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November 5, 2002

Ms. Dorothy Wideman  
Executive Secretary  
Michigan Public Service Commission  
6545 Mercantile Way  
PO Box 30221  
Lansing, MI 48909

Re: MPSC Case No. U-12320

Dear Ms. Wideman:

Enclosed for filing please find an original and 15 copies of the LDMI Telecommunications, Inc.'s Comments Regarding SBC's Submittal of Ernst & Young Report and Testimony of Mike Gleason in support of LDMI Telecommunications, Inc.'s Comments Regarding SBC's Submittal of Ernst & Young Report in the above-captioned proceeding. Proof of Service upon the parties of record is also enclosed.

Best regards,

Clark Hill PLC



Leland R. Rosier

LRR:pgs  
Enclosure

cc: Parties of Record

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16839/078741

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

\* \* \* \* \*

In the matter, on the Commission's own motion, )  
to consider AMERITECH MICHIGAN's compliance )  
with the competitive checklist in Section 271 of )  
the Federal Telecommunications Act of 1996. )  
\_\_\_\_\_ )

Case No. U-12320

**LDMI'S INITIAL COMMENTS REGARDING SBC'S SUBMITTAL OF ERNST & YOUNG REPORT**

NOW Comes LDMI Telecommunications, Inc. ("LDMI") and for its Initial Comments Regarding SBC Ameritech Michigan's ("SBC" or "Ameritech") Submittal of the Ernst & Young Report to this Commission states as follows:

On July 31, 2002, SBC provided notice that it intended to supplement the record on the performance measurement results with an "audit" being conducted by Ernst & Young, LLP, SBC's financial auditors. On September 16, 2002, the Commission issued its order in this docket (the "September 16, 2002 Order") granting SBC Ameritech Michigan's ("Ameritech Michigan") request to commence the final review process of the third-party OSS test managed by BearingPoint Inc. f/k/a KPMG. The order allowed SBC to file the Ernst & Young report, but stated:

However, in commencing the review now, the Commission does not express any view about the likely outcome of that review or the weight that will be accorded to the Ernst & Young report or even that the Ernst & Young report will be given any weight.<sup>1</sup>

The Ernst & Young Report, dated October 18, 2002, was filed on October 21, 2002. Under the Commission's schedule, initial comments on the report are due November 5, 2002. LDMI files these Initial Comments pursuant to that schedule.

<sup>1</sup> September 16, 2002 Order, p 3.

## INTRODUCTION

SBC Ameritech has flunked the Michigan 271 test, and Commission concurrence in its 271 request to get into the long distance business should be denied.

The action of SBC Ameritech to bring in Ernst & Young as an end-around to the established and agreed process is an obvious attempt to achieve its goals irrespective of the facts, and to improperly influence the regulatory process. Attempting to interject Ernst & Young into the process is an outrageous affront to the competitive process. It is an anticompetitive action, demonstrating in and of itself why SBC Ameritech should not be granted 271 authority in Michigan.

The grant of 271 authority is to be a reward for showing a monopoly is fully cooperating to make competition work. But in attempting to foist Ernst & Young on Michigan, in place of BearingPoint / KPMG in only those certain areas of the tests which SBC finds convenient, SBC Ameritech has undermined the entire 271 process. Instead of a reward of long distance, the Commission should assess a penalty: a one year delay before which the Commission will again consider this 271 matter.

These comments discuss below some of the major flaws in the Ernst & Young 271 evaluation. (AT&T and WorldCom, with considerable expertise and greater resources, will have gone into these in greater detail, and will have recounted many additional problems and flaws we have not had the full opportunity to explore with the limited resources available to LDMI.) But first, these comments will reflect on the overall reported results of the Ernst & Young effort.

### **I. The Ernst & Young Report Is Too Qualified An Opinion To Be Used In Support Of Section 271 Approval**

Although the Ernst & Young team were careful with the words they used to describe the process, it is clear they did not give Ameritech Michigan a passing grade in their 271 review.

The following interchanges are from the transcribed Proceedings before the Commission staff on October 14, 2002:

EY: [Responding to a WorldCom question]: "Because of the number of exceptions that we had in our report, we felt it necessary to qualify our opinion..."<sup>2</sup>

Later that morning, LDMI had a more detailed interchange on the topic with Dan Dolan, who was identified as "... the senior partner from Ernst & Young responsible for this engagement."<sup>3</sup>

"LDMI: Dan, I believe earlier you had referred to the opinion you have made, or you're about to make regarding Ameritech Michigan to be a qualified opinion. Is that correct?

EY: Yes, sir."

\* \* \* \* \*

"LDMI: ....Can you describe your experience as an auditor? Specifically, have you worked with corporate auditing?

EY: Yes, sir, I have.

LDMI: Public companies? Private companies?

EY: Yes, I have 28 years of experience in public accounting, auditing public companies, SBC Communications, McDonald-Douglas, Graybar Electric, SEC Fortune 500 companies.

\* \* \* \* \*

LDMI: In your professional judgment in a typical year what percentage of Fortune 500 companies are given an unqualified opinion?

EY: I would say a very small percentage of Fortune 500 companies receive a qualified opinion. The vast majority receive unqualified opinions with respect to the fairness and accuracy of their financial statements, yes.

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<sup>2</sup> Transcript of Proceedings, October 14, 2002, p. 4744.

<sup>3</sup> Transcript, p. 4681.

LDMI: So when a company receives a qualified opinion, what does that usually represent to the company? What are the ramifications typically in the marketplace?

EY: Well, with respect to financial statement qualifications, depending on whether it's an exception to generally accepted accounting principles or failure to have a disclosure or exceptions in the report, it has implications in the financial markets with respect to the nature of the qualifications, whether it has to do with an error or whether it has to do with an uncertainty.

So there are different types of qualifications, but in most cases, you know, it's the exception that companies receive those in the financial market – in the public marketplace.

LDMI:..So a qualified opinion to a public company is very bad news, is it not?

EY: It is not the best news, yes.

LDMI: And companies work very, very, very strenuously to make sure that they don't get a qualified opinion, is that correct?

EY: That is true.

LDMI: Typically when a company gets a qualified opinion, does its stock price go down?

EY: Depending on the nature of the qualification, it can go down."<sup>4</sup>

As some in the auditing profession have noted, the opinions from the auditing profession in the United States are a "pass/fail"<sup>5</sup> system, where an unqualified opinion is a passing grade, and qualified or adverse opinions represent a failing grade. One does not want to receive "*an overall failing (qualified) opinion*".<sup>6</sup>

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<sup>4</sup> Transcript, pp. 4779-4781.

<sup>5</sup> Mark L. Cheffers, CPA, MBA, ABV, "Auditing Reform: Sarbanes, Oxley, Pitt and/or DiPiazza – Which Will Be More Effective?", DirectorMalpractice.com, July 17, 2002. A copy is attached for the Commission's convenience.

<sup>6</sup> Id. [Emphasis added]

To this, SBC Ameritech will probably respond that there are audits of financial performance, and audits under attestation guidelines as is the case here, and they are not exactly the same. However, there are parallels and analogies between the two. And, the comments of Ernst and Young, quoted above, regarding the negatives associated with a qualified opinion, are notable and striking. Clearly, this opinion is more noteworthy for the qualifications than for the opinion.

