

MPSC Case No. U-12320
Exhibit C
December 19, 2002

Ernst & Young LLP

**Michigan Bell Telephone Company -
271 Performance Measurement Examination
and
Evaluation of the Effectiveness of Controls Over the
Accuracy and Completeness of Reported Data**

Supplemental Report Related to Data Integrity

October 18, 2002

Background

As indicated in the Ernst & Young report dated October 18, 2002, including our related supplemental report also dated October 18, 2002, (collectively the “E&Y Report”), we have examined Michigan Bell Telephone Company’s (the “Company” or “AIT”) compliance of reported performance measures with the Business Rules for the Evaluation Period¹. Also, as indicated in a separate report dated October 18, 2002 (E&Y Internal Control Report), we have examined the effectiveness of controls over the accuracy and completeness of reported data in accordance with the Business Rules² for the Evaluation Period for the Company.

In order to issue the aforementioned reports, our evaluation of the adequacy of data integrity was a critical element of our examination procedures. Accordingly, Ernst & Young (E&Y) performed examination procedures in many different area impacting data integrity, including both manual and electronic original data sources entering the source systems for processing and ultimately, inclusion in the calculation of performance measures (PMs). Our approach to the data integrity examination included four key areas: (1) Process Flows and Activity Dictionaries, (2) Site Visits, (3) Interface Evaluation and (4) Transaction Testing. The procedures employed allowed us to understand and test the sources of data, the processing and control of such data, and the validity of data entering the source systems. It was the results achieved from the performance of all of the procedures, described in more detail below, that provided our basis for evaluating and relying on the Company’s data integrity controls and allowed for us to issue our examination report on the effectiveness of the controls over the accuracy and completeness of reported data. Certain exceptions were noted in the E&Y Internal Control Report, however, the exceptions noted did not relate to data integrity.

Process Flows and Activity Dictionaries – Understanding, Evaluating and Testing Systems

Our initial procedures employed in executing an examination is gaining an understanding of transactional processing and controls employed to ensure all data is:

- received,
- recorded and valid,
- accumulated and classified appropriately,
- secure and only subject to change when appropriate, and
- reported accurately.

Accordingly, our examination included gaining an understanding of two key initial sources of data, manual entry and electronic interface, as well as the controls surrounding such. Because there are two key sources of data, manual and electronic, different examination procedures were employed. However, regardless of the data source, procedures for the evaluation of the data sources and the related controls are necessary.

¹ The Evaluation Period refers to the months of March through May 2002.

² “Business Rules” refer to Version 1.8_05_20_02 of the Ameritech Performance Measure User Guide as set forth in the Michigan Public Service Commission Order in Docket No. U-11830, as amended.

For the PMs identified in Appendix A to the E&Y Report, E&Y validated the integrity of data used throughout the PM generation process by reviewing each of the significant applications where data originates, was stored, or was reported on PMs. For each application, E&Y identified the various transaction types and systems utilized that directly impact the reported PMs. Upon identification of transaction types, E&Y then determined how each transaction type was initiated, captured by the Company's Operations Support Systems (OSS), and processed through the Company's OSS and PM reporting systems. This process also identified where and how the Company applied the Business Rules to each transaction and which intermediate applications house specific PM information. Once the above information was obtained for each PM under review, E&Y created process flowcharts and activity dictionaries. The purpose of the process flows was to document E&Y's understanding of the data flow for each PM and each transaction type. The purpose of the activity dictionaries was to provide supplemental information regarding the process flows identifying critical controls and data inputs and outputs to each system utilized throughout the PM process. The procedures performed in developing the Process Flows and Activity Dictionaries are covered Master Test Plan Sections: PMR1 (data collection only), PMR4, and PMR5.

Site Visits – Manual Data Input

Manual data is entered at various physical locations throughout the Company. Accordingly, it was necessary for E&Y to conduct site visits, described fully below, to observe and validate inputs occurring at the manual source. For the PMs identified in Appendix A to the E&Y Report, E&Y identified all manual processes utilized by the Company in generating performance measures. We then performed site evaluations at the Company's Local Operations Center, Local Service Centers, Maintenance Centers, and retail call centers and field visits with the Company technicians within Michigan (see Appendix C to the E&Y Report). During these visits, we observed various transactions including the process by which customers switch local telephone service providers, the service order entry process, issuance of trouble tickets to the field forces, and the manner in which the Company's technicians actually complete their assigned work and code transactions within the system, including jeopardy codes. Additionally, during these visits we interviewed location managers and obtained all relevant operational documentation including education and training policies and procedures, quality assurance policies and procedures, and employee hiring and review processes and procedures.

