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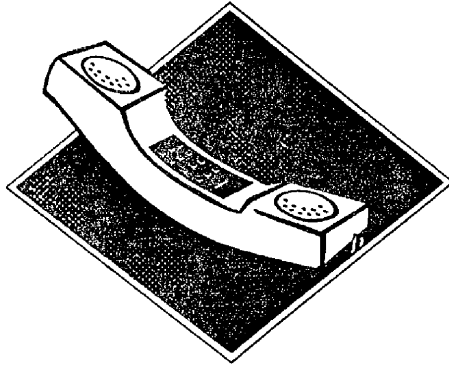
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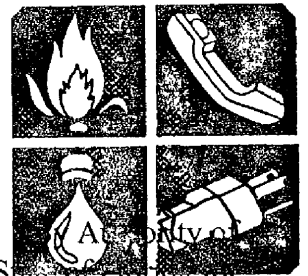
FPSC-RECORDS/REPORTING



*Review of*  
BellSouth Telecommunications, Inc.  
Care Methods and Practices

April 2001

**DRAFT**



The State of Florida  
The Public Service Commission  
Division of Regulatory Oversight

DRAFT

*Review of*  
**BellSouth Telecommunications, Inc.**  
**Sales Methods and Practices**

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April 2001

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


RR-99-12-009

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## 1.0 EXECUTIVE SUMMARY

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## 1.0 Executive Summary

### 1.1 Objectives

In November 1999, the Division of Competitive Services of the Florida Public Service Commission (FPSC or the Commission) requested that the Bureau of Regulatory Review investigate and assess the sales methods and practices applied by BellSouth Telecommunications, Inc. (BellSouth or the company). The review was triggered by two employee complaint letters received by the Commission's Division of Consumer Affairs in June and November 1999.

Both letters, one of which was anonymous, were written by BellSouth employees and primarily allege that BellSouth customer service and sales representatives were resorting to unethical sales activities in order to meet their individual sales quotas. The complainants alleged that overly aggressive BellSouth sales quotas created the incentive to cram services and products on customers' bills. The Bureau of Regulatory Review was able to identify 16 specific allegations associated with the complaint letters.

To address the issues raised in the letters, the objectives of this review were to:

- ◆ Document BellSouth's various sales channels and its methods of operation.
- ◆ Assess BellSouth's policies, procedures, and internal controls designed to protect consumers from unauthorized phone charges (cramming of calling features).
- ◆ Determine whether BellSouth's current sales methods and practices comply with FPSC rules.
- ◆ Determine whether BellSouth's residential customers are treated fairly and ethically.

### 1.2 Scope

Given these objectives, the scope of the review focused upon BellSouth's customer service and sales representatives within the company's Consumer Services organization. These groups of employees are the primary point of contact for handling almost any residential customer request or inquiry. As the primary point of contact, these positions play a key role in the sale of BellSouth's products and services. Within each of these groups, the Bureau of Regulatory Review focused on examining past and present sales practices, procedures, and internal controls in effect from 1997 to date. This review period matches the time frame of the allegations raised in the complaint letters.

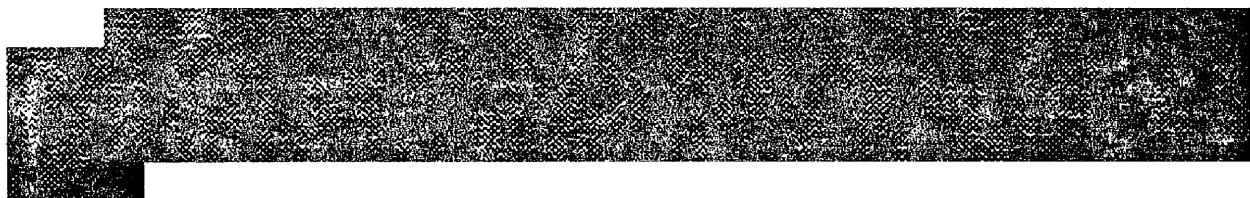
### 1.3 Methodology

To investigate the allegations contained in the complaint letters, the Bureau of Regulatory Review conducted on-site interviews with key management employees and each of the BellSouth employees who signed the written complaint filed with the Commission. Information regarding BellSouth's business operations was also gathered through responses to the Bureau of Regulatory Review's document requests, as well as BellSouth's responses to information requests made by the Office of the Attorney General in its investigation of this matter.

The Bureau of Regulatory Review also randomly monitored service and sales calls at BellSouth offices without the customer service or sales representative's knowledge. Once the analysis was concluded, a draft report was written and provided to the company to verify accuracy and to address issues related to the use of potentially confidential material in the report.

### 1.4 Overall Opinion

Through the Bureau of Regulatory Review's investigation, six out of the complainants' 16 allegations were at least partially substantiated. Staff notes that improved controls implemented since the filing of the complaints have increased the company's ability to detect and deter improper sales activity.



The Bureau of Regulatory Review recommends the following actions to further ensure the fair treatment of customers. These recommended actions are discussed in detail in Chapter 6, *Analysis of Allegations*.

- ◆ Commission staff should consider changes to FPSC Rule 25-4.107 to provide specific guidance as to when during the initial contact with the customer the company is required to disclose basic service choices.

*{Preliminary indications are that Commission staff does not plan to request a rule change}*

In the Bureau of Regulatory Review's opinion, BellSouth should consider taking the following actions:

- Customer service and sales representatives should disclose basic service options prior to offering any other calling plans, such as Complete Choice.
- ◆ Include an element in the state and regional observation teams' monitoring checklists to specifically observe whether representatives are disclosing basic service options prior to offering any other calling plans, such as Complete Choice.



- ◆ Include a Representative Effectiveness evaluation criteria in the sales representative report card to measure the quality of handling service-related calls.
- ◆ Investigate unethical sales conducted by representatives and, if applicable, hold supervisors accountable.
- ◆ Prescribe a number of monthly or quarterly evaluative customer contacts to be monitored by supervisors to effectively assess each representative's performance
- ◆ Provide follow-up annual ethics training to all employees and managers. The training should specifically include a course on ethical treatment of customers.
- ◆ Include an element in the state and regional monitoring teams's checklist to observe the accuracy of deposit calculations and note the basis for any deposit waiver.
- ◆ Re-evaluate the usefulness and practicality of the call matrix used by customer service and sales representatives to delineate and prioritize the various types of incoming customer calls.
- ◆ Separately track the number of customer call backs denoting a new service order that was not processed or lost by BellSouth.

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## 2.0 BACKGROUND AND PERSPECTIVE

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## 2.0 Background and Perspective

### 2.1 BellSouth Employees' Complaint Letters to FPSC

On June 8, 1999 and November 15, 1999, the FPSC's Division of Consumer Affairs received two separate complaint letters from BellSouth employees. The June letter was signed by five employees of BellSouth's Miami-based multilingual sales group. The November letter was anonymous and appears to be written by a single author. In both letters, the complainants primarily allege that in new service sales, package plans are pushed by the company without giving adequate notice of separately available services. The letters claimed that the presentation package plans (e.g., Complete Choice) employ "intentionally misleading techniques" to confuse, rather than to provide choices to customers. The complainants contend that this type of marketing is institutionalized and reinforced through training, rewards, and a corporate culture that drives sales representatives to make sales at all costs.

To address the complainants' specific concerns, the Bureau of Regulatory Review compiled the following list of specific allegations from the letters. Each is separately addressed in Chapter 6, *Analysis of Allegations*.

1. BellSouth's Complete Choice plan is misrepresented as a class of service. The wording and phrases used by some representatives mislead the customer into believing they will be limited to 30 calls unless they choose the Complete Choice plan.
2. Representatives are told to meet sales quotas in any way, at any cost, or be formally reprimanded.
3. Sales objective dollar amounts were raised to a point where most representatives were not able to meet the company's objectives.
4. Optional services including BellSouth's Complete Choice plan is frequently added to the customer's line even after the customer declined the offer.
5. MemoryCall is added to a customer's line without the message waiting tone that would alert the customer that something has been added to their line without proper authorization.
6. Sales representatives are "gated" to take service calls without being told.
7. There is no incentive on the part of the sales representatives to handle service calls

- effectively.
8. No disciplinary action is taken against a representative or his/her supervisor when unauthorized products and services are added to a customer's line by the representative.
  9. Sales and service training provided to new and existing representatives is inadequate.
  10. Where a deposit is required by company policy, representatives often lowered or waived the deposit as long as the call generates sales.
  11. Representatives can override a deposit recommendation per the credit bureau to encourage sales.
  12. Representatives need additional time to complete and/or correct orders, but are not provided sufficient time to do so under current incentives.
  13. Service and sales representatives are supposed to follow a call routing matrix outlining what calls to handle, but failure to adhere to it, or loosely doing so, results in no negative impact whatsoever.
  14. Representatives change a dwelling that is already entered into BellSouth's database with its own location to an additional line for the purpose of generating additional revenue towards the high sales quota.
  15. Multiple pagers and cellular phones are sent to customers who did not request them in order to inflate sales totals of unscrupulous representatives.
  16. New connect service orders cannot be traced once they are canceled. Representatives will cancel an order that does not generate sales instead of generating the unprofitable order or holding it for deposit.

## 2.2 Southern Bell's (BellSouth) 1992 Settlement Agreement with the Statewide Prosecutor

One complaint letter makes reference to the October 9, 1992 settlement agreement between the Statewide Prosecutor and the Office of Statewide Prosecution and Southern Bell (now BellSouth Inc.). Among the issues addressed in this agreement were issues raised in FPSC Docket No. 900960-TL regarding the company's sales programs and alleged unethical treatment of customers. Per the agreement, BellSouth was required to develop, implement, and maintain a "Review Program" and allow semi-annual audits to be conducted by an outside accounting firm for a three-year period beginning on the date of the settlement. The audits were performed to assure that

BellSouth/Southern Bell complied with the obligations and programs set forth in the Review Program.

The settlement agreement lists specific key operational and procedural changes that were to take place as part of the Review Program. Included were changes to the company's sales and service programs and a new code of ethics. Some of the key changes were:

- ◆ Confirmation letters are to be sent to subscribers stating the new service ordered and the rate for such services.
- ◆ Sales personnel are to make clear to customers that optional services are not required to obtain basic telephone service.
- ◆ The sale of optional services by non-sales personnel in Florida is to be discontinued.
- ◆ Development of a self-inspection program that includes inspecting the level of sales activities of individual employees to identify potential problems.
- ◆ An enhanced internal auditing program that includes auditing the level of sales by individual employees whose sales may exceed reasonable limits in an effort to identify improper sales practices.

The ethics program included development of a new Code of Ethics to be distributed to all Southern Bell employees. The program also included mandatory training and annual written acknowledgment of the new ethics code. Details of the program are discussed in Chapter 4, Section 4.1.

## 2.3 Rules and Regulations

Both the Federal Communications Commission (FCC) and the FPSC have devoted considerable efforts to combat cramming. The FCC has no rules that directly address cramming, unethical sales activities, or deceptive marketing practices, but did issue and order principles and guidelines designed to make it easier for consumers to read and understand their telephone bill. These principles and guidelines, issued in April 1999, are known as the "Truth-in-Billing Requirements" and are set forth in Section 64.2001, Title 47 of the Code of Federal Regulations. The requirements are intended to make telephone bills more consumer friendly in order to protect against market abuses and are based on the following three basic principles:

- ◆ That consumer telephone bills be clearly organized, clearly identify the service provider, and highlight any new providers.

- ◆ That charges contained on telephone bills be accompanied by a brief, clear, non-misleading, plain language description of the service or services rendered. The description must be sufficiently clear in presentation and specific enough in content so that customers can accurately assess that the services for which they are billed correspond to those that they have requested and received, and that the costs assessed for those services conform to their understanding of the price charged.
- ◆ That bills contain clear and conspicuous disclosure of any information the consumer may need to make inquiries about, or to contest charges, on the bill.

In addition to the federal directives, the FPSC has adopted various rules that were intended to eliminate or reduce the level of cramming complaints in Florida. The rules, incorporated by the Commission at the local exchange company level, relate to cramming and include those affecting customer relations, customer billing, and discontinuance of service (FPSC Rule 25-4.107, 25-4.110, and 25-4.113, Florida Administrative code). The primary regulation that would address the complainants' concern of unethical sales activities is addressed in FPSC Rule 25-4.107, Customer Relations. This rule states the conditions under which a local exchange company can place an order for telephone service:

Each company shall provide such information and assistance as is reasonable to assist any customer or applicant in obtaining telephone service adequate to his communication needs. At the time of initial contact, each local exchange telecommunications company shall advise the person applying for or inquiring about residential or single line business service of the rate for the least expensive one party basic local exchange telephone service available to him unless he requests specific equipment or services.

In any discussion of enhanced or optional services, each service shall be identified specifically, and the price of each service shall be given.

Such person shall also be informed of the availability of and rates for local measured service, if offered in his exchange.

Additionally, as part of FPSC Rule 25-4.110, each local exchange company is required to provide customers with an itemized bill in easily understood language. The rule further requires itemized bills to include "charges for customer calling features, separated by feature."



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## 3.0 SALES PROCESS

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## 3.0 Sales Process

### 3.1 Consumer Services Group

BellSouth's Consumer Services Group is the company's largest organization and is responsible for driving the day-to-day service operations. Consumer Services has direct contact with customers via BellSouth's sales centers, service centers, collection centers, and repair centers. Sales of BellSouth's products and services are generated by the company's sales and service centers.