**II. The Ernst & Young Report Evidences A Lack Of Knowledge Of The OSS Systems And A Failure To Address How The System Works And Doesn't Work, And Illustrates Why The Report Should Not Be Given Any Weight By The Commission**

During the extensive questioning of Ernst & Young, it was apparent to LDMI that the Ernst & Young team as assembled appeared to have gone about their limited 271 examination in a generally professional manner. But, the emphasis here is on limited. Ernst & Young's lack of knowledge concerning many required elements of Ameritech OSS systems and the 271 testing process was quite apparent. Here are but a few examples from the October 14 transcript:

“WorldCom: Are you aware that the majority of CLEC orders are issued via LSOG 4 today?”

EY: No.”<sup>7</sup>

Not knowing that the great majority of CLECs are using LSOG 4, as contrasted with LSOG 5, causes LDMI to wonder about the extent of Ernst & Young's knowledge regarding its 271 evaluation.

Other surprising shortcomings in Ernst & Young's knowledge continually turned up. For example:

“LDMI: There have been CLEC concerns exhibited through the weekly KPMG conference calls on Thursdays, indicating that there is a problem and a

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<sup>7</sup> Transcript, p. 4719.

deficiency under LSOG 4 regarding the ability to properly relate orders. Are you aware of that?

EY: No.”<sup>8</sup>

Ernst & Young was also caught totally flat-footed regarding a major Ameritech Michigan admission to CLECs in August 2002, regarding a crucial Ameritech billing error on reciprocal compensation that was ongoing during the entire pendency of the Ernst & Young Michigan evaluation:

“LDMI: Our question No. 10 refers to a letter that was issued to LDMI and other CLECs on August 16<sup>th</sup> by SBC Ameritech indicating a major problem with Ameritech’s UNE-P billing, and that letter said that Ameritech Michigan had recently discovered a billing discrepancy on UNE-P where on local calls that originated from CLEC end users being served by UNE-P and that were terminated to Ameritech Michigan, Ameritech Michigan was not billing reciprocal compensation rates for that traffic. Are you aware of that letter?”<sup>9</sup>

\* \* \* \* \*

EY: I’m only aware of the letter since you provided it.”<sup>10</sup>

It should be noted that Ernst & Young pointed out that reciprocal compensation was beyond the scope of its tests. And yet, this is surprising, since Checklist Item # 13 under the Federal Telecom Act of 1996 deals specifically and exclusively with reciprocal compensation.

LDMI also asked Ernst and Young a series of questions about problems on erroneous Ameritech completion notices:

“LDMI: Our Question No. 11 has to do with a problem that LDMI and other CLECs have experienced with Ameritech UNE-P where there’s a completion notice that is issued but it turns out that in fact Ameritech has not completed the billing for the customer...

\* \* \* \* \*

Are you aware that only in LSOG 5 would that comparison [between service order completion date, and billing completion date] be possible?”

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<sup>8</sup> Transcript, p. 4792.

<sup>9</sup> E-mail to KPMG and Commission staff, describing this letter in detail, is attached.

<sup>10</sup> Transcript, pp. 4794-4795.

EY: This particular issue, we were not aware that LSOG 5 was the only way that this could be done specifically”<sup>11</sup>

Ernst and Young also appeared unfamiliar with Ameritech ordering codes and USOC codes. This following dialogue illustrates the point:

“LDMI: I apologize, I don’t remember the exact question, but somewhere around AT&T Question No. 136 there was a discussion, I think, of xDSL and you were asked the specifics on it, and I think you came up with a widget that had a name that began, I think, with the letter x.

EY: It is a circuit ID and it was LXFP.

LDMI: Are you familiar with the difference between circuit IDs and USOC codes?

EY: Yes.

LDMI: Do circuit IDs normally begin with a letter or a number?

EY: I don’t know. Couldn’t tell you.

LDMI: Do USOC codes normally begin with a letter or a number?

EY: I believe it’s a letter.

LDMI: Is it possible that what you have referred to as a circuit ID could in fact be a USOC code?

EY: No. This is a certain portion of the – this isn’t the starting of a – the start of a – let me get this right.

This is the start of – sorry – this isn’t the start of the circuit ID, it’s a portion of that whole circuit ID.”<sup>12</sup>

In fact, SBC Ameritech Accessible Letter CLECAM02-126 dated April 1, 2002, says in part: “This Accessible Letter announces the transition of Ameritech’s current xDSL ordering codes and USOCs to the Industry Standard... USOCs and ordering codes...” It lists LXFP as

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<sup>11</sup> Transcript, pp. 4796-4797.

<sup>12</sup> Transcript, pp. 4833-4834.

being the "CLCI SS Code" associated with the USOCs for xDSL.<sup>13</sup> That Ernst & Young didn't seem to know this, is indeed surprising.

There were also a number of instances in the questioning of Ernst & Young that the failure of Ernst & Young to explore a problem or issue seemed potentially inappropriate or even cavalier. Here are some examples:

"AT&T: So who makes the decisions on whether something goes from an ER [enhancement request] to a CR [change request]? Is that Ameritech, if you're aware of it?"

EY: Yes."

AT&T: Are you aware whether CLECs were consulted on these kinds of things or is that not part of your review?"

EY: We didn't notice. I guess on the items that we reviewed and the documentation there was no mention of CLECs being involved. Outside of that, I don't know."<sup>14</sup>

And another AT&T to EY exchange:

"AT&T: Are we understanding your answer to be that you looked at the USOC-specific rate tables that were coded by SBC Ameritech to check for accuracy?"

EY: That's correct."

AT&T: Did you do an analysis or evaluation of these USOC rate tables to the interconnect agreements?"

EY: No, we didn't."<sup>15</sup>

And later, there was a follow-on question from LDMI on the above:

"LDMI: Did you check the rates against the price lists that are issued by Ameritech to the CLECs?"

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<sup>13</sup> SBC Ameritech Accessible Letter CLECAM02-126, dated April 1, 2002, as posted at SBC's CLEC website, <https://clec.sbc.com/clec/acletters-cgi>, is attached for the Commission's convenience.

<sup>14</sup> Transcript, p. 4688; abbreviations defined on pp. 4682-4683.

<sup>15</sup> Transcript, p. 4702.

EY: No.”<sup>16</sup>

“LDMI: If I told you that there are 24 monthly recurring billing elements that are billed by SBC Ameritech in Michigan to LDMI for all of UNE-P for over 50,000 lines of UNE-P service in Michigan, that there are only 24 different billing elements represented, would that surprise you?

EY: I have no basis for that.

LDMI: If it were true that there were only 24 rates to be checked, would it have been difficult for you to check those rates against the specific interconnection agreements or the price lists?

EY: It would not have been difficult to do that. I’m not sure that that was in the scope of engagement that we performed, though.

LDMI: Would it surprise you to learn that three out of those 24 billing elements as billed by SBC Ameritech in Michigan to LDMI are incorrect?

EY: No comment. I don’t know if it’s a surprise or not.