The purpose of the site visit was to document E&Y's understanding of the manual processes and procedures and to document controls over these manual processes of data input. Additionally, the transaction observation data collected by E&Y during the site visit was used to validate the transaction information in the Company's front-end systems. Errors noted in this testing are described in Attachment A to the E&Y Report. The procedures performed in developing the site visit tests and the transaction tests performed covered Master Test Plan Sections: PMR 1 (data collection only) and PMR 4.

Interface Evaluation – Mechanized Data Input

In many instances, data entering the Company's systems is a result of electronic data interfaces existing between the Company's systems and competitive local exchange carriers ("CLECs"). As such, the evaluation of controls surrounding the involved interfaces is critical to understanding whether data is being appropriately received and controlled. Therefore, for electronic data, we evaluated the mechanized controls existing between the CLECs and the Company, as well as mechanized controls that exist once the data is received by the Company's systems. Our evaluation consisted of mechanized interface control level reviews to verify control existence and operation.

In relation to the applicable PMs in Appendix A to the E&Y Report, E&Y reviewed the respective programming code that contained the Business Rules (exclusions, inclusions, calculation of the numerator and denominator, and disaggregation rules) within the front-end, intermediate, or reporting systems. E&Y tested the corresponding manual processes. E&Y compared the code and manual processes to the Business Rules for each PM to determine whether the Company's processes were designed to apply the Business Rules properly. In addition, all changes made to programming code were reviewed for propriety and to ensure processes and controls were modified to support the code changes. The procedures performed in the PM code review cover Master Test Plan Sections: PMR 2, 3, 4, and 5. Errors noted in this testing are described in Attachment A to the E&Y Report.

To validate the results of the computer program code review, E&Y performed significant transaction testing and analytical review procedures as described below to determine that the program code was functioning as designed.

Transaction Testing – Verification of Processing Throughout the Systems

Another primary procedure in our evaluation of the data integrity controls is transactional processing from the point of entry, whether manual or electronic, through PM reporting. For each of the applications identified through the creation of the process flows described above, E&Y identified systems that receive underlying transaction data before the Business Rules (exclusion, inclusion, calculation of numerator and denominator, and disaggregation rules) were applied (i.e., raw data). For each system and transaction type, E&Y either selected a statistical sample of transactions (described below) from the raw data for the period under examination (i.e., March through May 2002) or, where volumes were low, performed a 100 percent validation of the PM results for the period under examination. For all samples of transactions tested, E&Y obtained the raw data directly from the Company's systems and databases. At no time did E&Y test data selected by the client.

For each sample transaction chosen, E&Y determined if the Business Rules were applied properly to either include or exclude the transaction from the PM results. For each sample transaction, E&Y manually applied the Business Rules and determined if the transaction should be included or excluded. For the sample transactions that were determined to be included in the PM result, E&Y then determined the appropriate PM level of disaggregation and reviewed the

calculation of the numerator and denominator. E&Y then determined if the included sample transaction was included in the correct month and disaggregation of the posted PM results. Additionally, E&Y agreed PM-related data elements from the sampled transaction to the data included in the PM results. For those transactions that were determined to be excluded, E&Y documented why the transaction was excluded according to the Business Rules. E&Y then determined that the sampled transaction was not included in the PM results. See Appendix B to the E&Y Report for transaction testing results. Additional testing was also performed to determine that all data files were appropriately transferred between systems and that no data was lost during the process of generating and reporting PMs. The procedures in transaction testing impact all PMRs as the transactions tested are reviewed from point of origination through reporting in PM results.

Summary

Our approach to the data integrity examination included all key areas. The procedures employed allowed us to understand and test the sources of data, the processing and control of such data, and the validity of data entering the source systems. It was the favorable results achieved from the performance of all of the procedures that provided our basis for evaluating and relying on the Company's data integrity controls and allowed for us to issue our examination report on the effectiveness of the controls over the accuracy and completeness of reported data.