In addition to sales generating through the Consumer Services organization, BellSouth has contracts with three independent vendors who conduct outbound telemarketing calls on behalf of BellSouth. These outside vendors were not examined within the scope of this review since they were not a primary focus of the complaint letters. However, in December 1998, BellSouth's internal auditing staff audited the outbound telemarketing operations to ensure that internal controls were adequate and effective.

#### 3.1.1 Sales Centers

Sales of BellSouth's products and services to its Florida customers are conducted out of five sales centers located in Jacksonville, Orlando, Ft. Lauderdale, and two in Miami. One of the Miami sales centers is specifically dedicated to handling multilingual sales for the entire BellSouth nine-state region. The remaining four English sales centers are set up as a "large team," meaning that an incoming call will be directed to the first available sales representative, not necessarily a sales representative closest to the city where the call originates. The English sales centers have been in existence since 1988. The multilingual sales center was created in 1993.

Each sales center location is managed by a center leader with a team of supervisors for every 15 to 20 sales representatives. As of July 2000, BellSouth employed 648 customer sales representatives, averaging about 130 representatives per sales center. The sales representatives are primarily responsible for generating revenue through sales of all basic network (POTS) and vertical services, as well as nonregulated products and services. Among others, these services include:

- |                                     |                          |
|-------------------------------------|--------------------------|
| ● Residential Flat Rate Service     | ◆ Cellular CPE & Service |
| ◆ Residential Measured Rate Service | ◆ Paging CPE & Service   |
| ◆ Calling Cards                     | ◆ Maintenance Plans      |
| ◆ Calling Features:                 | ◆ Internet Services      |
| - Call Forward                      | ◆ Area Plus              |
| - Caller ID                         |                          |
| - Call Waiting                      |                          |
| - RingMaster                        |                          |
| - Repeat Dialing                    |                          |

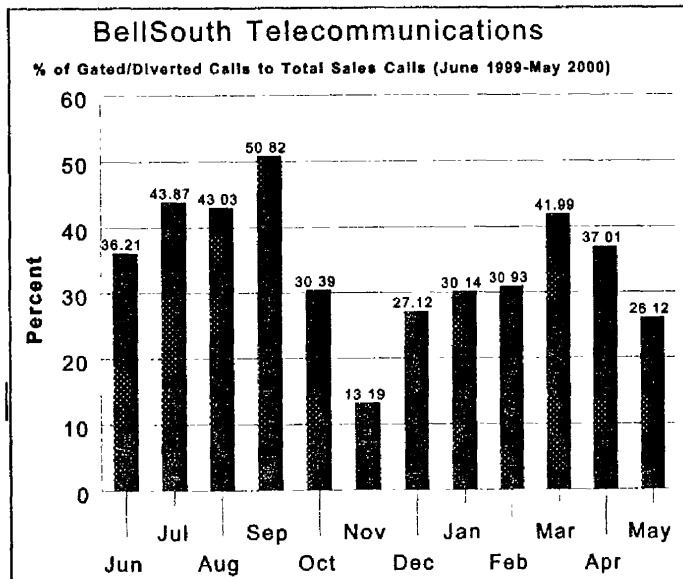
- Voice Mail

Sales of these services result from incoming calls placed by existing customers and potential customers. Via BellSouth's automated calling system (Call Screener), a customer's call will be routed directly to a sales representative if the customer is placing an order for a new service connection, adding or deleting calling features, or transferring service. It should be noted that a version of BellSouth's Call Screener is also available in Spanish to assist Spanish-speaking customers.

Upon receipt of a customer call, the sales representative is instructed to identify the caller's needs and to maximize revenue opportunities by tailoring a service recommendation to the customer. In most cases, the customers are presented a recommendation of a package of services (e.g., Complete Choice).

In addition to conducting sales, sales representatives are trained to handle almost all types of service-related calls, such as bill inquiries and disconnects. Often, customers with a service-related problem are "gated" or "diverted" to sales representatives in efforts to distribute the workload evenly among the service and sales representatives and to assist BellSouth in meeting FPSC answer time requirements. In other words, a customer who calls to report a service problem might be gated or diverted to a sales representative, who would resolve the customer's need, but would also facilitate the marketing of additional products and services. BellSouth noted that if the situation is warranted, calls could be diverted from sales to services.

According to BellSouth, the primary distinction between gating and diverting is the way



service calls are distributed throughout the sales force. BellSouth "gated" calls prior to January 2000. Selected sales representatives were "gated" calls for extended periods, for up to four hours. Beginning in 2000, the excess service calls are "diverted" throughout BellSouth's entire sales force for shorter periods. However, the complainants allege that no incentive exists for sales representatives to handle service calls effectively. This issue is discussed in the Bureau of Regulatory Review's response to *Allegation 7* in Chapter 6.

Over the twelve-month period June 1999 through May 2000, BellSouth, on average, gated or diverted approximately 173,000 customer calls a month to sales

representatives. **Exhibit 1** depicts the percentage of gated/diverted calls to the total number of calls received by BellSouth's sales centers over the same period. On average, 34 percent, or just over a third of the total calls handled by BellSouth sales are the result of service calls being gated/diverted. BellSouth states it did not gate calls to sales representatives prior to 1999.

### 3.1.2 Service Centers

BellSouth's service centers are primarily responsible for resolving service-related inquiries from existing customers. Examples include providing billing information, suspending, restoring, or disconnecting service, and making payment arrangements. As previously mentioned, the service centers are also held accountable for lower sales objectives of BellSouth products and services than sales centers since the calls handled by representatives present fewer sales opportunities.

BellSouth presently has 13 service centers located throughout the company's Florida region. Two of the Florida service centers (both located in Miami) are specifically designated to handle multilingual customers for the entire BellSouth nine-state region. Each service center location is also managed by a center leader with a team of supervisors for every 15 to 20 service representatives. As of July 2000, BellSouth employed 1,231 customer service representatives, with the greatest concentration of employees located in the Miami service centers. Like the sales centers, the service centers are set up as a "large team" where an incoming call will be directed to the first available service representative. On average, BellSouth's service centers receive a total of 1.6 million customer calls each month.

## 3.2 Hiring and Training

Prior to hiring new service and sales representatives, all applicants are first required to take a general aptitude test that measures basic job skills (i.e., grammar, math, and computer competency). A phone interview test known as the [REDACTED] is then conducted with the applicant. The [REDACTED] is conducted by an independent vendor, [REDACTED] and is used to determine job placement (i.e., service or sales). If the applicant is qualified for the job, the final step is an on-site interview with a BellSouth supervisor to familiarize the applicant with the work environment and job responsibilities.

New sales and service representatives receive the same initial training. As a result of internal audits conducted in 1998 BellSouth recognized the need for more intensive initial training. In June 1999, BellSouth introduced a new training program called the "BEST" program. The BEST program is a seven week computer-interactive and role-playing training program that includes approximately five days of on the job training (i.e., handling calls) with an experienced representative. The BEST program includes a curriculum of over 20 courses. Such courses include:

- ◆ Understanding Others
- ◆ Preparing to Take Calls
- ◆ Selling Products and Services
- ◆ Selling Wireless
- ◆ Issuing a Change Order
- ◆ Selling BellSouth.net

- ◆ Issuing a New Order
- ◆ Issuing Adjustments
- ◆ Negotiating Payment Arrangements
- ◆ Issuing a Transfer Order

After release from initial training, new representatives are placed in an incubator group for a period of four weeks. Over this period, the representatives take on the same responsibilities as an experienced representative, but they are continuously monitored and tutored by an assigned supervisor. While in the incubator group, the representatives are expected to meet 60 to 70 percent of required sales quotas. Upon completion of the BEST program, representatives receive continuous training every 30, 60, 90, and 120 days. After 120 days, all representatives periodically receive targeted training on new products and services throughout their career.

The Bureau of Regulatory Review attempted to obtain past training material, however BellSouth does not maintain out-of-date training material. According to the company, prior to implementation of the BEST program, representatives received eight weeks of classroom training and were then put directly on the job. The company stated that continuous training was not as structured as it is today.

### 3.3 Sales Targets

Both BellSouth's customer sales and service representatives are held accountable for meeting specific dollar amount sales objectives. Annually, BellSouth Corporation develops a statewide total dollar sales objective based upon selected economic and business assumptions, such as access line growth and demographics. BellSouth's five Florida sales centers are accountable for meeting 70 percent of total projected sales for the state. The remaining 30 percent is expected to be generated by BellSouth's Florida service centers.

To meet the statewide total dollar sales objective, a sales or revenue goal is set for each sales center and service center. The revenue goal for each sales and service center is distributed equally among the representatives in the form of monthly sales targets. Sales and service representatives are expected to achieve or exceed the monthly sales targets through sales of BellSouth's individual products and services.

The monthly sales targets are a major component of the sales and service representatives' monthly "report cards" or appraisal forms. These report cards work on a point system used to evaluate performance. The report cards vary between the sales and service centers, and are changed either semiannually or annually to reflect newly targeted products and services as discussed further in Sections 3.3.1 and 3.3.2 below.

If representatives need assistance in obtaining their goals, a Development Action Plan is initiated between the representative and their respective supervisor. The Development Action Plan ensures that a representative first received coaching in areas that need improvement before any

disciplinary action is taken. Failure to achieve a satisfactory score may lead to disciplinary action. Disciplines can range from “informal” discussion between the representative and his or her supervisor to employee termination.

### 3.3.1 Sales Representatives' Report Cards

For the year 2000, a sales representative's report card is broken down into four primary components or performance measurements, plus two “bonus” measurements. The four primary components are Total Revenue, Revenues Per Access Line (RPLN), Talk Time, and Adherence. The bonus measurements are based on achievement of Internet and Cellular sales objectives. Sales representatives are not required to meet their bonus measurements, but can do so to add points to their overall evaluation score.

The Total Revenue component is the center's revenue goal distributed among the sales representatives in the form of monthly sales targets. In order to meet their sales targets, BellSouth assigns a revenue credit amount to each of BellSouth's individual products and services. The revenue credit amount is adjusted annually to provide additional incentive to sell targeted products and services in keeping with BellSouth objectives. For example, in July 1999, the monthly revenue objective for a sales representative was \$35,300. If the sales representative were to sell Complete Choice, cellular, and paging to a new customer, the sales representative would have been credited \$90 for Complete Choice, \$78 for cellular, and \$78 for paging for a total of \$246 towards the \$35,300 monthly sales objective. An average of one such sale per hour would allow the representative to slightly exceed the monthly sales objective of \$35,300.

To determine how successful sales representatives are in meeting their sales objectives, the Bureau of Regulatory Review reviewed 4,242 report cards and calculated the percentage of Total Revenue scores that were less than satisfactory over two six month periods in 1999 and 2000. The company's records for the sample indicated that ■ percent of the scores were less than satisfactory.

In addition to the Total Revenue objective, another component of the report card is Revenues Per Access Line (RPLN). The purpose of tracking an RPLN objective is to encourage sales representatives to maximize the revenue produced through each new primary access line generated. In other words, in July 1999, the representative would be expected to sell, on average, \$147 worth of products and services for every new primary access line generated. In order to fully maximize the RPLN, representatives are encouraged to offer each customer a wide menu of services available from BellSouth, such as Internet services, cellular services, and additional calling features. Prior to BellSouth implementing the RPLN objective, sales representatives were held accountable for meeting sales objectives on an individual product basis.

The two remaining components of the report card are Talk Time and Adherence. The purpose of these measurements is to ensure that calls are handled as efficiently as possible. Talk

Time is the average time a sales representative stays on the phone with a customer. Over the past two and one-half years, BellSouth's monthly Talk Time objective for sales representatives ranged from 7.43 to 8.78 minutes. Adherence is the percentage of the work day a sales representative is expected to be on-line available for customer calls. On average, BellSouth's monthly adherence objective is about 95 percent, with the 5% remaining time spent on breaks.

Each of the four primary components plus the bonus measurement is weighted and summed to derive an overall score. The weight assigned to each component may be adjusted from year to year, but the Total Revenue component is the largest. For example, in 2000, Total Revenue accounted for 50 out of 100 points. The overall score is used to evaluate performance, with a maximum of 120 points. Failure to achieve 79.4 percent of the maximum 120 points would result in a less than satisfactory evaluation and may eventually lead to disciplinary action.

### 3.3.2 Service Representatives' Report Cards

A service representative report card also includes four primary components plus a "bonus" measurement. Three of the four primary components are the same as those used to evaluate sales representatives: Total Revenue, Total Talk Time and Adherence. The fourth component is Representative Effectiveness.

The monthly Total Revenue objectives set for service representatives are significantly lower than those set for sales representatives, since service representatives are primarily involved in resolving service calls. In July 1999, the monthly revenue objective for a service representative was \$10,718, while a sales representative's objective was \$35,300.

To determine how successful service representatives are in meeting their sales objectives, the Bureau of Regulatory Review reviewed 3,990 report cards and calculated the percentage of Total Revenue scores that were less than satisfactory over the twelve-month period January through December 1999. The company's records for the sample indicated that      percent of the scores were less than satisfactory.

Representative Effectiveness is used to measure overall customer satisfaction and is based on customer satisfaction survey results compiled at the state level. The survey results measure service qualities such as helpfulness, resolution of problems, and rapport with customers. All of BellSouth's Florida service representatives are awarded the same Representative Effectiveness score on their monthly report cards. Given the sheer number of BellSouth representatives, individual Representative Effectiveness measurements are impractical.

The bonus measurement, Offer Rate, is based on efforts made by the service representative to offer BellSouth's various products and services on each call. The measurement is derived from a minimum of six monthly observations conducted by the representative's supervisor.