LDMI: Would it surprise you to learn of the total elements of billing for recent months, such as the month of August and the month of September, that over half of the total elements as billed were billed incorrectly?”<sup>17</sup>

“EY: We have no opinion. We can tell you that we reported the PM 14 was not reported in compliance with the business rule.

LDMI: If we supply you with the data in terms of the elements that are incorrectly billed and which are correctly billed, would you investigate those and would you report your findings back to the Commission?

EY: We have not been engaged to do that.”<sup>18</sup>

LDMI has attached prepared Testimony to this filing, in support of the points made in the interchange, above.<sup>19</sup>

There was also an exchange regarding interpretations of the business rules:

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<sup>16</sup> Transcript, p. 4837.

<sup>17</sup> At this point, the SBC Ameritech attorney interposed an objection.

<sup>18</sup> Transcript, pp. 4836-4839.

<sup>19</sup> See Testimony of Mike Gleason.

“AT&T: I’m a little fuzzy on this. These interpretations, these are Ameritech told you that the CLECs agreed to these interpretations?”

EY: I believe we actually had the document which indicated which ones had been preliminarily agreed to.

AT&T: And you didn’t talk to any CLECs and determine whether these documents are accurate?

EY: No, we did not.”<sup>20</sup>

Then there is an exchange with WorldCom, regarding “problems with the LSOG 5 implementation and apparent lack of testing...”.

“WorldCom: Are you satisfied that the proper level of controls have now been placed on the implementation of the new code to make sure that errors like this do not continue to happen?”

EY: We can’t speak to controls going forward. Our professional standards preclude us from doing that.”<sup>21</sup>

Ernst & Young also professed ignorance of why they seemed to be getting so much better cooperation from SBC Ameritech than KPMG:

“WorldCom: On 35 you talk about how you obtained management’s interpretation of the business rules, which was primarily verbally through discussions with experts. It’s no secret that you all were engaged by Ameritech because they believed this process was taking KPMG far too long; that they had been working for months to try to get these interpretations. Yet you seem to have gotten them extremely rapidly. Do you know why or how you had so much better responsiveness?”

EY: We’re not familiar with the KPMG consulting process so I can’t do a comparison of the two.”<sup>22</sup>

As to change management opinions, EY seemed to take a very limited view of its job:

“WorldCom: ... you talked about the change management process 13-state or five-state. You talked about some internal change management process in

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<sup>20</sup> Transcript, pp. 4709-4710. LDMI can attest it was not asked if it agreed to the business rules, and is not aware of any CLEC that was asked, or provided an answer.

<sup>21</sup> Transcript, pp. 4723-4724.

<sup>22</sup> Transcript, p. 4736.

Ameritech performance measures which has these ERs and CRs, and you talked about the change management process that is officially noticed to CLECs for the changes in performance metrics, correct?

EY: We talked about two of them. AT&T brought them up.

WorldCom: And so you looked at the 13-state change management process?

EY: No, we looked at the internal change management process.

WorldCom: Did you look at the official CLEC process for performance metrics change management?

EY: No.

WorldCom: So you wouldn't know if Ameritech is following the official processes for the change management performance metrics that has been agreed to with the CLECS and the state?

EY: We are opining on the accuracy and completeness of the performance measurements. We're not issuing a separate opinion on the change management process.

WorldCom: On whether Ameritech is following that process; is that correct?

EY: Our opinion does not separately address that."<sup>23</sup>

In perhaps the most damaging admission of all, Ernst & Young – to the shock and amazement of the CLECs present at the October 14 Proceeding – acknowledged that of its transaction testing as reported to the Michigan Commission, it mixed all together those which related to Michigan testing, and those which related to tests it had conducted in the other four Ameritech states:

“WorldCom: Question 5. You refer to E&Y examining in excess of 9000 transactions during the review. Would that be about 3000 per month or was there more in one month and less in another?

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<sup>23</sup> Transcript, pp. 4748-4749.

EY: We didn't really look at it in that manner as far as evaluating where the random sample came from. We chose our random sample as basically across all three months for a particular source system. That's it.

WorldCom: And before Sherry [Sherry Lichtenberg of Worldcom] has another question here on this, did this sample 9000 cover all five states?

EY: Yes.

WorldCom: And you don't know how many were Michigan versus how many Illinois or how many Wisconsin, et cetera?

EY: In the details of our workpapers we do have that information....

WorldCom: ....Do you know how many LSRs were submitted over the three months you looked at by CLECs in the state of Michigan?

EY: Not off the top of my head, no.

WorldCom: Did you look at that number?

EY: We did not..."<sup>24</sup>

And then, this dialogue continued when LDMI came to the table:

"LDMI: Again I believe you referred to 9000 transactions that you performed over three months spread among five states. I thought you had indicated you were going to get back to the CLECs indicating how many of those were regarding Michigan.

EY: I do not believe we responded in that case.

LDMI: Is this not a proceeding before a Michigan commission for Michigan commission approval?

EY: Yes, it is.

LDMI: Would it not be reasonable for the Michigan CLECs and the Michigan Commission to know the number of transactions that were performed regarding Michigan orders in Michigan circumstances?

EY: Yes, if the Commission were to ask that, we would certainly put that together. The reason we did not respond is it's a very time-consuming process.

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<sup>24</sup> Transcript, pp. 4752-4753.

It's not summarized like that in our workpapers, and the processes are the same in the five states.

LDMI: So are you assuming the performance is equal among the five states?

EY: No, I'm not saying that.

LDMI: If performance is different among the five states, would your data be showing that?

EY: What we're saying is, the five states' transactions are processed in the same manner through the same systems.

LDMI: But if performance is different among the five states, you would not be reflecting that, is that correct?

EY: We're reporting strictly on Michigan.

LDMI: But your data is for all five states?

EY: That's correct. Of which Michigan is a part of.

LDMI: So your data is not consistent with what you're reporting to the Michigan Commission?

EY: No. There is Michigan data within those transactions. That I think, as Kevin [from EY] mentioned earlier, we had adequate coverage on Michigan data."<sup>25</sup>

The above exchange reminds LDMI of Alice In Wonderland, and leaves LDMI mystified, simply mystified. It is inconceivable that Ernst & Young would report to the Commission on Michigan specific measures, and yet could not break down data specific to Michigan.

Here is yet another exchange between LDMI and Ernst & Young:

"LDMI: 3E errors have been a major, major problem with the CLECs going back for at least a year and a half that I'm aware of, as reported by numerous carriers. Did your report take that, the significance of that issue into account?

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<sup>25</sup> Transcript, pp. 4799-4801.

EY: We reported that the measure was reported as an exception an exception to compliance with the business rules.

LDMI: Do you have any understanding, based upon the tests which you've conducted, as to the significance on CLECs and on customers of problems in the 3E error area?

EY: ...We're telling you that the performance measurement report was noncompliance of the business rule. That's what our engagement was set out to do.

LDMI: ...Your knowledge and experience, I gather then, is limited to statistics and numbers. Have you physically examined any actual customer telephone bills, talked to any customers, talked to any CLECs?

EY: We did look at some bills as part of the billing test.

LDMI: You did not talk to any CLECs?

EY: No, we did not.

LDMI: Did you talk to any customers?

