30PM	16	3.72
Total Collect Calls .....						170.00
Total Itemized Calls .....						170.00

**Itemized Calls**  
**Collect Calls**

Date	Called From	Number	Rate*	Time	Min	Amount
1. 02/04	RAIFORD FL	904 431-1612	KES	08:48PM	16	3.72
2. 02/06	RAIFORD FL	904 431-1612	KES	08:51PM	15	3.55
3. 02/07	RAIFORD FL	904 431-1612	KES	05:45PM	16	3.55
4. 02/07	RAIFORD FL	904 431-1612	KES	09:01PM	15	3.55
5. 02/08	RAIFORD FL	904 431-1612	KES	09:37PM	16	3.72
6. 02/08	RAIFORD FL	904 431-1612	KES	09:55PM	15	3.55
7. 02/09	RAIFORD FL	904 431-1612	KES	05:27PM	16	3.72
8. 02/09	RAIFORD FL	904 431-1612	KES	08:19PM	16	3.72
9. 02/10	RAIFORD FL	904 431-1612	KNS	05:01PM	16	3.24
10. 02/10	RAIFORD FL	904 431-1612	KNS	08:24PM	16	3.24
11. 02/10	RAIFORD FL	904 431-1612	KNS	08:41PM	16	3.55
12. 02/11	RAIFORD FL	904 431-1612	KES	09:28PM	15	3.55
13. 02/12	RAIFORD FL	904 431-1612	KES	08:35PM	15	3.55
14. 02/13	RAIFORD FL	904 431-1612	KES	05:05PM	16	3.72
15. 02/14	RAIFORD FL	904 431-1612	KES	08:22PM	16	3.72
16. 02/14	RAIFORD FL	904 431-1612	KES	08:46PM	16	3.72
17. 02/15	RAIFORD FL	904 431-1612	KES	05:03PM	11	2.87
18. 02/16	RAIFORD FL	904 431-1612	KES	08:25PM	16	3.72
19. 02/16	RAIFORD FL	904 431-1612	KNS	05:02PM	16	3.24
20. 02/17	RAIFORD FL	904 431-1612	KNS	08:48PM	16	3.24
21. 02/17	RAIFORD FL	904 431-1612	KES	08:31PM	16	3.72
22. 02/18	RAIFORD FL	904 431-1612	KES	09:32PM	16	3.72
23. 02/19	RAIFORD FL	904 431-1612	KES	08:35PM	16	3.72
24. 02/20	RAIFORD FL	904 431-1612	KES	08:51PM	16	3.72
25. 02/21	RAIFORD FL	904 431-1612	KES	08:48PM	15	3.55
26. 02/22	RAIFORD FL	904 431-1612	KES	05:54PM	15	3.55
27. 02/23	RAIFORD FL	904 431-1612	KES	09:00PM	16	3.72
28. 02/23	RAIFORD FL	904 431-1612	KES	05:20PM	16	3.10
29. 02/24	RAIFORD FL	904 431-1612	KNS			

**MCI**

For MCI Billing Questions, Call 780-2355

**Detailed Statement of Charges**

ROMERIA DURDEN  
 Account Number: 904 824-3075 211 056  
 Bill Period Date: Mar 16, 1996

*Handwritten:* pay 0955 words  
 No 16 min. only