Like a sales representative, a service representative is evaluated based on the four weighted components plus the bonus, with the largest being Total Revenue. Service reps can earn a maximum score of 120 points on their monthly report cards for exceeding the required sales quotas. Failure to achieve 82 percent of the maximum 120 points would result in a less than satisfactory evaluation and may eventually lead to disciplinary action.

### 3.3.3 BellSouth's 1999 Agreement with CWA

In 1999, BellSouth Florida Consumer Services entered into an agreement with the Communications Workers of America CWA in efforts to provide a better working relationship between the two organizations. As part of the agreement, BellSouth removed disciplinary actions taken against sales and service representatives from 1998 through May 1999 for failure to attain sales goals. The following specific actions were taken per the agreement:

- ◆ All 1998 sales and service representatives appraisals that were less than satisfactory were rated as insufficient performance (diagnostic).
- ◆ All January through May 1999 sales and service representatives appraisals that were less than satisfactory were rated as insufficient performance (diagnostic). Appraisals would be evaluative for the June through December 1999 time period.
- ◆ Any disciplinary action taken in 1998 and 1999 as a result of less than satisfactory evaluations due to sales were removed from appraisals.
- ◆ From January through March 2000, BellSouth retrained sales and service representatives on sales techniques.
- ◆ Appraisals became "official" in April 2000.

### 3.4 Compensation

BellSouth compensates both sales and service representatives on an hourly wage basis coupled with a variety of incentive programs implemented by BellSouth at the state and corporate levels (entire nine-state region). Incentive programs provide awards to individual representatives for various recognition programs (i.e., Customer Care launch of new products, being one of top 10 representatives to sell X in a day, as well as reaching or exceeding their monthly sales objective).

At the state level, prizes such as gas cards and movie tickets are awarded to representatives.



These prizes are not to exceed a worth \$25 per week. The incentive list continuously changes based on feedback from the representatives on what incentives motivate them to strive for that day or week to promote a BellSouth product. For example, representatives may tire of movie tickets and recommend Wal-Mart gift certificates

At the corporate level, monthly contests are conducted to motivate sales. Representatives can earn up to \$1,600 annually in the form of credits to an American Express debit card account. In addition, recognition events are held in various locales to recognize the top Sales, Service, and Collections performers within the nine state region. vacation trips are awarded to recognize top sales performers within each of BellSouth's nine states. Year 2000 winners traveled to San Francisco.

A representative is not eligible to participate in any corporate contests if their personnel records denote an ethical violation. Additionally, all contests are audited for accuracy.

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## 4.0 SALES PROCESS INTERNAL CONTROLS

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## 4.0 Sales Process Internal Controls

### 4.1 Code of Ethics

As part of BellSouth's 1992 settlement agreement with the Statewide Prosecutor, BellSouth was required to develop and implement a new ethics education program for all new and existing employees to ensure quality and ethical behavior. The program materials include a verbal presentation by BellSouth Security entitled *Cheat, Steal, Conduct, Fraud*, a BellSouth ethics handbook, *A Commitment to Our Personal Responsibility*, and a computer CD-ROM interactive course, entitled *Ethics-Everyone's Responsibility*. Several of the topics covered in the programs include the following:

- ◆ Equal Opportunity
- ◆ Health and Safety
- ◆ The Environment
- ◆ Conflict of Interest
- ◆ Fair Competition
- ◆ Customer Information
- ◆ Privacy of Communications
- ◆ Computer Systems

Upon completion of the program, all employees are required to sign a "Personal Responsibility" oath, which acknowledges BellSouth's ethics policy. The signed copy is updated annually and retained as part of the employee's permanent personnel file. BellSouth's ethics policy states:

Consumer Services has **ZERO TOLERANCE** for the following:

- ◆ Adding features to a customer's account without clear and specific permission to do so.
- ◆ Falsifying customer records...any records...any time...any where
- Reporting out using false information
- ◆ Accessing your own telephone records or those of family or friends, without specific and prior permission to do so---and then only in an unusual circumstance.
- ◆ Mishandling proprietary information
- ◆ Customer Abuse
- ◆ Insubordination

- ◆ Profanity
- ◆ Violence on any company property, either inside or outside company buildings.

Through the ethics program, BellSouth also offers several hot lines that employees may use to report questionable or unethical conduct. In response a document request, BellSouth provided description of ■ incidents involving placement of unwanted services that were called into the ethics hot-lines since January 1997. ■ of the incidents were reported to BellSouth in 1997, none in 1998, and ■ were reported in 1999. Of the ■ reported incidents, ■ were not pursued due to lack of information, ■ resulted in employee terminations, ■ were investigated and handled by BellSouth's legal department, and ■ required the investigated employee to receive additional training.

## 4.2 Customer Service and Sales Monitoring

BellSouth has traditionally employed direct monitoring or observation of customer contact to allow managers to assess individual performance in customer service and sales. Currently, the following three types of customer contact monitoring serve varying internal control purposes:

- ◆ Evaluative Monitoring
- ◆ State Observation Team Monitoring
- ◆ Regional Observation Team Monitoring

### 4.2.1 Evaluative Monitoring

Through "evaluative" monitoring, supervisors periodically observe each sales and service representative handling calls. Evaluative monitoring has long been the primary method of customer contact observation. However, under the terms of a Memorandum of Agreement with the Communications Workers of America (CWA), BellSouth has been required to turn on a special indicator light to notify representatives when evaluative monitoring is being conducted from an observation room. Evaluative monitoring also may be performed in the representative's presence at his or her work station.

During this audit investigation, no requirements existed for a minimum number of customer calls to be monitored by each representative's supervisor. In staff's 1993 review of the company's sales programs, staff noted that Southern Bell (now BellSouth Inc.) did require supervisors to perform a prescribe number of evaluative customer contacts. Staff's review indicated that at least six customer contacts per quarter were to be observed if the representative had been rated "above satisfactory" at his/her last review, 12 contacts for satisfactory-rated employees, and 18 for representatives or those rated less than satisfactory.

Beginning in 2001, as part of the representative's appraisal plan, BellSouth implemented observation requirements to provide adequate evidence of service and sales representatives' handling of customer contacts. Eight customer contacts per quarter are to be observed for each Sales Representative and 12 per quarter for each Service Representative.

#### 4.2.2 State Observation Team Monitoring

The second form of customer contact monitoring is performed by the state observation team.

In contrast to monitoring performed by supervisors, the purpose of the state team is to observe overall service and sales quality throughout BellSouth's Florida operations. For example, the unit's training needs or adherence to a policy change is assessed through the state team but individual performance is not noted unless an ethical or gross abuse violation is detected.

An example of an ethical violation would be to add calling features to a customer's account without authorization. Gross abuse situations include cutting the customer off, rude or abusive language, or refusal to escalate the customer call to a manager. In 1999, the state team observed [REDACTED] ethical violations that were directly related to incidents of placing unwanted services on customers' accounts. From January through June 2000, a total of [REDACTED] such incidents had been reported. BellSouth no longer retains state team observation results prior to 1999.

The state observation team consists of four employees, of which two are bilingual. Through the team, a daily random sample of 15 customer contacts from each service and sales center is observed, documented, and analyzed. Sales and service representatives have no means of telling that they or their centers 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, representatives must assume that any call may be under observation at any time. Each observation is scored for compliance in the following areas:

- ◆ Professionalism
- ◆ Speed to Resolve
- ◆ Complete and Accurate Information
- ◆ First Call Resolution
- ◆ Misdirected Call Handling
- ◆ Revenue Generation
- ◆ Service Order Accuracy
- ◆ Legal/Ethical
- ◆ Offer of Products and Services
- ◆ Full Disclosure of Products and Services

In response to a document request, BellSouth provided the state team's observation results for various months within 1999 and 2000. The Bureau of Regulatory Review was specifically interested in examining the results to determine compliance with FPSC rules governing full disclosure of basic service. The company's goal is to be 100 percent in compliance with the FPSC rule.

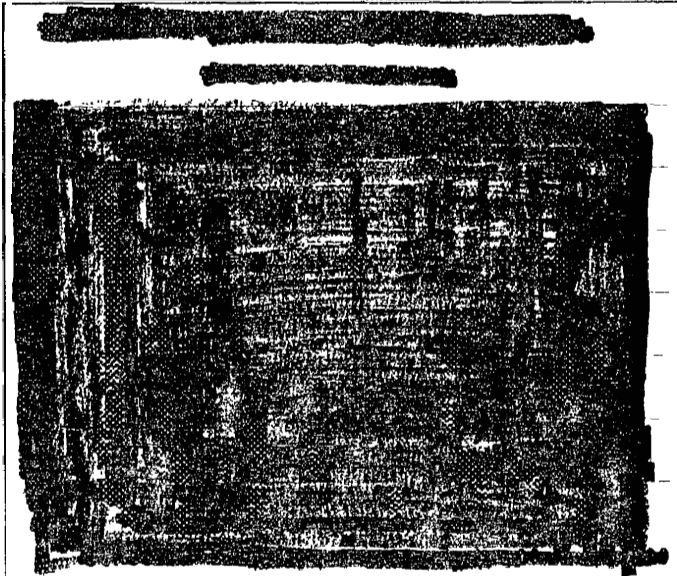
The observation results showed that compliance slipped to [REDACTED] percent, during the first three months of 2000. The company subsequently took action to improve compliance. This included monthly memos and enhancements to scripts reminding representatives to offer basic service with rates to every new customer, and distribution of disclosure reminder stickers to be placed on each representative's terminal. In August 2000, BST's state team observation results showed that representatives improved compliance with full disclosure 98 percent of the time. It should be noted that even if BST complies fully with current requirements, the Bureau of Regulatory Review's opinion is still that disclosure should be covered at beginning of the customer contact. This concern is discussed in the Bureau of Regulatory Review's response to Allegation 1 in Chapter 6.

#### 4.2.3 Regional Observation Team Monitoring

In 1995, BellSouth implemented a regional observation team, formally known as the consumer process analysis team. The team consists of six analysts who perform approximately 4,000 monthly remote observations on the sales, service, repair and vendor centers throughout the BellSouth nine-state region. Each analyst is provided a monthly schedule that includes a computer-generated random sampling of each center throughout the region. The baseline number of observations to be conducted by the analysts is 20 customer contacts per state each month, which totals 1,080 observations. The total number of observations may increase according to call volume.

Like the state observation team, the purpose of the regional observation team is to observe overall service and sales quality. Individual performance is not assessed unless an ethical or gross

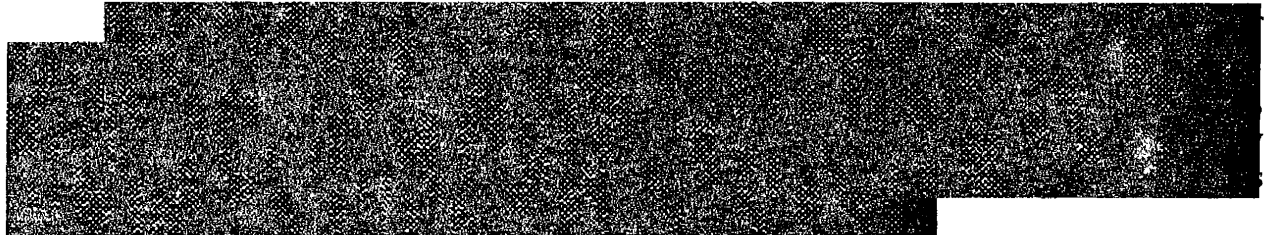
abuse violation is detected. The regional observation team reported 98 incidents relating to placement of unwanted services in 1998, 29 incidents in 1999, and 12 through June 2000. BellSouth no longer retains its regional team observation results prior to 1998.



#### 4.3 Did Not Order Form

In late September 1999, BellSouth instituted a "Did Not Order" referral form for use when a customer calls in with a complaint that a product or service has been received (or shown up on a bill) that was not ordered. The sales or service representative who receives the complaint is responsible for resolving the complaint,

making the appropriate credit adjustment, completing the Did Not Order form, and submitting it to management for investigation. Management conducts an investigation and identifies the representative who placed the order that led to the complaint. If warranted, disciplinary action is taken. It should be noted that a separate Did Not Order form is employed for erroneous orders placed by one of the contracted outbound telemarketing sales vendors.



Inquiries revealed that some employees believed that completion of the form was optional. Further, they were reluctant to complete the form as it may result in disciplining of a fellow co-worker. To remove any doubt, as of January 2000, BellSouth began issuing a management memo every three months to remind all representatives that completion of the form is mandatory.

#### 4.4 Itemized Bills and Sales Verification Letters

BellSouth sends itemized monthly bills to assist customers in understanding what services they have and the respective costs for each service. Notices are periodically sent to customers advising them to review their bills to ensure that they accurately reflect the services that they have ordered.

In addition, BellSouth sends all customers a verification letter to confirm new orders or changes to an existing order that results in newly added services or plans. Included in each verification letter is a chart depicting the quantity, description of service, and monthly rates for the new services ordered. Depending upon the particular services sold, the letter may include instructions and other information, such as how to use BellSouth's Complete Choice plan or Voice Mail service.

The verification letters are centrally generated by the Customer Instructional Delivery system. Through the Customer Instructional Delivery system, the generation of verification 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 and sales centers 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. Upon customer request, BellSouth will generate a verification letter in Spanish. The Spanish verification letter option is only available to BellSouth's Florida customers.