EY: No, we did not."<sup>26</sup>

And then following an LDMI/EY exchange about missing FOCs (firm order completions):

"LDMI: [after asking for a comment on the significance of the issue]... Again you have given me a numerical or computational answer. I'm asking you for your understanding of the significance of the fact that it [Ameritech] is reporting missing FOCs in the month that the order completes, rather than at the time when the event occurred.

EY: That's not our engagement. Our engagement is to determine that the company report be in compliance with the business rules.

LDMI: Based on your professional knowledge and experience, do you have an opinion as to the significance?

EY: No.

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<sup>26</sup> Transcript, pp. 4805-4807.

LDMI: Do you feel any responsibility when you run into issues like this, to report them to the Commission and provide any level of significance associated with them?

EY: We were engaged to test compliance with the business rules, and that's what we do."<sup>27</sup>

In summary, LDMI believes that the Ernst & Young team as assembled appeared to have gone about their very limited 271 examination in a generally professional manner. But their testing process was clearly rushed, and limited by SBC Ameritech in ways that do not afford the Commission, the CLECs, or the public an opportunity to reach meaningful and valid conclusions. The lack of knowledge from the Ernst & Young team concerning the many required elements of Ameritech OSS systems and the 271 testing process was quite apparent, despite their apparent sincerity. The lack of interaction with CLECs and the lack of experience with actual customer interaction with SBC, in stark contrast to KPMG, further illustrates why this Commission should give no weight to the Ernst & Young report and why, even if any weight is given, the Commission should consider the lack of analysis and the myriad of qualifications as signaling a failing grade.

### **III. The Report Places Ernst & Young In A Potential Conflict Of Interest**

It is also notable to point out that while KPMG had two arms, the financial auditing arm and the consulting arm, it was the consulting arm of KPMG (now known as BearingPoint) which conducted the 271 tests and efforts in Michigan. But, while Ernst & Young has had both financial auditing and consulting arms, it was the financial auditing arm which conducted this analysis, not the consulting company. As the Ernst & Young representative stated:

“LDMI: Prior to being in the consulting end of the business were you in the auditing part of Ernst & Young’s practice?”

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<sup>27</sup> Transcript, pp. 4808-4809.

EY: I have never been in the consulting business. We're functioning here as auditors, and this is an auditor's report on professional auditing standards.<sup>28</sup>

The new federal law, Sarbanes/Oxley, is designed to separate accounting from consulting functions. KPMG has separated those functions properly. Ernst & Young, conversely, is attempting to provide consulting support for the 271 application while calling it an audit. However, calling it an audit does not make it an audit. The fact remains that the firm SBC hires to review its finances, a plum assignment, is now hired to consult on whether SBC is complying with business rules. The pressure on the financial auditors to give its financial client a passing grade is exactly the type of conflicting signal that the federal law is designed to prevent. While Sarbanes/Oxley may not apply yet, clearly this Commission can consider this conflicted position when deciding the weight to apply to the report. As with the discussion of what Ernst & Young did not do, as set forth in the previous section, this conflict compels the Commission to give no weight to the Ernst & Young report.

## CONCLUSION

The qualified opinion which Ernst & Young has given, it is clear, is an overall failing opinion. Ameritech Michigan, even by this extraordinarily limited look at the 271 testing process, has flunked. But that is not the worst part.

The action of SBC Ameritech to bring in Ernst & Young as an end-around to the established and agreed process, is an obvious attempt to achieve its goals irrespective of the facts, and to improperly influence the regulatory process. Attempting to interject Ernst & Young into the process is an outrageous affront to the competitive process. It is an anticompetitive action, demonstrating in and of itself why SBC Ameritech should not be granted 271 authority in

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<sup>28</sup> Transcript. p. 4779.

Michigan. For these reasons, the Commission should reject the Ernst & Young, and should deny 271 approval.

Respectfully submitted,

**CLARK HILL PLC**



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Dated: November 5, 2002

Attorneys for LDMI Telecommunications, Inc.

Exhibit I

By: Mark L. Cheffers, CPA, MBA, ABV  
July 17, 2002

## Auditing Reform: Sarbanes, Oxley, Pitt and/or DiPiazza – Which Will Be More Effective?

The Sarbanes, Oxley or Pitt reform proposals<sup>1</sup> may prove marginally helpful in restoring confidence in the integrity of corporate financial reporting, but they do not address the primary cause of the loss of confidence. The problem with these proposals is that they assume the very thing that stakeholders are most worried about -- that auditors cannot be relied upon to ensure the issuance of reliable financial statements. It seems axiomatic, that one cannot restore confidence by assuming as true the very thing that is causing the loss of confidence<sup>2</sup>. External controls over the people who are supposed to operate with the highest levels of integrity and objectivity may prevent some auditing failures but that is not the same as restoring confidence. On the other hand, Samuel DiPiazza (CEO of PWC) has a series of recommendations that may well address some of the fundamental problems which have created the loss of confidence. This article is about just one aspect of his proposals: the elimination of the pass/fail audit opinion. DiPiazza proposes to replace this pass/fail system with a comprehensive six point grading system that addresses every material aspect of financial statement reliance. Fundamentally, this proposal addresses a root problem - a investor's fear of the unknown - a fear of a world where a prestigious firm's imprimatur no longer provides a base line from which to make important life and investment decisions. His proposal seeks to alleviate those fears by delivering substantially more information about those same financials.

For almost one hundred years, stakeholders have been able to look at the name under the audit opinion and know that the generation and presentation of the underlying financial statements could be rated an "A" – that the financials could be relied upon to base

<sup>1</sup> For the Sarbanes proposal [click here](#); For the Oxley proposal [click here](#); For the Pitt proposal [click here](#).

<sup>2</sup> Consider the situation of a neighborhood becoming more dangerous over time. The community responds by having a police car drive through at regular intervals. This may help make the neighborhood a little safer but does not restore confidence in the neighbors that the community is safe.

important decisions. Over the past five years, there has been a radical change in that perception as the debate over consulting conflicts and the rapid growth in non-audit services has raged. Today, due in part to a number of recent spectacular corporate failures deriving from accounting manipulations, many investors look at the same financials and wonder whether they should be failed or given a "D" for reliability. Proposals for legislation that will empower non-auditors to oversee auditors cannot fix this confidence problem. Confidence is the fruit of virtuous performance. It must be earned. It cannot be imposed.

DiPiazza's proposal<sup>3</sup> suggests ways to earn back the confidence of stakeholders by delivering information that will fill the information void and reduce the fear. It seeks to deliver light where only a void existed before. It requires auditors to communicate much more than the pass/fail audit opinion information that is now being delivered. It assumes that stakeholders want to know much more about a company's financials than simply that they "present fairly..." – whatever that means. His suggestion is simple; remove the constraints inherent in a pass/fail audit reporting system so that the auditor has the ability to communicate more information underlying his opinion and assessment about the reliability of financial reports. This is a reform that is long overdue.