#### 4.5 Internal Audits and Reviews

To focus on any cramming or unethical sales activities that may have been detected by BellSouth's internal processes, the Bureau of Regulatory Review requested a copy of any internal audits or reviews relating to unwanted sales by service or sales representatives. The document request covered the period from January 1996 through January 2000. In response, BellSouth indicated that it conducted an internal investigation as a result of the complaint letter filed by the BellSouth employees. As part of the investigation, the company's legal department requested an internal audit that was completed in September 1999. The company asserts that this investigation constitutes attorney-client privileged information and was therefore not provided to the Bureau of Regulatory Review.

BellSouth did provide the following five audits and reviews:

- ◆ Consumer Large Team Sales Effectiveness Internal Audit (August-October 1998)
- ◆ Florida Joint Team Access Review (August 1998)
- ◆ Cellular Task Team Report Florida (September 1998)
- ◆ Billing and Collections Internal Audit (October 1998)
- ◆ Florida Business Office Review (September 1999)

With the exception of the Billing and Collections audit, each audit addressed the adequacy of internal controls over BellSouth's sales process. The audits focused on sales effectiveness and ethical behavior of BellSouth's sales and service representatives. Some key recommendations noted in the audits were to:

- ◆ Improve initial and continuation training for sales and service representatives.
- ◆ Implement a screening and selection process for new sales and service representatives.
- ◆ Restructure supervisors duties or reduce span of control.



- ◆ Ensure representatives follow Customer Proprietary Network Information (CPNI) scripts.
- ◆ Implement chargeback procedures for returns of cellular and DCS sales.
- ◆ Implement a governance mechanism to ensure gross customer abuse and unethical behavior cases are properly handled by management.

According to the company, in response to the audits, BellSouth right-sized its sales and service centers, implemented the BEST training program in January 1999, improved and increased the amount refresher or continuation training provided to sales and service representatives, added 33 management employees to line positions, and created administrative coaches to assist supervisors with administrative and training duties. The company stated that implementation of these changes improved sales and service representatives' average work time in 1999 by 50 percent and 33 percent, respectively. Additionally, training time increased from four to ten hours per representative per month.

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## 5.0 FPSC CONSUMER COMPLAINTS

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## 5.0 FPSC Consumer Complaints

### 5.1 Overview

The FPSC Division of Consumer Affairs is the primary contact for customer complaints lodged with the Commission. Upon receiving a customer complaint, the Consumer Affairs representative questions the customer to assure that the customer has first contacted the utility. If not, the customer is encouraged to do so. Then, if the utility company does not resolve the complaint to the satisfaction of the customer, Consumer Affairs will document the consumer complaint.

After complaints are received and logged, the Consumer Affairs representative contacts the company to request an investigation and a description of company actions to resolve the complaint. When the case is closed, the Consumer Affairs representative makes a determination as to whether the company has committed an apparent infraction.

Apparent infractions occur when the facts indicate that a utility has violated either an FPSC rule, a company tariff, or a company policy (e.g. rules and tariffs.) If there is no apparent infraction, the complaint is closed and assigned to a general complaint category such as “rules and tariffs” or “custom call feature.” Consumer Affairs records the number and category of customer complaints lodged against each company and reports the results monthly to FPSC Commissioners and staff through its Complaint Activity Tracking System (CATS). These reports help identify and trend continuing problems that may require staff attention.

### 5.2 BellSouth Infractions

In view of the allegations made against BellSouth in this case, the Bureau of Regulatory Review examined consumer complaints for the period of January 1, 1997 through June 30, 2000. Consumer Affairs uses some 400 codes to categorize the thousands of complaints received annually. Four codes were selected as those most likely to contain any BellSouth consumer complaints alleging unethical sales activities or deceptive marketing practices. The codes are:

- ◆ Cramming
- ◆ Custom Calling Features
- ◆ Marketing Problems
- ◆ Rules and Tariffs

The above four codes selected for BellSouth sampling contained a total of 2,246 complaints for the period. Of those, the Bureau of Regulatory Review examined 226 for any indication of unethical sales on behalf of BellSouth. The Bureau of Regulatory Review's analysis revealed that none of the 226 complaints examined resulted from unethical sales activities on BellSouth's behalf.

Although no cases of unethical sales were captured in any of these complaint categories used by the FPSC's Division of Consumer Affairs, these types of complaints would most likely be resolved at the company level without the FPSC's intervention. When a customer calls BellSouth to report an unordered product or service, it is BellSouth's policy to credit the customer's account for the product or service and any related charges.

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6.0 ANALYSIS OF COMPLAINT ALLEGATIONS

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## 6.0 Analysis of Complaint Allegations

This chapter discusses and analyzes the specific allegations raised by the complainants pertinent to BellSouth's sales methods and practices. Each allegation is separately listed and begins with a *condition* that describes the situation that may be taking place at the company. The *standard* explains what should be happening. Standards are derived from existing laws and regulations, contractual terms, generally accepted policies, procedures, and company-established management criteria. In addition, standards may be derived from prudent business practice or comparisons with other utilities. The *conclusion* describes actions that were done or should be done to correct or prevent the problem situation.

***Allegation 1: BellSouth's Complete Choice plan is misrepresented as a class of service. The wording and phrases used by some representatives mislead the customer into believing they will be limited to 30 calls unless they choose the Complete Choice plan.***

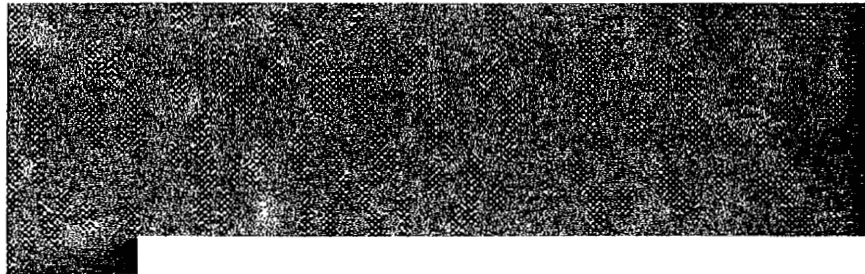
***Condition - (What is happening?)***

For certain areas within BellSouth's service territory, customers may choose from two basic residential service telephone plans. One basic service plan is limited local calling, also known as measured service, or 1MR. The 1MR tariff restricts the caller to 30 calls per month for a monthly rate of \$7.71. Customers will be billed an additional charge for each call beyond the limit of 30. The other option, and the most popular of the two, is basic service with unlimited local calling, also known as flat rate service, or 1FR. 1FR for rate group 12 is available for a flat monthly rate of \$10.81.

As an alternative to 1FR, BellSouth also offers an enhanced calling plan, Complete Choice, which includes the 1FR service plus 20 calling features for a monthly rate of \$30. The Bureau of Regulatory Review believes BellSouth representatives are currently capitalizing on confusion among customers who do not understand their options. After conducting two half-day monitoring sessions of sales and service representatives, the Bureau of Regulatory Review concurs that some customers confuse BellSouth's Complete Choice plan with the 1FR plan. In other words, Complete Choice is sold under the misconception that the only alternative is the less desirable and restrictive 1MR plan.

When answering a sales call, representatives are trained to proceed directly to recommend BellSouth's \$30 Complete Choice plan to the customer. As indicated by BellSouth's training documents, BellSouth's practice is to disclose basic local service (1FR or 1MR) options and rates at the end of the call. Through both the Bureau of Regulatory Review's monitoring of customer calls to BellSouth's sales and service centers and examination of BellSouth's sales scripts, it is the Bureau of Regulatory Review's opinion that BellSouth's representatives are attempting to maximize revenue opportunities rather than making the choice clear to customers. Below is an example of an opening

statement to be used by representatives in a sales script provided in the anonymous complaint to the Commission in June 1999:



The sales script further instructs the representative:



Only after the sale is completed is the sales representative instructed to disclose the option for basic service. Wherein the script states:



This particular script was provided as an attachment to one of the complaint letters. It is not clear if and when this script was in use. This script fails to mention requirement to disclose the rate for basic local service as required in Rule 25-4.107. According to BellSouth, the origin of this script is unknown and is not an official corporate approved script. All corporate approved scripts comply with the Commission's rule governing "full disclosure."

Through the Bureau of Regulatory Review's monitoring sessions of service and sales calls to BellSouth, a total of 16 new service order calls were observed. In 15 out of the 16 calls, BellSouth representatives sold Complete Choice with the disclosure of the availability of basic service at the end of the call.

***Standard - (What should be happening?)***

FPSC Rule 25-4.107 does not specifically state when during initial contact with the customer the company should disclose basic service. However, the Bureau of Regulatory Review believes that the spirit of the rule is not fulfilled under Bellsouth's current practice. When presenting BellSouth's

calling plans, it is the opinion of the Bureau of Regulatory Review that BellSouth's representatives should first offer to customers BellSouth's basic service plans, 1MR and 1FR. If the customer chooses 1FR, BellSouth representatives should then clearly present the Complete Choice package as a further enhancement to their service. The decisions of basic service (1FR and 1MR) and Complete Choice should be clearly separated.

In a November 1999 BellSouth letter to the Commission in response to this review, the company states, "All BellSouth representatives are trained and monitored for adherence to the requirement to offer the least expensive option prior to attempting to sell anything else". The Bureau of Regulatory Review's observations and the above sales script contradict the claim that all options are presented before a decision is requested.

***Conclusion - (Recommended Action)***



At a minimum, whenever a customer calls to initiate service, the Bureau of Regulatory Review believes a better practice would be for the representative to first recommend one of BellSouth's basic local service offerings (i.e., 1FR and 1MR) and immediately disclose the price for the particular offering. The representative could then explain to the customer that there are other service packages (e.g. Complete Choice) at different rates which can be described if the customer is interested.

In addition, BellSouth's supervisors and all observation teams could include an element in their monitoring process to observe whether representatives are disclosing basic service options prior to offering any other calling plans, such as Complete Choice.

***Allegation 2: Representatives are told to meet sales quotas in any way, at any cost, or be formally reprimanded.***

***Allegation 3: Sales objective dollar amounts were raised to a point where most representatives were not able to meet the company's objectives.***

***Condition - (What is happening?)***

Both BellSouth's customer sales and service representatives are held accountable for meeting specific dollar amount sales objectives derived from a statewide total dollar sales objective developed annually by BellSouth Corporation. To meet the projected sales, BellSouth holds sales



and service representatives accountable for meeting monthly revenue objectives. The sales and service representatives are expected to achieve or exceed the monthly sales targets through sales of BellSouth's individual products and services. Representatives who fail to meet the monthly sales targets will first receive coaching in areas that need improvement. Representatives who fail to improve performance over a period of time may be subject to disciplinary action.

The Bureau of Regulatory Review requested that BellSouth provide the percentage of sales and service representatives who met their targeted monthly sales objectives since January 1998. In response, the company indicated that no such analysis is even attempted by the company. Instead, the company provided over 12,000 individual service and sales representative monthly report card results, covering the period of January 1999 through July 2000.

To determine how successful representatives are in meeting their sales objectives, the Bureau of Regulatory Review reviewed over 8,000 report cards and calculated the percentage of instances where sales fell below the monthly Total Revenue objective. For the 19-month period examined, the sample indicated that [REDACTED] percent of the Total Revenue evaluations for the service representatives rated less than satisfactory. Similarly, [REDACTED] percent of the evaluations for the sales representatives rated less than satisfactory for Total Revenue.

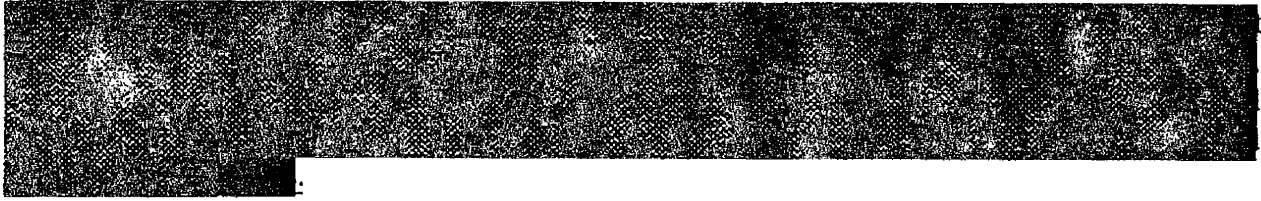
*Standard - (What should be happening?)*

[REDACTED]

BellSouth contends that representatives' sales efforts are simply deficient. The company supports its position by pointing to the "Offer Rates" achieved by its sales in service forces in 2000 and 2001. Offer Rates are based on efforts made by the service representative to offer BellSouth's various products and services on each call. During 2000, the Offer Rates in sales and service were 43 percent and 19 percent, respectively. Similarly, through March 2001, the Offer Rates were 38.5 percent and 16.5 percent.