## One Hundred and Fifty Years of Reputation Building Eroded

In 1849 William Deloitte established his reputation by helping unravel the infamous frauds at the Great Northern Railway and the Great Eastern Steamship Company. In that same year Samuel Lowell Price set up in business in London. In 1870, Sir William Barclay Peat founded the accounting firm that would later become KPMG. In the early 1900's Arthur Andersen earned his reputation by refusing to sign-off on the questionable financial statements of a manufacturing company in the Chicago area. These precursors to the largest of the accounting firms have long and storied histories. Their firms grew on the backs of impeccable reputations. When stakeholders received an opinion from one of these accounting giants, they understood that in all

material respects: consistency, conservatism, clarity, completeness, accuracy and freedom from errors or fraud, etc., the financial statements would have graded an "A". In short, they could not only be relied upon, but also, could be regarded highly. In fact this perspective was such that many companies chose these respected firms because they wanted some of that reputational benefit to accrue to them.

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<sup>3</sup> [Click here for copy of DiPiazza's proposal.](#) Nowhere in DiPiazza's proposal does he identify how that grading system would manifest itself. We have used an A to F grading system simply as an example.

## **Perception is Reality When it Comes to A Loss of Confidence in the Reliability of Financial Statements**

Until recently most business people believed that the vast majority of information contained in financial statements was reliable. The Big Five played a key role by adding its reputational imprimatur to that belief. The advent of Enron, Worldcom, Xerox and others has raised doubts about the reliability of company financial statements. In one recent poll, more than 60% of those surveyed indicated that they believed Corporate America has been *cooking the books*. Normally, a circumstance like this would cause an imprimatur to become even more important. And yet, it has been alleged that Andersen not only had knowledge of but was also assisting Enron in the cooking of its books. Then when confronted with the charge they allegedly destroyed some of their documents, Andersen's actions have caused the imprimatur of all the big firms to lose its luster. The result has been a loss of confidence in the reliability of all financial statements. Perception is reality in the business of analyzing financial statements and valuing companies. The nature of business valuation and assessment is that almost all of the key information required is prospective in nature. The loss of confidence in financial statement information can lead automatically to doubts about projected financial information, growth rates and the validity of discount rates used to value the company. All of these perception related changes actually cause a real value decline in the company. This can happen despite the fact that nothing objectively has changed about the company or the real reliability of the financial statements.

The problem, therefore, with the recent Enron, Worldcom, Xerox and other accounting failures is that the reputational kudos accruing to all CPA firms, but in particular to the Big Four has eroded. This erosion has been reflected in value declines. More specifically, stakeholders no longer think of financial statements opined on by the Big Four as automatically being an "A". The loss of confidence by investors is largely a function of not knowing now whether the financial statements they are looking at would rank as an "A", "D" or worse. The fullness of this understanding is now being taken into account by stakeholders in their decision-making.

### **Consider an Example**

Imagine trying to choose, sight-unseen and un-interviewable, between three newly graduated candidates for a job. All three graduated from the same school (the same top rated school). One graduated with an "A", another a "C" and the third person a "D-". The first had glowing recommendations, the second no recommendations and the third, thinly veiled warnings. The choice would seem clear. If you, as an employer, were going to invest your time and resources into the training of one versus another, the "A" candidate would certainly make sense. And yet, consider again. What would you do if the only grades you could access were a Pass or Fail? You could roll the die, thinking that because of the school's reputation itself, all three of them were probably "B" or better. Alternatively, you could refuse to consider any of them. Your answer would probably depend on your actual experience with this particular recruiting system. This system might work for as long as the graduates were "B" or better. Once "C" and "D"

recruits became more prevalent, the system would fail. Arguably, this is what has happened to the pass/fail system for audit opinions. The recruiters have experienced a group of bad performers (financial statements) and now cannot rely on the current system to promote any of the performers.

### **Consider A Second Example**

Now imagine trying to choose, sight-unseen and un-reviewable, between investing in three companies. All three had audit opinions from a Big Four. The first company's financial statements would have graded an "A" for clarity of disclosures, consistency of accounting principals, conservatism of assumptions and completeness of information delivered. The second company's financial statements would have graded a "C" and the third a "D-". Which would you invest in or lend to? The answer is pretty clear. And yet, no such grading exists. Audit opinions are pass/fail. The typical investor or creditor cannot tell whether the reliability, objectivity and trustworthiness of a company's financial statements would rate an A, C or D-. How could an investor know whether the financial statements he was relying on constituted an Enron or a Mobil?

### **Restoring Investor Confidence**

Will it be sufficient for the Big Four to say to the public, give us a second chance or trust us? The answer to that question seems complex because for many of the firms, they do not believe they have anything to apologize for. They want people to believe that the confidence issue was associated with one firm's aberrant behavior. Certain of Andersen's partners *went off the reservation*. They cannot be responsible or apologetic for that occurrence. And yet, whether this claim is valid or not, it does not address the fact that the vast majority of investors do not believe that Andersen was alone in its approach to financial statement auditing and they need more than promises or even public accountability boards to rebuild their confidence.

### **But Won't We Just Get Grade Inflation – How Can That Help?**

We will almost certainly get a lot of grade inflation. When considering grading a set of financial statements for consistency of application of accounting principals, clarity of disclosures, completeness of disclosures, conservatism of accounting disclosures and estimates and others, grade inflation will take place. In all likelihood, the vast majority of companies will get high grades. However, the pressure will be on companies and firms to examine their financial reports in very specific ways. More people will get involved in the discussions including the audit committees. Of all the reform proposals presented to date, it seems most likely that this one would have had the best chance of preventing an Enron/Andersen failure. For example, it would have been easier for Andersen to give Enron a lower grade for "Clarity" than to give them an overall failing (qualified) opinion. The move to downgrade Enron from say an "A" to a "B" in 2000, alone, could have created all kinds of pressures within Enron to reconsider their accounting manipulation plans. Further, the external pressures would have been great as well. It is very likely that a downgrade, even from an "A" to a "B" in one financial statement grading area would

have prompted analysts and financial press personnel to expose what it was that was being hidden or misrepresented.

### **But Won't This Proposal Increase Liability Exposures for Auditors?**

On the face of it, it seems likely that a practitioner firm's liability exposure would increase with the addition of a grading system within the audit opinion. An opinion that grades a company as an "A" for financial disclosure clarity, for example, when it was obviously hiding information, will look bad in a court case. But then again, a downgrade will look good and ameliorate liability from a causation perspective. An upgrade during troubled times for a company might indicate scienter, but then again, a downgrade might eliminate scienter, without actually causing the failure of a company. The effects of this kind of change cannot be known from a liability perspective, but it can be said that increased disclosures and discussions with audit committees will lead to lowered exposures.

### **But Won't The Problem of Not Having Faith in the Auditors Only Grow, Because With More Information to be Reported, More Reliance Will Need to Be Placed Upon Them?**

Consider one's own experiences with respect to gaining confidence in someone's ability to provide a professional service. Initially, one may be satisfied with a professional's broad statements about his competence and reliability. That satisfaction may continue for a long period. If events occur, however, that causes one to question that competence, the best way to satisfy that concern is for the professional to communicate greater levels of knowledge and competence. To the extent he is able to provide additional information suggesting high levels of competence, the more likely that confidence will be restored. The delivery of a grading system within the audit opinion should work in the same manner.

### **Conclusion**

In our view, restoring public confidence in financial statements involves much more than simply creating external controls over audit firms and executives. Yes, to some extent, these controls may increase public confidence in the role that auditors play in assuring the reliability of financial statements. If American business really wants to restore confidence, auditors are going to have to tell stakeholders whether their company's financials rate an "A" or a "D" on any number of scales. Presently, there are really only two ratings systems available to the public to assess a company's performance. The first is a broker's buy/sell recommendation that is hopelessly conflicted. The second is a traditional auditor's opinion that has become largely ignored as a provider of value-added information. The problem is the void that exists in the delivery of information to the investor. Filling that void will go a long way to restoring confidence in the system.

Exhibit 2

E-mail from: Jerry Finefrock [jfinefrock@ntr.net] Date: Thu 8/22/02 4:30 PM

TO: Siegel, Jordana; 'John Kern'; 'Vanderpol, Rebecca L - NCAM';  
'Trabaris, Douglas W (Doug) - LGA'; 'Sherry Lichtenberg'; 'Tom O'Brien';  
'Samonek, JoAnne C - NCAM'; 'Moore, Karen W - NCAM'; 'Timothy M Connolly';  
'Pete Gardon'; 'Pete Jahn'; 'Patti Coughlan'; 'Shane Kaatz'; 'Nick Jackson';  
ffranco@covad.com; 'Todd McNally'; LindeN@psc.state.wi.us;  
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hughesej@DOJ.STATE.WI.US; 'Joan Campion'; 'Dave Albino'; 'Clark Stalker';  
'Diane Bowers'; dena.m.kemple@openmail.mail.sprint.com;  
mecarter@covad.com; bszafran@covad.com; 'Scott Girard'; 'Pam Sherwood';  
'Jeff May'; edwin-kh\_ko@hp.com; 'William A. Haas'; 'Dan Lipschultz';  
'SIEN, JOHN (HP-USA,ex1)'; 'CLARK, MARK A (HP-USA,ex1)'; 'BETHKE, NEIL  
(HP-USA,ex1)'; 'KOERNER, BILL (HP-USA,ex1)'; 'JOE, MICHAEL (HP-USA,ex1)';  
'PRYOR, HOLLIE (HP-USA,ex1)'; 'Hegstrom, Cate D - LGA'; 'Peterman, Linda';  
'Chad Sharp'; 'John\_Parker Erkmann'; deborah.kuhn@wcom.com; 'Karl Henry';  
'Brian Mahern'; 'Karol Krohn'; 'Gray, Abby'; 'Richard Schwartz'; 'Hal Rees'; 'Bob  
Veneck'; 'Tim Kagele'; 'Kevin Sosbe'; 'Julie Keen'; 'Sue Platner'; McDonough,  
Patrick J; 'Howard Siegel'; 'NIETUBICZ, RICK (HP-USA,ex1)';  
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Nourse'; 'Ancona, Robin'; asamson@birch.com; 'Ashton, Mike'; 'Batts, Mike';  
'Brown, Frances'; 'Brown, Katherine'; 'Carey, Michelle'; 'Chorzempa, David';  
'Connolly, Tim'; 'Cullen, Scott'; 'Denniston, James'; 'Dirubbo, Salvatore'; 'Drinski,  
Michael'; 'Emmel, Christine'; 'Ernst, Al'; 'Finefrock, Jerry'; 'Fishkin, Joel'; 'Gilbert,  
Adam'; 'Goldman, Marc'; 'Gomol, John'; 'Gregg, Rodney P'; 'Hughey, Steve';  
'Isioguo, Orjiakar'; Jane\_Van\_Duzer/FOCAL@focal.com; 'Karen A Coleman (E-  
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CC: Morreale, Carla; Hawkins, Robert; Walker Jr., Andrew M; Gorfin, Eugene;  
Casey, Christopher (US/Tyson's Tower); Salisbury, Emily; Mielert, Peter T;

Eringis, John E; Doerr, Briana; Chang, Susie; Merritt, Kevin; Kim, Young K; Mayer, Robert H; McAvoy, Jocelyn H; Yu, Lisa; Martinez, Anita D; Chick, Sidney J; Howard, Vance B; Hotz, Janet R; Woodhouse, Richard W; Moorin, H. Howard; Prendergast, John; Rowley, Bryan D; Leach, Eric; Araujo, Roberto; mwilliam@ldmi.com; Carmelina Antonuccio; Harriet Kirshman; Mark Wayne; David Bailey; Mike Mahoney; Glenn Moore; Sharyn Mooney; Chris Rice

Subject: Follow-Up to CLEC Face-To-Face Meeting

To: Jordana Siegel, KPMG  
Staffs, MI, OH, IL, IN and WI Commissions

From: Jerry Finefrock, LDMI Telecommunications

Jordana and Commission Staffs,

I regret that based on a family illness, I was unable to attend the CLEC face-to-face meeting today in person.

Attached is an LDMI presentation on OSS problems faced by Business UNE-P CLECs in the Ameritech region, which we would have wished to present in person.

I am in hopes in particular the Commission Staffs can read that LDMI presentation, which points up the significant OSS difficulties which continue unabated on Ameritech business UNE-P services. While many residential UNE-P lines are now being turned up, the vast majority of business customers in Ameritech territory still are unable to enjoy competitive opportunities. Half of all telephone lines in Ameritech territory are business lines. Small and medium-size businesses are the lifeblood of our economy, and excellent candidates for UNE-P, but continuing problems on business UNE-P stand in their way. These are problems which need Ameritech attention and resolution before any 271 is granted.

I mentioned during the CLEC-to-CLEC discussion today the August 16 letter to LDMI from Ameritech, disclosing a major Ameritech billing error on UNE-P, regarding reciprocal compensation. This is the text of that letter, written by LDMI's Ameritech Account Manager:

"Ameritech Michigan recently discovered a billing discrepancy relating to certain calls originating from UNE P's (or unbundled local switching with shared transport a.k.a. ULS-ST) purchased from Ameritech Michigan. For local calls that originated from CLEC end-users being served by UNE-P and that were terminated to Ameritech Michigan, Ameritech Michigan was not billing reciprocal compensation rates for that termination as applicable in the interconnection agreements or via the Local Exchange Tariff. Effective August 1, 2002,

Ameritech Michigan has implemented the appropriate modifications to its billing system to bill reciprocal compensation for this traffic being terminated by Ameritech Michigan; the invoices you receive subsequent to this notice will include the billing for this terminating traffic.

"Ameritech Michigan will also adjust and provide a statement for past, unbilled amounts related to this traffic pursuant to the terms contained in your interconnection agreement. A separate notice will accompany this one-time true-up charge."

"If you have any questions pertaining to this billing correction, please feel free to contact me."

This letter did not arrive at LDMI until August 21. We regret that Ameritech did not inform us or the industry sooner that they had discovered the problem, since they clearly had to have known about it some time ago, in order to have adjusted billing effective August 1. We also regret that they did not inform KPMG or the Commission Staffs. One would have to assume that with this problem in mind, it would be difficult for Ameritech to show it had successfully met this portion of the KPMG Michigan OSS testing of the January to March time window, or even of the March and onward drive-by "audit" of Ernst & Young.

Thank you.