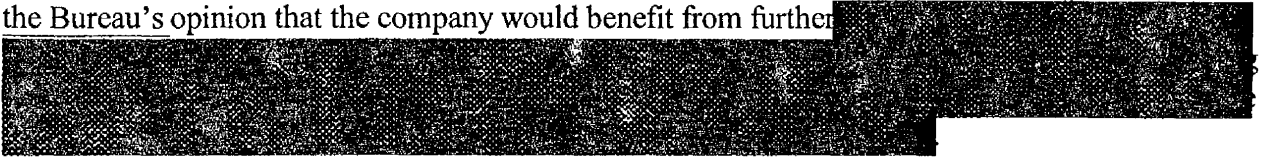
[REDACTED]

The Bureau recognizes that BellSouth has every right to make a profit by emphasizing sales through implementation of sales objectives. [REDACTED]



***Conclusion - (Recommended Action)***

The Bureau of Regulatory Review's investigation and discussions with the complainants failed to reveal any factual evidence to substantiate Allegation 2. On the other hand, the Bureau of Regulatory Review concludes that Allegation 3 is supported by facts. In light of Allegation 3, it is the Bureau's opinion that the company would benefit from further



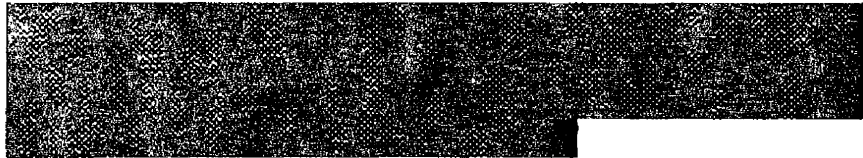
***Allegation 4: Optional services including BellSouth's Complete Choice plan is frequently added to the customer's line even after the customer declined the offer.***

***Condition - (What is happening?)***

BellSouth sells many optional services that are not required for basic service. One such service is BellSouth's Complete Choice Plan, which includes over 20 calling features at one price. According to the complainants, BellSouth representatives were told to "offer the Complete Choice plan on every call, and offer it aggressively, overcoming customers' objections in order to sell it." The complainants alleged that cheating by representatives commenced in order to meet sales objectives. Hence, the Complete Choice plan was frequently added to a customer's line without their authorization.

During 1999, the number of Complete Choice sales was a separate component of both the sales and service representatives' report cards. The service representatives were expected to sell from 30 to 50 Complete Choice plans per month, whereas sales representatives were expected to sell about 150 per month. Not only would each Complete Choice sale earn a credit toward meeting the monthly goal, but each sale would also earn dollar credits toward meeting the representative's Total Revenue component of their report cards. On an individual product basis, the Complete Choice plan was assigned the greatest revenue credit amount at \$90. For meeting or exceeding the sales objectives, the representatives can earn various prizes and cash awards ranging from televisions to annual trips for top sales performers. In contrast, failure to meet the sales objectives could result in disciplinary action.

Although Complete Choice is no longer a separate component of the sales and service representatives' report cards for the year 2000, representatives are still trained to proceed directly to recommend BellSouth's Complete Choice plan to the customer and are further trained to overcome objections when the customer voices concerns or does not agree to the sale. For example, in BellSouth's training manual *Selling Products and Services*, 24 pages are dedicated to teaching representatives on how to view objections as opportunities. Some excerpts are:



Although it is company policy to discipline a representative for conducting any fraudulent sales, company policy also allows for discipline in the case of representatives who fail to meet their sales objectives. This may have the unintended effect of encouraging improper sales activities.

***Standard - (What should be happening?)***

For any new order or change to an existing order that results in the addition of a service, such as Complete Choice, a verification letter is automatically triggered by BellSouth's Customer Instructional Delivery System. The customer verification letter confirms the new order or change to an existing order, such as the addition of Complete Choice. The verification letter presents a chart depicting the quantity, description of service, and monthly rates for the new services ordered. Depending upon the particular services sold, the letter may include instructions and other information, such as how to use the MemoryCall service.

In addition to the verification letter, per the FCC's "Truth-in-Billing Requirements," the customers monthly bill also provides a description and list of charges for each service rendered. This requirement also helps to protect the consumer against unethical sales.

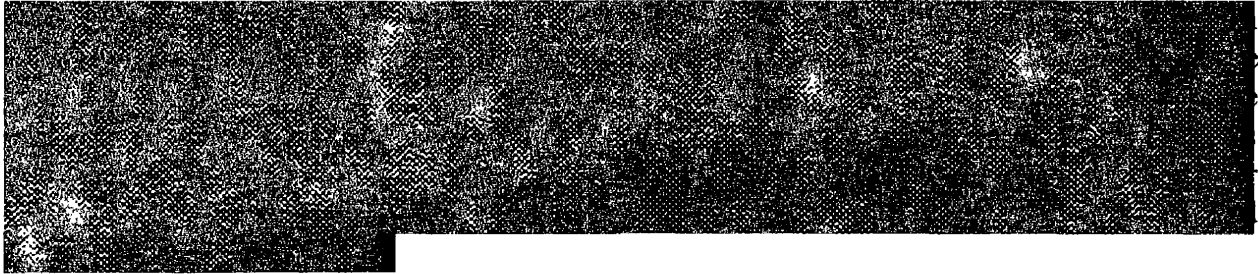
Other recent controls implemented by BellSouth to deter this type of fraudulent sale are implementation of the Did Not Order form and increasing the number of "charge back" days from 60 to 120. A sale will be charged back or removed from the offending representative's sales record

and not counted for purposes of attaining sales objectives if a customer cancels an unauthorized or unwanted service within 120 days of the original order.

Although numerous controls exist to reduce the risk of unethical sales, BellSouth could further reduce the risk by reevaluating and setting sales objectives based on what can be reasonably achieved by the company's sales and service representatives.

***Conclusion - (Recommended Action)***

While the Bureau of Regulatory Review could not support this allegation with facts,



BellSouth has implemented recent controls since the filing of the complaint that have increased the ability to detect and deter fraudulent sales. Such controls include implementation of the Did Not Order form and increasing the number of chargeback days from 60 to 120 days. However, to further reduce the risk of unethical sales, and as previously recommended, the company would benefit from performing periodic assessments of the dollar level set for sales targets in light of service and sales representatives success in meeting the targets. The sales targets could then be adjusted accordingly.

***Allegation 5: MemoryCall is added to a customer's line without the message waiting indicator tone that would alert the customer that something has been added to their line without proper authorization.***

***Condition - (What is happening?)***

MemoryCall is BellSouth's voice mail answering service that provides customers with the ability to retrieve recorded calls without the need for an answering machine. Some of the key features included with the MemoryCall include message retrieval and deletion from any touch-tone phone, answering of multiple calls simultaneously, and message storage.

MemoryCall requires customers to purchase at least one Call Forwarding Service, such as Call Forwarding Don't Answer or Call Forwarding Busy Line. In these examples, calls are forwarded to the MemoryCall mailbox after a certain number of rings or whenever the customer's line is busy. Customers must call into their mailbox to retrieve any new messages or they can purchase a Message Waiting Indicator feature which alerts customers to new messages via a stutter

dial tone.

According to the complainants, in efforts to meet sales objectives, representatives were cramming MemoryCall onto a customer's account without the message waiting indicator feature. Since a customer would not be alerted to the fact that MemoryCall was added to the account without the stutter dial-tone, the fraud would not be detected except by the customer's review of their bill.

***Standard - (What should be happening?)***

For any new order or change to an existing order that resulted in a newly added service, such as MemoryCall, a verification letter is automatically triggered by BellSouth's Customer Instructional Delivery System. The customer verification letter confirms the new order or change to an existing order, such as the addition of MemoryCall. The verification letter provides a chart depicting the quantity, description of service, and monthly rates for the new services ordered. Depending upon the particular services sold, the letter may include instructions and other information, such as how to use the MemoryCall service.


In addition to the verification letter, per the FCC's Truth-in-Billing Requirements, the customers monthly bill also provides a description and list of charges for each service rendered. This requirement is to protect the consumer against any unethical sales.


Other recent controls implemented by BellSouth to deter this type of fraudulent sale are implementation of the Did Not Order form and increasing the number of chargeback days from 60 to 120. A sale will be chargeback or removed from the offending representative's sales record and not counted for purposes of attaining sales objectives if a customer cancels an unauthorized or unwanted service within 120 days of the original order.

Although numerous controls exist to reduce the risk of unethical sales, BellSouth could further reduce the risk of unethical sales by reevaluating and setting sales objectives based on what can be reasonably achieved by the company's sales and service representatives.

***Conclusion - (Recommended Action)***

While the Bureau of Regulatory Review could not support this allegation with facts,

. Given the complexity of today's telecommunications market, customers are less likely to read the details of their bills or any company correspondence such as a verification letter.

BellSouth has implemented recent controls since the filing of the complaint that have increased the ability to detect and deter fraudulent sales. Such controls include implementation of the Did Not Order form and increasing the number of chargeback days from 60 to 120 days. However, to further reduce the risk of unethical sales, and as previously recommended, 



**Allegation 6: Sales representatives are “gated” to take service calls without being told.**

**Allegation 7: There is no incentive on the part of the sales representative to handle service calls effectively.**

***Condition - (What is happening?)***

Representatives employed in BellSouth’s Consumer Services organization are divided into two functions: sales and service. Although the primary function of BellSouth’s service representatives is to handle service-related inquiries, such as questions about bills or payment arrangements, often sales representatives are required to handle and resolve service calls. Service-related inquiries are often “gated” or “diverted” directly to a sales representative in efforts to distribute the workload evenly among the service and sales representatives and assist BellSouth in meeting FPSC answer time requirements. Prior to January 2000, sales representatives were gated calls for extended periods, for up to four hours. Beginning in 2000, the excess service calls are diverted throughout BellSouth’s entire sales force for shorter periods. According to BellSouth this new process no longer burdens sales representatives with long periods of gating which could reduce their ability to make sales objectives.

A component of a service representative’s evaluation is how effectively they handle the customer’s problem. This is known as Representative Effectiveness. Sales representatives are not held accountable for Representative Effectiveness, but instead are evaluated on the basis of their sales results. Therefore, less incentive exists to fully satisfy the customer in resolving their service-related inquiry since these calls are less likely to produce revenues toward meeting sales quotas. For example, a customer calling in to make payment arrangements is not likely to provide a viable sales opportunity for the sales representative. Therefore, the sales representative may be tempted to just transfer the customer back to a service representative rather than promptly handling the customer’s problem.

***Standard - (What should be happening?)***

Via BellSouth’s automated calling system, a customer will be routed to either a service or sales representative depending on the customer’s selection from a menu of choices. For example, if a customer calls to question a bill, they would be directed to press “2” on the telephone for “billing inquires.” In turn, the customer would be routed to a service representative. Similarly, the customer would be routed to a sales representative by pressing “4” for “new service orders.” However, on average, over one-third of customer calls to BellSouth’s service centers are gated to BellSouth’s sales centers. The sales representative is expected to first resolve the customer’s service problem and

then bridge to a sales presentation of other available BellSouth products or services. Therefore, the representative should be given incentive to both fully handle the service problem and to seek to sell additional products or services.

***Conclusion - (Recommended Action)***

In the Bureau of Regulatory Review's opinion, allegation 6 is no longer applicable since BellSouth claims that individual sales representatives are no longer burdened with long periods of being gated. Although sales representatives are still not informed regarding the types of calls they are receiving, diverting has a smaller impact than gating formerly had.

In the Bureau of Regulatory Review's opinion, allegation 7 was substantiated by facts. BellSouth would benefit from including a Representative Effectiveness evaluation criteria in the sales representative report card to measure the quality of handling service-related calls.

***Allegation 8: No disciplinary action is taken against a representative or his/her supervisor when unauthorized products and services are added to a customer's line by the representative.***

***Condition - (What is happening?)***

According to the written complaints filed with the Commission in June 1999, no disciplinary action is taken against a representative or their respective supervisor if the representative is known to have added a product or service to a customer's account without the customer's authorization. The complainants stated, "when a rep and his/her supervisor are confronted with any allegation of malfeasance/misfeasance (adding services to a line without approval or 'forgetting' to remove services from the line at the customer's request), no action whatsoever is taken. The service(s) is removed, the customer is offered an apology and sometimes a credit to the bill, and the case is closed."

***Standard - (What should be happening?)***

In September 1999, BellSouth implemented the Did Not Order form. The form is to be used when a customer calls in with a complaint that a product or service has been received that was not ordered. The sales or service representative that receives the complaint is responsible for resolving the complaint (making the appropriate credit adjustment), completing the Did Not Order form, and submitting it to BellSouth's Consumer Services support staff for investigation. The support staff determines the identity of the representative who placed the order that led to the complaint and the facts surrounding the order. If warranted, disciplinary action is taken. Through June 2000, a total of [REDACTED] Did Not Order forms have been completed and submitted to the Consumer Services support staff.

In addition to the Did Not Order form, disciplinary action is also taken against a representative if a supervisor or BellSouth's state or regional observation teams detect any impropriety during the observation. Also, if a customer cancels an unauthorized or unwanted service within 120 days of the original order, the sale will be chargedback or removed from the offending representative's sales record and not counted for purposes of attaining sales objectives.

As a further control to prevent fraudulent sales, BellSouth would benefit from investigating and holding supervisors accountable if any of their representatives are found to be conducting unethical sales.

***Conclusion - (Recommended Action)***

[REDACTED]

[REDACTED] The form, along with BellSouth's observation teams and chargeback policy, enhanced BellSouth's ability to detect unethical sales. [REDACTED]

[REDACTED]

In the Bureau of Regulatory Review's opinion, BellSouth could further reduce the risk that unethical sales is encouraged by management by holding supervisors accountable for their employees behavior. At a minimum, a supervisor's evaluation could include an element for measuring the number of unethical sales reported by the observation teams and the Did Not Order form. Particularly in instances where more than one representative reporting to the same supervisor is found to have committed violations, this would reduce the possibility that the supervisor encourages or condones unethical practices.

***Allegation 9: Sales and service training provided to new and existing representatives is inadequate.***

***Condition - (What is happening?)***

According to the written complainant filed with the Commission in June 1999, "training is, for the most part, inadequate, arriving rather late (our customers are often the ones to tell us about our current promotions), arriving too soon (what good is being trained on something that actually takes effect six months later?), or non-existent." The complainants further stated that new representatives did not benefit from ethics training provided to the older representatives.