Jerry Finefrock  
Senior Director, Regulatory Affairs  
LDMI Telecommunications  
8801 Conant St., Hamtramck MI 48211  
Direct 313-664-2340 Cell 248-840-2896  
Fax 877-858-5364 Email [jfinefro@ldmi.com](mailto:jfinefro@ldmi.com)

Exhibit 3



Accessible

Date: **April 1, 2002**

Number: **CLECAM02-126**

Effective Date: **April 1, 2002**

Category: **UNE**

Subject: **(ORDERING AND PROVISIONING) Product Enhancement – SBC xDSL Power Spectrum Density Loop**

Related Letters: **NA**

States Impacted: **Ameritech Region**

Response Deadline: **NA**

Contact: **Account Manager**

Conference Call/Meeting: **NA**

This Accessible Letter announces the transition of Ameritech's current xDSL ordering codes and USOCs to the Industry Standard Power Spectrum Density (PSD) DSL USOCs and ordering codes. Effective April 1, 2002, all PSD DSL USOCs will be available to order. Beginning June 1, 2002, all CLEC's will be required to follow the standard shown below for all xDSL orders in place of the current ordering methods. Any order placed after June 1, 2002 using the old NC/NCI code combinations will be rejected back to the CLEC to be resubmitted using the PSD DSL NC/NCI code combinations. That includes providing the necessary SPEC codes for each order. Pricing and intervals will remain as currently outlined in the applicable interconnection agreement or tariff.

**Following are a list of the Industry Standard Power Spectrum Density (PSD) NC/NCI codes.**

Ordering Description	PSD	NC	NCI	NCI	Old USOC	USOCs
		Code	Code	Spec	Code	
2 Wire Analog DSL (Copper) Loop	#1	LX--	02QB5.0 01	02DU5.0 01	LXFP	2SLA1-ZONE A 2SLA2-ZONE B 2SLA3-ZONE C
2 Wire Analog DSL (Copper) Loop	#2	LX--	02QB5.0 02	02DU5.0 02	LXFP	2SLC1-ZONE A 2SLC2-ZONE B 2SLC3-ZONE C

Offering Description	PSD	No. Codes	NCI		CLASS Codes	USOCs
			NCI	Sec		
			NCI			
2 Wire Analog DSL (Copper) Loop (Non-repeated)	#3	LX--	02QB5.0 03	02DU5.0 03	LXFP	2SLB1-ZONE A 2SLB2-ZONE B 2SLB3-ZONE C
4 Wire Analog DSL (Copper) Loop (Non-repeated)	#3	LX--	04QB5.0 03	04DU5.0 03	LXFP	4SL11-ZONE A 4SL12-ZONE B 4SL13-ZONE C
2 Wire Analog DSL (Copper) Loop (Non-repeated)	#4	LX--	02QB5.0 04	02DU5.0 04	LXFP	2SLD1-ZONE A 2SLD2-ZONE B 2SLD3-ZONE C
2 Wire Analog DSL (Copper) Loop (Non-repeated)	#5	LX--	02QB9.0 05 or 02QB9.0 S5	02DU9.0 05	LXFP	UWRA1-ZONE A UWRA2-ZONE B UWRA3-ZONE C
2 Wire Analog DSL (Copper) Loop (Non-repeated)	#7	LX--	02QB9.0 07	02DU9.0 07	LXFP	2SLF1-ZONE A 2SLF2-ZONE B 2SLF3-ZONE C

Cross connects will continue to be identified by the same USOC(s).

CLEC's will be required to provide a SPEC code entry on their order to identify their conditioning intention. Rates and intervals for conditioning will be consistent with the applicable interconnection agreement or tariff. Should a CLEC not have conditioning rates, terms and conditions contained in their agreement, an amendment should be requested.

Below is a list of SPEC codes applicable to the DSL PSD's.

<b>SPEC Code</b>	<b>Loop Qualification Result</b>
UALM13	<ul style="list-style-type: none"> <li>• 'No Conditioning Authorized' Loop capable of supporting high ADSL speed</li> <li>• Applies to PSD # 5</li> </ul>
UALM32	<ul style="list-style-type: none"> <li>• DSL Capable Loop that meets minimum qualification standards for requested PSD.</li> <li>• Applies to all DSL/PSDs except PSD 5</li> </ul>
UALNQX	<p style="text-align: center;"><b>'Authorized As Is'</b></p> <ul style="list-style-type: none"> <li>• DSL Loop may require conditioning to support PSD requested, but CLEC accepts loop as is without conditioning.</li> <li>• Applies to all DSL/PSDs</li> </ul>
UALRLX	<ul style="list-style-type: none"> <li>• DSL Capable Loop and removal of load coil</li> <li>• Applies to all DSL/PSDs</li> </ul>
UALRTX	<ul style="list-style-type: none"> <li>• DSL Capable Loop and removal of excessive bridged tap</li> <li>• Applies to all DSL/PSDs</li> </ul>
UALRRX	<ul style="list-style-type: none"> <li>• DSL Capable Loop and removal of repeater</li> <li>• Applies to all DSL/PSDs</li> </ul>
UALRLT	<ul style="list-style-type: none"> <li>• DSL Capable Loop and removal of load coil and excessive bridged tap</li> <li>• Applies to all DSL/PSDs</li> </ul>
UALRTR	<ul style="list-style-type: none"> <li>• DSL Capable Loop and removal of excessive bridged tap and repeater</li> <li>• Applies to all DSL/PSDs</li> </ul>

**Note:** The following conditions result in requests that the LSC will reject back to the CLEC:

- No SPEC code indicated
- Loop Qualification results indicate Pair Gain/Digital Loop Carrier (DLC) = 1
- The Ameritech account is in Suspend for Non-Payment (SNP) status

**Below is a list of the NC/NCI code combinations for non-PSD xDSL that will no longer be available to order as of June 1, 2002 (any orders submitted after June 1, 2002 will be rejected back to the CLEC):**

**NON-PSD DSL NC/NCI CODES**

2 Wire ADSL ( Non-PSD)		LX--	02QB9.0 0A	02NO9	1A.TXN U
2 Wire HDSL (Non-PSD)		LX--	02QB5.0 0H	02NO5	1A.TXN U
4 Wire HDSL (Non-PSD)		LX--	04QB5.0 0H	04NO5	1A.TXN U

Ameritech reserves the right to make any modifications to or to cancel the above information. Should any modifications be made to the information, these modifications will be reflected in a subsequent letter sent. Should the offering be canceled, Ameritech will send notification at the time of cancellation. Ameritech will incur no liability to the CLECs if such information, mentioned above, is modified or canceled by Ameritech.

**STATE OF MICHIGAN**

**BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION**

\* \* \* \* \*

In the matter, on the Commission's own motion, )  
to consider AMERITECH MICHIGAN's compliance )  
with the competitive checklist in Section 271 of )  
the Federal Telecommunications Act of 1996. )  
\_\_\_\_\_ )

Case No. U-12320

**TESTIMONY OF MIKE GLEASON**

**IN SUPPORT OF**

**LDMI'S INITIAL COMMENTS REGARDING SBC'S SUBMITTAL OF ERNST &  
YOUNG REPORT**

November 5, 2002

Testimony of Mike Gleason

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**Q. Please state your name, your position, and your business address.**

A. My name is Mike Gleason. I am the Manager for Access Management for LDMI Telecommunications. My business address is 8801 Conant Street, Hamtramck, MI 48211-1403. In my position I deal directly with the rate elements and billing of UNE-P products that LDMI purchases from SBC Ameritech Michigan.

**Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to verify the rate elements and the SBC Ameritech Michigan error rates for the comments of LDMI Telecommunications regarding a report filed by Ernst & Young. The comments establish that Ernst & Young did not address error rates for UNE P rate elements. My testimony supports statements made by the LDMI representative in pointing out Ernst & Young's failure to look at error rates.

**Q. Please identify the exchange that your testimony supports.**

A. The exchange is from the transcript of the collaborative held on October 14, 2002, which states as follows:

“Mr. Connolly [AT&T]: Are we understanding your answer to be that you looked at the USOC-specific rate tables that were coded by SBC Ameritech to check for accuracy?”

Mr. Shepard [EY]: That's correct.

Mr. Connolly [AT&T]: Did you do an analysis or evaluation of these USOC rate tables to the interconnect agreements?

1 Mr. Shepard [EY]: No, we didn't.<sup>1</sup>  
2

3 And later, there was a follow-on question from LDMI on the above issue:<sup>2</sup>  
4

5 "Mr. Finefrock [LDMI]: Did you check the rates against the price lists  
6 that are issued by Ameritech to the CLECs?  
7

8 Mr. Horst [EY]: No.  
9

10 Mr. Finefrock [LDMI]: If I told you that there are 24 monthly recurring  
11 billing elements that are billed by SBC Ameritech in Michigan to LDMI for all of  
12 UNE-P for over 50,000 lines of UNE-P service in Michigan, that there are only 24  
13 different billing elements represented, would that surprise you?  
14

15 Mr. Horst [EY]: I have no basis for that.  
16

17 Mr. Finefrock [LDMI]: If it were true that there were only 24 rates to be  
18 checked, would it have been difficult for you to check those rates against the  
19 specific interconnection agreements or the price lists?  
20

21 Mr. Gray [EY]: It would not have been difficult to do that. I'm not sure  
22 that that was in the scope of engagement that we performed, though.  
23

24 Mr. Finefrock [LDMI]: Would it surprise you to learn that three out of  
25 those 24 billing elements as billed by SBC Ameritech in Michigan to LDMI are  
26 incorrect?  
27

28 Mr. Gray [EY]: No comment. I don't know if it's a surprise or not.  
29

30 Mr. Finefrock [LDMI]: Would it surprise you to learn of the total  
31 elements of billing for recent months, such as the month of August and the month  
32 of September, that over half of the total elements as billed were billed  
33 incorrectly?<sup>3</sup>  
34

\*\*\*\*\*

35 Mr. Horst [EY]: We have no opinion. We can tell you that we reported  
36 the PM 14 was not reported in compliance with the business rule.  
37

38 Mr. Finefrock [LDMI]: If we supply you with the data in terms of the  
39 elements that are incorrectly billed and which are correctly billed, would you  
40 investigate those and would you report your findings back to the Commission?  
41

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<sup>1</sup> Transcript. p. 4702.

<sup>2</sup> Transcript, pp. 4837-4739. [Emphasis added.]

<sup>3</sup> At this point, the SBC Ameritech attorney interposed an objection, which is omitted..

1 Mr. Horst [EY]: We have not been engaged to do that.”

2  
3 **Q. Have you reviewed the above exchanges?**

4 **A. Yes, I have.**

5  
6 **Q. Have you reviewed LDMI's records in dealing with SBC Ameritech Michigan to**  
7 **determine elements that are billed incorrectly?**

8 **A. Yes. I have tracked Ameritech's billing of UNE P elements to LDMI for August 2002,**  
9 **which is a typical month for Ameritech's billing in 2002. My analysis confirms the**  
10 **numerous errors in the 23 rate elements for UNE P billing identified by the LDMI**  
11 **representative at the collaborative. [He identified it as 24 elements, but it is actually only**  
12 **23 elements.]**

13  
14 **Q. Are these the rate elements that Mr. Horst testified it would not have been difficult**  
15 **to analyze?**

16 **A. Yes.**

17  
18 **Q. What does your analysis demonstrate?**

19 **A. My analysis demonstrates that, of only 23 rate elements, SBC Ameritech Michigan**  
20 **continually gets three rates wrong. Further, of the 107,965,349 elements billed by SBC**  
21 **Ameritech Michigan, 61,228,132 or over 56%, were billed incorrectly, as indicated by**  
22 **the LDMI representative at the collaborative.**

1 Q. Does this complete your testimony?

2 A. Yes, it does.

**STATE OF MICHIGAN**  
**BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION**

\*\*\*\*\*

In the matter, on the Commission's own motion,  
to consider AMERITECH MICHIGAN's compliance  
with the competitive checklist in Section 271 of  
the Federal Telecommunications Act of 1996.


Case No. U-12320

**Verification of Mike Gleason**


I, Mike Gleason, state as follows:

1. I am employed by LDMI Telecommunications, Inc. as Manager of Access Management.
2. I have personal knowledge of the facts contained herein, except as to the matters stated to be based upon information and belief, and as to those matters I believe them to be true. If called as a witness, I can competently testify to the matters stated herein.
3. The attached "Testimony Of Mike Gleason In Support Of LDMI's Initial Comments Regarding Sbc's Submittal Of Ernst & Young Report" contains questions that are accurate to the best of my information and belief.

Further affiant sayeth not.

  
\_\_\_\_\_  
Mike Gleason

Subscribed and sworn to before  
me, this 4 day of November, 2002.

  
\_\_\_\_\_  
Notary Public  
Oakland County, \_\_\_\_\_  
My commission expires:  
**GAYLA F. BONNER**  
Notary Public, Oakland County, MI  
My Commission Expires Jun. 15, 2006

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter, on the Commission's own motion, )  
to consider AMERITECH MICHIGAN's compliance )  
with the competitive checklist in Section 271 of )  
the Federal Telecommunications Act of 1996. )  
\_\_\_\_\_ )

Case No. U-12320

PROOF OF SERVICE

STATE OF MICHIGAN )  
 ) SS:  
COUNTY OF INGHAM )

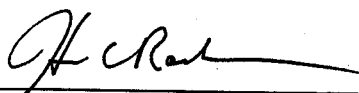
Patricia G. Sass, being duly sworn, deposes and says that she is an employee of Clark Hill P.L.C., and that on November 5, 2002, a copy of the LDMI Telecommunications, Inc's Comments Regarding SBC's Submittal of Ernst & Young Report and Testimony of Mike Gleason was served upon:

See attached service list

Except as otherwise noted on the attached list, service was accomplished via e-mail and by depositing same in a regular mail depository, enclosed in envelopes bearing postage fully prepaid and addressed properly and via electronic mail.

Patricia G. Sass  
Patricia G. Sass

Subscribed and sworn to before me  
this 5<sup>th</sup> day of November, 2002.



\_\_\_\_\_  
Haran C. Rashes, Notary Public  
Washtenaw County, Acting in  
Ingham County, Michigan  
My Commission Expires: September 18, 2003

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CASE NO. U-12320**

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**SERVICE LIST**  
**CASE NO. U-12320**

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