***Standard - (What should be happening?)***



In June 1999, BellSouth introduced a new training program for new employees called the "BEST" program. The BEST program is a seven week, computer-interactive and role-playing training program that includes approximately five days of on the job training (i.e, handling calls) with an experienced representative. After release from initial training, new representatives are placed in an incubator group for a period of four weeks. Over this period, the representatives take on the same responsibilities as an experienced representative, but they are continuously monitored and tutored by an assigned supervisor. Upon completion of the BEST program, representatives receive continuous training every 30, 60, 90, and 120 days. After 120 days, all representatives periodically receive targeted training on new products and services throughout their career.

In addition, all employees are required to receive ethics training and sign an ethics statement annually, acknowledging the company's policy. The training includes an ethics handbook and a 90 minute CD-ROM interactive course, where the student listens to the materials presented and answers questions by clicking on the right responses. However, upon the Bureau of Regulatory Review's examination of the course materials, the Bureau of Regulatory Review found no course topics related to the ethical treatment of customers in sales situations. At a minimum, the Bureau of Regulatory Review would have expected to see an example of an opportunity to be fair or unfair to a customer.

***Conclusion - (Recommended Action)***

In the Bureau of Regulatory Review's opinion, allegation 9 is no longer applicable since the new initial and continuous training programs implemented in 1999 may have increased the quality and value of training to representatives since the time the complaint was written. According to the company, during the period prior to the complaint, new representatives received eight weeks of classroom training and were then put directly on the job. Continuous training was not as structured as it is today and almost nonexistent. The company stated that representatives received 135 percent more training in 1999 than in 1998 and are on the same course for 2000.

In the Bureau of Regulatory Review's opinion, BellSouth would benefit from providing follow-up annual ethics training to all employees and managers. The training should specifically include a course on ethical treatment of customers. Upon completion of the training, each employee and manager should be required to review the complete ethics policy and be required to sign an updated ethics statement to be retained in the employee's personnel files.

***Allegation 10: Where a deposit is required by company policy, representatives often lowered or waived the deposit as long as the call generates sales.***

***Allegation 11: Representatives can override a deposit recommendation per the credit bureau to encourage sales.***

***Condition - (What is happening?)***

According to the complainants, “Reps seem to have rather widely-varying deposit policies, ultimately influenced greatly by the kind of revenue the order will generate.” In other words, if a new service order is expected to produce significant revenues toward meeting the representative’s monthly sales target, the representative might lower the deposit amount or even override a credit bureau deposit recommendation as an incentive to lock in the sale. On the contrary, if the order is not expected to produce significant revenues, the representative may complicate the ordering process. For example, the representative may suggest a higher deposit for new service or request that the customer provide documents showing identification and proof of residence.

***Standard - (What should be happening?)***

BellSouth’s deposit policy is contained in Section A2.4.2 of its General Subscriber Services Tariff (GSST), which permits BellSouth to request a deposit if satisfactory credit is not established. Essentially, the deposit criteria is related to a customer’s ability to pay.

Upon receipt of a new service order connection, representatives must determine the customer’s credit worthiness. The representative first performs a check to see if the customer has had previous telephone service with BellSouth and if any record of nonpayment within BellSouth’s nine-state region. If no previous service was found, the representative performs a credit check via a mechanized interface with a credit bureau (Equifax). Equifax assigns the customer with a credit class and determines the need for a deposit. In either case, the deposit amount is negotiated between the representative and the customer and is based on the customer’s credit history and anticipated monthly charges for the new service. The representative may waive the deposit if the customer’s credit record is satisfactory.

***Conclusion - (Recommended Action)***

The Bureau of Regulatory Review did not find specific justification for these allegations. However, on August 29, 2000, BellSouth instituted a “credit violation” policy. The policy calls for disciplinary action to be taken against any representative who overrides a credit bureau deposit recommendation without proper justification. As a means of tracking the representative’s actions, BellSouth added an enhancement to its residential ordering Regional Negotiating System (RNS) system to capture each Equifax deposit recommendation.

In the Bureau of Regulatory Review’s opinion, BellSouth could further control the deposit negotiating process by including a monitoring element in the Team Initiatives used by the state and regional observation teams. The teams could observe for accuracy of deposit calculations and note the basis for any deposit waiver.

***Allegation 12: Representatives need additional time to complete and/or correct orders, but are not provided sufficient time to do so under current incentives.***

***Condition - (What is happening?)***

In 1998 and 1999, representatives were held accountable for meeting a monthly Average Handling Time target. The Average Handling Time is the total time the representative is on the phone with a customer plus the time associated with completing a transaction once the customer has hung up. For example, the average handling time target for a sales representative in January 2000 was 7.8 minutes. The complainants allege that additional time is often needed beyond the 7.8 minutes to complete or correct an order. Consequently, according to the complainants, the overly restrictive Average Handling Time target creates an incentive for orders to be issued with errors. No disciplinary action was taken against representatives failing to meet the target, but representatives could earn bonus points as part of their appraisal process for meeting the target.

In addition to meeting the Average Handling Time target, BellSouth's representatives are expected to achieve monthly sales targets through sales of BellSouth's individual products and services. The incentive to meet sales targets may discourage representatives from taking additional time to see that a customer's order is completed in full and error-free.

***Standard - (What should be happening?)***

In light of the average handling time targets, in 1999 and 2000 BellSouth provided each representative up to 58.5 minutes per day to follow-up on orders that could not be completed or corrected while on the telephone with the customer. The 58.5 is comprised of 15 minutes per day of "close key time", plus four percent of total overhead time (approximately 22.5 minutes per representative), plus 21 minutes of acceptable daily deviation (personal time). In 2001, all representatives have up to 73.5 minutes per day to follow-up on orders. The difference is attributed to an increase of 15 minutes of close key time.

In addition to the close key time, as a result of a 1998 internal audit recommendation, BellSouth created a "close key bank" plan in 1999. This plan allows a specified daily block of minutes to be used by designated representatives within each service and sales center to handle orders that could not be completed during individual close key time.

The company also designated two "roadblock" personnel available to handle complex issues, such as researching a past bill problem where access to archived files is needed. When the necessary information is obtained, the roadblock personnel will contact the customer with an answer or solution.

***Conclusion - (Recommended Action)***

Due to the inherent difficulty in proving why errors are made in an order, the Bureau of Regulatory Review cannot support these allegations in terms of the rush to complete orders. However, the incentive to rush through orders in order to meet average handling time targets and sales quotas may discourage representatives from fully utilizing the additional "Close Key Time" and "Close Key Bank" to see that a customer's order is completed in full and error-free. In the

Bureau's opinion, this incentive could be controlled by reassessing the dollar level set for sales targets.

***Allegation 13: Service and sales representatives are supposed to follow a call routing matrix outlining what calls to handle but failure to adhere to it, or loosely doing so, results in no negative impact whatsoever.***

***Condition - (What is happening?)***

When answering inbound customer calls, BellSouth representatives are instructed to adhere to a call matrix printout. The purpose of the call matrix is to assist representatives in handling calls more efficiently. A representative can refer to the call matrix to determine the type of call (e.g., billing inquiry, new service connection) and whether or not to handle the call themselves or assign it to a BellSouth service, sales, or collections' representative. For example, per the call matrix, a service representative would be designated as "primary" over a sales representative to handle a customer billing inquiry. Similarly, a sales representative would be designated "primary" to handle a new service order.

According to the complainants, the call matrix is often ignored by both service and sales representatives. Incoming calls that are not believed to generate sales are often transferred back-and-forth from service to sales or from one representative to another until someone is willing to resolve the customer's problem. The complainants argue that representatives are not disciplined for these misdirected calls and further do not suffer any negative impact on their overall performance.

***Standard - (What should be happening?)***

The call matrix should be used as a practical aid for representatives to use in delineating and prioritizing the various types of incoming customer calls. According to the complainants, representatives are less likely to refer to the call matrix and are more likely to use their own best judgement as to whether or not to handle the call themselves in order to meet their sales objectives. However, according to BellSouth, the call matrix provides guidance beyond situations such as advising sales and service representatives when and when not to handle certain types of calls (e.g., denied service, collection agency inquiries). The company further argues that the call matrix is not mandatory and is to be used merely as a guide to assist representatives in handling calls more efficiently.

The Bureau of Regulatory Review contends that the overall usefulness of the call matrix is suspect because BellSouth diverts incoming calls directly to sales representatives. The sales representatives being diverted are instructed to resolve the customer's problem regardless of the call

type and not transfer the call back to a service representative. Since over a third of customer calls were gated directly to sales in 1999, the overall purpose of the call matrix is less effective. In addition, the Bureau questions the practicality of the call matrix, since BellSouth's automated call system is designed to screen and route customer calls directly to either a service or sales representative.

***Conclusion - (Recommended Action)***

This allegation, while partially substantiated, is no longer applicable. In the Bureau's opinion, BellSouth would benefit from re-evaluating the usefulness and practicality of the call matrix used by customer service and sales representatives.

***Allegation 14: Representatives change a dwelling that is already entered into BellSouth's database with its own location to an additional line for the purpose of generating additional revenue towards the high sales quota.***

***Condition - (What is happening?)***

The complainants take issue with BellSouth's policy concerning telephone service at a single family residence that may have been subdivided into a multi-tenant dwelling. Sometimes a room (or rooms) in a single-family residence may be rented to or occupied by another tenant. When the tenant contacts BellSouth to place an order for basic service, BellSouth procedures require the representative to submit the order as an additional line to the primary residence as opposed to establishing the service as a separate primary line. The additional line rate is tariffed higher than a primary line and also provides a greater dollar credit toward meeting the representatives monthly sales objective. Also, the additional line subjects the tenant to higher FCC access rates and may further cause delays to E911 response vehicles since the address on the tenant's bill is that of the primary residence.

***Standard - (What should be happening?)***

Although filling the order as an additional line to the primary residence results in higher rates to the tenant and further provides a higher benefit towards meeting the representatives' sales objectives, BellSouth's procedures comply with FCC orders. According to Order No. 99-28, released on March 10, 1999, "one line per house will receive primary-line rates." The order further notes that "LECs can implement this definition based on their service records." Any other residential line is considered nonprimary or additional and, therefore, subject to the higher rate.

***Conclusion - (Recommended Action)***

In the Bureau's opinion, this allegation is not supported by facts. Since BellSouth's procedures for handling multi-tenant dwellings is based on the FCC order, the handling of this situation appears to be appropriate.

***Allegation 15: Multiple pagers and cellular phones are sent to customers who did not request them in order to inflate sales totals of unscrupulous representatives.***

***Condition - (What is happening?)***

Prior to December 1999, BellSouth representatives were held accountable for meeting monthly objectives for sales of pagers to customers. Representatives are still held accountable for meeting monthly objectives for sales of cellular phones to customers. Service representatives are expected to sell about five cellular phones per 1,000 calls handled. Sales representatives are expected to sell about 16 cellular phones per 1,000 calls handled. To meet these objectives and those that were set for pager sales, the complainants allege that representatives sent pagers and cellular phones (in some cases multiple units) to customers who did not request them. If the customer did not authorize the sale or returned the extra pagers and cellular phones, the representative would not lose credit for the original sale.

***Standard - (What should be happening?)***

In 1999, BellSouth implemented a chargeback policy for pagers and cellular phones. In this case, the offending representative who sent the unauthorized pagers or cellular phones would lose credit toward attaining their sales objectives. A sale can be chargedback to a representative's sales record up to 120 days from the original order date.

In addition, implementation of BellSouth's Did Not Order form further discourages placement of unauthorized orders. Through the Did Not Order form, the offending representative is identified, loses credit for the sale, and is subject to disciplinary action.

***Conclusion - (Recommended Action)***

**[REDACTED]** However, it appears that BellSouth has implemented adequate controls to deter fraudulent sales of telephone equipment (i.e., pagers and cellular phones). Presently, the Bureau believes no further action is needed.

***Allegation 16: New connect service orders cannot be traced once they are canceled.***

***Representatives will cancel an order that does not generate sales instead of generating the unprofitable order or holding it for deposit.***

***Condition - (What is happening?)***

According to the complainants, representatives often canceled new service orders for those customers who request only basic service. Since the sale of basic service produces lower revenues toward meeting sales goals (both Total Revenue and RPLN), and new connect service orders cannot be traced once they are canceled, representatives are not as motivated to generate orders for basic service. The representative may further complicate the order-taking process to discourage the customer from acquiring basic service. For example, the representative might tell the customer that

their address does not appear in the system, or the system is down, or the deposit for new service is high. In each instance, the representative is attempting to shorten the ordering process in efforts to move on to the next call, which may produce significant revenues. Upon completion of the call, the representative will simply cancel the order as opposed to holding the order for deposit or generating it for processing. When the customer calls BellSouth back several days later to check on the status of the new service connection, there is no trace of the original order in BellSouth's ordering system (RNS), although the customer had been initially assigned a telephone number.

***Standard - (What should be happening?)***

BellSouth expects and requires its representatives to determine whether a customer is interested in additional products or services on top of basic service. If the customer declines the additional offerings, representatives are required to complete the new order for basic service. However, because the sale of basic service to a customer results in lower revenues towards meeting monthly sales goals, the representative is inclined to discourage or simply reject this type of sale. Since BellSouth's RNS system does not systematically track cancellations of new service orders, the Bureau was unable to determine the severity of this problem. However, BellSouth would benefit from implementing controls to monitor and further reduce the risk of new orders being intentionally canceled.

***Conclusion - (Recommended Action)***

The Bureau of Regulatory Review could not substantiate this allegation. However, in the Bureau's opinion, BellSouth would benefit by separately tracking the number of customer call backs denoting a new service order that was not processed or lost by BellSouth.

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## 7.0 CONCLUSIONS

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## 7.0 Conclusions

After reviewing BellSouth's sales methods and practices, the Commission's Bureau of Regulatory Review assessed the company's controls and policies as they relate to each objective identified in Chapter 1, Section 1.1. Below are the Bureau's conclusions as they pertain each objective.

### 7.1 BellSouth's Sales Channels and Methods of Operations

As part of BellSouth's preparation for local competition, the company structured its customer service organization to emphasize sales of vertical services (e.g., call forward and caller ID) and nonregulated products and services (e.g., cellular and Internet services). To do this, BellSouth split the organization into two separate operations, customer sales and customer service. Customer sales is responsible for generating revenue through sales of all basic network (POTS) and vertical services as well as nonregulated products and service. Customer services is primarily responsible for resolving service-related inquiries from existing customers, such as bill inquiries and making payment arrangements.

Representatives in sales are evaluated on different criteria and are expected to meet higher monthly sales objectives. The sales objectives are stated in monthly revenue dollars and are achieved by each representative through the sale of BellSouth's products and services. To meet the monthly sales objectives, the representatives earn assigned dollar credits for the sale of BellSouth's individual products or services and package of services. For example, the sale of BellSouth's Complete Choice plan earns the representative \$90 of revenue credit toward meeting the representatives' monthly sales objectives.

Given the current incentives, the Bureau of Regulatory Review is concerned with the dollar level set for sales objectives. The Bureau examined over 8,000 representatives' appraisal forms to determine how successful representatives are in meeting their sales objectives. Results showed that over the period January 1999 through July 2000, [REDACTED] of BellSouth's representatives failed to meet their monthly objectives. [REDACTED]


### 7.2 BellSouth's Policies, Procedures, and Internal Controls

To encourage sales, BellSouth offers its sales and service representatives incentives ranging from gift certificates to vacation trips for top sales performers who meet or exceed sales objectives. On the other hand, representatives are subject to disciplinary action for failing to meet their

objectives. While this incentive program could have the unintended effect of encouraging improper sales activity, BellSouth uses internal controls to detect and deter fraudulent sales. These controls include: itemized billing, sales verification letters, internal audits, and customer service and sales monitoring.

Controls recently implemented by BellSouth include new and improved training for representatives, implementation of the "Did Not Order" form in late 1999, and implementation of the "charge-back" and "credit-violation" policies in 1999 and 2000. Representatives who are identified as performing fraudulent sales are subject to disciplinary action and possible termination. The "Did Not Order" form resulted in numerous terminations and resignations by BellSouth employees in the past year.

Despite existing and recent controls, the Bureau believes BellSouth should consider taking the following actions to enhance deterrence and detection of fraudulent sales:

- ◆ Require customer service and sales representatives to disclose basic service options prior to offering any other calling plans, such as Complete Choice.
- ◆ Include an element in the state and regional observation teams' monitoring checklists to specifically observe whether representatives are disclosing basic service options prior to offering any other calling plans, such as Complete Choice.
- ◆ 
- ◆ Include a Representative Effectiveness evaluation criteria in the sales representative report card to measure the quality of handling service-related calls.
- ◆ Investigate unethical sales conducted by representatives and, if applicable, hold supervisors accountable.
- ◆ Prescribe a number of monthly or quarterly evaluative customer contacts to be monitored by supervisors to effectively assess each representative's performance
- ◆ Provide follow-up annual ethics training to all employees and managers. The training should specifically include a course on ethical treatment of customers.
- ◆ Include an element in the state and regional monitoring teams's checklist to observe the accuracy of deposit calculations and note the basis for any deposit waiver.
- ◆ Re-evaluate the practicality of the call matrix used by customer service and sales

representatives to delineate and prioritize the various types of incoming customer calls.

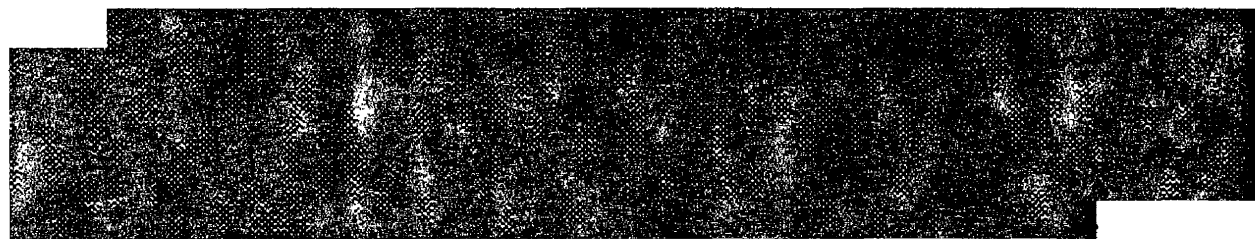
- ◆ Separately track the number of customer call backs denoting a new service order that was not processed or lost by BellSouth.

### 7.3 BellSouth's Compliance with FPSC Rules



Based on BellSouth's interpretation of FPSC Rule 25-4.107, the company's marketing practices are not in technical violation of the rule. However, the Bureau of Regulatory Review notes that the spirit of the rule regarding the disclosure of the customer's least cost option is not fulfilled under BellSouth's current practice. According to rule, "At the time of initial contact, each local exchange company shall advise the person applying for or inquiring about residential or single line business service of the rate for the least expensive one party basic local exchange telephone service available to him unless he requests specific equipment or services." BellSouth's practice is to disclose the option and rate of basic local service at some time during the call. BellSouth representatives are trained to ask for the customer's decision regarding the Complete Choice package before describing alternative choices, such as POTS flat rate or measured rate service.

The Bureau of Regulatory Review agrees with the company that the rule does not state specifically when during the initial contact with the customer the company should disclose basic service. BellSouth asserts that the company is in compliance with the rule as long as basic service is disclosed at some point during customer contact. Although BellSouth may be complying with the rule, the Bureau believes the company should offer all alternatives before the customer is asked to make a decision. The spirit of the rule is to give the customer choices. It is possible that a rule change may need to be considered to provide specific guidance to local exchange companies.



#### 7.4 BellSouth's Fair and Ethical Treatment of Customers

Although BellSouth responded to cases of blatant fraud against the customer with disciplinary action, the [REDACTED]

The Complete Choice plan includes basic service plus 20 calling features for about \$30 a month. When answering a sales call, representatives are trained to proceed directly to recommend the plan. The customer is put into a position to make a decision before the representative discloses BellSouth's basic service options. Hence, the customer often selects the Complete Choice option before even being told that they can purchase basic service separately for about \$10.81 a month. There is an inherent conflict between BellSouth's dual goals of identifying and meeting customers needs and maximizing revenues. Although the buyer must take responsibility for making appropriate purchasing decisions. [REDACTED]

[REDACTED]

At a minimum, whenever a customer calls to initiate service, the Bureau believes a better practice would be for the representative to first recommend one of BellSouth's basic local service offerings (i.e., 1FR and 1MR) and immediately disclose the price for the particular offering. The representative could then explain to the customer that there are other service packages (e.g. Complete Choice) at different rates which can be described if the customer is interested.

## Specific Comments

BellSouth's Specific Comments are structured to address chapters of the audit and the subsections therein.

### Chapter 3: Sales Process

#### Section 3.3.1: Sales Representatives' Report Cards

The Bureau of Regulatory Review reviewed over 4,242 report cards for the period January through December 1999 and found that [REDACTED] of the scores were less than satisfactory. It should be noted that as stated in Section 3.3.3 of the audit report, during the January to December 1999 time frame, all appraisals were rated "insufficient" and, therefore, the less than satisfactory scores were re-rated.

#### Section 3.3.2: Service Representative' Report Cards.

The Bureau of Regulatory Review reviewed over 3,990 report cards for the period January through December 1999 and found that [REDACTED] of the scores were less than satisfactory. It should be noted that as stated in Section 3.3.3 of the audit report, during the January to December 1999 time frame, all appraisals were rated "insufficient" and, therefore, the less than satisfactory scores were re-rated.

### Chapter 6: Analysis of Complaint Allegations

***Allegation 1: BellSouth's Complete Choice plan is misrepresented as a class of service. The wording and phrases used by some representatives mislead the customer into believing they will be limited to 30 calls unless they choose the Complete Choice plan.***

The Bureau of Regulatory Review concludes that this allegation is supported by facts because BellSouth discloses basic local service options and rates at the end of the call, rather than at the beginning. In response, BellSouth states that it complies with Rule 25-4.107, Florida Administrative Code, which provides:

.. At the time of initial contact, each local exchange telecommunications company shall advise the person applying for or inquiring about residential or single line business service of the rate for the least expensive one party basic local exchange telephone service

available to him unless he requests specific equipment or services.

The Bureau of Regulatory Review agrees with BellSouth that the rule does not set a requirement for when during the initial contact with the customer the company must disclose basic service. BellSouth adheres to the Commission's disclosure requirements that include: quoting least expensive service (1MR or 1 FR), and advising of optional services. As agreed by the Bureau of Regulatory Review, BellSouth's marketing practices are not in violation of the rule. BellSouth's State Observing Team monitors for compliance to the Disclosure Guidelines. In addition, there is no evidence to suggest that the timing of the disclosure causes or does not cause confusion.

The Bureau of Regulatory Review participated in two half-day monitoring sessions of Sales and Service Representatives. The observations heard were in compliance with Commission rules and BellSouth guidelines. Customers were informed of their options to select a 1MR or 1FR, and representatives disclosed that the Complete Choice plan included their basic line charge which allows unlimited use of service. In fact, the Bureau of Regulatory Review admits that in 15 out of the 16 new service calls that were observed, BellSouth complied with the Commission rule by disclosing the availability of basic service, albeit at the end of the call. It is BellSouth's understanding that in the one remaining call, the disclosure took place at some time other than at the end of the call. Therefore, in all contacts observed, BellSouth complied with Rule 25-4.107, Florida Administrative Code, and the Bureau of Regulatory Review agrees.

The Bureau of Regulatory Review concludes that BellSouth is capitalizing on confusion among customers who do not understand their options and that BellSouth's sales techniques make full disclosure about the availability of basic service secondary to the Company's efforts to sell its ancillary products and services. There is no evidence in the report to substantiate this claim. The Bureau of Regulatory Review makes the assumption that some customers confuse BellSouth's Complete Choice plan with the 1FR or 1MR plan. However, during the observing sessions, BellSouth believes that the the Bureau of Regulatory Review heard customers making intelligent purchasing decisions, not customer confusion. In fact, all options were clearly presented to the customer as the representative progressed through the order.

BellSouth has received no complaints as to customers being confused regarding our service offerings or evidence that customers were actually confused.

BellSouth does not believe this allegation is supported by facts and that the Bureau of Regulatory Review's conclusion is an opinion based on limited information obtained from complaint letters and limited observations. As agreed by the Bureau of Regulatory Review, BellSouth is not in violation of Rule 25-

4.107, Florida Administrative Code. The rule does not specify a certain time during the initial contact with the customer when the company should disclose the least expensive service. The Bureau of Regulatory Review's recommendation of requiring the disclosure of basic local service upfront would require a change in the current Commission rule. Additionally, BellSouth would point out that the current rule requiring disclosure is not applicable to ALECs. In an ever increasing competitive local environment, BellSouth believes that additional regulatory requirements placed upon the ILECs would be discriminatory.

The Bureau of Regulatory Review also recommended that the State Observing Team monitor for adherence to all disclosure elements, and include an element to observe whether representatives are disclosing basic service options prior to offering any other call plans. BellSouth monitors for compliance with the rule requiring the offering of the least expensive service, as well as for all disclosure statements, and publishes reports on this compliance. As discussed above, BellSouth is not required to disclose basic service options prior to offering any other call plans.

***Allegation 2: Representatives are told to meet sales quotas in anyway, at any cost or be formally reprimanded.***

***Allegation 3: Sales objectives dollar amounts were raised to a point where most representatives were not able to meet the Company's objectives.***

The Bureau of Regulatory Review concludes that there is no factual evidence to substantiate Allegation 2 and BellSouth agrees. BellSouth would add, however, that if a supervisor is found to be making such a statement and indicating that unethical sales are acceptable, BellSouth will take immediate disciplinary action.

In response to the Bureau of Regulatory Review's review of representatives' report cards, BellSouth once again points out that any disciplinary action and appraisal data for 1998 and 1999 were removed. BellSouth also conducted Sales techniques retraining to all representatives in early 2000.

[REDACTED]

Although the Bureau of Regulatory Review noted "deficiencies" in training and referenced Allegation 9, the Bureau recognized that the quality and value of training increased in 1999. If the quality and value of training is sufficient, BellSouth is at a loss to know how training affected the offer rate as discussed below.

BellSouth utilizes the Sales and Service Representative report cards to perform analysis. In analyzing the sales efforts(Offer Rates), it is clear that representative's efforts are lacking. BellSouth believes that Item 2 is the root cause of representatives not achieving expected performance. This is supported by the facts. The Offer Rate achieved each month during 2000, was a bonus item on appraisals. As a bonus, the only thing a representative needed to do was offer a product or service to a customer. During 2000, the Offer Rate in Sales was 43%, and in Service it was 19%. Year to date 2001, the offer rate for sales is 38.5% and 16.5% for service. To be successful, Representatives need to offer. Very few representatives even try.

[REDACTED]  
[REDACTED] the Bureau of Regulatory Review did not perform any study to determine if BellSouth's sales quotas are comparable to that of other companies, telecommunications or otherwise.

BellSouth has received no complaints regarding the unfair treatment of customers relating to its business marketing practices. In an environment in which BellSouth is held to higher standards than its competitors, BellSouth must be aggressive in selling its products and services in order to retain its customers. Additionally, as long as BellSouth continues to have the appropriate controls in place to deter deceptive marketing practices, the Bureau of Regulatory Review should not be concerned with the sales quotas placed on representatives.


BellSouth works very hard to put customers first and provide service in the most efficient manner. BellSouth treats its customers and its employees fairly and ethically and finds no evidence in the report to the contrary. BellSouth believes the Bureau of Regulatory Review's conclusion regarding sales quotas are not substantiated by facts. Furthermore, BellSouth believes that the Bureau of Regulatory Review has overstepped its jurisdiction on this matter.

***Allegation 4:*** *Optional services including BellSouth's Complete Choice plan is frequently added to the customer's line even after the customer declined the offer.*

***Allegation 5:*** *Memory Call is added to a customer's line without the message waiting indicator tone that would alert the customer that something has been added to their line without proper authorization.*

[REDACTED]





BellSouth has implemented many controls to ensure customers are fully aware of their purchase. What is in evidence, but not included in the Bureau of Regulatory Review's discussion, is that BellSouth has also maintained these extensive controls to deter, detect, and discipline unethical behavior since 1992. These controls are the counter balance to any inclination to act inappropriately. It should also be noted that, contrary to the Bureau's assertion that the increase in the number of charge back days from 60 to 120 is a recent control, it has been in place since 1997.

While BellSouth may still be the dominant provider of local service in the market, as stated in the Commission's December 2000 report *Competition in Telecommunications Markets in Florida*, Florida has experienced tremendous gains in local competition. BellSouth makes every effort to educate its employees regarding the appropriate disclosures and makes every effort to ensure its customers are fully aware of all BellSouth products and services. In a competitive environment however, some responsibility must be placed on the consumer.

***Allegation 6:*** Sales representatives are "gated" to take service calls without being told.

***Allegation 7:*** There is no incentive on the part of the Sales representative to handle Service calls effectively.

BellSouth would like to clarify that, while the BellSouth Consumer Services organization is divided into two functions: Sales and Service, there is one pay scale and one job description. The report states that sales representatives are evaluated on the basis of their sales results and not held accountable for representative effectiveness. The Bureau of Regulatory Review claims there is less incentive on the part of the sales representative to satisfy the customer in resolving their service related inquiry since these calls are less likely to produce revenues toward meeting Sales quotas. BellSouth disagrees with this statement and finds no evidence in the draft report to substantiate this statement. Sales Representatives receive credit toward their sales quota when selling to a customer who calls for a "service related" issue.

Service calls often offer an opportunity to provide customers with more information than new order calls. Utilizing existing customer information, any representative can make product recommendations. Customers call for a myriad of reasons. The nature of the call is not an indication as to whether the customer may or may not benefit from a product BellSouth offers.

While BellSouth sees no facts to substantiate this allegation in the report, BellSouth has included representative effectiveness evaluation criteria in the Sales Representative report card to measure the quality of handling service-related calls in 2001.

***Allegation 8:*** *No disciplinary action is taken against a representative or his/her supervisor when unauthorized products and services are added to a customer's line by the representative.*

The Bureau of Regulatory Review concludes that this allegation is supported by facts on the basis that BellSouth did not have controls in place to provide disciplinary action until implementation of the Did Not Order form. This is completely incorrect. As described in detail in the general comments, BellSouth had adequate controls in place prior to the implementation of the Did Not Order form. Prior to the implementation of the Did Not Order form, representatives advised their supervisor of such calls from customers and the individual supervisor took appropriate action. Implementation of the Did Not Order form merely formalized the process and made it more efficient and easier to track. While BellSouth strongly disagrees with the Bureau of Regulatory Review's conclusion and believes its controls are appropriate, BellSouth will take under advisement the Bureau of Regulatory Review's opinion regarding holding supervisors accountable if representatives are found to be conducting unethical sales.

***Allegation 9:*** *Sales and Service training provided to new and existing representatives is inadequate.*

Even though the Bureau of Regulatory Review states that Allegation 9 is no longer applicable, BellSouth will implement through its Customer Care training in 2001 a course on the ethical treatment of customers. BellSouth would also like to point out that yearly coverage of the sales and service representatives on "A Commitment to our Personal Responsibility" takes place.

***Allegation 10:*** *Where a deposit is required by company policy, representatives often lowered or waived the deposit as long as the call generates sales.*

***Allegation 11:*** *Representatives can override a deposit recommendation per the Credit Bureau to encourage sales.*

Even though the Bureau of Regulatory Review did not find specific justification for these allegations, the Bureau of Regulatory Review recommended that BellSouth could further control the deposit negotiating process by including a monitoring element in the team initiatives used by the state and regional observation teams.

BellSouth will enhance its procedures in place for the State Observing Team. BellSouth will incorporate its current Deposit Policy Guidelines in the State monitoring team's checklist.

***Allegation 12:*** *Representatives need additional time to complete and/or correct orders, but are not provided sufficient time to do so under current incentives.*



***Allegation 13:*** *Service and Sales representatives are supposed to follow a call routing matrix outlining what calls to handle but failure to adhere to it, or loosely doing so, results in no? negative impact whatsoever.*

The Bureau of Regulatory Review concludes that BellSouth would benefit from re-evaluating the usefulness and practicality of the call matrix used by its representatives. The Bureau of Regulatory Review claims that the overall purpose of the call matrix is ineffective because BellSouth sometimes diverts service calls to sales and instructs them not to transfer the call back to service. While this is a correct statement, the call matrix is merely a guide to assist representatives in handling calls more efficiently.

Furthermore, BellSouth would point out that when representatives transfer customer calls inappropriately and when the activity is considered arbitrary and repetitive, action is taken. This behavior may constitute "abuse to the customer" and representatives are subject to disciplinary action up to and including termination.

Service calls diverted to Sales may not be transferred back to Service. The call will come back to Sales and more often than not, to the same Sales Representative initiating the transfer.

***Allegation 14:*** *Representatives change a dwelling that is already entered into BellSouth's database with its own location to an additional line for the purpose of generating additional revenue towards the high sales quota.*

The Bureau states that BellSouth's procedures are appropriate and BellSouth agrees.

***Allegation 15:*** *Multiple pagers and cellular phones are sent to customers who did not request them in order to inflate sales totals of unscrupulous representatives.*

[REDACTED]

***Allegation 16:*** *New connect service orders cannot be traced once they are canceled. Representatives will cancel an order that does not generate sales instead of generating the unprofitable order or holding it for deposit.*

BellSouth disagrees with this allegation and the recommended action suggested by the Bureau of Regulatory Review. While the Bureau of Regulatory Review could not substantiate this allegation with facts, they did suggest an area for improvement.

The Bureau of Regulatory Review suggested that BellSouth would benefit by separately tracking the number of customer callbacks denoting a new service order that was not processed or lost by BellSouth. The suggested recommendation would be extremely burdensome to Consumer Services since it would be a manual process. While the Bureau of Regulatory Review states that BellSouth's RNS system does not systematically track cancellations of new service orders, if a customer calls and has their telephone number, the order can be backtracked through the BOCRIS Security Tracking System. BellSouth believes there are adequate controls in place to determine if new connect service orders are being improperly canceled and if representatives are acting inappropriately.

In addition, BellSouth's State Observing Team conducted a total of 13,500 observations during 1999 and 2000 and found no complaints of this nature. The Observing Team follows every observed call through to completion, including verifying that the order has been issued and sent to other departments as well as if the order has been placed on hold. Since the Observing Team uses Autoquality to perform its observations, there is a 2 – 3 day lapse. Therefore, if the order were not issued, it would be found.

## **Chapter 7: Conclusions**

### **Section 7.1: BellSouth's Sales Channels and Methods of Operations**

The Bureau of Regulatory Review states that it is concerned with the dollar level set for sales objectives. The Bureau of Regulatory Review has presented no evidence to determine whether BellSouth's sales objectives are excessive, just right, or not high enough. No comparison of sales objectives between BellSouth and other companies, telecommunications or otherwise, were performed.

**Section 7.2: BellSouth's Policies, Procedures, and Internal Controls**

The Bureau listed ten actions that it suggested BellSouth consider taking to enhance deterrence and detection of fraudulent sales. These actions are listed below with BellSouth's response.

**1. Bureau of Regulatory Review Suggested Action:** Require customer Service and Sales Representatives to disclose basic service options prior to offering any calling plans, such as Complete Choice.

**BellSouth's Response:** BellSouth is in compliance with Rule 25-4.107, Florida Administrative Code. No further action is warranted or needed.

**2. Bureau of Regulatory Review Suggested Action:** Include an element in the State and Regional Observation Teams monitoring checklists to specifically observe whether representatives are disclosing basic service options prior to offering any other calling plans, such as Complete Choice.

**BellSouth's Response:** BellSouth's State Observing Team monitors for compliance with disclosure statements and publishes reports. The timing of the disclosure raised here is not required by the Commission rules.

**3. Bureau of Regulatory Review Suggested Action:** [REDACTED]

**BellSouth's Response:** [REDACTED]

**4. Bureau of Regulatory Review Suggested Action:** Include a representative effectiveness evaluation criteria in the Sales representative report card to measure the quality of handling service-related calls.

**BellSouth's Response:** A representative effectiveness evaluation criteria has been included in 2001 appraisals.

**5. Bureau of Regulatory Review Suggested Action:** Investigate unethical sales conducted by representatives and, if applicable, hold supervisors accountable.

**BellSouth's Response:** BellSouth investigates each allegation of unethical sales of which it is made aware. BellSouth will take under advisement the issue of supervisor accountability.

**6. Bureau of Regulatory Review Suggested Action:** Prescribe a number of monthly or quarterly evaluative customer contacts to be monitored by supervisors to effectively assess each representative's performance.

**BellSouth's Action:** A specific number of monitored customer contacts by supervisors of each representative was implemented in 2001.

**7. Bureau of Regulatory Review Conclusion:** Provide follow-up annual ethics training to all employees and managers. The training should specifically include a course on ethical treatment of customers.

**BellSouth's Action:** BellSouth will incorporate a course on the ethical treatment of customers into its 2001 customer care training.

**8. Bureau of Regulatory Review Suggested Action:** Include an element in the State and Regional monitoring team's checklist to observe the accuracy of deposit calculations and note the basis for any deposit waiver.

**BellSouth's Action:** BellSouth will incorporate its current Deposit Policy Guidelines in the State observing team's checklist.

**9. Bureau of Regulatory Review Suggested Action:** Re-evaluate the practicality of the call matrix used by customer service and Sales representatives to delineate and prioritize the various types of incoming customer calls.

**BellSouth's Action:** The Call Matrix is continually reviewed.

**10. Bureau of Regulatory Review Suggested Action:** Separately track the number of customer callbacks denoting a new service order that was not processed or lost by BellSouth.

**BellSouth's Action:** BellSouth believes there are adequate controls in place.

### 7.3: Compliance with FPSC Rules



BellSouth did not relax or discontinue any of its internal controls, compliance practices, or policies regarding sales marketing practices subsequent to the expiration of the Review Program of the 1992 Settlement Agreement. BellSouth put in place and continues to have in place numerous procedures to detect and prevent improper sales conduct, and monitor, identify and discipline any representative who acts improperly. BellSouth regularly reviews these procedures to determine whether additional controls are necessary or warranted. BellSouth's controls include:

1. Detailed training regarding the manner in which BellSouth's products are to be offered and sold.
2. An Observation process by which regional observation teams from BellSouth Headquarters and state and local observation teams observe representatives on a daily basis as they interact with customers.
3. A Charge Back Policy, where a sale from the offending representative's sales record is not counted for purposes of attaining sales objectives if a customer cancels an unauthorized or unwanted service within 120 days of the original order.
4. BellSouth's disciplinary process – when a complaint is received or BellSouth detects any impropriety, discipline up to and including termination of the offending representative can result.
5. Ethics training to all new representatives, and continued ethics training to existing representatives to ensure quality and ethical behavior. BellSouth also requires all service and sales representatives to be covered with the "Personal Responsibility" package.

6. Several ethics hot lines that employees may use to report questionable or unethical conduct.
7. Notification letters that are sent directly to each customer whenever an order is placed for a regulated service, explaining the ordered service.
8. Itemized bills that are sent monthly to all customers in Florida that clearly disclose each service the customer is receiving and the cost of each service.
9. Notices that are regularly sent to all customers advising them to review their bills to ensure the bills accurately reflect the services they have ordered.
10. Written reminders from BellSouth's State President - Florida that BellSouth expects employees to act in an ethical manner.
11. Establishment of a compliance group headed by an officer.
12. In October 1999, the "Did Not Order" forms were initiated to streamline detection of abuse. BellSouth issues a management memo every three months to remind employees that completion of the form is mandatory.
13. In August 2000, the "credit violation" policy was initiated which requires disciplinary action to be taken against any representative who overrides a credit bureau deposit recommendation without proper justification.



While BellSouth continually evaluates, updates, and implements new processes and procedures to ensure deceptive marketing practices do not occur, BellSouth, like any service sales-oriented business, experiences the occasional representative who requires counseling, termination, or decides to resign due to disciplinary problems, such as deceptive marketing practices.